

If you are in any doubt about this Prospectus you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

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Prospectus

Dated: 19 April 2004



香港五隧一橋有限公司

Hong Kong Link 2004 Limited

(a company incorporated with limited liability under the Companies Ordinance of Hong Kong)

Tranche A 2.75 per cent. Secured Retail Bonds due 2007 ("Tranche A Retail Bonds")

Tranche B 3.60 per cent. Secured Retail Bonds due 2009 ("Tranche B Retail Bonds")

Tranche C 4.28 per cent. Secured Retail Bonds due 2011 ("Tranche C Retail Bonds")

The Retail Bonds will be issued by 香港五隧一橋有限公司 Hong Kong Link 2004 Limited (the "Issuer"), a company incorporated with limited liability in Hong Kong and all the shares in which are held by The Financial Secretary Incorporated on behalf of the Government of the Hong Kong Special Administrative Region of the People's Republic of China ("HKSAR Government"). The maximum aggregate principal amount of Retail Bonds and Notes (as defined in the section headed "Transaction Summary") is HK\$6,000,000,000; however, the Issuer reserves the right to fix the principal amount of Retail Bonds of each tranche to be issued (subject to the relevant maximum aggregate principal amount) in light of valid applications received. References in this Prospectus to "Retail Bonds" are to any or all of the Tranche A Retail Bonds, the Tranche B Retail Bonds and the Tranche C Retail Bonds (each a "tranche" of Retail Bonds).

Application for Retail Bonds can only be made by (i) Asia Commercial Bank Limited ("Asia Commercial Bank"), Bank of America (Asia) Limited ("Bank of America (Asia)"), Bank of China (Hong Kong) Limited ("Bank of China (Hong Kong)"), Bank of Communications (Hong Kong Branch) ("Bank of Communications"), The Bank of East Asia, Limited ("The Bank of East Asia"), Chekiang First Bank Limited ("Chekiang First Bank"), Chiyu Banking Corporation Limited ("Chiyu Bank"), Citibank, N.A. acting through its Hong Kong Branch ("Citibank"), CITIC Ka Wah Bank Limited ("CITIC Ka Wah Bank"), Dah Sing Bank, Limited ("Dah Sing Bank"), DBS Bank (Hong Kong) Limited ("DBS Bank"), Fortis Bank Asia HK, Hang Seng Bank Limited ("Hang Seng Bank"), The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)"), International Bank of Asia Limited ("International Bank of Asia"), Liu Chong Hing Bank Limited ("Liu Chong Hing Bank"), MEVAS Bank Limited ("MEVAS Bank"), Nanyang Commercial Bank, Limited ("Nanyang Commercial Bank"), Shanghai Commercial Bank Limited ("Shanghai Commercial Bank"), Standard Chartered Bank, Wing Hang Bank, Ltd. ("Wing Hang Bank"), and Wing Lung Bank Limited ("Wing Lung Bank") (each a "Placing Bank" and together, the "Placing Banks") and (ii) HKSCC as the operator of the Central Clearing and Settlement System ("CCASS"). In order to instruct a Placing Bank to apply for Retail Bonds on your behalf, you must already have, or you must open, a bank account and also an investment account with the Placing Bank you intend to instruct. In order to instruct HKSCC to apply for Retail Bonds on your behalf, you must either already have, or you must open, an Investor Account with HKSCC, or apply through a person admitted to participate in CCASS as a broker participant or a custodian participant who may be a bank or a broker (a "CCASS Broker/Custodian Participant") and who is willing to make the application on your behalf ("your designated CCASS Broker/Custodian Participant"). No application form is being issued for the Retail Bonds; you must either instruct (a) one of the Placing Banks or (b) HKSCC directly (if you are a person admitted to participate in CCASS as an investor participant (a "CCASS Investor Participant") or through your designated CCASS Broker/Custodian Participant, to apply for Retail Bonds on your behalf. See the section headed "Custody Arrangements in respect of the Retail Bonds".

Copies of this Prospectus can be obtained, during the subscription period for the Retail Bonds, from the places set out in the section headed "Where to Obtain Copies of the Prospectus". This Prospectus will also be available on the Issuer's website — www.hklink2004.com.hk to which the websites of The Bank of East Asia, Citibank, DBS Bank, HSBC, Standard Chartered Bank and Wing Lung Bank have a hyperlink, on the Hong Kong Stock Exchange's website — www.hkex.com.hk and on the CCASS Investor Participant website — <https://ip.ccass.com>. Please refer to the section headed "References to Websites" on page 11 of this Prospectus for a warning statement and disclaimer relating to the usage of information contained on the websites referred to above.

The total return on the Retail Bonds, or yield to maturity, will depend on the subscription price and may be higher or lower than the specified interest rate (on an annualised basis). The subscription price for each tranche of Retail Bonds will be fixed so that it will be the lower of (a) the application price, being 102 per cent. of the principal amount of the Retail Bonds and (b) such amount so that the annualised yield on the Retail Bonds for each tranche is equal to the annualised yield of an identified issue of Exchange Fund Notes of comparable remaining tenor plus a specified margin. The subscription price may be equal to or more than or less than the principal amount of the Retail Bonds or equal to or less than the application price of the Retail Bonds. See the sections headed "Summary of the Retail Bonds being offered" and "How the Subscription Price of the Retail Bonds will be fixed".

Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Retail Bonds and such permission is expected to become effective on 10 May 2004.

Each of the market makers (as defined in the section headed "Market Making Arrangements") has agreed, subject to certain limitations, to quote prices at which it will buy or sell the Retail Bonds - see the section headed "Market Making Arrangements". These arrangements, however, do not assure an active trading market for the Retail Bonds.

The Retail Bonds of each tranche are expected to be rated Aa3 by Moody's Investors Service ("Moody's"), AA+ by Fitch Ratings Inc. ("Fitch") and AA- by Standard & Poor's, a division of the McGraw-Hill Companies Inc. ("S&P") and, together with Moody's and Fitch, the "Rating Agencies". A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

A copy of this Prospectus, together with a copy of the documents specified in paragraph 6 of the section headed "General Information", have been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance (Cap.32) of Hong Kong (the "Companies Ordinance"). The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong (the "SFC") take no responsibility for the contents of this Prospectus or any of the other documents delivered for registration.

This Prospectus contains only limited information in relation to, and does not constitute an offer of, the Toll Revenue Bond or the Notes. See the section headed "Transaction Summary".

Global Co-ordinator and Sole Bookrunner



Placing Banks

Asia Commercial Bank	Bank of America (Asia)	Bank of China (Hong Kong)	Bank of Communications	The Bank of East Asia
Chekiang First Bank	Chiyu Bank	Citibank	CITIC Ka Wah Bank	Dah Sing Bank
DBS Bank	Fortis Bank Asia HK	Hang Seng Bank	HSBC	ICBC (Asia)
International Bank of Asia	Liu Chong Hing Bank	MEVAS Bank	Nanyang Commercial Bank	Shanghai Commercial Bank
Standard Chartered Bank		Wing Hang Bank		Wing Lung Bank

*Definitive Retail Bonds, or certificates representing Retail Bonds, will not be issued to individual holders of Retail Bonds (except in very limited circumstances). Three permanent global Retail Bonds (the “**Global Retail Bonds**”), each representing the total principal amount of a tranche of Retail Bonds, will instead be deposited on the issue date of the Retail Bonds with the Central Moneymarkets Unit Service (the “**CMU**”) operated by the Hong Kong Monetary Authority (the “**HKMA**”). Individual holders of Retail Bonds must hold their Retail Bonds in an investment account with a participant in the CMU (which must initially be one of the Placing Banks), in an Investor Account with HKSCC or in a securities or custodian account with a CCASS Broker/Custodian Participant.*

*Subject to compliance with the admission requirements of the HKSCC and the granting of listing of, and permission to deal in, the Retail Bonds on the Hong Kong Stock Exchange, the Retail Bonds will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement of dealings in the Retail Bonds on the Hong Kong Stock Exchange or such other date as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time (the “**Rules of CCASS**”). All necessary arrangements have been made to enable the Retail Bonds to be admitted into CCASS. An interest in a Global Retail Bond will be shown on the records of HKMA as operator of CMU (the “**CMU Operator**”) as being held for (i) CCASS Broker/Custodian Participants or CCASS Investor Participants through the account of HKSCC with the CMU Operator in respect of Retail Bonds admitted into CCASS or (ii) a Placing Bank through its account with the CMU Operator. Interests in Retail Bonds admitted into CCASS will only be shown on, and transfer thereof will only be effected through, records maintained by HKSCC as operator of CCASS.*

*This Prospectus includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (“**Listing Rules**”) for the purpose of giving information with regard to the Issuer. The directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading in any material respect.*

Each of the Issuer and HKSAR Government accepts responsibility for the information contained in this Prospectus and confirms, having made all reasonable enquiries, that (i) this Prospectus contains all information which is material in the context of the issue and offering of the Retail Bonds and that the information and statements contained herein are true and accurate in all material respects and are not misleading in any material respect and that all opinions and intentions howsoever expressed herein are honestly stated and (ii) to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading in any material respect.

*HSBC in its capacity as global coordinator and sole bookrunner of the offering of the Retail Bonds by the Issuer (the “**Global Co-ordinator**”), the Placing Banks, the market makers, HKSCC, the Trustee, the Transaction Administrator, the Account Bank and the Agents are not persons responsible for, have not authorised the issue of, and have not separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Global Co-ordinator, the Placing Banks, the market makers, HKSCC, the Trustee, the Transaction Administrator, the Account Bank or the Agents as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer or HKSAR Government in connection with the Retail Bonds. The Global Co-ordinator, the Placing Banks, the market makers, HKSCC, the Trustee, the Transaction Administrator, the Account Bank and the Agents do not accept liability in relation to the information contained in this Prospectus or any other information provided by the Issuer or HKSAR Government in connection with the Retail Bonds.*

The Retail Bonds are offered to the public solely on the basis of the information contained, and representations made, in this Prospectus and any supplement to it. No person has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied by the Issuer or HKSAR Government in connection with the Retail Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Global Co-ordinator, HKSCC, the Issuer, HKSAR Government, the Placing Banks, the Trustee, the Transaction Administrator, the Account Bank or the Agents.

Neither this Prospectus nor any other information supplied in connection with the Retail Bonds is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Global Co-ordinator, HKSCC, the Issuer, HKSAR Government, the Placing Banks, the market makers, the Trustee, the Transaction Administrator, the Account Bank or the Agents that any recipient of this Prospectus or any other information supplied in connection with the Retail Bonds, should purchase any of the Retail Bonds. Each investor contemplating purchasing or holding any of the Retail Bonds should make its own independent investigation of the financial condition and

affairs, and its own appraisal of the creditworthiness, of the Issuer and HKSAR Government (including, without limitation, an investigation into the operational and financial performance of the Tolled Facilities and an appraisal of the financial data relating to the generation of revenue by the Tolled Facilities).

The delivery of this Prospectus does not at any time imply that the information contained herein concerning the Issuer, HKSAR Government, the Tolled Facilities, the Toll Revenue Bond or the Retail Bonds and the Security (each as defined in the section headed “Transaction Summary”) is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Retail Bonds is correct as at any time subsequent to the date indicated in the document containing such information. Investors should review, inter alia, all financial information relating to the Issuer, HKSAR Government, the Tolled Facilities, the Toll Revenue Bond and the Retail Bonds and the Security which is publicly available when deciding whether or not to subscribe for, purchase, or hold any of the Retail Bonds.

Section 38(1) of the Companies Ordinance prescribes the information required to be contained in a prospectus. This Prospectus must contain such information unless the provision of such information is exempted or not applicable. This Prospectus contains sufficient particulars and information to enable a reasonable person to form as a result thereof a valid and justifiable opinion of the Retail Bonds, the Tolled Facilities and the Tolls (as defined in the section headed “Transaction Summary — The Tolled Facilities and Tolls”). A certificate of exemption relating to this Prospectus has been issued, subject to certain conditions, by the SFC under Section 38A(1) of the Companies Ordinance in respect of (i) paragraph 17 (on the grounds and subject to the conditions set out in paragraph 6 under the section headed “General Information”) and (ii) paragraphs 27 and 31 (on the grounds that producing financial statements or an auditors’ report in this Prospectus, as the case may be, is irrelevant given that (a) the Issuer is a special purpose vehicle which was incorporated on 13 April 2004, has not engaged, since its incorporation, in any material activities other than those regarding or incidental to the issue of the Retail Bonds, the subscription of the Toll Revenue Bond and the matters contemplated in this Prospectus and the Transaction Documents and does not have any available financial statements for the past two years and (b) disclosure of such financial statements or auditors’ report, as the case may be, would be irrelevant in the context of the Issuer as a special purpose vehicle and would not impact on a prospective investor in forming an opinion on the purchase of the Retail Bonds).

Pursuant to Sections 4(1) and 4(3) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap.32L), compliance with section 38(1) of the Companies Ordinance (in relation to bilingual prospectus requirements) is exempted. In addition, pursuant to Sections 9(1) and 9(3) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap.32L), compliance with paragraphs 1, 2, 4, 5, 12(1), 13, 14, 15, 16, 19, 22, 23, 25, 26, 29 and 45 of the Third Schedule to the Companies Ordinance is exempted.

In the context of the offering of the Retail Bonds to the public in Hong Kong, this Prospectus will satisfy (subject to the exemptions as aforesaid) the requirements of the Companies Ordinance for such offers.

While the Retail Bonds are in global form and held through the CMU, the term “Retail Bondholders” in this Prospectus shall mean the sub-custodian nominated by the CMU Operator which is considered as the legal holder of the Retail Bonds. Individual retail investors in the Retail Bonds are not “Retail Bondholders” in this context. The terms “you”, “investors” or “prospective investors” have been used herein to describe the individual retail investors in the Retail Bonds. Prospective investors must read carefully the section headed “Custody Arrangements in respect of the Retail Bonds” in this Prospectus.

In this Prospectus, references to “HKD”, “HK\$” and “HK dollars” are to Hong Kong dollars, references to “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China and references to “%” or “per cent.” means per centum.

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Except as otherwise specified, the source of all statistical information in this Prospectus is HKSAR Government.

The definitions of defined terms used in this Prospectus can be found by referring to the section headed “Master Definitions Index”.

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WHERE TO OBTAIN COPIES OF THE PROSPECTUS

Application for Retail Bonds can only be made by the Placing Banks and HKSCC. In order to instruct a Placing Bank to apply for Retail Bonds on your behalf, you must already have, or you must open, a bank account and also an investment account with the Placing Bank you intend to instruct. In order to instruct HKSCC to apply for Retail Bonds on your behalf, you must already have, or you must open, an Investor Account with HKSCC, or apply through your designated CCASS Broker/Custodian Participant who is willing to make the application on your behalf. No application form is being issued for the Retail Bonds: you must instruct (a) one of the Placing Banks or (b) HKSCC directly (if you are a CCASS Investor Participant) or through your designated CCASS Broker/Custodian Participant, to apply for Retail Bonds on your behalf. See the section headed “How to Apply for the Retail Bonds”.

This Prospectus is available in separate Chinese and English language versions. Copies of both the English and Chinese language versions of this Prospectus will be available for collection at designated branches of the Placing Banks and the offices of HKSCC set out below, free of charge, during the Subscription Period (being 20 April 2004 to 29 April 2004) on any weekday (public holidays excepted) during normal business hours.

Prior to an investment in the Retail Bonds, you must have received and read, or been given the opportunity to receive and read, the English or the Chinese language versions of this Prospectus. If you have not received a copy of this Prospectus in your preferred language prior to making a decision to invest in the Retail Bonds, you should immediately collect a copy of this Prospectus in your preferred language from the offices of HKSCC set out below or at designated branches of the Placing Banks.

Copies of this Prospectus may be collected from:

(i) Designated Branches of Placing Banks

or

(ii) Depository Counter
Hong Kong Securities Clearing Company Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

or

Customer Service Centre
Hong Kong Securities Clearing Company Limited
Upper Ground Floor, V-Heun Building
128-140 Queen’s Road Central
Hong Kong

See the section headed “The Placing Banks” if you wish to obtain a list of distribution locations from where copies of this Prospectus may be obtained from the designated branches of Placing Banks.

This Prospectus will also be available on the Issuer’s website — www.hklink2004.com.hk to which the websites of The Bank of East Asia, Citibank, DBS Bank, HSBC, Standard Chartered Bank and Wing Lung Bank have a hyperlink, on the Hong Kong Stock Exchange’s website — www.hkex.com.hk and on the CCASS Investor Participant website — <https://ip.ccass.com>. Please refer to the section headed “References to Websites” on page 11 of this Prospectus for a warning statement and disclaimer relating to the usage of information contained on the websites referred to above.

本章程分別備有中文和英文版本。本章程的中英文本，均可於認購期內（即由二零零四年四月二十日至二零零四年四月二十九日期間）的任何週日（公眾假期除外）的一般辦公時間內，於下文所列的配售銀行指定分行及香港結算的辦事處免費索閱。

投資零售債券前，閣下必須已收到及閱讀，或有機會收到及閱讀本章程的中文或英文版本。若閣下在作出投資於零售債券的決定前，仍未收到以閣下揀選的語言編製的本章程，則應立即於以下所載的香港結算辦事處，或配售銀行的指定分行索取以閣下揀選的語言編製的本章程。

本章程可於以下地點索取：

(i) 配售銀行的指定分行

或

(ii) 香港中央結算有限公司
存管處服務櫃檯
香港
德輔道中199號
維德廣場2樓

或

香港中央結算有限公司
客戶服務中心
香港
皇后大道中128-140號
威亨大廈高層地下

倘閣下欲取得可索取本章程的配售銀行指定分行的地點名單，請參閱「配售銀行」一節。

本章程亦載於發行人的網站—www.hklink2004.com.hk（東亞銀行、花旗銀行、星展銀行、滙豐、渣打銀行及永隆銀行的網站均設有超連結到此網站），香港聯交所的網站—www.hkex.com.hk及中央結算系統投資者戶口持有人的網站—<https://ip.ccass.com>。請參閱本章程第11頁的「網站的引述」一節，以瞭解有關使用前述網站所載資料的警告陳述及免責聲明。

THE PLACING BANKS

Please contact one of the following Placing Banks if you wish to find out how to apply for the Retail Bonds through the Placing Banks. By contacting a Placing Bank, you will be provided with a list of the branches of the relevant Placing Bank from which copies of the English and Chinese language versions of this Prospectus may be obtained free of charge.

As at the date of this Prospectus the following banks have been appointed as Placing Banks for the Retail Bonds:

Enquiry Hotlines

The following telephone numbers are the hotlines of each of the Placing Banks for enquiries in relation to how to give application instructions for the Retail Bonds:

Asia Commercial Bank

Telephone Number

2853 4671

Service Hours

Monday - Friday

9:00 a.m. - 5:00 p.m.

Saturday

9:00 a.m. - 1:00 p.m.

Sunday and public holidays

Closed

Bank of America (Asia)

Telephone Number

2805 2383

Service Hours

Monday - Friday

8:30 a.m. - 8:00 p.m.

Saturday

8:30 a.m. - 5:00 p.m.

Sunday and public holidays

Closed

Bank of China (Hong Kong)

Telephone Number

2291 8000

Service Hours

Monday - Friday

9:00 a.m. - 11:00 p.m.

Saturday

9:00 a.m. - 6:00 p.m.

Sunday and public holidays

Closed

Bank of Communications

Telephone Number

2269 9699

Service Hours

Monday - Sunday

24 hours

The Bank of East Asia, Limited

Telephone Number

2211 1311

Service Hours

Monday - Friday

9:00 a.m. - 5:00 p.m.

Saturday

9:00 a.m. - 1:00 p.m.

Sunday and public holidays

Closed

Chekiang First Bank Limited

Telephone Number

2922 1600

Service Hours

Monday - Friday

9:00 a.m. - 5:30 p.m.

Saturday

9:00 a.m. - 1:30 p.m.

Sunday and public holidays

Closed

Chiyu Bank**Telephone Number**

2232 3625

Service Hours

Monday - Friday

Saturday

Sunday and public holidays

9:00 a.m. - 11:00 p.m.

9:00 a.m. - 6:00 p.m.

Closed

Citibank**Telephone Number**

2860 0222

Service Hours

Monday - Friday

Saturday

Sunday and public holidays

9:00 a.m. - 10:00 p.m.

9:00 a.m. - 1:00 p.m.

Closed

CITIC Ka Wah Bank**Telephone Number**

2287 6767

Service Hours

Monday - Friday

Saturday

Sunday and public holidays

9:00 a.m. - 8:00 p.m.

9:00 a.m. - 6:00 p.m.

Closed

Dah Sing Bank, Limited**Telephone Number**

2828 8000

Service Hours

Monday - Friday

Saturday

Sunday and public holidays

9:00 a.m. - 7:00 p.m.

9:00 a.m. - 1:00 p.m.

Closed

DBS Bank**Telephone Number**

2290 8888 (press "4")

Service Hours

Monday - Friday

Saturday

Sunday and public holidays

9:00 a.m. - 6:00 p.m.

9:00 a.m. - 1:00 p.m.

Closed

Fortis Bank Asia HK**Telephone Number**

3122 1668

Service Hours

Monday - Friday

Saturday

Sunday and public holidays

8:00 a.m. - 12:00 p.m.

8:00 a.m. - 12:00 p.m.

Closed

Hang Seng Bank**Telephone Number**

2998 9898

Service Hours

Monday - Friday

Saturday

Sunday and public holidays

8:30 a.m. - 6:00 p.m.

8:30 a.m. - 1:00 p.m.

Closed

HSBC**Telephone Number**

2269 2121

Service Hours

Monday - Sunday

24 hours

**Industrial and Commercial
Bank of China (Asia) Ltd.**

Telephone Number

2887 0349

Service Hours

Monday - Friday
Saturday
Sunday and public holidays

9:00 a.m. - 8:00 p.m.
9:00 a.m. - 1:00 p.m.
Closed

International Bank of Asia Limited

Telephone Number

2359 3366

Service Hours

Monday - Friday
Saturday
Sunday and public holidays

9:00 a.m. - 4:30 p.m.
9:00 a.m. - 1:00 p.m.
Closed

Liu Chong Hing Bank Limited

Telephone Number

2161 6888

Service Hours

Monday - Friday
Saturday
Sunday and public holidays

9:00 a.m. - 5:00 p.m.
9:00 a.m. - 1:00 p.m.
Closed

MEVAS Bank Limited

Telephone Number

3101 3838

Service Hours

Monday - Sunday
public holidays

24 hours
24 hours

Nanyang Commercial Bank

Telephone Number

2622 2633

Service Hours

Monday - Friday
Saturday
Sunday and public holidays

9:00 a.m. - 11:00 p.m.
9:00 a.m. - 6:00 p.m.
Closed

Shanghai Commercial Bank

Telephone Number

2818 0282
(Press “3” and then “8”)

Service Hours

Monday - Friday
Saturday
Sunday and public holidays

9:00 a.m. - 7:00 p.m.
9:00 a.m. - 1:00 p.m.
Closed

Standard Chartered Bank

Telephone Number

2886 8868 (Press 2*9)

Service Hours

Monday - Friday
Saturday
Sunday and public holidays

9:00 a.m. - 5:30 p.m.
9:00 a.m. - 12:30 p.m.
Closed

Wing Hang Bank

Telephone Number

3199 9188

Service Hours

Monday - Friday
Saturday
Sunday and public holidays

9:00 a.m. - 5:30 p.m.
9:00 a.m. - 1:30 p.m.
Closed

Wing Lung Bank

Telephone Number

2526 5555

Service Hours

Monday - Friday	8:30 a.m. - 5:30 p.m.
Saturday	8:30 a.m. - 1:30 p.m.
Sunday and public holidays	Closed

The Placing Banks have been appointed for the Retail Bonds pursuant to a placing bank agreement entered into between the Placing Banks, HKSAR Government and the Issuer on or around 19 April 2004 (the “**Placing Bank Agreement**”).

When investments in the Retail Bonds are made through the Placing Banks, investors are subscribing for the Retail Bonds through the Placing Banks and from the Issuer.

The Placing Bank Agreement sets out amongst other things the need for each Placing Bank to comply fully with the placing arrangements set out in this Prospectus and with all relevant laws, regulations and guidelines or codes issued by a relevant regulatory authority, including but not limited to the Code of Conduct for Persons Licensed by or Registered with the SFC (the “**SFC Code of Conduct**”). In particular, the following undertakings have been given by each Placing Bank:

- Copies of this Prospectus (in separate English and Chinese language versions) will be made available to prospective investors in the manner described in this Prospectus and no application for Retail Bonds will be accepted from a prospective investor who has not had the opportunity to receive and read a copy of this Prospectus in his preferred language (photocopies of these documents may not be substituted for the original printed version).
- Each Placing Bank must not sell Retail Bonds at any of its designated branches unless copies of this Prospectus in both the English and Chinese language versions are available.
- Retail Bonds will not be sold on the basis of any information that is inconsistent with this Prospectus.
- Each Placing Bank will use only this Prospectus and any other material supplied to it by the Issuer for the purpose of promoting the Retail Bonds.
- Each Placing Bank will inform applicants that copies of the documents listed under paragraph 4 of the section headed “General Information” on pages 179 to 181 of this Prospectus are available for inspection at the Specified Office of the Principal Paying Agent.
- Each prospective investor will be required to confirm that he has read and understood the confirmations set out on pages 85 to 86 of this Prospectus (and if he is not able to confirm this, the Placing Bank must give him the opportunity to read and/or give him assistance to enable him to understand the confirmations) at the time of submitting an application for the Retail Bonds.
- Any notices received by each Placing Bank from the Issuer during the Subscription Period will be relayed promptly to prospective investors.
- Each Placing Bank will describe to each applicant the operating procedures for payment and/or refund in respect of an application for Retail Bonds and provide details of all charges for opening and maintaining an investment account for the Retail Bonds.
- Each Placing Bank, whether or not it is admitted to participate in CCASS as a broker participant or a custodian participant, must not accept applications from a prospective investor who may wish to apply for the Retail Bonds through HKSCC.

Prospective investors should also read the section headed “Market Making Arrangements” for further details as to the market making arrangements of the market makers. In addition, the Placing Banks may charge a fee for opening and maintaining an investment account with them and prospective investors are advised to read the section headed “Custody Arrangements in respect of the Retail Bonds” and enquire directly with the Placing Bank through whom they intend to subscribe for the Retail Bonds of any tranche, what charges may be incurred.

Under the SFC Code of Conduct, the Placing Banks, as entities licensed by or registered with the SFC, are required to ensure that the suitability of the Retail Bonds to a prospective investor is reasonable in all circumstances and to ensure that the prospective investor understands the nature and risks of investing in the Retail Bonds.

REFERENCES TO WEBSITES

Reference to any website in this Prospectus is intended to assist prospective investors to access further public information relating to the subject as indicated. Prospective investors in the Retail Bonds should conduct their own web searches to ensure that they are viewing the most up-to-date information and the website that they are viewing is genuine. Except for the electronic version of this Prospectus (if any), information appearing on such websites does not form part of this Prospectus. Neither the Issuer nor HKSAR Government accepts any responsibility whatsoever that such other information, if available, is accurate and/or up-to-date, and no responsibility is accepted in relation to any such information by any person responsible for this Prospectus.

The offer of the Retail Bonds by the Issuer is made solely on the basis of the information contained in this Prospectus and prospective investors should exercise an appropriate degree of caution when assessing the value of other information which may appear on such websites.

HKSCC AND CCASS BROKER/CUSTODIAN PARTICIPANTS

Hong Kong Securities Clearing Company Limited (“**HKSCC**”) is the operator of the Central Clearing and Settlement System (“**CCASS**”).

If you wish to apply for Retail Bonds by giving instructions to HKSCC, you need to already have, or to open, an Investor Account with HKSCC or a securities or custodian account with a CCASS Broker/Custodian Participant who is willing to make the application on your behalf. Please contact HKSCC or the relevant CCASS Broker/Custodian Participant if you wish to find out how to open an Investor Account or a securities or custodian account.

When you instruct HKSCC directly as a CCASS Investor Participant or indirectly through your designated CCASS Broker/Custodian Participant to apply for Retail Bonds on your behalf, you are subscribing for the Retail Bonds through HKSCC or CCASS Broker/Custodian Participants, as the case may be, and from the Issuer.

Prospective investors should also read the section headed “Trading of Retail Bonds on the Hong Kong Stock Exchange”. In addition, HKSCC and each CCASS Broker/Custodian Participant may charge a fee for opening and maintaining an Investor Account or a securities or custodian account, as the case may be, and prospective investors are advised to read the section headed “Custody Arrangements in respect of the Retail Bonds” and enquire directly with HKSCC or the CCASS Broker/Custodian Participant through whom they intend to subscribe for the Retail Bonds of any tranche, what charges may be incurred.

OVERVIEW

The following summary aims to give you an overview of the information contained in this Prospectus. As this is a summary, it does not contain all of the information that may be important to you. You should read this Prospectus in its entirety before you decide to invest in the Retail Bonds. All information in this section is subject to, qualified by and should be read in conjunction with the further detailed information appearing elsewhere in this Prospectus.

There are risks associated with any investment. Some of the particular risks in investing in the Retail Bonds are set out in the section headed “Risk Factors”. You should read that section and carefully consider the risks before you decide to invest in the Retail Bonds.

The definitions of capitalised terms used, but which are not defined, in this section can be found by referring to the section headed “Master Definitions Index”.

Background

HKSAR Government announced in last year’s budget that it would sell or securitise HK\$112 billion in assets over the next five years. On 18 February 2004, the Legislative Council of Hong Kong (“**LegCo**”) authorised HKSAR Government to borrow up to HK\$6,000,000,000 by securitising HKSAR Government’s revenue from certain tolled tunnels and bridges owned by it. The tunnels and bridges, the net revenues of which will be securitised, are the Cross-Harbour Tunnel (the “**CHT**”), the Shing Mun Tunnels, the Tseung Kwan O Tunnel, the Aberdeen Tunnel, the Lion Rock Tunnel and the Lantau Link.

The Transaction

Diagrams of the transaction structure and the cash flow structure are set out on page 19 of this Prospectus. These diagrams should be examined together with the following description of the transaction.

The Issuer and the Retail Bonds

The Retail Bonds will be issued by the Issuer, a special purpose company which was incorporated as a limited liability company under the laws of Hong Kong on 13 April 2004 and is wholly owned on behalf of HKSAR Government. The Issuer will promise to pay interest on the Retail Bonds quarterly in arrears at a fixed interest rate and to repay the principal amount of the Retail Bonds on the specified maturity date. Each tranche of Retail Bonds will have a different interest rate and maturity date. For more details of the terms and conditions of the Retail Bonds, see the sections headed “Summary of the Retail Bonds being offered” and “Terms and Conditions of the Retail Bonds”.

The Toll Revenue Bond

The gross proceeds of the issue of the Retail Bonds and the Notes (which will be offered to institutional investors using a different offering document from this Prospectus) will be used by the Issuer to subscribe for the Toll Revenue Bond issued by HKSAR Government under a subscription agreement (the “**TRB Subscription Agreement**”) made between, among others, the Issuer, HKSAR Government and the Trustee. The Toll Revenue Bond will be issued at the same time as the Retail Bonds and the Notes. Pursuant to, and in accordance with, the terms and conditions of the Toll Revenue Bond, HKSAR Government will promise to pay interest and to repay principal on the Toll Revenue Bond in amounts and on dates which correspond to the amounts and dates of interest payments and principal repayments under the Retail Bonds and the Notes. For more information on the Toll Revenue Bond, see the section headed “Transaction Summary — Toll Revenue Bond”.

Limited Recourse to HKSAR Government

Under the TRB Subscription Agreement, HKSAR Government will agree to pay to the Issuer:

- amounts equal to the Net Toll Revenues received each month by HKSAR Government; and
- if any Direct Payment Event occurs and certain other conditions are also met, a Direct Payment,

(collectively, the “**Toll Revenue Amounts**”).

The Toll Revenue Amounts will be used to make the interest payments and principal repayments under the Toll Revenue Bond. However, the Issuer will not be able to claim from HKSAR Government under the Toll Revenue Bond more than the Toll Revenue Amounts that HKSAR Government is required to pay under the TRB Subscription Agreement. Therefore, payments on the Retail Bonds and the Notes will be largely dependent on the amounts of Net Toll Revenues derived from the Tolloed Facilities.

Direct Payments

The Issuer and the holders of Retail Bonds and the Notes will bear certain risks, one of which is the risk of changes in traffic volume and any resulting decrease in the level of Net Toll Revenues generated by the Tolloed Facilities. However, HKSAR Government will have an obligation to make Direct Payments upon the occurrence of certain events which cause a decrease in the level of Net Toll Revenues generated by the Tolloed Facilities. There are three kinds of Direct Payment Events:

- business or cash flow interruptions (referred to in this Prospectus as “Business Interruption Events” — see the section headed “Transaction Summary — Sources of Payment — Business Interruption Events” for more details);
- toll adjustments (referred to in this Prospectus as “Toll Adjustment Events” — see the section headed “Transaction Summary — Sources of Payment — Toll Adjustment Events” for more details); and
- changes to the servicing requirements on the Operators (referred to in this Prospectus as “Operator Services Events” — see the section headed “Transaction Summary — Sources of Payment — Operator Services Events” for more details).

Reserve Fund

On the Issue Date, HKSAR Government will establish a reserve fund for payments on the Toll Revenue Bond by paying an amount of HK\$400,000,000 into the Reserve Account, a bank account in the name of the Issuer. After the first TRB Payment Date, the required balance of the Reserve Account will be reduced to HK\$230,000,000. If a TRB Default Declaration has not been delivered, any moneys withdrawn from the Reserve Account will be replenished in the order of priority set out in the Pre-Default Declaration Priority of Payment Diagram (as defined in “— Priority of Payment” below). This reserve fund will be utilised in the event that there are insufficient moneys in the TRB Account to make certain interest and principal payments on the Toll Revenue Bond to the Issuer. Amounts standing to the credit of the Reserve Account may, in certain circumstances, be invested in certain Hong Kong dollar denominated overnight or term investments. See the section headed “Transaction Summary — Management of Cash Flows — Operation of Reserve Account” for further information on the reserve fund.

Security

The Issuer will grant security to the Trustee, HSBC Trustee (Hong Kong) Limited, over, among other things:

- all of its rights under, and interests in, the Toll Revenue Bond and the TRB Subscription Agreement; and
- all of its interests in certain bank accounts.

This security will be held by the Trustee for the benefit of the Retail Bondholders, the Noteholders and certain other creditors of the Issuer. Retail Bondholders, Noteholders and the other secured creditors will only be able to claim against the Issuer as much as (but no more than) the proceeds from the enforcement of such security. See the section headed “Transaction Summary — The Retail Bonds and the Notes — Common Provisions of the Retail Bonds and the Notes — Security” for further information on the security that the Issuer will give.

Events of Default

If a TRB Event of Default occurs, the holders of any tranche of Retail Bonds or class of Notes have the right to instruct the Trustee to deliver a notice to HKSAR Government that the Toll Revenue Bond is in default. This notice is a TRB Default Declaration. See the section headed “Transaction Summary — Toll Revenue Bond — TRB Events of Default” for further information on the situations that will enable the giving of a TRB Default Declaration.

If an Issuer Event of Default has occurred, the holders of any tranche of Retail Bonds or any class of Notes have the right to instruct the Trustee to deliver a notice to the Issuer. This notice is an Enforcement Notice and, upon its delivery, the Retail Bonds and the Notes will become immediately due and payable without further action or formality. An Enforcement Notice will also constitute a TRB Default Declaration. See the sections headed “Transaction Summary — The Retail Bonds and the Notes — Common Provisions of the Retail Bonds and the Notes — Issuer Events of Default” and “Transaction Summary — The Retail Bonds and the Notes — Common Provisions of the Retail Bonds and the Notes — Consequences of Issuer Event of Default” for further information.

Priority of Payment

If a TRB Default Declaration has not been delivered:

- any payments due to the Issuer under the Toll Revenue Bond will be satisfied by payments made out of the amounts standing to the credit of the TRB Account (the “**TRB Account Payments**”); and
- any payments due to the Bondholders and the Noteholders under the Retail Bonds and the Notes, respectively, will be satisfied by payments made out of the amounts standing to the credit of the Issuer Account (the “**Issuer Account Payments**”),

in the order of priority set out in the diagram on page 20 of this Prospectus (the “**Pre-Default Declaration Priority of Payment Diagram**”).

If a TRB Default Declaration has been delivered, the TRB Account Payments and the Issuer Account Payments will be made in a different order of priority (see the diagram on page 21 of this Prospectus (the “**Post-Default Declaration Priority of Payment Diagram**”).

Summary of Risk Factors

Potential investors should evaluate certain risks before deciding to invest in the Retail Bonds. These risks can be broadly categorised into (i) risks relating to the Issuer, (ii) risks relating to HKSAR Government, (iii) risks relating to the Tolloed Facilities and the Operators and (iv) other risk factors. A summary of these risks is set out below. See the section headed “Risk Factors” for a fuller description of these risks and a description of other risks.

Risks relating to the Issuer

- The traffic volume through, and the amount of Net Toll Revenues generated by, each Tolloed Facility may fluctuate or decrease.
- A decrease in Net Toll Revenues could adversely affect the Issuer’s ability to meet its payment obligations under the Retail Bonds.
- The Issuer’s ability to meet its obligations under the Retail Bonds will depend upon the due, complete and timely performance by HKSAR Government and the other parties to the transaction of their obligations.
- If an Issuer Event of Default occurs, recourse against the Issuer in relation to the Issuer’s obligations under the Retail Bonds will be limited to the proceeds of the enforcement of the Security.

Risks relating to HKSAR Government

- HKSAR Government will not guarantee the Retail Bonds.
- If HKSAR Government fails to perform any of its obligations under the Toll Revenue Bond or the TRB Subscription Agreement when due, the Issuer will not have the right to declare the whole Toll Revenue Bond immediately due and payable and the Issuer’s only legal remedy will be to bring legal proceedings against HKSAR Government.
- Certain materiality tests or thresholds must be satisfied before a Direct Payment Event can be said to have occurred and certain periods of time must elapse between the occurrence of a Direct Payment Event and the making of the relevant Direct Payment.
- HKSAR Government will have the option to remove the Cross-Harbour Tunnel as a Tolloed Facility subject only to the implementation of suitable arrangements acceptable to the Rating Agencies.
- Any taxes imposed on the usage of the Tolloed Facilities could have an adverse impact on the generation of Tolls by the Tolloed Facilities.

Risks relating to the Tolloed Facilities and the Operators

- The management, operation and maintenance of the Tolloed Facilities are carried out by the Operators.
- A malfunction of the computer systems used to ascertain traffic volume and toll collection may have an adverse effect on the ability to make an accurate determination of Net Toll Revenues.
- The railway system is a significant source of competition for road-based modes of transportation and future development of, or changes to, the railway system could adversely affect the traffic volume through, and the amount of toll revenues generated by, each Tolloed Facility.

- There are other competing tunnels which are, or could provide, a source of competition for the Tolled Facilities and future development of, or changes to, the road infrastructure in Hong Kong could adversely affect the traffic volume through, and the amount of toll revenues generated by, each Tolled Facility.

Other Risk Factors

- The generation of Tolls by the Tolled Facilities could be affected by any economic, political, legal or other changes or developments in Hong Kong or affecting Hong Kong.
- The road and railway infrastructure projects in the process of construction may not be completed by the estimated or scheduled completion time stated in this Prospectus.
- Any road infrastructure or railway infrastructure project at a planning stage may not be implemented in the manner, or at the time, suggested in this Prospectus.

Revenue Generated by the Tolled Facilities

The table below sets out the total aggregate gross revenue and the total aggregate net revenue generated by all the Tolled Facilities for the past three financial years⁽¹⁾:

Financial Year	Total Aggregate Gross Revenue⁽²⁾ (HK\$ M)	Total Aggregate Net Revenue⁽³⁾ (HK\$ M)
2000/2001	1,550.4	1,052.0
2001/2002	1,537.0	1,080.3
2002/2003	1,551.6	1,103.1

Note:

- (1) Aggregate figures for all the Tolled Facilities are only shown for the past three financial years because the CHT reverted to HKSAR Government with effect from 1 September 1999.
- (2) The “gross revenue” figures shown in this Prospectus are different from the amount of “Tolls” as defined in the section headed “Transaction Summary” in that (i) “gross revenue” includes revenue from each use of pre-paid tickets whereas “Tolls” will include proceeds of the sale of pre-paid tickets; and (ii) “gross revenue” includes revenue generated by the TMCA (other than the Lantau Link) whereas “Tolls” will not.
- (3) The “net revenue” figures shown in this Prospectus are different from the amount of “Net Toll Revenues” as defined in the section headed “Transaction Summary” in that certain amounts which are deductible from the “gross revenue” for calculating the “net revenue” will not be deductible from the “Tolls” for calculating the “Net Toll Revenues”. For a discussion of the calculation of the Net Toll Revenues, see the section headed “Transaction Summary — Sources of Payment — Net Toll Revenues”.

The table below sets out the percentage of total aggregate gross revenue and total aggregate net revenue generated by each Tolled Facility for the past three financial years:

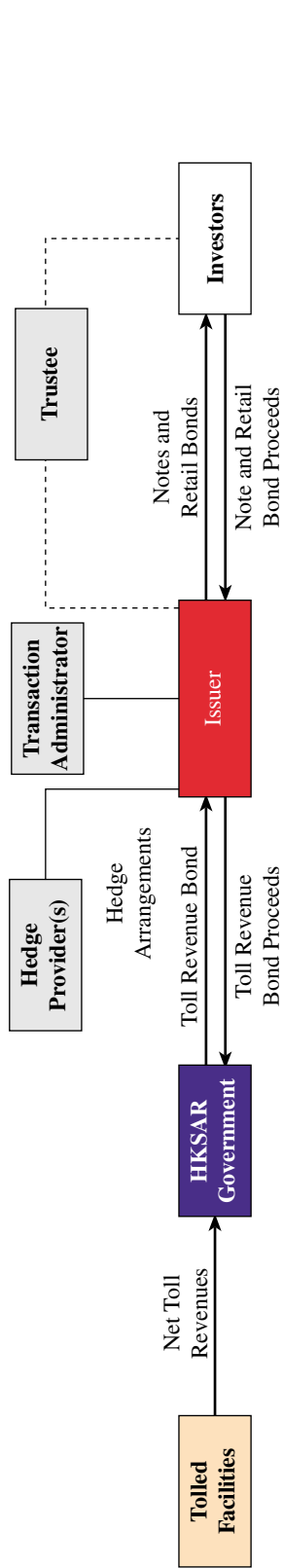
Financial Year	CHT		Shing Mun Tunnels		Tseung Kwan O Tunnel		Aberdeen Tunnel		Lion Rock Tunnel		Lantau Link	
	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾
2000/2001	48.2	64.1	6.4	6.4	4.9	3.8	6.8	6.8	17.2	18.9	16.5	— ⁽³⁾
2001/2002	47.8	61.3	6.4	6.2	5.2	4.2	6.9	6.6	17.0	17.7	16.8	4.0 ⁽⁴⁾
2002/2003	47.0	59.8	6.4	6.1	4.7	3.8	6.8	6.4	16.7	17.1	18.4	6.9 ⁽⁴⁾

Note:

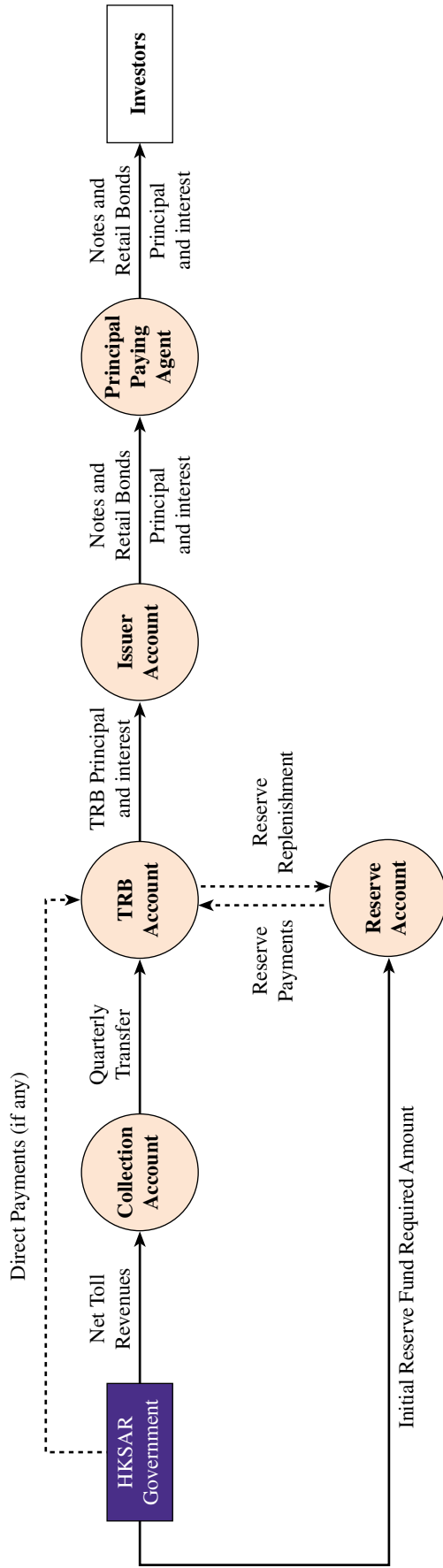
- (1) “TAGR” means the total aggregate gross revenue generated by the Tolled Facilities.
- (2) “TANR” means the total aggregate net revenue generated by the Tolled Facilities.
- (3) For financial year 2000/2001, expenditure under the MOM Agreement for the Lantau Link exceeded the revenue generated from the Lantau Link. See “Description of the Tolled Facilities — Operation, Management and Maintenance — Common Key Provisions of the MOM Agreements — Maintenance Obligations — Major maintenance — The Lantau Link” below for a discussion. For a discussion on the treatment of deductions from the Tolls generated by the Lantau Link for purposes of calculating the Net Toll Revenues, see the section headed “Transaction Summary — Sources of Payment — Net Toll Revenues”.
- (4) For HKSAR Government’s purpose, the amount of this percentage of the total aggregate net revenue generated by the Lantau Link has been used directly to pay down the outstanding balance on the TMCA Advance Account.

For further revenue and other financial and statistical information on the Tolled Facilities, see the section headed “Description of the Tolled Facilities — Historical Statistics”.

Transaction Structure

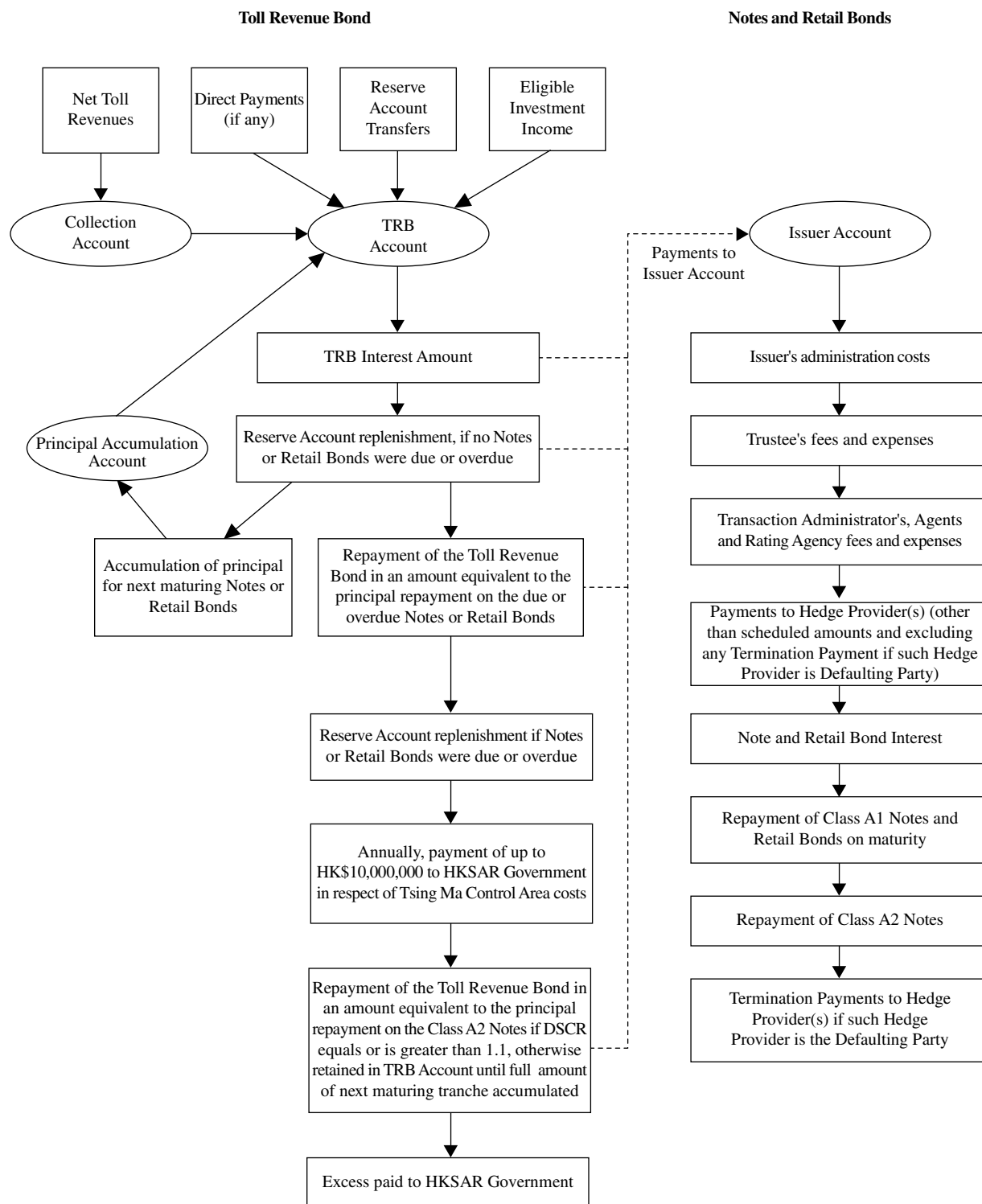


Cashflow Structure



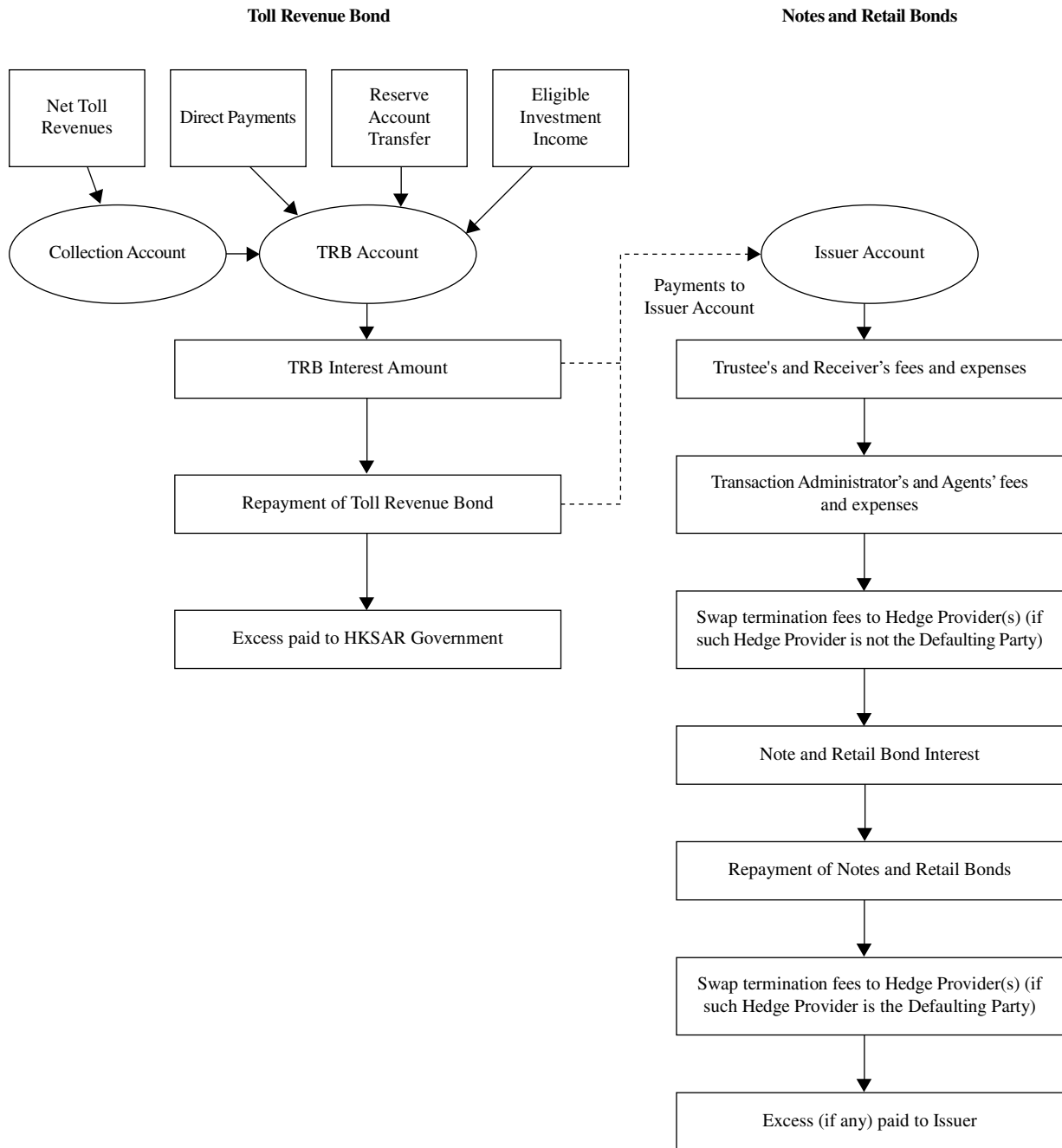
Pre-Default Declaration Priority of Payment Diagram

The following diagram illustrates the priorities of payments which are set out in full on pages 55 to 56 (TRB Pre-Default Declaration Priority of Payments) and pages 57 to 59 (Issuer Pre-Acceleration Priority of Payments).



Post-Default Declaration Priority of Payment Diagram

The following diagram illustrates the priorities of payments which are set out in full on page 57 (TRB Post-Default Declaration Priority of Payments) and page 60 (Issuer Post-Acceleration Priority of Payments).



SUMMARY OF THE RETAIL BONDS BEING OFFERED

The information set out in this section is subject to, qualified by, and must be read in conjunction with, the further detailed information under the section headed “Transaction Summary”, in this Prospectus and in the Transaction Documents. Capitalised terms used, but not defined, in this section shall have the meanings ascribed to it under the section headed “Transaction Summary”. The terms and conditions of the Retail Bonds are issued in the English language and the English version will prevail over the Chinese language version in the event of conflict or discrepancy.

THE RETAIL BONDS

Tranches of Retail Bonds

Tranche A Retail Bonds
Tranche B Retail Bonds
Tranche C Retail Bonds

Use of Proceeds and payment of issuance expenses

The Issuer will use the gross proceeds of the Retail Bonds and the Notes up to a maximum of HK\$6,000,000,000 to subscribe for the Toll Revenue Bond on or about the Issue Date. HKSAR Government will authorise the Issuer to pay certain fees and expenses payable by HKSAR Government in connection with the transactions set out in this Prospectus on behalf of HKSAR Government by making such payments in partial discharge of the Issuer’s obligation to pay the subscription amount of the Toll Revenue Bond to HKSAR Government.

Subscription Period

9:00 am on 20 April 2004 (Tuesday) to 2:00 p.m. on 29 April 2004 (Thursday) (the “**Subscription Period**”).

Price-fixing Date

4 May 2004 (Tuesday) (the “**Price-fixing Date**”).

Issue Date

7 May 2004 (Friday) (the “**Issue Date**”).

Application for Retail Bonds

Application for Retail Bonds will only be made by the Placing Banks or HKSCC (either directly if you are a CCASS Investor Participant or through your designated CCASS Broker/Custodian Participant).

In order to instruct a Placing Bank to apply for Retail Bonds on your behalf, you must already have, or you must open, a bank account and also an investment account with the Placing Bank you intend to instruct. In order to instruct HKSCC to apply for Retail Bonds on your behalf, you must already have, or you must open, an Investor Account with HKSCC, or apply through your designated CCASS Broker/Custodian Participant who is willing to make the application on your behalf. See the section headed “How to Apply for the Retail Bonds”.

Each of HKSCC, your designated CCASS Broker/Custodian Participants and Placing Banks have different arrangements for accepting and processing application instructions, for example, there are differences in their operating hours during which application instructions will be accepted, their requirements as to when Application Amounts will be debited, the amounts of charges imposed by them and the arrangements for making refunds (if any) to you. **You should familiarise yourself with, and ensure you understand and accept, the terms and conditions of HKSCC, the Placing Bank or your designated CCASS Broker/Custodian Participant, as the case may be, before you instruct it. See the section headed “How to Apply for the Retail Bonds”.**

Application Price

The application price of each tranche is 102 per cent. of the principal amount of the Retail Bonds (the “**Application Price**”). The Application Price has been set at a level which is intended to facilitate subscription and allotment logistics and is not intended to reflect any expectation as to the Subscription Price of the Retail Bonds of any tranche.

The Subscription Price of each tranche of Retail Bonds may be equal to or less than the Application Price for that tranche of Retail Bonds.

Subscription Price

The subscription price of each tranche (the “**Subscription Price**”) will be expressed as a percentage of the principal amount of the Retail Bonds and it will be the lower of:

- (a) the Application Price, being 102 per cent. of the principal amount of the Retail Bonds; and
- (b) the percentage determined on the Price-fixing Date so that the Retail Bonds of that tranche will have an annualised yield equal to the annualised yield of an identified issue of Exchange Fund Notes (“**EFN**”) of comparable remaining tenor, plus a specified margin, as follows:

Annualised Yield of Tranche A Retail Bonds =
EFN 5706 yield + 0.45 per cent.

Annualised Yield of Tranche B Retail Bonds =
EFN 5903 yield + 0.60 per cent.

Annualised Yield of Tranche C Retail Bonds =
EFN 7102 yield + 0.75 per cent.

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

The Subscription Price may be equal to or less than the Application Price.

Handling Fee and Brokerage Fee

The Placing Bank to which an applicant for the Retail Bonds gives his instructions will charge a handling fee of 0.15 per cent. of the Subscription Price of Retail Bonds which are allotted to the applicant (the “**Handling Fee**”).

HKSCC or your designated CCASS Broker/Custodian Participants, as the case may be, to which an applicant for Retail Bonds gives his instructions will charge a brokerage fee of 0.15 per cent. of the Subscription Price of Retail Bonds which are allotted to the applicant (the “**Brokerage Fee**”).

Each applicant will be responsible for the payment of the Handling Fee or the Brokerage Fee.

Application Amount

Upon application for the Retail Bonds:

- (a) where the applicant applies for the Retail Bonds through a Placing Bank, the applicant is required to pay an amount equal to the Application Price, plus a handling fee of 0.15 per cent. of the Application Price of the Retail Bonds the applicant applies for (the “**PB Application Amount**”); and
- (b) where the applicant applies for the Retail Bonds through HKSCC, the applicant is required to pay an amount equal to the Application Price, plus a brokerage fee of 0.15 per cent. of the Application Price of the Retail Bonds the applicant applies for (the “**CCASS Application Amount**”),

(together, the “**Application Amounts**” and each an “**Application Amount**”).

Subscription Amount

The actual amount the applicant is required to pay for the Retail Bonds allotted to the applicant is equal to the Subscription Price of the relevant tranche of Retail Bonds plus the Handling Fee (the “**PB Subscription Amount**”) or, as the case may be, the Brokerage Fee (the “**CCASS Subscription Amount**”) (together, the “**Subscription Amounts**” and each a “**Subscription Amount**”). The Subscription Amount may be equal to or less than the Application Amount. If the Subscription Amount is less than the Application Amount, the difference will be refunded to the applicant.

Aggregate Principal Amount of Issue

The minimum issue amount of each of the Tranche A Retail Bonds, the Tranche B Retail Bonds and the Tranche C Retail Bonds is HK\$50,000,000 (the “**Minimum Issue Amount**”). The maximum aggregate principal amount of Retail Bonds and Notes is HK\$6,000,000,000; however, the Issuer reserves the right to fix the principal amount of Retail Bonds of each tranche to be issued in the light of valid applications received. If the principal amount of Retail Bonds of a tranche to be issued is less than the principal amount of Retail Bonds of that tranche which has been validly applied for, Retail Bonds will be allocated as described in the section headed “Allocation of Retail Bonds”.

None of the tranches of the Retail Bonds will be underwritten by any party and if the public subscription in relation to any tranche falls short of the Minimum Issue Amount, the Issuer will not issue the undersubscribed tranche and affected prospective investors will be refunded their Application Amounts in accordance with the section headed “How to Apply for the Retail Bonds”.

Allocation of Retail Bonds

If valid applications are received for a greater principal amount of Retail Bonds of any tranche than is to be issued, a minimum of HK\$50,000 in principal amount of that tranche will be allocated to each of the applications (the “**Applications**”) through (a) HKSCC from CCASS Investor Participants, and CCASS Broker/Custodian Participants (and so that if more than one valid application instruction is given from a prospective investor to its designated CCASS Broker/Custodian Participant, all such valid applications may be aggregated) and (b) the Placing Bank’s accounts through which valid application instructions were given (and so that if more than one valid application instruction is given from the same Placing Bank’s account, all such valid application instructions will be aggregated) and the Applications to receive the allocation will be chosen by ballot if valid application instructions for Retail Bonds of a tranche are received through HKSCC from CCASS Investor Participants and CCASS Broker/Custodian Participants and the Placing Bank’s accounts in a greater number than the number of Retail Bonds of that tranche to be allocated. 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 through each of HKSCC from CCASS Investor Participants or CCASS Broker/Custodian Participant or such Placing Bank’s account (rounded down to the nearest whole Retail Bond) and in the case of Retail Bonds remaining after rounding, by ballot. Fractions of Retail Bonds will not be allotted. No one will be allotted more Retail Bonds than they applied for.

Retail Bond Maturity Date

Bond Payment Date falling on or nearest to 7 May 2007 in respect of Tranche A Retail Bonds (the “**Tranche A Retail Bond Maturity Date**”);

Bond Payment Date falling on or nearest to 7 May 2009 in respect of Tranche B Retail Bonds (the “**Tranche B Retail Bond Maturity Date**”); and

Bond Payment Date falling on or nearest to 7 May 2011 in respect of Tranche C Retail Bonds (the “**Tranche C Retail Bond Maturity Date**”).

Redemption Price

100 per cent. of the principal amount of the Retail Bonds

Interest Rate

2.75 per cent. per annum in respect of Tranche A Retail Bonds

3.60 per cent. per annum in respect of Tranche B Retail Bonds

4.28 per cent. per annum in respect of Tranche C Retail Bonds

Interest will be calculated and paid at the specified rates by reference to 100 per cent. of the principal amount of the Retail Bonds. The total return on the Retail Bonds, or yield to maturity, however, will depend on the Subscription Price. If the Subscription Price is greater than 100 per cent. of the principal amount of the Retail Bonds, the annualised yield will be lower than the specified interest rate (on an annualised basis); if the Subscription Price is lower than 100 per cent. of the principal amount of the Retail Bonds, the annualised yield will be greater than the specified interest rate (on an annualised basis). The Subscription Price will be expressed as a percentage of the principal amount of the Retail Bonds and will be fixed so that it will be the lower of (a) the Application Price and (b) the percentage so that the annualised yield on the Retail Bonds for each tranche is equal to the annualised yield of an identified issue of EFN of comparable remaining tenor plus a specified margin. See “—Subscription Price” above.

Frequency of Interest Payments

Interest payments will be made quarterly on each Bond Payment Date.

Payments on the Retail Bonds

All payments of principal and interest on the Retail Bonds will be made by credit to the designated bank accounts of the relevant CCASS Investor Participants or CCASS Broker/Custodian Participants or through the investment account in which the Retail Bonds are held. See the sections headed “Custody Arrangements in respect of the Retail Bonds” and “Settlement, Clearance and Custody”.

Denomination

HK\$50,000 per Retail Bond

Form of Retail Bonds

Retail Bonds in definitive form (“**Definitive Retail Bonds**”) will only be issued in limited circumstances. Three permanent global Retail Bonds (the “**Global Retail Bonds**”) in bearer form, each representing the total principal amount of a tranche of Retail Bonds, will instead be deposited on the Issue Date of the Retail Bonds with CMU operated by the HKMA. **Individual Retail Bondholders who apply for Retail Bonds by instructing a Placing Bank:**

- (a) **must initially hold their Retail Bonds in an investment account with a participant in the CMU; and**
- (b) **for the purpose of initial allotment of Retail Bonds, the Retail Bondholder must already have, or must open, a bank account and also an investment account with the Placing Bank to which he gives his application instructions.**

Individual Retail Bondholders who apply for Retail Bonds by giving electronic instructions to HKSCC (either directly as a CCASS Investor Participant or indirectly through their designated CCASS Broker/Custodian Participant):

- (i) **must initially hold their interests in the Retail Bonds allotted to them through an account with HKSCC (either directly as CCASS Investor Participant or indirectly through their designated CCASS Broker/Custodian Participant). HKSCC will in turn hold the corresponding interest in the Global Retail Bonds through its account with the CMU Operator; and**
- (ii) **for the purposes of the initial allotment of Retail Bonds, the Retail Bondholder must already have, or must open, an Investor Account with HKSCC, or a securities or custodian account with a CCASS Broker/Custodian Participant who is willing to make the application on its behalf.**

See the section headed “Custody Arrangements in respect of the Retail Bonds”.

The Retail Bondholder’s ability to pledge his interest in the Retail Bonds to persons who are not participants of the CMU, or otherwise to take action in respect of his interest, may be affected by the lack of definitive Retail Bonds.

Taxation	All payments of principal and/or interest in respect of the Retail Bonds will be made subject to withholding or deduction for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of Hong Kong or any other authority having power to levy tax in Hong Kong. No such withholding or deduction is currently required. See the section headed “Taxation of Retail Bonds”.
No HKSAR Government Guarantee	The obligations of the Issuer to pay interest on each tranche of the Retail Bonds and to repay the principal amount of each tranche of the Retail Bonds when they mature are not guaranteed by, and are not obligations of, HKSAR Government. For other considerations relating to an investment in the Retail Bonds, see the section headed “Risk Factors”.
Listing	The Retail Bonds will be listed on the Hong Kong Stock Exchange. See the section headed “Trading of Retail Bonds on the Hong Kong Stock Exchange”. The listing of the Retail Bonds on the Hong Kong Stock Exchange does not assure liquidity or an active trading market for the Retail Bonds.
Market Making	Market makers have been appointed by the Issuer for each tranche of Retail Bonds and each market maker has, subject to certain limitations, agreed to quote prices at which it will buy or sell Retail Bonds in over-the-counter transactions. See the section headed “Market Making Arrangements”. These arrangements do not assure an active trading market for the Retail Bonds.
Cancellation of Retail Offering	The Issuer reserves the right to cancel the offering of one or more tranches of the Retail Bonds on or before the Issue Date for the Retail Bonds, in which case, no Retail Bonds of the relevant tranche or tranches will be issued and all applicants of the relevant tranche or tranches will be refunded their Application Amounts. The Issuer will give prompt public notice of such cancellation.

Security Interest in the Retail Bonds in favour of Placing Banks, HKSCC and CCASS Broker/Custodian Participants

The standard terms and conditions of the investment account, Investor Account or securities account or for the provision of custody services of each of the Placing Banks, HKSCC and the relevant CCASS Broker/Custodian Participants, as the case may be may permit it to take a security interest in, or to impose other restrictions on, the Retail Bonds credited to such account or to exercise a lien, right of set-off or similar claim against a Retail Bondholder in respect of monies held in any of his accounts maintained with such Placing Bank, HKSCC or CCASS Broker/Custodian Participant to secure any amounts which may be owing by the Retail Bondholder to such Placing Bank, HKSCC or the relevant CCASS Broker/Custodian Participant, as the case may be. In particular, if the Placing Bank, HKSCC or the relevant CCASS Broker/Custodian Participant, as the case may be, makes an advance to the Retail Bondholder in connection with the payment of any unpaid Subscription Amount of the Retail Bonds, the Placing Bank, HKSCC or the relevant CCASS Broker/Custodian Participant, as the case may be, may have the legal right to restrict the Retail Bondholder's ability to transfer the Retail Bonds, to collect amounts owing to it out of payments of interest or principal received on the Retail Bonds or to sell the Retail Bonds and recoup amounts owing to it or other sale expenses, duties and interest costs out of the proceeds of sale or to charge interest on amounts owing to it.

It is important that the Retail Bondholder should familiarise himself with, and ensure he understands and accepts the terms and conditions of operation of the investment account, Investor Account or securities or custodian account before making an application to open such account. See the section headed "Custody Arrangements in respect of the Retail Bonds".

Risk Factors

Prospective purchasers of the Retail Bonds should read and consider carefully the issues discussed in the section headed "Risk Factors".

Other Provisions

See the section headed "Transaction Summary — The Retail Bonds and the Notes — Common Provisions of the Retail Bonds and the Notes".

TRANSACTION SUMMARY

The information set out in this section and the following information relating to the issue of the Retail Bonds is subject to, qualified by, and must be read in conjunction with, the further detailed information appearing elsewhere in this Prospectus and in the Transaction Documents. The terms and conditions of the Retail Bonds are issued in the English language and the English version will prevail over the Chinese language version in the event of conflict or discrepancy.

PARTIES

Issuer	香港五隧一橋有限公司 Hong Kong Link 2004 Limited (the “ Issuer ”), a limited liability company incorporated in Hong Kong on 13 April 2004. The whole of the issued share capital of the Issuer will be owned by The Government of the Hong Kong Special Administrative Region, acting through the Financial Secretary Incorporated (“ FSI ”). See the section headed “The Issuer”.
HKSAR Government	The Government of the Hong Kong Special Administrative Region (“ HKSAR Government ”) will issue a note (the “ Toll Revenue Bond ”) which the Issuer will subscribe for on the Issue Date. The obligation of HKSAR Government to pay interest on, and repay the principal amount of the Toll Revenue Bond will be dependent on receipt of Net Toll Revenues and Direct Payments in the TRB Account. See “— Toll Revenue Bond” and “— Sources of Payment” below.
Trustee	<p>HSBC Trustee (Hong Kong) Limited (the “Trustee”) will act as trustee on behalf of the Retail Bondholders and the Noteholders in respect of the Retail Bonds and the Notes issued by the Issuer in accordance with the Trust Deed.</p> <p>The Trustee will also act as trustee of the security created by the Issuer in favour of, among others, the Retail Bondholders and the Noteholders under the terms of the Deed of Charge.</p>
Transaction Administrator	The Hongkong and Shanghai Banking Corporation Limited (the “ Transaction Administrator ”) will provide certain cash management and other reporting and administrative services with respect to the amounts standing to the credit of the Transaction Accounts and the payment of amounts due to be paid by (a) HKSAR Government to the Issuer under the Toll Revenue Bond and (b) the Issuer to, among others, the Retail Bondholders and the Noteholders. See “— Management of Cash Flows” below.
Agents	The Hongkong and Shanghai Banking Corporation Limited will act as the Issuer’s principal paying agent (the “ Principal Paying Agent ”) and reference agent (the “ Reference Agent ”) in respect of the Retail Bonds and the Notes.

Account Bank

The Hongkong and Shanghai Banking Corporation Limited will act as the Issuer’s account bank (the “**Account Bank**”). The Account Bank will hold and operate each of the Issuer’s bank accounts, as set out in “— Management of Cash Flows — Transaction Accounts” below. The short-term unsecured, unsubordinated and unguaranteed obligations of the Account Bank have been rated A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch. The long-term unsecured, unsubordinated and unguaranteed obligations of the Account Bank have been rated AA- by S&P, Aa3 by Moody’s and AA- by Fitch.

Hedge Provider(s)

Within two months of the Issue Date, HKSAR Government will provide or procure a partial hedge against the difference between the fixed income received by the Issuer under the Toll Revenue Bond and the Issuer’s obligation to pay a floating rate of interest on the Class A2 Notes. Unless HKSAR Government provides this hedge in a manner consistent with the rating of the Class A2 Notes, the Issuer will contract with swap counterparties (each such swap counterparty or HKSAR Government in such capacity, a “**Hedge Provider**”) to provide such hedge arrangements. See “— Hedge Arrangements” below.

Each Hedge Provider will be required to have a satisfactory credit rating. A commercial Hedge Provider will be required to have short-term unsecured, unsubordinated and unguaranteed obligations rated at least A-1 by S&P, P-1 by Moody’s and F1 by Fitch and long-term unsecured, unsubordinated and unguaranteed obligations rated at least A by S&P, A2 by Moody’s and A by Fitch.

The TRB Subscription Agreement sets out certain conditions which must be satisfied before the Trustee can give its consent to the execution of the Swap Agreement(s) by the Issuer.

Global Co-ordinator and Sole Bookrunner for the offering of the Retail Bonds

The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”).

Placing Banks

Asia Commercial Bank, Bank of America (Asia), Bank of China (Hong Kong), Bank of Communications, The Bank of East Asia, Chekiang First Bank, Chiyu Bank, Citibank, CITIC Ka Wah Bank, Dah Sing Bank, DBS Bank, Fortis Bank Asia HK, Hang Seng Bank, HSBC, ICBC (Asia), International Bank of Asia, Liu Chong Hing Bank, MEVAS Bank, Nanyang Commercial Bank, Shanghai Commercial Bank, Standard Chartered Bank, Wing Hang Bank and Wing Lung Bank.

THE TOLLED FACILITIES AND TOLLS

The Tolled Facilities

The tolled facilities (each a “**Tolled Facility**”) comprise the following:

- (a) the Cross-Harbour Tunnel;
- (b) the Shing Mun Tunnels;
- (c) the Tseung Kwan O Tunnel;
- (d) the Aberdeen Tunnel;
- (e) the Lion Rock Tunnel; and
- (f) the Tsing Ma Bridge, the Ma Wan Viaduct and the Kap Shui Mun Bridge (which will be referred to collectively as the “**Lantau Link**”).

Tolls

“**Tolls**” means, with respect to each Tolled Facility, all revenues (*including* auto-tolls received using the Autotoll system, fees and charges stipulated under the Road Tunnels (Government) Ordinance (Cap.368) of Hong Kong (the “**RTGO**”) or, as the case may be, the Tsing Ma Control Area Ordinance (Cap.498) of Hong Kong (the “**TMCAO**”), the proceeds of the sale of pre-paid tickets, advertising revenues, and any damages payable by the relevant Operator under the MOM Agreement for such Tolled Facility; but *excluding* any statutory fines or financial penalties, taxes, water charges or levies under the Waterworks Ordinance (Cap.102) of Hong Kong or any other charges or levies (other than tolls) imposed by statute, any amount which is reimbursable by HKSAR Government to the relevant Operator under the MOM Agreement for such Tolled Facility in respect of amounts which such Operator has previously over-paid to HKSAR Government and any amounts calculated by HKSAR Government as having been over-paid to the Collection Account following reconciliation of the amounts remitted by the relevant Operator to HKSAR Government against the amounts transferred by HKSAR Government into the Collection Account) received by HKSAR Government, the relevant Operator or HKSAR Government’s agents from the operation of such Tolled Facility.

MOM Agreements

HKSAR Government has appointed certain entities (each an “**Operator**”) to manage and operate the Tolled Facilities, including collecting Tolls and conducting certain day-to-day maintenance of the Tolled Facilities. Each Operator is appointed under a management, operation and maintenance agreement (each, as amended, restated, varied, supplemented or replaced from time to time, an “**MOM Agreement**”), which sets out, among other things, the obligations of such Operator and the standard to which it must perform those obligations. If an Operator fails to perform its obligations to the specified

standard, or certain other events occur, such Operator may be obliged to make certain payments to HKSAR Government in accordance with the provisions of the applicable MOM Agreement. The Operator of the Lion Rock Tunnel is also responsible for the management, operation and maintenance of the Airport Tunnel (as defined in the section headed “Description of the Tolled Facilities — The Lion Rock Tunnel” below) and is entitled to retain a portion of the Toll revenue from the Lion Rock Tunnel to cover the fees and expenses for managing, operating and maintaining the Airport Tunnel.

In the case of the Lantau Link, the relevant Operator is responsible for the management, operation and maintenance of the whole Tsing Ma Control Area and also Non-Scheduled Maintenance Works for the whole area, which is defined in the section headed “Description of the Tolled Facilities — Operation, Management and Maintenance — Common Key Provisions of the MOM Agreements — Maintenance Obligations — Major Maintenance — The Lantau Link” below.

The Operators are entitled by statute to retain a portion of the Tolls, determined in accordance with the MOM Agreement for the relevant Tolled Facility, to cover the Operators’ fees and expenses for managing, operating and maintaining the Tolled Facilities.

The Operator of the Lantau Link is entitled to retain an amount in respect of the cost of Non-Scheduled Maintenance Works in addition to its fees and expenses for scheduled maintenance. The Issuer and HKSAR Government have agreed that HKSAR Government will not be obliged to transfer to the Issuer an amount equal to the first HK\$20,000,000 of Tolls (after deduction of the Operator’s fees and expenses, but excluding the costs of such Non-Scheduled Maintenance Works) generated by the Lantau Link in each year in recognition of the cost of funding such Non-Scheduled Maintenance Works. If the Tolls (after deduction of the Operator’s fees and expenses other than the costs of such Non-Scheduled Maintenance Works) generated by the Lantau Link exceeds HK\$20,000,000 in any year, HKSAR Government shall treat such excess as Net Toll Revenues and transfer an amount equal to such excess into the Collection Account (for the avoidance of doubt, HKSAR Government will remain responsible for the costs of any Non-Scheduled Maintenance Works payable to the Operator in excess of HK\$20,000,000 in any year). See “— Sources of Payment — Net Toll Revenues” below.

Each Operator is obliged to transfer the net amount of the Tolls received by such Operator and all other amounts payable by such Operator to HKSAR Government under the relevant MOM Agreement to HKSAR Government on the dates specified in such MOM Agreement. HKSAR Government will transfer an amount equal to the Net Toll Revenues it receives from each Operator into the Collection Account on each Toll Revenue Deposit Date.

On the termination or expiry of any MOM Agreement, HKSAR Government may elect to manage, operate and maintain the relevant Tolloed Facility itself. HKSAR Government is not entitled to deduct any remuneration from the Toll revenue from such Tolloed Facility for providing such services, but may, to the extent permitted by any legislation, deduct amounts payable to contractors or suppliers in respect of the management, operation and maintenance of such Tolloed Facility.

Operator Credit Facilities

Under the MOM Agreements, each Operator is required in certain circumstances to provide bankers guarantees and performance guarantees or other sureties (collectively “**Operator Credit Facilities**”) in favour of HKSAR Government to cover certain unpaid amounts owed by the Operator to HKSAR Government.

The gross proceeds of the exercise of the rights and benefits conferred upon HKSAR Government under such Operator Credit Facilities will be paid into the Collection Account pursuant to the Transaction Administration Agreement.

KEY DATES

Key Dates	In this Transaction Summary, certain key dates have the meanings set out below.
Issue Date	7 May 2004.
Bond Payment Dates	The 7th day of February, May, August and November in each year, starting in August 2004.
TRB Payment Dates	Two Business Days before each Bond Payment Date.
Swap Payment Dates	Not later than one Business Day after each TRB Payment Date.
Toll Revenue Deposit Dates	The 15th Business Day of each month starting in June 2004.
Quarterly Toll Revenue Deposit Dates	The 15th Business Day in March, June, September and December in each year, starting in June 2004.
Collection Period End Dates	The first day of March, June, September and December in each year, starting on 1 June 2004.

Facilities Operation Report Dates	Fifteen Business Days after each Collection Period End Date.
TA Report Dates	Four Business Days after each Facilities Operation Report Date.
Direct Payment Dates	The earlier of 24 Business Days after each TA Report Date and three Business Days before each Bond Payment Date.
TRB Interest Rate Setting Date	The Issue Date and, thereafter, the Business Day before each TRB Payment Date.
Class A1 Note Maturity Date	The Bond Payment Date falling in May 2005.
Tranche A Retail Bond Maturity Date	The Bond Payment Date falling in May 2007.
Tranche B Retail Bond Maturity Date	The Bond Payment Date falling in May 2009.
Tranche C Retail Bond Maturity Date	The Bond Payment Date falling in May 2011.
Class A2 Note Maturity Date	The Bond Payment Date falling in May 2016.
Step-up Date	The Bond Payment Date falling in May 2011.
TRB Maturity Date	The TRB Payment Date falling in May 2016.
Business Days	A “ Business Day ” is a day other than a Saturday, a Sunday or a general or special holiday as provided for by statute. If any key date is scheduled to fall on a specified calendar day and such calendar day is not a Business Day, such key date will be postponed until the next following Business Day unless, as a result of such postponement, a Bond Payment Date would fall in the next following calendar month, in which case the relevant Bond Payment Date will be brought forward to the preceding Business Day.
Delayed Payments	If any amount in respect of Net Toll Revenues or any Direct Payment is not paid when due, HKSAR Government has a grace period in which to make the payment, as set out in “— Toll Revenue Bond — TRB Events of Default” below. In those circumstances, for the purposes of preparing the TA Report and allocating the amounts which rely on such funds only, the TRB Payment Date, the Swap Payment Date and the Bond Payment Date shall each be deferred by the same number of days as the number of days by which the relevant payment by HKSAR Government was delayed, up to a maximum of 30 days. For the avoidance of doubt, all determinations in respect of interest and other amounts payable on subsequent TRB Payment Dates, Swap Payment Dates and/or Bond Payment Dates shall be made on the basis of the scheduled TRB Payment Date, Swap Payment Date or, as the case may be, Bond Payment Date.

TOLL REVENUE BOND

Toll Revenue Bond

The HK\$6,000,000,000 Variable Rate Note due 2016 (the “**Toll Revenue Bond**”) to be issued by HKSAR Government.

Subject to satisfaction of the conditions precedent set out in the TRB Subscription Agreement, the Issuer will subscribe for the Toll Revenue Bond on the Issue Date.

This Prospectus contains only limited information in relation to and does not constitute an offer of the Toll Revenue Bond.

The Issuer will apply the proceeds of the issue of the Retail Bonds and the Notes in subscribing for the Toll Revenue Bond.

Issue Price

The Toll Revenue Bond will be issued at 100% of its principal amount.

Payment of Interest

Interest will accrue on the Toll Revenue Bond from and including the Issue Date and will be payable in HK dollars quarterly in arrear on each TRB Payment Date.

The period for which interest will accrue (a “**TRB Interest Period**”) will start on and include a TRB Payment Date (or, in the case of the first TRB Interest Period, the Issue Date) and end on but exclude the next following TRB Payment Date.

The interest amount (the “**TRB Interest Amount**”) payable on each TRB Payment Date will be equal to the product of the Principal Amount Outstanding of the Toll Revenue Bond at the beginning of each TRB Interest Period (after taking into account any principal repayment payable on the TRB Payment Date on which such TRB Interest Period starts) multiplied by the TRB Interest Rate for such TRB Interest Period.

The rate of interest (the “**TRB Interest Rate**”) payable on the Toll Revenue Bond for each TRB Interest Period will be the sum of:

- (a) the rate per annum equal to the weighted average interest rate of the Notes (taking into account the effect, if any, of the Swap Agreement(s)) and the Retail Bonds for the corresponding Bond Interest Period multiplied by the number of days in such Bond Interest Period and divided by 365; plus
- (b) a margin equal to:

$$(A + B)/C \times 100\%$$

where:

A = all fees, expenses and indemnity amounts due to become payable by the Issuer on the Bond Payment Date immediately following the end of such TRB Interest Period;

B = an amount equal to any amount which the Issuer has previously received as a principal repayment on the Toll Revenue Bond but which the Issuer used to pay any of the amounts set out in items (a) to (e) (both inclusive) of the Issuer Pre-Acceleration Priority of Payments (see “— Management of Cash Flows — Issuer Pre-Acceleration Priority of Payments” below) and which has not previously been reimbursed to the Issuer; and

C = the principal amount outstanding of the Toll Revenue Bond after taking into account any principal repayment payable on the TRB Payment Date on which the relevant TRB Interest Period starts.

Repayment of Principal

Save as set out in “— Management of Cash Flows — Accumulation of Principal Amounts on TRB Payment Dates” below, principal will be repayable on the Toll Revenue Bond on each TRB Payment Date in an amount equal to the amount standing to the credit of the TRB Account on the Business Day prior to such TRB Payment Date less the TRB Interest Amount for such TRB Payment Date, plus the Direct Payments (if any) due to be made on the Direct Payment Date immediately prior to such TRB Payment Date and any Eligible Investment income received in the TRB Account prior to such TRB Payment Date and any amounts which are required to be transferred into the Reserve Account or paid in respect of maintenance of the Tsing Ma Control Area on such TRB Payment Date. See “— TRB Pre-Default Declaration Priority of Payments” below.

Withholding tax on the Toll Revenue Bond

If HKSAR Government is required by any taxation authority to withhold or deduct any amounts payable to the Issuer under the Toll Revenue Bond, HKSAR Government will make the payments which are required to be paid to such taxation authority and will pay an additional amount to the Issuer so that it receives the full amount which it would otherwise have received had such withholding or deduction not been made.

**Optional Prepayment —
Step-up Redemption Option**

HKSAR Government will have the option (the “**Step-up Redemption Option**”) to elect to prepay the Toll Revenue Bond in full (but not in part) at any time falling on or after the TRB Payment Date immediately preceding the Bond Payment Date falling in May 2011 (the “**Step-up Date**”) or at any time after the TRB Payment Date on which the Principal Amount Outstanding of the Toll Revenue Bond is reduced to or below 10% of its original principal amount on the Issue Date.

**Optional Prepayment —
Cross-Harbour Tunnel Option**

HKSAR Government will have the option (the “**Cross-Harbour Tunnel Option**”) to remove the Cross-Harbour Tunnel as a Tolloed Facility at any time. As a condition to the exercise of the Cross-Harbour Tunnel Option, HKSAR Government must agree:

- (a) in the event that HKSAR Government wishes to exercise the Cross-Harbour Tunnel Option on or before the Tranche C Retail Bond Maturity Date, first to put in place arrangements, including any necessary amendments to the Transaction Documents, which the Trustee will agree, having received either (at HKSAR Government’s option):
 - (i) confirmation that such arrangements and amendments will not cause any of the Rating Agencies to downgrade or withdraw its then-current rating of the Notes and the Retail Bonds; or
 - (ii) an Extraordinary Resolution of the holders of each class of Notes and each tranche of Retail Bonds) to ensure (1) in the case of the Class A1 Notes and the Retail Bonds, the prompt payment of interest on each Bond Payment Date and repayment of principal on their respective maturity dates and (2) in the case of the Class A2 Notes, the prompt payment of interest on each Bond Payment Date and repayment of principal on or prior to the Step-up Date; or
- (b) in the event that HKSAR Government exercises the Cross-Harbour Tunnel Option after the Tranche C Retail Bond Maturity Date, to prepay the Toll Revenue Bond in full on the next following TRB Payment Date and to pay any other amounts necessary under the Toll Revenue Bond to permit the Issuer to pay all amounts due and payable by the Issuer on the next following Bond Payment Date.

Optional Prepayment Notice

If HKSAR Government elects to exercise either the Step-up Redemption Option or the Cross-Harbour Tunnel Option, it must give not less than 30 days prior written notice of such election to the Issuer (with a copy to the Trustee, the Transaction Administrator and each Rating Agency). Any such notice once given will be irrevocable and will oblige HKSAR Government to redeem the Toll Revenue Bond in the specified amount on the specified TRB Payment Date or to perform its obligations under the arrangements referred to in the section headed “— Toll Revenue Bond — Optional Prepayment — Cross-Harbour Tunnel Option” above.

Account Trust

HKSAR Government will pay the Net Toll Revenues into the Collection Account on a monthly basis. On the Business Day after the later of each Quarterly Toll Revenue Deposit Date and the date on which HKSAR Government pays the Net Toll Revenues payable on such Quarterly Toll Revenue Deposit Date into the Collection Account, the Transaction Administrator will instruct the Account Bank to transfer the sum of the amounts deposited into the Collection Account in respect of the Collection Period which ended immediately prior to such Quarterly Toll Revenue Deposit Date from the Collection Account into the TRB Account.

HKSAR Government’s obligations to make payments under the Toll Revenue Bond will be satisfied when the amounts standing to the credit of the TRB Account are applied as set out in “— Management of Cash Flows — TRB Pre-Default Declaration Priority of Payments” and “— Management of Cash Flows — TRB Post-Default Declaration Priority of Payments” below. The Reserve Fund will be maintained in the Reserve Account to reduce the effects of any shortfall in the amount standing to the credit of the TRB Account to make payments of interest and principal under the Toll Revenue Bond on any TRB Payment Date prior to the delivery of a TRB Default Declaration. Funds will be accumulated in the Principal Accumulation Account on specified TRB Payment Dates in order to meet HKSAR Government’s obligations to repay principal on the Toll Revenue Bond on the TRB Payment Date immediately before the scheduled maturity dates of the Class A1 Notes and each tranche of Retail Bonds, as set out in “— Management of Cash Flows — Accumulation of Principal Amounts on TRB Payment Dates” below.

The Collection Account, the TRB Account, the Principal Accumulation Account and the Reserve Account (together, the “**Trust Accounts**”) are held by the Issuer, which will declare a trust (the “**Account Trust**”) over the amounts standing to the credit of each Trust Account at any time in favour of itself and HKSAR Government, to the extent of their respective entitlements to payments from the Trust Accounts.

TRB Events of Default

Each of:

- (a) the failure by HKSAR Government to pay any amount in respect of Net Toll Revenues within 30 days of the Quarterly Toll Revenue Deposit Date immediately following the end of the Collection Period in which such Net Toll Revenues were collected;
- (b) the failure by HKSAR Government to make any Direct Payment within 30 days (less the number of days, if any, by which any payment in respect of Net Toll Revenues was paid after the Quarterly Toll Revenue Deposit Date referred to in paragraph (a) above) of the Direct Payment Date on which such payment was due; or
- (c) the failure by HKSAR Government to deliver a certificate to the Issuer and the Trustee within 30 days of the receipt by HKSAR Government from the Trustee of written notice of any breach by HKSAR Government of its obligations imposed under the Transaction Documents, certifying that such breach has been remedied,

will constitute an event of default under the Toll Revenue Bond (each a “**TRB Event of Default**”).

If a TRB Event of Default occurs, the Trustee may, or shall if so instructed by an Extraordinary Resolution of the holders of any tranche of Retail Bonds or class of Notes, deliver a notice (a “**TRB Default Declaration**”) that the Toll Revenue Bond is in default. An Enforcement Notice delivered by the Trustee in accordance with the terms and conditions of the Notes or the Retail Bonds will also constitute a TRB Default Declaration.

After the delivery of a TRB Default Declaration, HKSAR Government may, but will not be required to, redeem the Toll Revenue Bond on the next following TRB Payment Date. If HKSAR Government elects not to redeem the Toll Revenue Bond, payments on the Toll Revenue Bond will be limited to the amounts payable by HKSAR Government in respect of Net Toll Revenues and the Direct Payments and the amount standing to the credit of the Reserve Account, as set out in “— Sources of Payment” below, and the Issuer will not have any other recourse to HKSAR Government.

On the TRB Payment Date following the delivery of a TRB Default Declaration, the balance of the Reserve Account will be transferred into the TRB Account and the entire amount standing to the credit of the TRB Account, including any amounts previously accumulated in respect of principal amounts, will be available to make the payments set out in “— Management of Cash Flows — TRB Post-Default Declaration Priority of Payments” below.

SOURCES OF PAYMENT

Source of payments under the Toll Revenue Bond

The terms of the Toll Revenue Bond will provide that recourse of the Issuer against HKSAR Government in relation to HKSAR Government's obligations under the Toll Revenue Bond will be limited to the amounts payable by HKSAR Government in respect of Net Toll Revenues, the Direct Payments and the amount initially deposited by HKSAR Government into the Reserve Account. The TRB Subscription Agreement will include an undertaking on the part of HKSAR Government to pay into the Collection Account and the TRB Account, respectively, all Net Toll Revenues and Direct Payments (see under "— Government Undertakings and Representations" below). The obligation of HKSAR Government to pay amounts in respect of all Net Toll Revenues and Direct Payments into the Collection Account and the TRB Account, respectively, will terminate on the earlier of the date on which all of HKSAR Government's obligations under the Toll Revenue Bond have been discharged in full and the TRB Payment Date falling in May 2016.

The amounts paid by HKSAR Government in respect of the Net Toll Revenues and Direct Payments, together with the gross income earned from Eligible Investments, are collectively referred to as "**Collections**" and are described in more detail under "— Net Toll Revenues", "— Direct Payments" and "— Eligible Investments" below.

Net Toll Revenues

The net toll revenues ("**Net Toll Revenues**") will comprise the sum of:

- (a) the Tolls from the operation of each Tolloed Facility other than the Lantau Link *less* operating fees and expenses payable pursuant to the relevant MOM Agreements to the Operators of such Tolloed Facilities; *plus*
- (b) the amount by which the Tolls from the operation of the Lantau Link *less* fees and expenses (excluding amounts in respect of the cost of Non-Scheduled Maintenance Works) payable pursuant to the relevant MOM Agreement on account of the Lantau Link exceeds HK\$20,000,000 in any financial year (or, in the case of the first year after the Issue Date, the period from 1 May 2004 to 31 March 2005); *plus*
- (c) all amounts received by HKSAR Government under the Operator Credit Facilities; *plus*
- (d) all insurance proceeds received by HKSAR Government under any policy taken out pursuant to the MOM Agreements; *less*

- (e) an amount in respect of certain historic maintenance costs of the Tsing Ma Control Area equal to, in the first 12 months after the Issue Date, HK\$2,200,000 each month; in the second 12 months after the Issue Date, HK\$3,300,000 each month and, in the third 12 months after the Issue Date, HK\$3,700,000 each month.

Government Undertakings and Representations

As more particularly set out in the TRB Subscription Agreement, HKSAR Government will give certain undertakings (together, the “**Government Undertakings**”) in favour of the Issuer in relation to payment of the Net Toll Revenues into the Trust Accounts. The Government Undertakings will include, without limitation, the following:

- (a) on each Toll Revenue Deposit Date, HKSAR Government will pay an amount equal to the Net Toll Revenues received by HKSAR Government each month into the Collection Account;
- (b) HKSAR Government will ensure that its obligations under the MOM Agreements, the TRB Subscription Agreement, the Toll Revenue Bond and the Transaction Administration Agreement and each of the other Transaction Documents to which it is a party are and will remain valid, legally binding and enforceable in accordance with the terms of those documents;
- (c) save as provided in the Transaction Documents, HKSAR Government will not sell or dispose of any interest in or grant any option in respect of or create any security interest or other encumbrance over (i) its interest in the Trust Accounts or any amounts from time to time standing to the credit thereof, (ii) any of the MOM Agreements or the Operator Credit Facilities or (iii) any of the Tolloed Facilities; and
- (d) HKSAR Government will make Direct Payments in the circumstances described under “— Direct Payments” below.

As more particularly set out in the TRB Subscription Agreement, HKSAR Government will make certain representations and give certain warranties in favour of the Issuer and the Trustee, which will include, without limitation, statements (which in some cases may be qualified for materiality and HKSAR Government’s knowledge and belief) relating to:

- (a) HKSAR Government’s power and authorisation to enter into, and perform its obligations under, the TRB Subscription Agreement;

- (b) the TRB Subscription Agreement and the Toll Revenue Bond constituting legal, valid and binding obligations of HKSAR Government, and the amounts payable by HKSAR Government under the TRB Subscription Agreement and the Toll Revenue Bond will be charged upon and payable out of the general revenues and assets of Hong Kong pursuant to the Loans Ordinance (Cap.61) of Hong Kong;
- (c) each MOM Agreement and each Operator Credit Facility constituting legal, valid and binding obligations of the relevant Operator or, as the case may be, obligor, which are enforceable in accordance with their respective terms;
- (d) whether any default, breach or failure by any Operator or obligor of an Operator Credit Facility of its respective obligations under any MOM Agreement or, as the case may be, Operator Credit Facility or any of the documentation relating to such MOM Agreement or Operator Credit Facility has occurred which has not been remedied or is in the process of being remedied in accordance with the provisions of such MOM Agreement or Operator Credit Facility;
- (e) whether any dispute is continuing between HKSAR Government and any Operator or obligor of an Operator Credit Facility and no claim or litigation is continuing or, as far as HKSAR Government is aware, between HKSAR Government and any such Operator or obligor which could prejudice:
 - (i) the amount or timing of any payment by the Operators of the Net Toll Revenues to HKSAR Government;
 - (ii) the amount or timing of any payment by any such obligor to HKSAR Government or the relevant Operator; or
 - (iii) the legality, validity, enforceability or binding nature of any obligation of any Operator under an MOM Agreement or any obligor under an Operator Credit Facility;
- (f) the performance by HKSAR Government of its obligations under the MOM Agreements; and
- (g) the completeness and accuracy of the information contained in this Prospectus.

Direct Payments

Under the TRB Subscription Agreement, HKSAR Government will be obliged to make additional payments (“**Direct Payments**”) to the TRB Account on Direct Payment Dates if any of the following events (each occurrence of which will be a “**Direct Payment Event**”) occurs:

- (a) any Tolloed Facility does not operate at its Operational Capacity for a specified period and/or any Operator fails to remit any amount in respect of the Net Toll Revenues and HKSAR Government does not recover such amount within a specified period and Net Toll Revenues fall below a specified level for a specified period (see “— Business Interruption Events” below); and/or
- (b) the level of the Toll of any Tolloed Facility is adjusted and both the gross Toll revenue from the relevant Tolloed Facility and the Net Toll Revenues fall below a specified level for a specified period (see “— Toll Adjustment Events” below); and/or
- (c) the amount which any Operator properly deducts from the gross Toll revenue from any Tolloed Facility increases by 20% or more over a specified period after the terms of the existing MOM Agreement for the relevant Tolloed Facility have been amended or a new MOM Agreement has taken effect which contains certain different terms from the previous MOM Agreement and the Net Toll Revenues fall below a specified level for a specified period (see “— Operator Services Events” below).

Each type of Direct Payment Event is described in more detail below, together with the extent of the Direct Payment which HKSAR Government will be obliged to make under the TRB Subscription Agreement if such a Direct Payment Event occurs.

The Issuer’s recourse to HKSAR Government in respect of the Direct Payments at any time will not exceed the total amount payable under the Toll Revenue Bond at such time.

The TRB Subscription Agreement contains provisions to avoid double-counting any amounts due from HKSAR Government in respect of Direct Payments.

HKSAR Government will not be required to make a Direct Payment in respect of any Direct Payment Event, and the Transaction Administrator will cease to assess whether any Direct Payment Event is continuing, if the DSCR on the TA Report Date immediately before any Direct Payment Date is greater than 1.40.

Business Interruption Events

In the TRB Subscription Agreement, each Tolloed Facility will be designated an operational capacity (the “**Operational Capacity**”) reflecting the minimum number of lanes and toll booths which are required to be open and subject to adequate monitoring or surveillance to determine the number and (where necessary) type of vehicles using the relevant Tolloed Facility during the day and at night in order to maintain the Tolls at their historic levels. The Operational Capacity for each Tolloed Facility is set out below:

Tolloed Facility	Operational Capacity			
	Day (06.00 - 00.00)		Night (00.00 - 06.00)	
	Lanes*	Toll Booths	Lanes*	Toll Booths
Cross-Harbour Tunnel	4	11	2	8
Shing Mun Tunnels	4	9	2	2
Tseung Kwan O Tunnel	4	9	2	4
Aberdeen Tunnel	4	7	2	3
Lion Rock Tunnel	4	10	2	5
Lantau Link	3	4	2	2

Note: * “Lanes” means lanes inside each tunnel tube or, in the case of the Lantau Link, lanes on the deck of the bridges or the viaduct.

If the Toll collection system used with respect to any Tolloed Facility changes with the result that the number of toll booths is reduced, HKSAR Government will be required to certify to the Issuer that the new system has a capacity at least equivalent to the Operational Capacity specified for the relevant Tolloed Facility in the table above.

If traffic volumes fall for any Tolloed Facility with the effect the Operational Capacity may be reduced without impairing the level of Toll revenue generated by the relevant Tolloed Facility, HKSAR Government may deliver a certificate to the Issuer stating the number of lanes and toll booths which are required to be open during the day and at night in order to maintain the Toll revenue from such Tolloed Facility at its then-current level, and the Operational Capacity of such Tolloed Facility will be reduced accordingly.

Any certificate delivered by HKSAR Government in the circumstances set out above will, in the absence of manifest error, be final and conclusive evidence of the matters stated in such certificate.

If:

- (a) any Tolloed Facility is operating below its Operational Capacity on 90 or more Relevant Days in any period of 180 consecutive days (which 180-day period will be the “**BIE Affected Period**” for such Business Interruption Event); and/or

- (b) any Operator (or other person obligated to pay Net Toll Revenues to HKSAR Government, in the event that such person is not the Operator) fails to remit to HKSAR Government any amount actually payable (after the conclusion of any applicable dispute resolution procedures set out in the relevant MOM Agreement) under the relevant MOM Agreement (or any other relevant agreement) for any reason (including, without limitation, the failure by the operator of the Autotoll system to remit such amount to the relevant Operator) and HKSAR Government fails to recover such amount prior to the last day of the Collection Period in which such amount was payable (which Collection Period will be the “**BIE Affected Period**” for such Business Interruption Event); and
- (c) the Net Toll Revenues for the relevant BIE Affected Period, when compared against the BIE Reference Revenue Amount, have fallen by the BIE Specified Amount or more,

HKSAR Government will be required to make a Direct Payment on the Direct Payment Date following the end of the relevant BIE Affected Period in an amount equal to the difference between the BIE Reference Revenue Amount and the aggregate amount of the Net Toll Revenues and Direct Payments (in respect of other Direct Payment Events) which were actually received in the BIE Affected Period.

A “**Relevant Day**” is any calendar day on which any Tolloed Facility is operating below its Operational Capacity for 20 minutes or more for reasons other than:

- (a) periods of unplanned maintenance or traffic incidents which result in the relevant Tolloed Facility operating below its Operational Capacity for three consecutive hours or less; and
- (b) in the case of the Lantau Link, the closure of the upper deck as a result of adverse weather, where the lower deck remains open and operational.

Events which could cause a Tolloed Facility to operate below its Operational Capacity include, but are not limited to:

- (a) any Act of God, flood, earthquake, fire, war (whether declared or undeclared), terrorism, sabotage, riot, rebellion, civil commotion, strike, lockout, other industrial action, general failure of electricity or other supply, aircraft collision or similar event beyond HKSAR Government’s control; or

- (b) the failure by HKSAR Government to locate and appoint a replacement Operator upon the expiry or termination of the appointment of the relevant Operator under its MOM Agreement or to operate such Tolloed Facility itself; or
- (c) the breach by the relevant Operator of its obligations under the MOM Agreement to which it is a party; or
- (d) the lack of maintenance of the relevant Tolloed Facility; or
- (e) the terms of any MOM Agreement not constituting the legal, valid, binding and enforceable obligations of the parties thereto.

The “**BIE Specified Amount**” is:

- (a) if the Average DSCR for the BIE Affected Period is equal to or less than 1.30, 10%; or
- (b) if the Average DSCR for the BIE Affected Period is equal to or less than 1.40 but greater than 1.30, 20%,
multiplied by
- (c) the sum of the Net Toll Revenues and any Direct Payments received during the 180-day period or, as the case may be, the Collection Period in the previous year corresponding to the BIE Affected Period (such amount being the “**BIE Reference Revenue Amount**”).

If the Average DSCR for the BIE Affected Period is greater than 1.40, HKSAR Government will not be required to make a Direct Payment in respect of such Business Interruption Event.

Toll Adjustment Events

HKSAR Government is not restricted from adjusting the level of Toll levied on any of the Tolloed Facilities. However, if:

- (a) in any period of three consecutive months following the reduction of the toll level for any Tolloed Facility; or
- (b) any period of six consecutive months following the increase of the toll level for any Tolloed Facility or the imposition of any tax or levy specifically directed at motorists in the use of tolloed roads in Hong Kong generally (including the Tolloed Facilities),

(each such reduction, increase, tax or levy a “**Toll Adjustment**” and each such period, a “**TAE Affected Period**”):

- (1) the gross Toll revenue for the Tolled Facility affected by the relevant Toll Adjustment falls by 10% or more by comparison with the equivalent period in the year before such Toll Adjustment; and
- (2) the Net Toll Revenues for the relevant TAE Affected Period, when compared against the TAE Reference Revenue Amount, have fallen by the TAE Specified Amount or more,

HKSAR Government will be required to make a Direct Payment in an amount equal to the difference between the TAE Reference Revenue Amount and the aggregate amount of the Net Toll Revenues and Direct Payments (in respect of other Direct Payment Events) which were actually received in the TAE Affected Period, **provided that** the amount of any single Direct Payment in respect of such Toll Adjustment Event made after the first anniversary of such Toll Adjustment will not exceed the amount of the largest single Direct Payment made in respect of such Toll Adjustment Event in the first year after such Toll Adjustment.

The “**TAE Specified Amount**” is:

- (a) if the Average DSCR for the TAE Affected Period is equal to or less than 1.30, 10%; or
- (b) if the Average DSCR for the TAE Affected Period is equal to or less than 1.40 but greater than 1.30, 20%,

multiplied by

- (c) the sum of the Net Toll Revenues and any Direct Payments received during the three or, as the case may be, six month period corresponding to the TAE Affected Period in the year immediately preceding the relevant Toll adjustment (such amount being the “**TAE Reference Revenue Amount**”).

If the Average DSCR for the TAE Affected Period is greater than 1.40, HKSAR Government will not be required to make a Direct Payment in respect of such Toll Adjustment Event.

Operator Services Events

Subject to the terms of the MOM Agreements, HKSAR Government is not restricted from amending them or entering into new MOM Agreements from time to time. However, if, at any time after the terms of an MOM Agreement have been amended or a new MOM Agreement takes effect:

- (a) the amount properly deducted by the Operator under its MOM Agreement (other than, in respect of the MOM Agreement for the Lantau Link, the cost of Non-Scheduled Maintenance Works) from the gross Toll revenue from the relevant Tolloed Facility increases by more than 20% in any period of three consecutive months or, in the case of the MOM Agreement for the Tsing Ma Control Area, twelve consecutive months (the “**OSE Affected Period**”) following the new terms of the relevant MOM Agreement taking effect by comparison with the three month or, as the case may be, twelve month period corresponding to the OSE Affected Period in the year immediately prior to the new or amended terms of the MOM Agreement taking effect; and
- (b) having regard to the substance and effect on the entire agreement as a whole, the terms of the new or amended MOM Agreement contain terms which:
 - (i) make more onerous the scope of the maintenance and servicing works for which the Operator is responsible;
 - (ii) make more onerous the standard to which the Operator is required to perform its services (other than as a result of changes to applicable standards of care which are imposed by any law or regulation applying to the Operators or the Tolloed Facilities); or
 - (iii) increase the cost of the method by which the Operator is required or permitted to perform its obligations under the MOM Agreement (for example, the use of more sophisticated equipment); and
- (c) the Net Toll Revenues for the relevant OSE Affected Period, when compared against the OSE Reference Revenue Amount, has fallen by the OSE Specified Amount or more,

HKSAR Government will be required to make a Direct Payment in an amount equal to the difference between the OSE Reference Revenue Amount and the aggregate amount of the Net Toll Revenues and Direct Payments (in respect of other Direct Payment Events) which were actually received in the OSE Affected Period **provided that** the amount of any single Direct Payment in respect of such Operator Services Event following the first anniversary of such new or amended terms of the MOM Agreement taking effect, will not exceed the amount of the largest single Direct Payment made in respect such Operator Services Event in the first year after such new or amended MOM Agreement took effect.

The “**OSE Specified Amount**” is:

- (a) if the Average DSCR for the OSE Affected Period is equal to or less than 1.30, 10%; or
- (b) if the Average DSCR for the OSE Affected Period is equal to or less than 1.40 but greater than 1.30, 20%,

multiplied by

- (c) the sum of the Net Toll Revenues and Direct Payments received during the three month or, as the case may be, twelve month period corresponding to the OSE Affected Period in the year immediately prior to the new or amended terms of the MOM Agreement taking effect (such amount being the “**OSE Reference Revenue Amount**”).

If the Average DSCR for the OSE Affected Period is greater than 1.40, HKSAR Government will not be required to make a Direct Payment in respect of such Operator Services Event.

Debt Service Coverage Ratio

The Debt Service Cover Ratio (“**DSCR**”) will be calculated by the Transaction Administrator on each TA Report Date and will be equal to:

$$A/(B + C)$$

where:

A = the Net Toll Revenues in the Collection Period immediately preceding such TA Report Date;

B = the TRB Interest Amount payable on the TRB Payment Date immediately following such TA Report Date; and

C = prior to the redemption in full of the Tranche C Retail Bonds, the principal amount required to be accumulated on the related TRB Payment Date in respect of the next-maturing tranche of Retail Bonds or class of Notes (excluding any amounts accumulated on previous TRB Payment Dates in respect of such Retail Bonds or Notes) and, thereafter, the quotient of the Principal Amount Outstanding of the Toll Revenue Bond divided by the number of TRB Payment Dates up to and including the TRB Maturity Date.

“**Average DSCR**” is calculated on the basis of a formula applying the sum of the DSCR for each day during an Affected Period divided by the number of days in such Affected Period.

Eligible Investments

Amounts standing to the credit of the Collection Account, the TRB Account, the Principal Accumulation Account and the Reserve Account may, in certain circumstances as more particularly set out in the Transaction Administration Agreement, be invested by the Transaction Administrator in Hong Kong dollar denominated overnight or term investments having a maturity on or prior to, in the case of investments made using funds from the Collection Account, the Quarterly Toll Revenue Deposit Date preceding each TRB Payment Date, and in the case of investments made using funds from the TRB Account and the Reserve Account, the Business Day preceding each TRB Payment Date and, in the case of investments made using funds from the Principal Accumulation Account, not later than two Business Days before the TRB Payment Date immediately before the scheduled maturity date of the Class A1 Notes or the next-maturing tranche of Retail Bonds (each an “**Eligible Investment**”) with any entity, in the case of any Eligible Investment made using funds from the Principal Accumulation Account, whose short-term senior unsecured, unsubordinated, unguaranteed Hong Kong dollar (or, in the case of Moody’s, foreign currency) debt is rated not less than A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch and whose long-term senior unsecured, unsubordinated, unguaranteed Hong Kong dollar (or in the case of Moody’s, foreign currency) debt is rated not less than AA- by S&P, Aa3 by Moody’s and AA- by Fitch and, in the case of any other Eligible Investment, whose short-term senior unsecured, unsubordinated, unguaranteed Hong Kong dollar (or, in the case of Moody’s, foreign currency) debt is rated not less than A-1+ by S&P, P-1 by Moody’s and F1+ by Fitch and whose long-term senior, unsecured, unsubordinated, unguaranteed foreign currency debt is rated not less than A2 by Moody’s (the “**Approved Rating**”).

Any amount representing the return of the principal amount of an Eligible Investment made using funds from the Collection Account will be deposited into the Collection Account not later than the scheduled Quarterly Toll Revenue Deposit Date immediately following the end of the Collection Period in which such Eligible Investment was made.

Any amount representing a return of the principal amount of an Eligible Investment made using funds from the TRB Account, the Reserve Account will be deposited into the account from which funds to make such Eligible Investment were withdrawn. The gross amount of any investment income earned from Eligible Investments made using funds from the Principal Accumulation Account will be deposited into the Principal Accumulation Account. The gross amount of any investment income earned from all other Eligible Investments will be paid into the TRB Account, in each case on the Business Day immediately preceding each TRB Payment Date and each such amount will be applied on such TRB Payment Date towards making the payments set out under “Management of Cash Flows — TRB Pre-Default Declaration Priority of Payments” below.

Reports on Tolled Facilities

HKSAR Government will be required to produce or procure the production of quarterly reports (“**Facilities Operation Reports**”) setting out, among other things, the amount and source of the Net Toll Revenues received during the related Collection Period (as defined under “Calculations of HKSAR Government’s Payments by Transaction Administrator” below). HKSAR Government will be required to deliver or procure the delivery of each Facilities Operation Report to the Transaction Administrator not later than the 15th Business Day after the end of each Collection Period and the Transaction Administrator will deliver each Facilities Operation Report to each of the Issuer, the Trustee and each Rating Agency within one Business Day of receipt of such report from HKSAR Government.

MANAGEMENT OF CASH FLOWS

Transaction Administration Agreement

Under the Transaction Administration Agreement, the Transaction Administrator will be appointed to make various calculations, to manage the Transaction Accounts, to arrange for payments and to provide reports (“**TA Reports**”) setting out the payments to be made in respect of, among other things, the Toll Revenue Bond on each TRB Payment Date and the Notes and the Retail Bonds on each Bond Payment Date.

Transaction Accounts

The Transaction Administration Agreement will provide that, on or prior to the Issue Date, the Issuer will have opened five HK dollar denominated accounts, respectively, the “**Collection Account**”, the “**TRB Account**”, the “**Reserve Account**”, the “**Principal Accumulation Account**” and the “**Issuer Account**”, with a bank having an Approved Rating (the “**Account Bank**”).

The Collection Account, the TRB Account, the Reserve Account, the Principal Accumulation Account and the Issuer Account are, collectively, the “**Transaction Accounts**”.

**Calculations of HKSAR
Government's Payments by
Transaction Administrator**

Under the Transaction Administration Agreement, the Transaction Administrator will arrange for payments to be made from the TRB Account on each TRB Payment Date from Collections accrued during the period (a "**Collection Period**") starting on, and including, one Collection Period End Date (or, in the case of the first Collection Period, 1 May 2004) and ending on, but excluding, the next following Collection Period End Date or, in the case of Eligible Investments, deposited in the TRB Account or the Reserve Account on the Business Day immediately preceding each TRB Payment Date. The amounts to be paid on each TRB Payment Date will be as described under "— TRB Pre-Default Declaration Priority of Payments" below.

Under the Transaction Administration Agreement, the Transaction Administrator will also arrange for amounts to be transferred between the Reserve Account and the TRB Account on TRB Payment Dates as described under "Operation of Reserve Account" below.

Operation of Reserve Account

On the Issue Date, HKSAR Government will pay an amount equal to HK\$400,000,000 (the "**Initial Reserve Fund Required Amount**") into the Reserve Account to establish a reserve fund (the "**Reserve Fund**"), which will be operated in accordance with the Transaction Administration Agreement. Following the first Bond Payment Date, the amount required to be maintained in the Reserve Account will be reduced to HK\$230,000,000 (the "**Reserve Fund Required Amount**").

The Reserve Fund will be available to reduce the effects of any shortfall in the amount standing to the credit of the TRB Account to make payments of interest and principal due under the Toll Revenue Bond on any TRB Payment Date and to provide funds to the Issuer to allow it to pay any unscheduled amounts which the Issuer is permitted under the Transaction Documents to pay to third parties (other than the Transaction Parties) during any Collection Period and which cannot be deferred until the next following Bond Payment Date.

If on any TRB Payment Date the amount standing to the credit of the TRB Account is less than the amount due to be paid by HKSAR Government under the Toll Revenue Bond, the Transaction Administrator will arrange for an amount equal to the lesser of (a) the relevant shortfall and (b) the Reserve Fund on such TRB Payment Date to be transferred from the Reserve Account to the TRB Account prior to making any payments from the TRB Account on such TRB Payment Date.

The Transaction Administration Agreement will provide for the replenishment of moneys withdrawn from the Reserve Account on subsequent TRB Payment Dates up to the Reserve Fund Required Amount, as set out under "TRB Pre-Default Declaration Priority of Payments" below.

On the TRB Payment Date following receipt of a copy of an Enforcement Notice given by the Trustee in respect of the Notes and/or the Retail Bonds, the Transaction Administrator will instruct the Account Bank to transfer the credit balance of the Reserve Account into the TRB Account. The Transaction Administrator will also instruct the Account Bank to transfer the credit balance of the Reserve Account into the TRB Account on the TRB Payment Date on which HKSAR Government repays the Toll Revenue Bond in full after exercising the Step-up Redemption Option or the Cross-Harbour Tunnel Option.

**Accumulation of Principal
Amounts on TRB Payment
Dates**

On the first three TRB Payment Dates, the Transaction Administrator will, to the extent of available funds, transfer from the TRB Account to the Principal Accumulation Account an amount equal to the greater of 25% of the Principal Amount Outstanding of the Class A1 Notes and the amount required to bring the balance of the Principal Accumulation Account up to 25% of the Principal Amount Outstanding of the Class A1 Notes multiplied by the number of TRB Payment Dates (including the TRB Payment Date on which such transfer will be made) since the Issue Date. On the Business Day preceding the TRB Payment Date immediately before the Class A1 Note Maturity Date, the Transaction Administrator will transfer such accumulated funds, together with any investment income from Eligible Investments made using funds in the Principal Accumulation Account, into the TRB Account and such funds, together with other available amounts, will be applied as set out in “— TRB Pre-Default Declaration Priority of Payments” below, including in and towards repayment of the Class A1 Notes.

Thereafter, on each of the seven TRB Payment Dates prior to the TRB Payment Date before each tranche of Retail Bonds is due to be repaid, the Transaction Administrator will, to the extent of available funds, transfer amounts from the TRB Account into the Principal Accumulation Account in order to accumulate principal for the next-maturing tranche of Retail Bonds, in increments of 12.5% of the Principal Amount Outstanding of the relevant tranche of Retail Bonds (with 12.5% being accumulated on the first such TRB Payment Date and 87.5% being accumulated on the seventh such TRB Payment Date). On the Business Day preceding the TRB Payment Date immediately before the designated maturity date of the relevant tranche of Retail Bonds, the Transaction Administrator will transfer such accumulated funds, together with any investment income from Eligible Investments made using funds in the Principal Accumulation Account, into the TRB Account and such funds, together with other available amounts, will be applied as set out in “— TRB Pre-Default Declaration Priority of Payments” below, including in and towards repayment of the relevant tranche of Retail Bonds.

The Account Bank will invest the balance of the Principal Accumulation Account in Eligible Investments. If the Transaction Administrator determines, not later than the second Business Day before any TRB Payment Date, that, after the transfer of the Reserve Fund to the TRB Account, there will be a shortfall in the amount available to make the payments due on such TRB Payment Date, the Transaction Administrator may give instructions for an amount equal to the lesser of such shortfall and the balance of the Principal Accumulation Account to be transferred from the Principal Accumulation Account to the TRB Account on the relevant TRB Payment Date. The amount to be accumulated on the next following TRB Payment Date will be increased by the amount so transferred.

Any costs incurred by the Account Bank in respect of the transfer of any amount from the Principal Accumulation Account prior to the maturity date of the Eligible Investments in which such amount was invested, or if the amount transferred from the TRB Account on any TRB Payment Date is less than the required transfer amount, will be paid by the Issuer in accordance with the Issuer Pre-Acceleration Priority of Payments or, after the delivery of an Enforcement Notice, the Issuer Post-Acceleration Priority of Payments. HKSAR Government will enter into arrangements with the Account Bank to ensure that the Account Bank receives the full amount of any compensation payment payable by the Issuer, even if the Issuer has insufficient funds to make such payment.

**TRB Pre-Default Declaration
Priority of Payments**

The Transaction Administrator will transfer funds to the TRB Account from the Reserve Account on each TRB Payment Date on which such a transfer is required, as set out under “— Operation of Reserve Account” above and, if necessary, transfer funds from the Principal Accumulation Fund to the TRB Account as set out under “— Accumulation of Principal Amounts on TRB Payment Dates” above. The Transaction Administrator will then apply the funds standing to the credit of the TRB Account on each TRB Payment Date prior to the delivery of a TRB Default Declaration in the following priority:

- (a) *first*, in and towards payment to the Issuer of the TRB Interest Amount for such TRB Payment Date **provided that**, under the Transaction Administration Agreement, the Issuer will give the Transaction Administrator standing instructions to pay directly to each Hedge Provider an amount equal to the scheduled amount(s) which the Issuer is required to pay under the Swap Agreement(s) on such TRB Payment Date;

- (b) *secondly*, in and towards transfer to the Reserve Account of an amount equal to the amount by which the balance of the Reserve Account is less than the Reserve Fund Required Amount for such TRB Payment Date **provided that** on the TRB Payment Date immediately preceding any Bond Payment Date on which any tranche of Retail Bonds or class of Notes is due to be redeemed or if any tranche of Retail Bonds or class of Notes is not redeemed in full on its designated maturity date, such transfer will not be made until the relevant tranche of Retail Bonds or class of Notes has been repaid in full;
- (c) *thirdly, pari passu* (but not, for the avoidance of doubt, *pro rata*) among themselves, in and towards:
- (i) repayment of the Principal Amount Outstanding of the Toll Revenue Bond in an amount equal to the Principal Amount Outstanding of each tranche of Retail Bonds or class of Notes which is due or overdue for repayment on the Bond Payment Date immediately following such TRB Payment Date; and
 - (ii) transfer to the Principal Accumulation Account of any amounts required to be retained in respect of the next-maturing tranche of Retail Bonds or class of Notes, as set out in “— Accumulation of Principal Amounts on TRB Payment Dates” above;
- (d) *fourthly*, in and towards transfer to the Reserve Account of an amount equal to the amount by which the balance of the Reserve Account is less than the Reserve Fund Required Amount for such TRB Payment Date;
- (e) *fifthly*, on the TRB Payment Date falling in May of each year, in and towards payment to HKSAR Government of an amount equal to the lesser of the balance of the account on which HKSAR Government records its positive contributions to the maintenance of the Tsing Ma Control Area and HK\$10,000,000;
- (f) *sixthly*, in and towards repayment of the Principal Amount Outstanding of the Toll Revenue Bond until the Toll Revenue Bond has been repaid in full **provided that** if the DSCR was less than 1.10 on the TA Report Date immediately prior to such TRB Payment Date, an amount equal to the lesser of the balance of the TRB Account and the Principal Amount Outstanding of the Class A1 Notes (if not already redeemed in full) or the next-maturing tranche of Retail Bonds will be retained in the TRB Account and the Toll Revenue Bond will not be repaid to the extent of such retained amount; and
- (g) *seventhly*, in payment of any remaining amounts to HKSAR Government.

**TRB Post-Default Declaration
Priority of Payments**

On the TRB Payment Date following the delivery of a TRB Default Declaration, the Transaction Administrator will transfer the amount standing to the credit of each of the Reserve Account and the Principal Accumulation Account to the TRB Account. The Transaction Administrator will then apply the funds standing to the credit of the TRB Account on each TRB Payment Date in the following priority:

- (a) *first*, in and towards payment to the Issuer of the TRB Interest Amount for such TRB Payment Date;
- (b) *secondly*, in and towards repayment of the Principal Amount Outstanding of the Toll Revenue Bond until the Toll Revenue Bond has been repaid in full; and
- (c) *thirdly*, after HKSAR Government's obligations under the Toll Revenue Bond and the TRB Subscription Agreement have been discharged in full, in payment of any remaining amounts to HKSAR Government.

**Calculation of Issuer Payments
by Transaction Administrator**

Under the Transaction Administration Agreement, the Transaction Administrator will calculate the amounts to be paid by the Issuer on each Bond Payment Date, as set out in “— Issuer Pre-Acceleration Priority of Payments” or, after the delivery of an Enforcement Notice, “— Issuer Post-Acceleration Priority of Payments” below.

**Issuer Pre-Acceleration Priority
of Payments**

On each Bond Payment Date prior to the delivery of an Enforcement Notice, the Transaction Administrator will apply the funds standing to the credit of the Issuer Account in the following order of priority (the “**Issuer Pre-Acceleration Priority of Payments**”):

- (a) *first*, in and towards payment of any and all corporate filing, directors', legal, accounting, auditing, tax advisors', listing maintenance and compliance requirements of the Hong Kong Stock Exchange, administration, government and other fees, costs and expenses (including directors' insurance premiums), in each case in connection with the Issuer's administration or performance of its obligations and/or the exercise of its rights under the Transaction Documents (to the extent not expressly set out below) and any goods and services tax or similar indirect taxes, stamp duty, income taxes, withholding taxes or any other taxes properly payable by the Issuer to any Taxation Authority which have become due and payable by the Issuer and which have not previously been paid by the Issuer;
- (b) *secondly*, in and towards payment to the Trustee of the Trustee Fee and any remuneration for additional services outside those specifically set out in the Trust Deed and the Deed of Charge which has previously been agreed in accordance with the Transaction Documents and any

Expenses of the Trustee, in each case in respect of the Collection Period immediately preceding such Bond Payment Date and any previous Collection Period which have become due and payable and which remain unpaid on such Bond Payment Date;

(c) *thirdly, pari passu* and *pro rata* in and towards payment:

(i) to each of the Transaction Administrator and the Principal Paying Agent (on behalf of the Agents) of the Transaction Administrator Fee and the Agents Fee, respectively, and any remuneration for additional services outside those specifically set out in the Transaction Administration Agreement or, as the case may be, the Agency Agreement which has previously been agreed in accordance with the Transaction Documents and any Expenses of the Transaction Administrator or, as the case may be, the Agents, in each case in respect of the Collection Period immediately preceding such Bond Payment Date and any previous Collection Period which have become due and payable and which remain unpaid on such Bond Payment Date; and

(ii) of rating maintenance fees which are then due and payable to the Rating Agencies;

(d) *fourthly, pari passu* and *pro rata* among themselves, in and towards payment of:

(i) any amounts owed by the Issuer to the Hedge Provider(s) under the terms of the Swap Agreement(s) including any amounts payable by the Issuer to the Hedge Provider(s) following an Early Termination Date which occurred where such Hedge Provider was not the Defaulting Party (as such terms are defined in the relevant Swap Agreement) other than the fixed amount which the Issuer is required to pay to the Hedge Provider(s) on the related TRB Payment Date under the relevant Swap Agreement(s); and

(ii) any costs incurred by the Account Bank in respect of the transfer of any amount from the Principal Accumulation Account prior to the maturity date of the Eligible Investments in which such amount was invested, or if the amount transferred from the TRB Account on any TRB Payment Date was less than the required transfer amount;

- (e) *fifthly, pari passu* and *pro rata* among themselves, in and towards payment of:
- (i) the Tranche A Retail Bond Interest Amount for such Bond Payment Date to the Tranche A Retail Bondholders;
 - (ii) the Tranche B Retail Bond Interest Amount for such Bond Payment Date to the Tranche B Retail Bondholders;
 - (iii) the Tranche C Retail Bond Interest Amount for such Bond Payment Date to the Tranche C Retail Bondholders;
 - (iv) the Class A1 Note Interest Amount for such Bond Payment Date to the Class A1 Noteholders; and
 - (v) the Class A2 Note Interest Amount for such Bond Payment Date to the Class A2 Noteholders;
- plus, in each case, any unpaid interest from any previous Bond Payment Date;
- (f) *sixthly, pari passu* and *pro rata* among themselves, in and towards:
- (i) on or following the Class A1 Note Maturity Date, repayment of the Class A1 Notes;
 - (ii) on or following the Tranche A Retail Bond Maturity Date, repayment of the Tranche A Retail Bonds;
 - (iii) on or following the Tranche B Retail Bond Maturity Date, repayment of the Tranche B Retail Bonds;
 - (iv) and on or following the Tranche C Retail Bond Maturity Date, repayment of the Tranche C Retail Bonds;
- (g) *seventhly*, in and towards payment of the Principal Amount Outstanding of the Class A2 Notes until the same have been repaid in full; and
- (h) *eighthly, pari passu* and *pro rata* among themselves, in and towards payment of any amounts owed by the Issuer to the Hedge Provider(s) under the terms of the Swap Agreement(s), including any amounts payable by the Issuer to the Hedge Provider(s) following an Early Termination Date which occurred where such Hedge Provider was the Defaulting Party (as such terms are defined in the relevant Swap Agreement).

**Issuer Post-Acceleration
Priority of Payments**

Following the service of an Enforcement Notice by the Trustee pursuant to the Trust Deed, the proceeds of the enforcement of the Security will be applied in the following order of priority (the “**Issuer Post-Acceleration Priority of Payments**”):

- (a) *first, pari passu* and *pro rata* in and towards payment of any and all amounts owed by the Issuer to the Trustee and any Receiver appointed by the Trustee under the Deed of Charge;
- (b) *secondly, pari passu* and *pro rata* among themselves, in and towards payment to the Transaction Administrator and to the Principal Paying Agent (on behalf of the Agents) of any amounts owed by the Issuer to the Transaction Administrator or, as the case may be, the Agents under the terms of the Transaction Administrator Agreement and the Agency Agreement, respectively;
- (c) *thirdly, pari passu* and *pro rata* among themselves in and towards payment of:
 - (i) any amounts owed by the Issuer to the Hedge Provider(s) under the terms of the Swap Agreement(s) including any amounts payable by the Issuer to the Hedge Provider(s) following an Early Termination Date which occurred where such Hedge Provider was not the Defaulting Party (as such terms are defined in the relevant Swap Agreement);
 - (ii) and any costs incurred by the Account Bank in respect of the transfer of any amount from the Principal Accumulation Account prior to the maturity date of the Eligible Investments in which such amount was invested, or if the amount transferred from the TRB Account on any TRB Payment Date is less than the required transfer amount;
- (d) *fourthly, pari passu* and *pro rata* among themselves, in and towards payment of any interest due and unpaid in respect of the Retail Bonds and the Notes;
- (e) *fifthly, pari passu* and *pro rata* among themselves, in and towards repayment of the Principal Amount Outstanding of the Retail Bonds and the Notes;
- (f) *sixthly, pari passu* and *pro rata* among themselves, in and towards payment of any amounts owed by the Issuer to the Hedge Provider(s) under the terms of the Swap Agreement(s), including any amounts payable by the Issuer to the Hedge Provider(s) following an Early Termination Date which occurred where such Hedge Provider was the Defaulting Party (as such terms are defined in the relevant Swap Agreement); and
- (g) *seventhly*, in paying the balance (if any) to the Issuer.

HEDGE ARRANGEMENTS

Hedge Arrangements

Within two calendar months of the Issue Date, HKSAR Government expects to procure or provide to the Issuer arrangements with one or more Hedge Provider(s) to provide a partial hedge against the difference between the fixed income received by the Issuer under the Toll Revenue Bond and the Issuer's obligation to pay a floating rate of interest on the Class A2 Notes.

Swap Agreement(s)

The swap agreement(s) (the "**Swap Agreement(s)**") between the Issuer and each Hedge Provider will each comprise either a 1992 ISDA Master Agreement (Multicurrency-Cross Border) or a 2002 ISDA Master Agreement and, in each case, a schedule thereto (each an "**ISDA Master Agreement**") and a confirmation (each a "**Confirmation**"). The Issuer and each Hedge Provider will also enter into an ISDA Credit Support Deed or an ISDA Credit Support Annex (each a "**Credit Support Document**") under which such Hedge Provider will be required, in certain specified circumstances, to post collateral to the Issuer to secure its obligations under the ISDA Master Agreement to which it is a party. The terms of each Swap Agreement are likely to be required to contain provisions specified by the Rating Agencies. The following is a description of the expected terms of the Swap Agreement(s). There can be no assurance that the terms of any Swap Agreement will be exactly as described below.

Payments in respect of interest

Each Swap Agreement is expected to require that, on each TRB Payment Date, the Issuer will be required pay to the Hedge Provider(s) the amount specified for such TRB Payment Date in an amortisation schedule (each an "**Amortisation Schedule**") set out in the relevant Confirmation in respect of the Principal Amount Outstanding of the Class A2 Notes multiplied by a fixed interest rate which will be specified in the relevant Swap Agreement and posted on the Issuer's website *www.hklink2004.com.hk*. Although each such payment will be made on the TRB Payment Date, the Issuer (and the Transaction Administrator, in making the relevant payment) will have regard to the funds available to the Issuer to pay interest on the Class A2 Notes as set out in "— Management of Cash Flows — Issuer Pre-Acceleration Priority of Payments" above.

Each Swap Agreement is expected to require that, on each Swap Payment Date, each Hedge Provider will be required to pay to the Issuer an amount equal to the amount specified for such Swap Payment Date in the relevant Amortisation Schedule, multiplied by a floating rate of interest which will be specified in the relevant Swap Agreement and posted on the Issuer's website *www.hklink2004.com.hk*.

Swap Events of Default

Each Swap Agreement is expected to set out certain events of default (each, a “**Swap Event of Default**”) which will entitle the non-defaulting party to terminate the relevant Swap Agreement. The Swap Events of Default are likely to include:

- (a) a failure by either party to make, when due, any payment required to be made under such Swap Agreement;
- (b) a failure by the relevant Hedge Provider to comply with the terms of the Credit Support Document to which it is a party or the expiration or termination of such Credit Support Document or the repudiation or rejection by such Hedge Provider of such Credit Support Document;
- (c) if either party is insolvent or if certain conditions apply in relation to the solvency of such party as specified in the relevant Swap Agreement; and
- (d) if a party merges with another entity and the new entity does not assume all the obligations of such party under such Swap Agreement.

Swap Termination Events

Each Swap Agreement is expected to set out certain events which will constitute a termination event (each a “**Termination Event**”) under the relevant Swap Agreement and will entitle the party which is not the Affected Party (as defined below) to terminate all transactions in accordance with the relevant provisions of the relevant Swap Agreement. The Termination Events are likely to include:

- (a) it becoming illegal for either party to perform any obligation or comply with any provision of such Swap Agreement (in which case, such party will be the Affected Party);
- (b) the delivery of an Enforcement Notice (in which case the Issuer will be the Affected Party); and
- (c) the relevant Hedge Provider ceasing to have an Approved Rating and such Hedge Provider failing within 30 days thereafter either to:
 - (i) transfer all of its rights and obligations under the relevant Swap Agreement to another entity reasonably acceptable to the Issuer which has an Approved Rating or is otherwise acceptable to the Rating Agencies; or
 - (ii) post collateral in accordance with the terms of the relevant Credit Support Document,

in which case such Hedge Provider will be the Affected Party.

Term

Unless a Swap Event of Default or a Termination Event occurs with respect to a Swap Agreement, it is expected that the transactions under the Swap Agreement(s) will terminate on the earlier of the date specified for the final payment under the relevant Swap Agreement in the Amortisation Schedule for such Swap Agreement and the day on which the Issuer has discharged in full its obligations under the Class A2 Notes.

Termination costs and additional charges

If a Swap Agreement is terminated in whole or in part before the dates specified in the Amortisation Schedule for such Swap Agreement, whether as a result of the occurrence of any Termination Event or because the prepayment rate of the Class A2 Notes has exceeded the assumed rate set out in the Amortisation Schedule, the Issuer or the relevant Hedge Provider may be required to make a compensation payment to the other party to such Swap Agreement. The amount of any such compensation payment is likely to be determined by the relevant Hedge Provider by reference to its total losses and costs or gain in connection with such termination. If such Hedge Provider determines that the compensation amount represents a loss and/or cost to such Hedge Provider, the Issuer may be required to pay such compensation amount to the Hedge Provider in accordance with the Issuer Pre-Acceleration Priority of Payments or, after the delivery of an Enforcement Notice, the Issuer Post-Acceleration Priority of Payments. If the compensation amount represents a gain to such Hedge Provider, such Hedge Provider may be required to pay the compensation amount to the Issuer. HKSAR Government may enter into arrangements with each Hedge Provider to ensure that such Hedge Provider receives the full amount of any compensation payment payable by the Issuer, even if the Issuer has insufficient funds to make such payment.

Alternative hedging arrangements

On the Business Day before each TRB Payment Date on which the Issuer does not have the benefit of adequate hedging arrangements as a result of HKSAR Government's failure to procure such hedging arrangements, HKSAR Government will be required to pay into the TRB Account an amount equal to the difference between (a) 50% of the Principal Amount Outstanding of the Class A2 Notes multiplied by HIBOR for the Note Interest Period in which such TRB Payment Date falls and (b) 50% of the Principal Amount Outstanding of the Class A2 Notes multiplied by a fixed rate of interest which will be posted on the Issuer's website, www.hklink2004.com.hk.

THE RETAIL BONDS AND THE NOTES

Retail offering	See the section headed “Summary of the Retail Bonds being offered”.
Institutional Offering	<p>On the Issue Date, the Issuer intends to issue further debt securities (“Notes”) to institutional investors. Brief characteristics of the Notes are set out below.</p> <p><i>This Prospectus contains only limited information in relation to and does not constitute an offer of the Notes.</i></p>
The Notes	<p>The Class A1 Notes due 2005 (the “Class A1 Notes”) and the Class A2 Floating Rate Notes due 2016 (the “Class A2 Notes”) and, together with the Class A1 Notes, the “Notes”). The holders of the Class A1 Notes are the “Class A1 Noteholders” and the holders of the Class A2 Notes are the “Class A2 Noteholders”. The Class A1 Noteholders and the Class A2 Noteholders are collectively the “Noteholders” and each of them is a “Noteholder”.</p>
Interest on the Notes	<p>The Class A1 Notes will bear interest at a fixed rate of interest which will be determined before the Issue Date and posted on the Issuer’s website <i>www.hklink2004.com.hk</i>. The Class A2 Notes will bear interest at a floating rate of HIBOR plus a margin which will be determined before the Issue Date and posted on the Issuer’s website <i>www.hklink2004.com.hk</i>. The Notes will rate equally with the Retail Bonds in respect of the priority interest payments. Interest on the Notes will be payable on each Bond Payment Date.</p>
Principal on the Notes	<p>The principal amount of the Class A1 Notes will be repayable in full on the Bond Payment Date falling in May 2005. Principal will be repaid on the Class A2 Notes on each Bond Payment Date, to the extent that there are funds available after payment of the amounts required to be paid by the Issuer under items (a) to (f) (both inclusive) of the Issuer Pre-Acceleration Priority of Payments. Unless an Event of Default occurs, the Class A1 Notes and, to the extent of any payments made prior to the maturity date of the Retail Bonds, the Class A2 Notes, will rank ahead of the Retail Bonds, but the Retail Bonds will rank ahead of the outstanding amount of the Class A2 Notes, in respect of the repayment of principal. If an Event of Default occurs, the Retail Bonds will rank equally with the Notes in respect of the repayment of principal.</p>

Common Provisions of the Retail Bonds and the Notes

Security

The Issuer will create security interests (the “**Security**”) in favour of the Trustee under the terms of the Deed of Charge. The Trustee will hold the benefit of those security interests on trust for itself, the Retail Bondholders, the Noteholders, the Transaction Administrator, any Hedge Provider(s), if appropriate, and the Agents. The Security will include:

- (a) an assignment by way of security of all the Issuer’s right, title, benefit and interest in, to and under the Toll Revenue Bond, the Transaction Documents (including, without limitation, the Account Trust Deed) to which the Issuer is a party and the Issuer’s beneficial interest in the Trust Accounts and any amounts standing to the credit of the Trust Accounts from time to time;
- (b) a first fixed charge over the Issuer Account and any amounts standing to the credit of the Issuer Account from time to time; and
- (c) a floating charge over the whole of the Issuer’s assets and undertaking and all of its property assets and rights, other than those which have otherwise been effectively secured.

Issuer Events of Default

The following events constitute events of default (each an “**Issuer Event of Default**”) under the Retail Bonds and the Notes:

- (a) the Issuer fails to pay any amount in respect of the Retail Bonds or the Notes within 30 days of the date on which such payment was due to be made;
- (b) the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Retail Bonds, the Trust Deed, the Transaction Administration Agreement, the Deed of Charge or the Agency Agreement and such default remains unremedied for 30 days after the Trustee has given written notice of such default to the Issuer or (in relation to any such default the occurrence of which is reasonably likely to be materially prejudicial to the interests of the Noteholders or the Retail Bondholders) the Issuer has otherwise become aware of such default;

- (c) an Insolvency Event (as defined in the section headed “Terms and Conditions of the Retail Bonds — Condition 7 — Issuer Events of Default”) occurs in relation to the Issuer;
- (d) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Retail Bonds, the Notes or the Transaction Documents; or
- (e) the delivery of a TRB Default Declaration.

Consequences of an Issuer Event of Default

If an Issuer Event of Default has occurred which is not remedied or waived in accordance with the Transaction Documents, the Trustee may at its discretion and will if instructed by an Extraordinary Resolution of the holders of any class of Notes or any tranche of Retail Bonds deliver a notice (an “**Enforcement Notice**”) to the Issuer. Upon the delivery of an Enforcement Notice, the Notes and the Retail Bonds will become immediately due and payable without further action or formality at their Principal Amount Outstanding together with any accrued interest.

The Trustee will not be obliged to deliver an Enforcement Notice unless it has been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

Limited Recourse

Recourse against the Issuer in relation to the Issuer’s obligations under the Retail Bonds, the Notes and the Transaction Documents will be limited to the proceeds (the “**Enforcement Proceeds**”) of the enforcement of the Security. If the Enforcement Proceeds are insufficient to pay in full all amounts due under the Retail Bonds and the Notes after payment of all amounts having priority over the Retail Bonds and the Notes, the Retail Bondholders and the Noteholders will not have any further claim against the Issuer in respect of any unpaid amounts after the Enforcement Proceeds have been applied in full, and the Issuer’s liability in respect of any unpaid amounts will be extinguished.

Application of Enforcement Proceeds

The Issuer will apply the Enforcement Proceeds in accordance with the Issuer Post-Acceleration Priority of Payments, as set out in “— Management of Cash Flows — Issuer Post-Acceleration Priority of Payments” above.

Withholding tax

Payments of interest on the Retail Bonds and the Notes will be made subject to withholding tax (if any) applicable to the Retail Bonds and the Notes and the Issuer will not be obliged to pay any additional amounts as a consequence of any such withholding.

Governing Law

The Notes, the Retail Bonds, the Toll Revenue Bond, the TRB Subscription Agreement, the Account Trust Deed, the Transaction Administration Agreement, the Agency Agreement, the Swap Agreement(s), the Deed of Charge and the Trust Deed will be governed by Hong Kong law.

Transfer Restrictions

Certain restrictions will apply to the sale and transfer of the Retail Bonds and the Notes. See the section headed “Placing Arrangements”.

Risk Factors

Prospective purchasers of the Retail Bonds should read and consider carefully the issues discussed in “Risk Factors” below.

SUMMARY OF THE TRANSACTION DOCUMENTS

This section summarises the principal documents relating to the Retail Bonds and the Notes (the “**Transaction Documents**”). The information in this section is subject to, qualified by, and must be read in conjunction with the further detailed information appearing elsewhere in this Prospectus and in the Transaction Documents.

The Issuer has entered into, or will enter into, certain Transaction Documents (not being contracts entered into, or to be entered into, in the ordinary course of business) the key terms of which are summarised below and that are or may be material (the “**material contracts**”).

Trust Deed

On or before the Issue Date, the Issuer and the Trustee will enter into a Trust Deed, which will govern the issue of the Retail Bonds and the Notes (together, the “**Securities**”) by the Issuer and the role of the Trustee. The Trust Deed will provide for the Securities to be issued in global form, but exchangeable for definitive Securities in certain prescribed limited circumstances. In addition, the Trust Deed will contain detailed provisions relating to meetings of holders of the Securities, quorums and majorities. The form of the Securities to be issued and the terms and conditions of the Securities will be scheduled to the Trust Deed. The Trust Deed will be governed by Hong Kong law.

Deed of Charge

On or before the Issue Date, HKSAR Government, the Issuer, the Trustee, the Transaction Administrator and the Agents will enter into a deed of charge (the “**Deed of Charge**”). Any Hedge Provider (if appropriate) will become a party to the Deed of Charge at the same time as it enters into its Swap Agreement. Under the Deed of Charge, the Issuer will assign by way of security its rights under the Toll Revenue Bond, the other Transaction Documentation to which it is party and its accounts. It will also grant a floating charge over its assets. The Trustee will hold the security on trust for, amongst others, the holders of the Securities. The Deed of Charge will also provide for permitted payments and the priority of these permitted payments from the proceeds of enforcement of the Charged Property. The Deed of Charge will be governed by Hong Kong law.

Agency Agreement

On or before the Issue Date, the Issuer, the Trustee, the Transaction Administrator and the Agents will enter into an Agency Agreement. The Agency Agreement will set out the administrative procedures to be followed in relation to the Securities, including to effect delivery of the Securities to the holders of the Securities and to effect payments on the Securities. It will provide for the appointment of the Agents and the remuneration payable. The Agency Agreement will be governed by Hong Kong law.

TRB Subscription Agreement

On or before the Issue Date, HKSAR Government, the Issuer, the Trustee and the Transaction Administrator will enter into an agreement (the “**TRB Subscription Agreement**”) which details the terms and conditions upon which the Issuer is prepared to subscribe for the Toll Revenue Bond. It also documents the terms and conditions of the Toll Revenue Bond. The TRB Subscription Agreement contains a covenant from HKSAR Government to promptly pay principal and all amounts of interest on the Toll Revenue Bond when due.

It provides that payments will be made from Net Toll Revenues paid by HKSAR Government into the Collection Account on a monthly basis, and direct payments from HKSAR Government paid into the TRB Account. The TRB Subscription Agreement sets out the procedures to be followed by HKSAR

Government in arranging for the remittance of the Net Toll Revenues into the Collection Account. The TRB Subscription Agreement also sets out the form of the Facilities Operation Report which HKSAR Government will be required to prepare and deliver on each Facilities Operation Report Date. The TRB Subscription Agreement is governed by Hong Kong law.

Transaction Administration Agreement

On or before the Issue Date, HKSAR Government, the Issuer, the Trustee, the Transaction Administrator and the Agents will enter into an agreement (the “**TAA**”) which will set out obligations of the Transaction Administrator in managing the Transaction Accounts, making payments for the Issuer and preparing TA Reports. Any Hedge Provider (if appropriate) will become a party to the TAA at the same time as it enters into its Swap Agreement. The services to be carried out by the Transaction Administrator will be listed in the TAA and will include the operation of the bank accounts of the Issuer, the preparation of reports and associated payment instructions for the payments to be made from Transaction Accounts and the investment of surplus cash between payment dates.

Upon the occurrence of certain events, the TAA provides that the Trustee may terminate the appointment of the Transaction Administrator. However, the Transaction Administrator’s appointment cannot be terminated until a replacement has been appointed. These events include (i) any failure by the Transaction Administrator to make any payment due and payable by it on the due date, (ii) failure to perform its other obligations for more than the relevant grace period, (iii) an Insolvency Event in respect of the Transaction Administrator and certain other events as more particularly set out in the TAA. The Transaction Administrator will have the right to resign upon giving not less than two months prior written notice but, again, no such resignation will be effective until a replacement has been appointed.

The TAA will also specify the priority in which payments will be made from the Transaction Accounts. The TAA will be governed by Hong Kong law.

Account Trust Deed

On or before the Issue Date, the Issuer will declare a trust over the Trust Accounts on the terms set out in a deed (the “**Account Trust Deed**”). Under the terms of the Account Trust Deed, the Issuer will hold all amounts standing to the credit of the Trust Accounts from time to time on trust for itself and HKSAR Government and will apply such amounts only in accordance with the terms of the Transaction Documents. The Account Trust Deed will be governed by Hong Kong law.

The Account Mandate

On or before the Issue Date, the Issuer, the Transaction Administrator, the Trustee and the Account Bank will enter into an Account Mandate (the “**Account Mandate**”). The Account Mandate will set out the terms and conditions which govern the maintenance and operation of the Transaction Accounts. The Account Mandate will be governed by Hong Kong law.

Swap Agreement(s)

Within two calendar months of the Issue Date, the Issuer expects to enter into one or more Swap Agreement(s) with one or more Hedge Providers, which will comprise an ISDA Master Agreement, a schedule, a Confirmation and a Credit Support Document. The Swap Agreement(s) are expected to provide the Issuer with a partial hedge against interest rate risk. Each Schedule is expected to contain provisions amending the ISDA Master Agreement, which significantly limit the circumstances in which the swap transactions can be terminated due to the occurrence of a Termination Event or an Event of Default. Each Schedule is expected to contain limited recourse and non-petition language to reflect the insolvency remote nature of the Issuer.

Subscription Agreement

On or before the Issue Date, the Issuer, HKSAR Government, HSBC and Citicorp International Limited (the “**Joint Lead Managers**”) will enter into an agreement (the “**Subscription Agreement**”) which generally details the terms and conditions upon which the Joint Lead Managers are prepared to subscribe for the Notes to be issued by the Issuer. Under the Subscription Agreement, the Joint Lead Managers will not be obliged to subscribe for the Notes unless, among other things, all of the parties have executed and delivered all of the Transaction Documents, the Rating Agencies have delivered the rating letters and legal opinions have been delivered.

The Issuer and HKSAR Government will represent and warrant that the offering circular in respect of the Notes contains all of the information which is material in the context of the issue of the Notes and that this information is true and accurate in all material respects and is not misleading in any material respect. In addition, each of the parties will agree to abide by the selling restrictions. The Subscription Agreement will be governed by Hong Kong law.

Placing Bank Agreement

On or around the date of this Prospectus, the Issuer, HKSAR Government and the Placing Banks entered into the Placing Bank Agreement which governs the relationship between the Issuer, HKSAR Government and the Placing Banks for the Retail Bonds. Under the Placing Bank Agreement, the Placing Banks will make available the application methods for the Retail Bonds in the manner as described in the Prospectus in return for payment of a placing and distribution fee by the Issuer.

The Placing Banks will make the Prospectus and the necessary account opening and application forms available to investors. The Placing Banks will process and accept or reject the applications made through them in accordance with guidelines set out in the Prospectus.

Each Placing Bank will be able to rely on the information provided to it by the Paying Agent and the Reference Agent for the Retail Bonds and will not be responsible for any loss in so acting save in certain limited circumstances. The Placing Bank Agreement is governed by Hong Kong law.

Representation and Indemnity Deed

On or around the date of this Prospectus, the Issuer, HKSAR Government and the Joint Lead Managers entered into a deed (the “**Representation and Indemnity Deed**”) under which the Issuer and HKSAR Government give certain representations and warranties to the Joint Lead Managers. It also contains certain provisions relating to the indemnification of the Joint Lead Managers.

Market Making Agreement

On or around the date of this Prospectus, the Issuer and the market makers entered into a Market Making Agreement (the “**MMA**”), under which the market makers are appointed to make a market for the secondary trading of the Retail Bonds. The market maker will be required to quote, during normal banking hours and at a reasonable spread, a “bid” price (that is, a price at which it is willing to purchase the Retail Bonds) and an “offer” price (that is, a price at which it is willing to sell the Retail Bonds).

The MMA enables the Issuer to make enquiry with the market maker if the Issuer believes that the price quotations made by the market maker to retail investors do not reflect the credit of the Retail Bonds. The MMA is governed by Hong Kong law.

Nominee Appointment Agreement

On or around the date of this Prospectus, the Issuer, Asia Commercial Bank (Nominees) Limited, BA Nominees Limited, Bank of China (Hong Kong) Nominees Limited, Bank of Communications (Nominee) Company Limited, The Bank of East Asia (Nominees) Limited, Chekiang First Bank (Nominees) Limited, Chiyu Banking Corporation (Nominees) Limited, Citi (Nominees) Limited, Dah Sing Nominees Limited, Fortis Nominees Asia HK Ltd., Hang Seng (Nominee) Limited, Horsford Nominees Ltd., HSBC Nominees (Hong Kong) Limited, ICBC (Asia) Nominee Limited, International Bank of Asia Limited, Liu Chong Hing (Nominees) Limited, MEVAS Nominees Limited, Nanyang Commercial Bank (Nominees) Limited, Security Nominees Limited, Shanghai Commercial Bank (Nominees) Limited, Ting Hong Nominees Limited, Wing Hang Bank (Nominees) Ltd. and Wing Lung Bank (Nominees) Ltd. (the “**Nominees**” and each, a “**Nominee**”) entered into an agreement (the “**Nominee Appointment Agreement**”), which sets out the terms under which the Issuer will appoint the Nominees in relation to the issue of the Retail Bonds and the opening of nominee bank accounts. Under the Nominee Appointment Agreement, each Nominee will, on behalf of the Issuer, open a nominee account and a deposit account with the Placing Bank (which will be a party to the Placing Bank Agreement), and be authorised to act on the instructions from the specified authorised persons to receive, hold and deal with any application moneys and subscription moneys paid into the above-mentioned accounts in relation to the subscription of the Retail Bonds. The Nominee Appointment Agreement is governed by Hong Kong law.

CCASS Admission Agreement

On or around the date of this Prospectus, the Issuer and HKSCC entered into an agreement (the “**CCASS Admission Agreement**”) under which the Issuer undertakes to comply with the admission requirements for deposit, clearance and settlement of the Retail Bonds concluded on the Hong Kong Stock Exchange or effected by matched settlement instructions or affirmed investor settlement instructions in CCASS.

Pursuant to this agreement, a CCASS Investor Participant or CCASS Broker/Custodian Participant may instruct HKSCC to apply for the Retail Bonds on its behalf. HKSCC will receive from the Issuer for itself (in the case of successful applications made by CCASS Investor Participants) and on behalf of the relevant CCASS Broker/Custodian Participants (in the case of successful applications made by investors through their designated CCASS Broker/Custodian Participants) a placing and distribution fee, in respect of the Tranche A Retail Bonds, 0.15 per cent. of the principal amount of Retail Bonds allotted through them and, in respect of the Tranche B Retail Bonds, 0.20 per cent. of the principal amount of Retail Bonds allotted through them and, in respect of the Tranche C Retail Bonds, 0.30 per cent. of the principal amount of Retail Bonds allotted through them. The CCASS Admission Agreement is governed by Hong Kong law.

Master Definitions Schedule

On or before the Issue Date, all the parties to the Transaction Documents (save for HKSCC, the Placing Banks, the market makers and the Nominees) will enter into a schedule (the “**Master Definitions Schedule**”), which sets out the definitions and the interpretation of all the capitalised terms used in the Transaction Documents.

TIMETABLE FOR RETAIL BOND ISSUE AND SUBSCRIPTION FOR THE RETAIL BONDS

9:00 a.m. on 20 April 2004
(Tuesday)
Commencement Date of
Subscription Period

Applications for Retail Bonds may be made from this date on. See the section headed “How to Apply for the Retail Bonds”.

If you are instructing a Placing Bank to apply for the Retail Bonds on your behalf, you must already have, or must open, a bank account and also an investment account with the Placing Bank to which you give your application instructions, and must arrange for sufficient funds to pay for the PB Application Amount in respect of Retail Bonds applied for to be available in your account on or before the Closing Date. If you do not have sufficient funds available to pay for the full amount of the PB Application Amount, your application will be rejected as invalid.

If you have made more than one application through the same Placing Bank, the Placing Bank will have the discretion to treat any one or more of your applications as valid and reject the others as invalid and to aggregate all applications made from your investment account. The Placing Banks will charge a fee for the custody service they provide in respect of your investment account. See the section headed “Custody Arrangements in respect of the Retail Bonds”.

If you are instructing HKSCC to apply for the Retail Bonds on your behalf, you must already have, or you must open, an Investor Account with HKSCC, or apply through a CCASS Broker/Custodian Participant who is willing to give application instructions on your behalf to HKSCC. You must also arrange for sufficient funds to pay for the CCASS Application Amount in respect of the Retail Bonds applied for to be available in your designated bank account (if you are a CCASS Investor Participant) or the designated bank account of your designated CCASS Broker/Custodian Participant.

If you have instructed your designated CCASS Broker/Custodian Participant to give more than one application instruction to HKSCC, your designated CCASS Broker/Custodian Participant will have a discretion to treat any one or more of your applications as valid and reject the others as invalid and to aggregate all valid application instructions, and to give one or more application instruction to HKSCC on your behalf. If you are a CCASS Investor Participant, only one application instruction can be given by you as a CCASS Investor Participant to HKSCC to apply for each tranche of the Retail Bonds.

2:00 p.m. on 29 April 2004
(Thursday)
Closing Date of
Subscription Period
(the “Closing Date”)

If you are applying through a Placing Bank:

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

The PB Application Amount will be collected by debit from 00:00 a.m. on the Closing Date onwards from your specified bank account with the Placing Bank to which you gave your application instructions.

The standard terms and conditions of the investment account of each Placing Bank will provide it with the right to take actions to recover any amounts which may be owing by you to the Placing Bank. See the section headed “Custody Arrangements in respect of the Retail Bonds”.

If you are instructing HKSCC to apply for the Retail Bonds on your behalf:

All electronic instructions to apply for Retail Bonds, whether given directly by you as a CCASS Investor Participant or indirectly through your designated CCASS Broker/Custodian Participant, must be received by HKSCC not later than 2:00 p.m. on the Closing Date. No electronic instructions for application for Retail Bonds will be accepted after this time. Please note that your designated CCASS Broker/Custodian Participant may under the terms and conditions of your securities account or custodian account, as the case may be, stipulate its own deadline for the submission of instructions to it. You should check with your designated CCASS Broker/Custodian Participant as to its deadlines for the submission of application instructions.

The CCASS Application Amount will be collected by debit on this date from your designated bank account (if you are a CCASS Investor Participant) or the designated bank account of your designated CCASS Broker/Custodian Participant.

4 May 2004 (Tuesday)
Price-fixing Date
(Closing Date plus
three business days)

The Reference Agent will 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. See the section headed “How the Subscription Price of the Retail Bonds will be fixed”.

If valid applications are received for more Retail Bonds of any tranche than are to be issued, the Retail Bonds will be allocated as described in the section headed “Allocation of Retail Bonds”.

The Issuer will 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 website, to which the websites of The Bank of East Asia, Citibank, DBS Bank, HSBC, Standard Chartered Bank and Wing Lung Bank have a hyperlink, as specified in the section headed “Where to Obtain Copies of the Prospectus”.

7 May 2004 (Friday)
Issue Date
(Closing Date plus
six business days)

If you have instructed a Placing Bank to apply for the Retail Bonds on your behalf:

If the Subscription Price of any tranche of Retail Bonds is less than the Application Price, the Placing Bank to which you gave your application instructions will calculate the refund amounts payable to you and will credit without interest such refund amounts to your bank account from which the PB Application Amount was initially debited. If your application is unsuccessful, invalid or partially successful, the whole or a relevant part of your PB Application Amount (which is inclusive of the Handling Fee) will also be refunded to you without interest by credit to your bank account from which the PB Application Amount was initially debited.

All refunds will be made by the Placing Banks commencing on the Issue Date and will be completed within 5 business days of the Issue Date.

Retail Bonds will be issued against payment in full of the Subscription Price by the Placing Banks. Each Placing Bank will transfer the subscription monies (being Subscription Price for all the Retail Bonds allocated to successful applicants who applied through it) from the Issuer's nominee account to the Principal Paying Agent by 10:00 a.m.

The Placing Banks will, commencing on and from the Issue Date, notify the unsuccessful and successful applicants by mail of the Subscription Price, any settlement amounts, any refund amounts and, if applicable, their allotment of Retail Bonds. All notifications will be completed by the Placing Banks within 5 business days of the Issue Date.

The Principal Paying Agent will execute lodgement and settlement with the Issuer through the CMU by 11:00 a.m.

Retail Bonds allotted will be credited by 7:00 p.m. to your investment account maintained with the relevant Placing Bank.

If you have instructed HKSCC to apply for the Retail Bonds on your behalf:

If the Subscription Price is less than the Application Price and if you are a successful applicant, the difference (which is inclusive of the Brokerage Fee) will be refunded to you without interest by credit to your designated bank account (if you are a CCASS Investor Participant) or the designated bank account of your designated CCASS Broker/Custodian Participant on or about the Issue Date.

If your application is wholly or partially unsuccessful, the whole or a relevant part of your CCASS Application Amount (inclusive of the Brokerage Fee) will be refunded to you without interest by credit to your designated bank account (if you are a CCASS Investor Participant) or the designated bank account of your designated CCASS Broker/Custodian Participant on or about this date.

Successful applicants will be notified of the Subscription Price, any settlement amounts, any refund amounts and, if applicable, their allotment of Retail Bonds on or before this date by HKSCC or their designated CCASS Broker/Custodian Participant (as the case may be).

Retail Bonds will be issued against full payment of the Subscription Price by HKSCC. HKSCC will make payment to the Principal Paying Agent for the account of the Issuer of the subscription monies (being the Subscription Price for all the Retail Bonds allocated to successful applicants who instructed HKSCC directly as a CCASS Investor Participant and indirectly through their designated CCASS Broker/Custodian Participants to apply on their behalf).

Retail Bonds will be credited at the close of business of the Issue Date to the successful applicants' Investor Accounts or, as the case may be, their designated CCASS Broker/Custodian Participant's account with HKSCC.

The Issuer reserves the right to cancel the offering of one or more tranches of the Retail Bonds on or before the Issue Date. See the section headed "Summary of the Retail Bonds being offered — The Retail Bonds — Cancellation of Retail Offering". If the Issuer cancels the offering of one or more tranches of the Retail Bonds, the Issuer will give prompt public notice of such cancellation no later than the Issue Date.

10 May 2004 (Monday)
Listing Date
(Closing Date plus
seven business days)

Listing of the Retail Bonds on the Hong Kong Stock Exchange will become effective and dealings in the Retail Bonds on the Hong Kong Stock Exchange will commence.

“**business day**” means a day (other than a Saturday) on which commercial banks are open for business in Hong Kong.

“**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.

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 your 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 sixth 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 sixth 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 seventh business day, respectively, following the Closing Date.

If the Listing Date falls on a day which is not a business day for any reason (for example, the issue of a tropical cyclone warning signal no. 8 or above or a black rainstorm warning), the Listing Date will be postponed to the next business day, which next business day will become the Listing Date.

HOW THE SUBSCRIPTION PRICE OF THE RETAIL BONDS WILL BE FIXED

Interest will be calculated and paid at the specified interest rates by reference to 100 per cent. of the principal amount of the Retail Bonds. The total return on the Retail Bonds, or yield to maturity, however, will depend on the Subscription Price. If the Subscription Price is greater than 100 per cent. of the principal amount of the Retail Bonds, the annualised yield will be lower than the specified interest rate (on an annualised basis); if the Subscription Price is lower than 100 per cent. of the principal amount of the Retail Bonds, the annualised yield will be greater than the specified interest rate (on an annualised basis). The Subscription Price will be fixed and it will be the lower of (a) the Application Price, being 102 per cent. of the principal amount of the Retail Bonds and (b) the percentage so that the annualised yield on that tranche of the Retail Bonds is equal to the offer yield of an identified issue of EFN of a comparable tenor on the Price-fixing Date plus a specified margin. See the section headed “Summary of the Retail Bonds being offered — The Retail Bonds — Subscription Price”.

The Subscription Price for the Retail Bonds of each of the three tranches will be fixed on the Price-fixing Date (expected to be 4 May 2004). See the section headed “Summary of the Retail Bonds being offered — The Retail Bonds — Subscription Price”.

The following table sets out, for illustrative purposes, the yields to maturity (on an annualised basis) for each tranche of Retail Bonds for a range of Subscription Prices.

Subscription Price (as a percentage of the principal amount of the Retail Bonds)	Tranche A Interest Rate 2.75 per cent. per annum, per annum, (payable quarterly)	Tranche B Interest Rate 3.60 per cent. per annum, per annum, (payable quarterly)	Tranche C Interest Rate 4.28 per cent. per annum, per annum, (payable quarterly)
	Annualised Yield (%)	Annualised Yield (%)	Annualised Yield (%)
98.00	3.500%	4.106%	4.696%
98.10	3.463%	4.082%	4.679%
98.20	3.427%	4.059%	4.661%
98.30	3.390%	4.036%	4.643%
98.40	3.354%	4.013%	4.626%
98.50	3.318%	3.990%	4.609%
98.60	3.281%	3.967%	4.591%
98.70	3.245%	3.944%	4.574%
98.80	3.209%	3.921%	4.556%
98.90	3.173%	3.899%	4.539%
99.00	3.137%	3.876%	4.522%
99.10	3.101%	3.853%	4.504%
99.20	3.065%	3.830%	4.487%
99.30	3.029%	3.807%	4.470%
99.40	2.993%	3.785%	4.452%
99.50	2.957%	3.762%	4.435%
99.60	2.921%	3.739%	4.418%
99.70	2.885%	3.717%	4.401%
99.80	2.850%	3.694%	4.383%
99.90	2.814%	3.671%	4.366%

	Tranche A Interest Rate 2.75 per cent. per annum, (payable quarterly)	Tranche B Interest Rate 3.60 per cent. per annum, (payable quarterly)	Tranche C Interest Rate 4.28 per cent. per annum, (payable quarterly)
Subscription Price (as a percentage of the principal amount of the Retail Bonds)	Annualised Yield (%)	Annualised Yield (%)	Annualised Yield (%)
100.00	2.778%	3.649%	4.349%
100.10	2.743%	3.626%	4.332%
100.20	2.707%	3.604%	4.315%
100.30	2.672%	3.581%	4.298%
100.40	2.637%	3.559%	4.281%
100.50	2.601%	3.537%	4.264%
100.60	2.566%	3.514%	4.247%
100.70	2.531%	3.492%	4.230%
100.80	2.496%	3.469%	4.213%
100.90	2.460%	3.447%	4.196%
101.00	2.425%	3.425%	4.179%
101.10	2.390%	3.403%	4.162%
101.20	2.355%	3.380%	4.145%
101.30	2.320%	3.358%	4.128%
101.40	2.285%	3.336%	4.111%
101.50	2.250%	3.314%	4.095%
101.60	2.216%	3.292%	4.078%
101.70	2.181%	3.270%	4.061%
101.80	2.146%	3.248%	4.044%
101.90	2.111%	3.226%	4.028%
102.00	2.077%	3.204%	4.011%

Note: (1) The Subscription Prices actually fixed may not coincide with any of the prices specified for the purposes of the above illustrative table.

(2) The information shown in this column is for reference only. The Subscription Price for each tranche of Retail Bonds will be expressed as a percentage of the principal amount of such Retail Bonds and will be determined on the Price-fixing Date such that it will be the lower of (a) the Application Price for that tranche and (b) the percentage so that the Tranche A Retail Bonds, the Tranche B Retail Bonds and the Tranche C Retail Bonds will have annualised yields equal to the yield of EFN 5706 plus 0.45 per cent., the yield of EFN 5903 plus 0.60 per cent., and the yield of EFN 7102 plus 0.75 per cent. respectively.

ALLOCATION OF RETAIL BONDS

If valid applications are received for more Retail Bonds of any tranche than are to be issued, Retail Bonds will be allocated as follows:

1. a minimum of HK\$50,000 in principal amount of the Retail Bonds of that tranche will be allocated to each of the Applications through (a) HKSCC from CCASS Investor Participants and CCASS Broker/Custodian Participants (and so that if more than one valid application instruction is given from a prospective investor to its designated CCASS Broker/Custodian Participant, all such valid applications may be aggregated) and (b) the Placing Bank's accounts through which valid application instructions were given (and so that if more than one valid application instruction is given from the same Placing Bank's account, all such valid application instructions will be aggregated) and the Applications to receive such allocation will be chosen by ballot if valid application instructions for Retail Bonds of a tranche are received through HKSCC from CCASS Investor Participants and CCASS Broker/Custodian Participants and the Placing Bank's accounts in a greater number than the number of Retail Bonds of that tranche to be allocated;
2. 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 through each of HKSCC from CCASS Investor Participants, CCASS Broker/Custodian Participants or such Placing Bank's accounts (rounded down to the nearest whole Retail Bond); and
3. in the case of Retail Bonds remaining after rounding, by ballot.

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

HOW TO APPLY FOR THE RETAIL BONDS

Applications for Retail Bonds will be made only by the Placing Banks or HKSCC. In order to instruct a Placing Bank to apply for Retail Bonds on your behalf, you must already have, or you must open, a bank account and also an investment account with the Placing Bank you intend to instruct. In order to apply for the Retail Bonds by giving electronic instructions to HKSCC (either directly as a CCASS Investor Participant or indirectly through your designated CCASS Broker/Custodian Participant), you must either already have, or you must open, an Investor Account with HKSCC, or a securities or custodian account with your designated CCASS Broker/Custodian Participant who is willing to make the application on your behalf. No application form is being issued for the Retail Bonds. **You should familiarise yourself with, and ensure you understand and accept, the terms and conditions of operation of the investment account, Investor Account or a securities or custodian account, before making an application to open such account with a Placing Bank, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be.**

If you apply for the Retail Bonds by giving instructions to a Placing Bank and your application is successful, you will initially hold your interest in the Retail Bonds through your investment account with such Placing Bank. Any dealings which you wish to conduct in respect of such Retail Bonds will need to be conducted through such Placing Bank or its affiliates pursuant to market making arrangements in over-the-counter transactions. See the section headed “Market Making Arrangements”. If you subsequently wish to trade any Retail Bonds which you hold over the Hong Kong Stock Exchange, you will be required to instruct the Placing Bank through which you hold such Retail Bonds to transfer such Retail Bonds to your Investor Account with HKSCC or your securities or custodian account with your designated CCASS Broker/Custodian Participant.

If you apply for the Retail Bonds by directly giving instructions to HKSCC (if you are a CCASS Investor Participant) or indirectly through your designated CCASS Broker/Custodian Participant and your application is successful, you will initially hold your interest in the Retail Bonds through your Investor Account with HKSCC or your designated CCASS Broker/Custodian Participant’s account in CCASS, as the case may be. Any dealings in respect of such Retail Bonds on the Hong Kong Stock Exchange will need to be settled through CCASS. See the section headed “Trading of Retail Bonds on the Hong Kong Stock Exchange”. If you subsequently wish to trade any Retail Bonds through a Placing Bank pursuant to market making arrangements in over-the-counter trades, you will be required to instruct HKSCC or your designated CCASS Broker/Custodian Participant through which you hold the Retail Bonds to transfer such Retail Bonds to a Placing Bank.

Fees may be charged, and restrictions may be applied, by the relevant Placing Bank, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be, to such transfer. Before making a decision on the method of application for the Retail Bonds, you are advised to consult the relevant Placing Bank, HKSCC and your designated CCASS Broker/Custodian Participant for the applicable charges and the rules and regulations governing such transfers.

The bid and offer prices quoted by one market maker for a Retail Bond may differ from another market maker and from the last traded price of such Retail Bond on the Hong Kong Stock Exchange. As any dealings in the Retail Bonds through the market makers pursuant to market making arrangements are off-exchange transactions, investors will not be covered by any investor compensation fund established to provide compensation in respect of listed securities in the event of intermediary default.

Your total return on an investment in any Retail Bonds will be affected by charges levied by your Placing Bank, your designated CCASS Broker/Custodian Participant or HKSCC, as the case may be. Fees may be charged by the Placing Banks, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be, for a range of services including the opening and operation of an investment account, Investor Account or securities or custodian account, transfers of Retail Bonds and custody services on payments of interest and principal. You are therefore advised to consult with your Placing Bank, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be, to ascertain the basis on which it may charge its fees on your Retail Bonds.

A. Application Procedure for Applications by Giving Instructions to a Placing Bank

1. Decide what principal amount of Retail Bonds you want to buy. Retail Bonds are available in the principal amount of HK\$50,000 each, so the principal amount of Retail Bonds you decide to buy must be HK\$50,000 (at the minimum) or a whole multiple of HK\$50,000.
2. Decide which of the Placing Bank(s) you will instruct to apply for Retail Bonds on your behalf. You must already have, or you must open, a bank account and also an investment account with the Placing Bank, to which you give your application instructions. For further information in relation to opening an investment account, see the section headed "Custody Arrangements in respect of the Retail Bonds". You may give application instructions to more than one Placing Bank.
3. The PB Application Amount for the Retail Bonds you have instructed the relevant Placing Bank to apply for will be debited from your bank account with such Placing Bank from 0:00 a.m. on the Closing Date onwards, expected to be 29 April 2004. By then, you must ensure that your bank account with the relevant Placing Bank has sufficient funds to pay the PB Application Amount of the Retail Bonds you have instructed such Placing Bank to apply for. Otherwise, your application will be rejected as invalid and, if you have made more than one application through the same Placing Bank, the Placing Bank will have the discretion to treat any one or more of your applications as valid and reject the others as invalid.

A table of multiples of Retail Bonds and the corresponding PB Application Amounts payable is set out below.

TABLE OF MULTIPLES OF RETAIL BONDS

Number of Retail Bonds applied for	Principal amount of Retail Bonds applied for (HK\$)	PB Application Amount (Application Price of 102% of principal amount plus handling fee of 0.15% of Application Price) (HK\$)
1	50,000.00	51,076.50
2	100,000.00	102,153.00
3	150,000.00	153,229.50
4	200,000.00	204,306.00
5	250,000.00	255,382.50
6	300,000.00	306,459.00
7	350,000.00	357,535.50
8	400,000.00	408,612.00
9	450,000.00	459,688.50
10	500,000.00	510,765.00
11	550,000.00	561,841.50
12	600,000.00	612,918.00
13	650,000.00	663,994.50
14	700,000.00	715,071.00
15	750,000.00	766,147.50
16	800,000.00	817,224.00
17	850,000.00	868,300.50
18	900,000.00	919,377.00
19	950,000.00	970,453.50
20*	1,000,000.00*	1,021,530.00

Note: * (Thereafter, in increments of 1 Retail Bond or HK\$50,000 in principal amount.)

4. Decide how to instruct your Placing Bank to make the application for Retail Bonds on your behalf.

- **In Person.** You may go to any designated branch (please telephone the “Hotlines” of the Placing Banks (see the section headed “The Placing Banks”) for a list of the designated branches for the relevant Placing Banks) of your chosen Placing Bank and give the instructions in person to apply for Retail Bonds on your behalf. If you need to open an investment account with the Placing Bank with which you have your bank account at the time of giving your application instructions, you must go to a branch of your chosen Placing Bank to open an investment account before or at the same time as you give your application instructions. You are urged to give your application instructions in good time before the closing of the subscription period to ensure the necessary procedures can be completed. See also the section headed “Custody Arrangements in respect of the Retail Bonds”.
- **By Internet.** You may make an on-line application if you already have both a bank account and an investment account with The Bank of East Asia, DBS Bank, HSBC and Standard Chartered Bank and if you have made the necessary arrangements to use the internet banking facilities provided by The Bank of East Asia, DBS Bank, HSBC and Standard Chartered Bank. On-line applications cannot be made through Asia Commercial Bank, Bank of America (Asia), Bank of China (Hong Kong), Bank of Communications, Chekiang First Bank, Chiyu Bank, Citibank, CITIC Ka Wah Bank, Dah Sing Bank, Fortis Bank Asia HK, Hang Seng Bank, ICBC (Asia), International Bank of Asia, Liu Chong Hing Bank, MEVAS Bank, Nanyang Commercial Bank, Shanghai Commercial Bank, Wing Hang Bank and Wing Lung Bank. By making an on-line application through a Placing Bank, you are required to comply with such Placing Bank’s terms and conditions in respect of the internet banking facilities provided by such Placing Bank.

The websites of The Bank of East Asia, DBS Bank, HSBC and Standard Chartered Bank are set out below:

The Bank of East Asia: <http://www.hkbea.com>

DBS Bank: <http://www.dbs.com/hk>

HSBC: <http://www.hsbc.com.hk>

Standard Chartered Bank: <http://www.standardchartered.com.hk>

Please refer to the section headed “References to Websites” on page 11 of this Prospectus for a warning statement and disclaimer relating to the usage of information contained in the websites referred to above.

- **By Telephone.** You may make a telephone application if you have both a bank account and an investment account with Bank of America (Asia), Bank of China (Hong Kong), The Bank of East Asia, Chiyu Bank, Citibank, DBS Bank, Fortis Bank Asia HK, Hang Seng Bank, HSBC, Nanyang Commercial Bank and Standard Chartered Bank, and if you have made the necessary arrangements to use the telephone banking services provided by Bank of America (Asia), Bank of China (Hong Kong), The Bank of East Asia, Chiyu Bank, Citibank, DBS Bank, Fortis Bank Asia HK, Hang Seng Bank, HSBC, Nanyang Commercial Bank and Standard Chartered Bank. Telephone applications for Retail Bonds cannot be made through Asia Commercial Bank, Bank of Communications, Chekiang First Bank, CITIC Ka Wah Bank, Dah Sing Bank, ICBC (Asia), International Bank of Asia, Liu Chong Hing Bank, MEVAS Bank, Shanghai Commercial Bank, Standard Chartered Bank, Wing Hang Bank, and Wing Lung Bank. By making a telephone application through a Placing Bank, you are required to comply with such Placing Bank’s terms and conditions in respect of the telephone banking services provided by such Placing Bank.

The phonebanking telephone numbers for Bank of America (Asia), Bank of China (Hong Kong), The Bank of East Asia, Chiyu Bank, Citibank, DBS Bank, Fortis Bank Asia HK, Hang Seng Bank, HSBC, Nanyang Commercial Bank and Standard Chartered Bank, are set out below:

Bank of America (Asia) Limited

Telephone Number	Service Hours	
2805 2383	Monday - Friday	8:30 a.m. - 8:00 p.m.
	Saturday	8:30 a.m. - 5:00 p.m.
	Sunday and public holidays	Closed

Bank of China (Hong Kong)

Telephone Number	Service Hours	
2291 8282	Monday - Friday	9:00 a.m. - 5:00 p.m.
	Saturday	9:00 a.m. - 1:00 p.m.
	Sunday and public holidays	Closed

The Bank of East Asia, Limited

Telephone Number	Service Hours	
Cyberbanking - Phone Service 2211 1888	Monday - Friday	9:00 a.m. - 5:00 p.m.
	Saturday	9:00 a.m. - 1:00 p.m.
	Sunday and public holidays	Closed
SupremeGold Phone Service Hotline 2211 1122	Monday - Friday	9:00 a.m. - 9:00 p.m.
	Saturday	9:00 a.m. - 5:00 p.m.
	Sunday and public holidays	Closed

Chiyu Bank

Telephone Number	Service Hours	
2232 3882 (Cantonese)	Monday - Friday	9:00 a.m. - 5:00 p.m.
2232 3883 (Putonghua)	Saturday	9:00 a.m. - 1:00 p.m.
2232 3887 (English)	Sunday and public holidays	Closed

Citibank

Telephone Number	Service Hours	
2860 0222	Monday - Friday	9:00 a.m. - 10:00 p.m.
	Saturday	9:00 a.m. - 1:00 p.m.
	Sunday and public holidays	Closed

DBS Bank

Telephone Number	Service Hours	
2290 8888 (press "4")	Monday - Friday	9:00 a.m. - 6:00 p.m.
	Saturday	9:00 a.m. - 1:00 p.m.
	Sunday and public holidays	Closed

Fortis Bank Asia HK**Telephone Number**

2529 1881

Service Hours

Monday - Friday	9:00 a.m. - 5:00 p.m.
Saturday	9:00 a.m. - 1:00 p.m.
Sunday and public holidays	Closed

Hang Seng Bank**Telephone Number**

Prestige Banking Customers
2998 9188

Service Hours

Monday - Friday	9:00 a.m. - 5:00 p.m.
Saturday	9:00 a.m. - 1:00 p.m.
Sunday and public holidays	Closed

Stamina Banking/Femina
Banking Customers
2822 8228

“Bank-In-One Account”
Customers (With Manned
Phone Banking)
2998 9333

Other “Bank-In-One Account”
Customers
2532 3838

HSBC**Telephone Number**

2269 2121

Service Hours

Monday - Friday	8:00 a.m. - 7:00 p.m.
Saturday	8:00 a.m. - 1:00 p.m.
Sunday and public holidays	Closed

Nanyang Commercial Bank**Telephone Number**

2850 1028

Service Hours

Monday - Friday	9:00 a.m. - 5:00 p.m.
Saturday	9:00 a.m. - 1:00 p.m.
Sunday and public holidays	Closed

Standard Chartered Bank**Telephone Number**

2886 8868

Service Hours

Monday - Friday	9:00 a.m. - 4:00 p.m.
Saturday	9:00 a.m. - 12:30 p.m.
Sunday and public holidays	Closed

5. The latest time for submitting your application is 2:00 p.m. on the Closing Date (expected to be 29 April 2004). The subscription period will not be adjusted or extended if any day during the subscription period is not a business day 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 your 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 sixth 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 sixth 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 seventh business day, respectively, following the Closing Date.

6. As part of the application instruction procedure, you will be required to confirm that you have read and understood this Prospectus and to make the confirmations set out below.

Confirmations to be Made by ALL Applicants on Applying for Retail Bonds through a Placing Bank

By giving application instructions for the Retail Bonds, you confirm to the Placing Banks and to the Issuer and HKSAR Government, that, amongst other things, you:

- **understand** that the Subscription Price for the Retail Bonds has not yet been set and will be set on the Price-fixing Date by reference to the offer yields of the specified issues of the EFN of a comparable remaining tenor quoted on the Reuters Page 0#HKEFBN=MIDF at or around 11:30 a.m. on the Price-fixing Date, in the manner described under the sections headed “Summary of the Retail Bonds being offered — The Retail Bonds — Subscription Price” and “How the Subscription Price of the Retail Bonds will be fixed”;
- **undertake and agree** to accept the Retail Bonds applied for, or any lesser number allotted to you;
- **authorise** the Placing Bank to which you give your application instructions to credit any Retail Bonds allotted to you to your investment account with it and **understand** that no certificates of title will be available for your Retail Bonds and your interest in your Retail Bonds is in book-entry form only;
- **understand** that you are buying the Retail Bonds through the Placing Bank and from the Issuer;
- **agree** that if you are not allotted any Retail Bonds, or if the Subscription Price of any tranche of the Retail Bonds you have applied for is less than Application Price of the Retail Bonds applied for or if your application is successful in part, or if the Retail Bonds of the tranche you have applied for are not issued for any reason, the whole or an appropriate portion of the PB Application Amount will be returned to you without interest and that all interest will be retained for the benefit of the Issuer;
- **have read** the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;

- **understand** that the Retail Bonds will be held through the CMU, which means that you will have to rely on the Placing Bank selected by you to credit the account you hold with that Placing Bank with payments credited to it through the CMU, and to distribute notices to you which it receives from the Issuer through the CMU;
- **have either received** a copy of this Prospectus (in your preference of either the Chinese or English versions) or have been afforded sufficient opportunity to obtain a copy of this Prospectus;
- **understand** that the principal amount of each Retail Bond will only be payable in respect of those Retail Bonds which are held until the Maturity Date and that interest will only be payable in respect of the Retail Bonds in issue on the relevant Bond Payment Date;
- **understand** that, if you make your application for Retail Bonds on-line or by telephone, the website and phone banking services are being provided by the relevant Placing Bank and not by the Issuer or HKSAR Government and that the Issuer and HKSAR Government accept no responsibility for the websites or phone banking services or for any consequences of, or arising from, the use of the websites or phone banking services or reliance on any information or data (other than the Prospectus) supplied through the websites or phone banking services;
- **understand** and **accept** that the Issuer and HKSAR Government accept no responsibility for the provision of bank services and custody services by the Placing Banks or for any consequences of, or arising from, the use of the bank account and investment account or custody services;
- **agree** that none of the Placing Banks, the Issuer, HKSAR Government and their respective directors, officers, agents and nominees will be liable to any persons in any way for any loss which may be suffered as a result of the sale by the Placing Banks of your Retail Bonds in accordance with the terms and conditions of the operation of your bank account or investment account with them;
- **understand** and **accept** that this Prospectus is not, and does not, constitute an offering of the Toll Revenue Bond nor the Notes and your application instructions are for application of Retail Bonds only; and
- **confirm** that you are not located within the United States or Canada and are not a U.S. Person within the meaning of Regulation S under the U.S. Securities Act of 1933, as amended, (which includes any person resident in the United States and any partnership or corporation organised or incorporated under the laws of the United States) or a resident of Canada.

You will be required to confirm that you have read and understood these confirmations when you instruct a Placing Bank to apply for Retail Bonds on your behalf.

In addition, potential investors who wish to apply by giving instructions to Placing Banks should note:

Application forms

Investors who apply for Retail Bonds in person may be required to complete an application form with their Placing Bank and return it to such Placing Bank together with payment for the Retail Bonds prior to the close of the Subscription Period. Where an application form is used, subscriptions will be subject to the terms of this Prospectus and the provisions of the application form. As the contents of any application form (if used) are not prescribed by the Issuer and may differ from one Placing Bank to another (in order to accommodate the relevant Placing Bank's application, payment and other applicable operating procedures), the Issuer accepts no responsibility whatsoever for the form or content of any such application forms.

Payment Procedures

Payment of the PB Application Amount for the Retail Bonds should be made in Hong Kong dollars, and must be received by a Placing Bank in cleared funds prior to 2:00 p.m. (Hong Kong time) on the Closing Date. Investors are advised not to pay by cheque due to delays in clearing. However, arrangements for the payment of the PB Application Amount by a prospective investor to the relevant Placing Bank will be subject to the normal operating procedures of the Placing Bank, which may permit payment to be made by cheque within a specified period.

The standard terms and conditions of the investment account of each Placing Bank will provide it with the right to take actions to recover any amounts which may be owing by the prospective investor as an account holder to the Placing Bank. See the section headed “Custody Arrangements in respect of the Retail Bonds” in this Prospectus.

Handling Fees

If you wish to subscribe for any Retail Bonds, you will be charged a handling fee of 0.15% of the Subscription Price by the Placing Bank (see the section headed “Summary of the Retail Bonds being offered — The Retail Bonds — Handling Fee and Brokerage Fee”). In addition, see the section headed “Settlement, Clearance and Custody” in this Prospectus for a description of other charges which may be levied by the Placing Banks in connection with their provision to an investor of custodial, transfer and clearing services for the Retail Bonds.

Cash Rebates and Soft Commission

The Issuer will not receive cash commissions or other rebates from the Placing Banks in connection with the subscription of the Retail Bonds. However, in consideration of the distribution activities undertaken by the Placing Banks as part of the offering of the Retail Bonds to the public in Hong Kong, certain commissions will be paid by the Issuer to the Placing Banks. Such commissions will be calculated by reference to the principal amount of the Retail Bonds placed by the relevant Placing Banks.

Notifications during the Subscription Period

At any time following the end of the Subscription Period of the Retail Bonds and on or prior to the Issue Date, the Issuer may determine in its absolute discretion that the Retail Bonds of any tranche should not in fact be issued. Such determination that the Retail Bonds of a particular tranche should not be issued may be made for any reason which the Issuer deems appropriate and following any such determination the issue of the affected Retail Bonds shall be cancelled. In such event, the Issuer will give prompt public notice of such cancellation and any PB Application Amounts held on account for the subscription of Retail Bonds shall be returned to the prospective investors in accordance with “— Refund of PB Application Amounts” below.

Refund of PB Application Amounts

If any PB Application Amounts are to be refunded in any of the circumstances described in this Prospectus, payment will be made by the Issuer to the prospective investors without interest and at the risk of the prospective investors. Such payment will be made by bank transfer as soon as practicable but in any event no later than 5 business days following notification by the Issuer of the circumstances leading to a refund of PB Application Amounts.

Prospective investors are advised that arrangements for application for any Retail Bonds through the Placing Banks during the Subscription Period (including, without limitation, arrangements regarding the time and method of payment of the Application Price for the Retail Bonds, the amount of any charges to be levied by the Placing Banks, the opening and closing period (if any) for placing an order for the Retail Bonds and the arrangements for any refunds

or payment of additional sums (if any)) will be as separately agreed between the prospective investors and the Placing Banks and will be subject to the relevant Placing Bank's terms and conditions relating to such arrangements. Each Placing Bank may impose different arrangements and levy different charges relating to the subscription of the Retail Bonds and prospective investors of Retail Bonds should contact the Placing Banks for information relating to such arrangements and charges. It is important that you should familiarise yourself with, and ensure you understand and accept, the terms and conditions of operation of the investment account before making an application to open an investment account. See the section headed "Custody Arrangements in respect of the Retail Bonds" in this Prospectus.

B. Application Procedure for Applications by Giving Electronic Instructions to HKSCC

1. Decide what principal amount of Retail Bonds you want to buy. Retail Bonds are available in the principal amount of HK\$50,000 each, so the principal amount of Retail Bonds you decide to buy must be HK\$50,000 (at the minimum) or a whole multiple of HK\$50,000.

2. The CCASS Application Amount for the Retail Bonds you have instructed HKSCC to apply for is 102% of the principal amount of the Retail Bonds you apply for plus a Brokerage Fee of 0.15% thereof. You must make sure that the full amount of the CCASS Application Amount is available in your designated bank account (if you are CCASS Investor Participant) or the designated bank account of your designated CCASS Broker/Custodian Participant who is willing to make application on your behalf. No receipt will be issued for the CCASS Application Amount paid. The table of multiples of Retail Bonds set out on page 81 of the Prospectus under "— Application Procedure for Applications by Giving Instructions to a Placing Bank" above apply, *mutatis mutandis*, to the determination of the corresponding CCASS Application Amounts payable.

3. If you are a CCASS Investor Participant and have your own Investor Account with HKSCC already, you should apply by giving electronic instructions to HKSCC through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> in accordance with the procedures set out in HKSCC's "An Operating Guide for Investor Participants" and the Rules of CCASS in effect from time to time. HKSCC can also input electronic application instructions for CCASS Investor Participants if you go to HKSCC's Customer Service Centre and complete an input request form before 2:00 pm on the Closing Date.

4. If you are applying for the Retail Bonds through your designated CCASS Broker/Custodian Participant, you will need to make the necessary arrangements directly with your designated CCASS Broker/Custodian Participant to open an appropriate account with it if you do not already have a securities or custodian account, and to make payment to your designated CCASS Broker/Custodian Participant of the CCASS Application Amount together with any fees or commissions charged by your designated CCASS Broker/Custodian Participant. Your designated CCASS Broker/Custodian Participant should then apply for the Retail Bonds by giving electronic instructions to HKSCC and pay the CCASS Application Amount on your behalf through CCASS.

5. CCASS Broker/Custodian Participants and CCASS Investor Participants can input electronic application instructions at the following times during the Subscription Period:

Monday to Friday: 9:00 a.m. to 7:00 p.m.*

Saturday: 9:00 a.m. to 3:00 p.m.*

Closing Date: 9:00 a.m. to 2:00 p.m.

Note: * These times may be subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants or CCASS Investor Participants.

6. You must ensure that the appropriate application instructions, either given directly by yourself as a CCASS Investor Participant or indirectly by your designated CCASS Broker/Custodian Participant, are accepted by CCASS by 2:00 p.m. on the Closing Date (expected to be 29 April 2004) at the latest. No instruction to apply for the Retail Bonds will be accepted after this time. Please note that your designated CCASS Broker/Custodian Participant may under the terms and conditions of your securities account or custodian account stipulate its own deadline for the submission of instructions to them. You should check with your designated CCASS Broker/Custodian Participant as to its applicable deadline for the submission of application instructions. The application period will not be adjusted or extended if any day (other than a Sunday, Saturday and public holiday) during the application period is not a business day for any reason (for example, the hoisting of a typhoon 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 your 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 sixth 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 sixth 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 seventh business day, respectively, following the Closing Date.

Confirmation Made by ALL Applicants on Applying for Retail Bonds through HKSCC

By applying for the Retail Bonds, you confirm to HKSCC, which on your instructions will apply for the Retail Bonds on your behalf, and to the Issuer and HKSAR Government, that, amongst other things, you:

- **understand** that the Subscription Price for the Retail Bonds has not yet been set and will be set on the Price-fixing Date by reference to the offer yields of the specified issues of the EFN of a comparable remaining tenor quoted on the Reuters Page 0#HKEFBN=MIDF at or around 11:30 a.m. on the Price-fixing Date, in the manner described under the sections headed “Summary of the Retail Bonds being offered — The Retail Bonds — Subscription Price” and “How the Subscription Price of the Retail Bonds will be fixed”;
- **undertake and agree** to accept the Retail Bonds applied for, or any lesser number allotted to you;

- **understand** that you are buying the Retail Bonds through HKSCC and from the Issuer;
- **instruct** and **authorise** the Issuer and HKSCC (or their respective directors, officers, agents or nominees) to do on your behalf all things necessary to record you (if you are a CCASS Investor Participant) or your designated CCASS Broker/Custodian Participant to which you give your application instructions as entitled to any Retail Bonds allotted to you in the records of HKSCC as the operator of CCASS and to credit any Retail Bonds allotted to you to your account (if you are CCASS Investor Participant) or your designated CCASS Broker/Custodian Participant's account with HKSCC and **understand** that no certificates of title will be available for your Retail Bonds and your interest in your Retail Bonds is in book-entry form only;
- **agree** that if you are not allotted any Retail Bonds, or if the Subscription Price of any tranche of the Retail Bonds you applied for is less than the Application Price of the Retail Bonds applied for or if your application is successful in part, or if the Retail Bonds of the tranche you have applied for are not issued for any reason, the whole or an appropriate portion of the CCASS Application Amount will be returned to you by crediting your designated bank account (if you are a CCASS Investor Participant) or the designated bank account of your designated CCASS Broker/Custodian Participant without interest;
- **have read** the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;
- **understand** that the Retail Bonds will be held through the CMU, which means that you will have to rely on HKSCC to credit your designated bank account or the designated bank account of your designated CCASS Broker/Custodian Participant, as the case may be, with payments credited to it through the CMU, and to distribute notices to you or your designated CCASS Broker/Custodian Participant, as the case may be, which it receives from the Issuer through the CMU;
- **have either received** a copy of this Prospectus (in your preference of either the Chinese or English versions) or have been afforded sufficient opportunity to obtain a copy of this Prospectus;
- **understand** that the principal amount of each Retail Bond will only be payable in respect of those Retail Bonds which are held until the Maturity Date and that interest will only be payable in respect of the Retail Bonds in issue on the relevant Bond Payment Date;
- **understand** that your application will take the form of giving electronic instructions to HKSCC to apply for Retail Bonds on your behalf and that your relationship with HKSCC is subject to the Rules of CCASS;
- **understand** and **accept** that the Issuer and HKSAR Government accept no responsibility for the provision of services by HKSCC or your designated CCASS Broker/Custodian Participant or for any consequences of, or arising from, the use of the relevant accounts or services, as the case may be;
- **agree** that none of HKSCC, the Issuer, HKSAR Government and their respective directors, officers, agents and nominees will be liable to any persons in any way for any loss which may be suffered as a result of the sale by your designated CCASS Broker/Custodian Participant of your Retail Bonds in accordance with the terms and conditions of the operation of your bank account or investment account with your designated CCASS Broker/Custodian Participant;

- **understand** that, if you give your instructions for application for Retail Bonds by telephone or on-line through the website, such services are being provided by the HKSCC or your designated CCASS Broker/Custodian Participant and not by the Issuer or HKSAR Government and that neither the Issuer nor HKSAR Government accept any responsibility for the websites or telephone services or for any consequences of, or arising from, the use of the websites or telephone services or reliance on any information or data (other than the Prospectus) supplied through the websites or telephone services;
- **understand** and **accept** that this Prospectus is not, and does not, constitute an offering of the Toll Revenue Bond nor the Notes and your application instructions are for application of Retail Bonds only; and
- **confirm** that you are not located within the United States or Canada and are not a U.S. Person within the meaning of Regulation S under the U.S. Securities Act of 1933, as amended, (which includes any person resident in the United States and any partnership or corporation organised or incorporated under the laws of the United States) or a resident of Canada.

You will be deemed to have confirmed that you have read and understood these confirmations when an application is made through HKSCC either directly by yourself as a CCASS Investor Participant or indirectly through your designated CCASS Broker/Custodian Participant.

In addition, potential investors who wish to apply by giving instructions to HKSCC directly or through their designated CCASS Broker/Custodian Participants should note:

Application forms

Investors who apply for Retail Bonds by giving instructions to HKSCC through their designated CCASS Broker/Custodian Participants may be required to complete an application form with their designated CCASS Broker/Custodian Participants and return it to such designated CCASS Broker/Custodian Participants together with payment for the Retail Bonds prior to the close of the Subscription Period. Where an application form is used, subscription will be subject to the terms of this Prospectus and the provisions of the application form. As the contents of any application form (if used) are not prescribed by the Issuer or HKSCC and may differ from one CCASS Broker/Custodian Participant to another, the Issuer and HKSCC accepts no responsibility whatsoever for the form or content of any such application forms.

Payment Procedures

Payment of the CCASS Application Amount for the Retail Bonds should be made in Hong Kong dollars, and must be received by HKSCC in cleared funds on the Closing Date.

The standard terms and conditions of the Investor Account of HKSCC and the securities account or custodian account of CCASS Broker/Custodian Participant, as the case may be, may provide it with the right to take actions to recover any amounts which may be owing by the prospective investor as an account holder to HKSCC or a CCASS Broker/Custodian Participant, as the case may be. See the section headed “Custody Arrangements in respect of the Retail Bonds” in this Prospectus.

Brokerage Fees

If you wish to subscribe for any Retail Bonds, you will be charged a brokerage fee of 0.15% of the Subscription Price by HKSCC or your designated CCASS Broker/Custodian Participant (see the section headed “Summary of the Retail Bonds being offered — The Retail Bonds — Handling Fee and Brokerage Fee”). In addition, see the section headed “Settlement, Clearance and Custody” in this Prospectus for a description of other charges which may be levied by HKSCC or your designated CCASS Broker/Custodian Participant in connection with their provision to an investor of custodial, transfer and clearing services for the Retail Bonds.

Cash Rebates and Soft Commission

The Issuer will not receive cash commissions or other rebates from HKSCC or any CCASS Broker/Custodian Participant in connection with the subscription of the Retail Bonds. However, in consideration of the distribution activities undertaken by the HKSCC and CCASS Broker/Custodian Participants as part of the offering of the Retail Bonds to the public in Hong Kong, certain commissions will be paid by the Issuer to HKSCC for the benefit of (i) HKSCC (in the case of successful applications made by CCASS Investor Participants); and (ii) CCASS Broker/Custodian Participants (in the case of successful applications made by investors through their designated CCASS Broker/Custodian Participants). Such commissions will be calculated by reference to the principal amount of such Retail Bonds distributed by HKSCC and CCASS Broker/Custodian Participants respectively.

Notifications during the Subscription Period

At any time following the end of the Subscription Period of the Retail Bonds and on or prior to the Issue Date, the Issuer may determine in its absolute discretion that the Retail Bonds of any tranche should not in fact be issued. Such determination that the Retail Bonds of a particular tranche should not be issued may be made for any reason which the Issuer deems appropriate and following any such determination the issue of the affected Retail Bonds shall be cancelled. In such event, the Issuer will give prompt public notice of such cancellation and any CCASS Application Amounts held on account for the subscription of Retail Bonds shall be returned to the prospective investors in accordance with “— Refund of CCASS Application Amounts” below.

Refund of CCASS Application Amounts

If any CCASS Application Amounts are to be refunded in any of the circumstances described in this Prospectus, payment will be made by HKSCC to the prospective investors without interest and at the risk of the prospective investors. Such payment will be made by direct credit to the designated bank accounts of the relevant CCASS Investor Participants and CCASS Broker/Custodian Participants as soon as practicable on or about the Issue Date.

Prospective investors are advised that arrangements for the application of any Retail Bonds through HKSCC or their designated CCASS Broker/Custodian Participants during the Subscription Period (including, without limitation, arrangements regarding the time and method of payment of the Application Price for the Retail Bonds, the amount of any charges to be levied by HKSCC and their designated CCASS Broker/Custodian Participants, the opening and closing period (if any) for placing an order for the Retail Bonds and the arrangements for any refunds or payment of additional sums (if any)) will be as separately agreed between the prospective

investors and HKSCC or their designated CCASS Broker/Custodian Participants and will be subject to HKSCC's or the relevant CCASS Broker/Custodian Participant's terms and conditions relating to such arrangements. Each of HKSCC or a CCASS Broker/Custodian Participant may impose different arrangements and levy different charges relating to the subscription of the Retail Bonds and prospective investors of Retail Bonds should contact HKSCC or their designated CCASS Broker/Custodian Participants, as the case may be, for information relating to such arrangements and charges. It is important that you should familiarise yourself with, and ensure you understand and accept, the terms and conditions of operation of the Investor Account or securities or custodian account, as the case may be, before making an application to open such account. See the section headed "Custody Arrangements in respect of the Retail Bonds" in this Prospectus.

CUSTODY ARRANGEMENTS IN RESPECT OF THE RETAIL BONDS

Definitive Retail Bonds, or certificates representing Retail Bonds, will not be issued to individual holders of Retail Bonds (except in very limited circumstances, including, (i) if the CMU is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business, or (ii) any Issuer Event of Default occurs). Three Global Retail Bonds, each representing the total principal amount of a tranche of Retail Bonds, will instead be deposited on the issue date of the Retail Bonds with the CMU operated by the HKMA. Retail Bonds, in the form of interests in the Global Retail Bonds, will be credited to the accounts of the Placing Banks and HKSCC with the CMU. See the section headed “Settlement, Clearance and Custody”.

Accordingly, (i) upon giving application instructions for the Retail Bonds through a Placing Bank, you must already have, or you must open, an investment account with your chosen Placing Bank to which your Retail Bonds can be credited on issue and (ii) upon giving application instructions for the Retail Bonds to HKSCC (either directly as a CCASS Investor Participant or indirectly through your designated CCASS Broker/Custodian Participant), you must already have, or you must open, an Investor Account with HKSCC, or a securities or custodian account with your designated CCASS Broker/Custodian Participant who is willing to give application instructions to HKSCC on your behalf.

If you do not currently have (a) an investment account with a Placing Bank (b) an Investor Account with HKSCC or (c) a securities or custodian account with a CCASS Broker/Custodian Participant, in order to apply for the Retail Bonds, you must open an investment account with a Placing Bank, an Investor Account with HKSCC or a securities or custodian account with a CCASS Broker/Custodian Participant in good time before the close of the Subscription Period.

If you wish to apply for the Retail Bonds through a Placing Bank but do not have an investment account at the time you give your application instructions for Retail Bonds, you must give application instructions for the Retail Bonds in person (on-line or telephone application instructions will not be accepted unless a valid investment account number is given) and you must complete and submit at the same time an investment account opening form to the same Placing Bank with which you have your bank account and which you have instructed to apply for Retail Bonds on your behalf. If you wish to apply for the Retail Bonds through HKSCC or a CCASS Broker/Custodian Participant but do not have an Investor Account with HKSCC or a securities or custodian account with a CCASS Broker/Custodian Participant, you should contact HKSCC or the relevant CCASS Broker/Custodian Participant to find out whether you can submit an account opening form with HKSCC or the relevant CCASS Broker/Custodian Participant and concurrently apply for the Retail Bonds through HKSCC or the relevant CCASS Broker/Custodian Participant.

Some important points about opening and holding your Retail Bonds in an investment account with a Placing Bank, an Investor Account with HKSCC and a securities or custodian account with your designated CCASS Broker/Custodian Participant are as follows:

- Applications to open an investment account with a Placing Bank, an Investor Account with HKSCC and a securities or custodian account with your designated CCASS Broker/Custodian Participant will be processed by the Placing Bank, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be, according to its normal procedures and criteria for acceptance. These criteria may include proof of income, creditworthiness, and other personal details. There may also be restrictions and certification or other requirements as to nationality and/or place of residence. United States or Canadian persons, for example, may not be eligible to open an investment account for securities laws compliance reasons. If your application to open an investment account, an Investor Account or a securities or custodian account with a Placing Bank, CCASS or a CCASS Broker/Custodian Participant, as the case may be, is refused for any reason, this will result in your application for Retail Bonds through that Placing Bank, HKSCC or that CCASS Broker/Custodian, as the case may be, being rejected.

- Investment account, Investor Account, securities account and other custody services with respect to the Retail Bonds will be supplied by the Placing Banks, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be, subject to their standard terms and conditions for the provision of such services. You should familiarise yourself with, and ensure you understand and accept, the terms and conditions of operation of the investment account, Investor Account or securities account or for the provision of custody services before making your application to open an investment account, Investor Account or securities account or for the provision of custody services. The Issuer and HKSAR Government accept no responsibility for the opening of an investment account, Investor Account or securities account or the provision of custody services by the Placing Banks, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be, or for any consequences of, or arising from the opening of such account or the use of the custody services.
- The Placing Banks, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be, will charge fees for the opening and operation of an investment account, Investor Account, securities account or the provision of custody services, as the case may be. You should check with the Placing Bank, HKSCC or your designated CCASS Broker/Custodian Participant with which you intend to open an investment account, Investor Account or securities account or apply for custody services what fees will be chargeable. Fees may be charged in respect of individual transactions, such as transfers of Retail Bonds; on a periodic basis for safe custody; and on payments of interest and principal when they are received. You should check with the Placing Bank, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be, with which you intend to open an investment account, an Investor Account or securities account, as the case may be, on what basis fees will be charged in respect of your Retail Bonds.
- The standard terms and conditions of the investment account, Investor Account or securities account or for the provision of custody services of each of the Placing Banks, HKSCC and your designated CCASS Broker/Custodian Participant, as the case may be, may permit it to take a security interest in, or to impose other restrictions on, the Retail Bonds credited to the investment account or to exercise a lien, right of set-off or similar claim against you in respect of monies held in any of your accounts maintained with such Placing Bank, HKSCC or CCASS Broker/Custodian Participant to secure any amounts which may be owing by you to such Placing Bank, HKSCC or CCASS Broker/Custodian Participant, as the case may be. In particular, if the Placing Bank, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be, makes an advance to you in connection with the payment of any unpaid Subscription Amount of the Retail Bonds, the Placing Bank, HKSCC or your designated CCASS Broker/Custodian Participant, as the case may be, may have the legal right to restrict your ability to transfer the Retail Bonds, to collect amounts owing to it out of payments of interest or principal received on the Retail Bonds or to sell the Retail Bonds and recoup amounts owing to it or other sale expenses, duties and interest costs out of the proceeds of sale or to charge interest on amounts owing to it.
- While the Global Retail Bonds representing the Retail Bonds are held by or on behalf of the CMU Operator, payments of interest or principal will be made to the persons for whose account a relevant interest in the relevant Global Retail Bond is credited as being held by the CMU at the relevant time, as notified to the Principal Paying Agent by the CMU Operator in a relevant CMU Instrument Position Report (as defined in the rules of the CMU) or in any other relevant notification by the CMU Operator. Such payment will discharge the obligations of the Issuer in respect of that payment. Individual investors will have to rely on the Placing Banks and HKSCC (either directly or through the relevant CCASS Broker/Custodian Participant) as CMU Participants (through which their Retail Bonds, in the form of interests in the relevant Global Retail Bonds, are held) to make payments to them, or to their designated CCASS Broker/Custodian Participants, as the case may be. Payments by the Placing Banks and HKSCC as CMU Participants (as defined in the

section headed “Settlement, Clearance and Custody”) and the relevant CCASS Broker/Custodian Participants to individual investors will be governed by arrangements agreed between the CMU Participants or the relevant CCASS Broker/Custodian Participants, as the case may be, and the individual investors (including the standard terms and conditions of the investment accounts, Investor Account or securities account or for the provision of custody services of the Placing Banks, HKSCC or the relevant CCASS Broker/Custodian Participant, as the case may be) and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU Participants or the relevant CCASS Broker/Custodian Participants and the individual investors will have no recourse against the Issuer or HKSAR Government in the case of any delay in payment or non-payment by any CMU Participants or CCASS Broker/Custodian Participants. Neither the Issuer nor HKSAR Government accepts any responsibility for any failure or delay on the part of the CMU Participants or the relevant CCASS Broker/Custodian Participants in doing so.

- Notwithstanding Retail Bond Condition 15 (*Notices*), so long as the Retail Bonds are represented by the Global Retail Bonds and the Global Retail Bonds are held by or on behalf of the CMU Operator, notices required to be given to Retail Bondholders may be given by their being delivered to the Paying Agents and the CMU Operator and, in any case, such notices will be deemed to have been given to such Retail Bondholders in accordance with Retail Bond Condition 15 (*Notices*) on the date of such delivery; *provided, however, that*, so long as that tranche of the Retail Bonds is listed on the Hong Kong Stock Exchange and its rules so require, notices will also be published in accordance with the rules of the Hong Kong Stock Exchange for the time being. See the section headed “Terms and Conditions of the Retail Bonds — Retail Bond Condition 15 — Notices”. Individual investors will have to rely on the Placing Banks and HKSCC (either directly or through the relevant CCASS Broker/Custodian Participant) as CMU Participants (through which their Retail Bonds, in the form of interests in the relevant Global Retail Bonds, are held) to deliver the notices to them, or to their designated CCASS Broker/Custodian Participants, as the case may be, subject to the arrangements agreed between the individual investors or the relevant CCASS Broker/Custodian Participant and the CMU Participants. Neither the Issuer nor HKSAR Government accepts any responsibility for any failure or delay on the part of the CMU Participants in doing so. If you wish to receive information in respect of your Retail Bonds, you should contact the Placing Bank, HKSCC or your designated CCASS Broker/Custodian Participant through which you subscribed for the Retail Bonds. See the section headed “General Information” for details of where copies of all such notices may be available for inspection.

RISK FACTORS

Potential investors in the Retail Bonds should carefully consider all the information set out in this Prospectus, including the risk factors highlighted below.

The information set out herein is included for the purpose of enabling potential investors and their advisers to make an informed assessment of the terms of the Retail Bonds, general risks of investing in the Retail Bonds and the capacity of the Issuer to fulfil its obligations under the Retail Bonds. The risk factors set out in this Prospectus are not exhaustive. Potential investors should seek appropriate and relevant advice concerning the suitability of an investment in the Retail Bonds for their particular circumstances.

Under the SFC Code of Conduct, the Placing Banks and the CCASS Broker/Custodian Participants, as entities licensed by or registered with the SFC, are required to ensure that the suitability of the Retail Bonds to a prospective investor is reasonable in all circumstances and to ensure that the prospective investor understands the nature and risks of investing in the Retail Bonds.

Risks relating to the Issuer

A decrease in Net Toll Revenues could adversely affect the Issuer's ability to meet its payment obligations under the Retail Bonds.

A decrease in Net Toll Revenues will result in a decrease of the corresponding payment due to the Issuer under the Toll Revenue Bond and, as the Issuer's principal source of funds are the payments due to it under the Toll Revenue Bond, such a decrease could adversely affect the Issuer's ability to meet its payment obligations under the Retail Bonds, whether fully or at all.

The Issuer's ability to meet its obligations under the Retail Bonds will depend upon the due, complete and timely performance by HKSAR Government and the other parties to the Transaction Documents of their obligations.

The Issuer is a special purpose company which will not engage in any material activities other than those regarding or incidental to the issue of the Retail Bonds and the Notes and which has virtually no assets other than the benefit of the Toll Revenue Bond, the TRB Subscription Agreement and the other Transaction Documents. The Retail Bonds are principally secured by the contractual obligations of HKSAR Government to pay into the Collection Account amounts equal to the Net Toll Revenues received by it each month, to pay principal and interest in accordance with the terms and conditions of the Toll Revenue Bond and (in certain limited circumstances) to make Direct Payments into the TRB Account in accordance with the TRB Subscription Agreement. The Issuer does not and will not have any ownership, security or other proprietary interest in the Tolled Facilities or the Tolls. Therefore, the Issuer's ability to meet its obligations under the Retail Bonds will depend almost exclusively on HKSAR Government's performance of its obligations under the Toll Revenue Bond and the TRB Subscription Agreement.

The ability of the Issuer to make payments punctually or at all in respect of the Retail Bonds will also depend upon the due performance by the Transaction Administrator, the Trustee, the Account Bank and the Agents of their respective obligations under the Transaction Documents to which they are a party. While, in certain circumstances, the Transaction Documents provide for the replacement of the Transaction Administrator, the Agents, the Account Bank and the Trustee, no assurance can be given that replacements can be found of the necessary competence and/or on the same terms, if at all.

If an Issuer Event of Default occurs, the Holders will only have limited recourse to the Issuer.

If an Issuer Event of Default occurs, recourse against the Issuer in relation to the Issuer's obligations under the Retail Bonds and the Notes will be limited to the proceeds of the enforcement of the Security. If these proceeds are insufficient to pay in full all amounts due under the Retail Bonds and

the Notes, after payment of all amounts having priority over the Retail Bonds and the Notes, the Holders will not have any further claim against the Issuer in respect of any unpaid amounts after application of these proceeds in full and the Issuer's liability in respect of such unpaid amounts will be extinguished.

Risks relating to HKSAR Government

HKSAR Government will not guarantee the Retail Bonds.

Although all of the Issuer's share capital is owned on behalf of HKSAR Government, HKSAR Government will not provide any form of guarantee for the Issuer's obligations under the Retail Bonds or the Notes. In addition, the Retail Bonds and the Notes will not be guaranteed by any other person.

If a TRB Event of Default occurs, the Issuer will not have the right to declare the whole Toll Revenue Bond immediately due and payable.

If a TRB Event of Default occurs, the Trustee may, or shall if so instructed by an Ordinary Resolution of the holders of any tranche of Retail Bonds or class of Notes, deliver a TRB Default Declaration. After the delivery of such TRB Default Declaration, HKSAR Government may, but will not be required to, redeem the Toll Revenue Bond on the next following TRB Payment Date. If HKSAR Government elects not to redeem the Toll Revenue Bond, the Issuer will not be able to declare the whole Toll Revenue Bond immediately due and payable. The Issuer will only be able to claim against HKSAR Government for obligations which have actually become due under the terms of the Toll Revenue Bond or the TRB Subscription Agreement but have not been performed. In addition, while the delivery of a TRB Default Declaration will be an Issuer Event of Default and the holders of any tranche of Retail Bonds or class of Notes will have the right to instruct the Trustee to declare the Retail Bonds and the Notes immediately due and payable, the giving of an Enforcement Notice following the occurrence of an Issuer Event of Default will only constitute a TRB Default Declaration and will not entitle the Issuer to declare the whole Toll Revenue Bond immediately due and payable.

Certain conditions must be satisfied for a Direct Payment Event to occur.

If any Direct Payment Event occurs, HKSAR Government will be obliged pursuant to the TRB Subscription Agreement to make Direct Payments to the TRB Account. However, the Transaction Administrator's determination as to whether any obligation under the TRB Subscription Agreement to make Direct Payments is triggered and, if so, the amount of any such Direct Payment will be made on the basis of information and certifications provided by HKSAR Government which will not be independently verified. There are also certain conditions which must be satisfied before a Direct Payment Event can be said to have occurred. For example, certain periods of time must elapse between the occurrence of a Direct Payment Event and the making of the relevant Direct Payment. In addition, certain materiality tests or thresholds must be satisfied before a Direct Payment Event can be said to have occurred. For a more detailed description of Direct Payments, see the section headed "Transaction Summary — Sources of Payment — Direct Payments".

HKSAR Government's obligations under the Toll Revenue Bond and the TRB Subscription Agreement are contractual obligations of HKSAR Government.

HKSAR Government's obligations under the Toll Revenue Bond and the TRB Subscription Agreement are unsecured contractual obligations. Therefore, the Issuer's ability to pay amounts due under the Retail Bonds and the Notes will depend on HKSAR Government making prompt payment of amounts due and payable under the Toll Revenue Bond and the TRB Subscription Agreement.

If HKSAR Government fails to perform any of its obligations under the Toll Revenue Bond or the TRB Subscription Agreement when due, the Issuer's only legal remedy will be to bring legal proceedings against HKSAR Government. The Issuer will have an action against HKSAR Government for payment of a debt (in respect of any Direct Payment or any amount under the Toll Revenue Bond which has

not been paid when due and payable) and/or an action for damages for breach of contract (in respect of any other obligation owed by HKSAR Government under the Toll Revenue Bond or the TRB Subscription Agreement which has not been performed when due). Any such action may be brought by the Trustee in the courts of Hong Kong. It should be noted that there are certain limitations as to the rights and remedies available as against HKSAR Government in any legal proceedings conducted in the courts of Hong Kong. See the section headed “The Hong Kong Special Administrative Region — Proceedings against HKSAR Government”. In addition, the Trustee may elect not to take any action against HKSAR Government unless and until it is indemnified and/or secured to its satisfaction by the Issuer or the Holders.

HKSAR Government will have the option to remove the Cross-Harbour Tunnel as a Tolloed Facility.

In financial year 2002/2003, the Cross-Harbour Tunnel generated about 60 per cent. of the total aggregate net revenue generated by the Tolloed Facilities in that year. HKSAR Government will have the option to remove the Cross-Harbour Tunnel as a Tolloed Facility at any time upon the satisfaction of certain conditions intended to result in prompt payment of interest on the Retail Bonds and the Notes on each Bond Payment Date and prompt repayment of principal on, in the case of the Class A1 Notes and the Retail Bonds, their respective designated maturity dates and, in the case of the Class A2 Notes, the Class A2 Step-up Date. In particular, the agreement of the Trustee to the exercise by HKSAR Government of such option and its approval of any necessary changes to the terms of the Transaction Documents must be obtained. The Trustee will be required to agree to such exercise and give such approval, without the consent of any Holder, if it receives confirmation that the arrangements put in place by HKSAR Government will not cause any of the Rating Agencies to downgrade or withdraw its then-current rating of the Retail Bonds and the Notes. Although these arrangements are intended to result in Holders receiving payments as scheduled, there can be no assurance that they will match the exact terms and conditions of the Retail Bonds or the Notes in other respects or that they will be made in the interests of the Holders. For a detailed description of this option, see the section headed “Transaction Summary — Toll Revenue Bond — Optional Prepayment — Cross-Harbour Tunnel Option”.

Any taxes imposed on the usage of the Tolloed Facilities could have an adverse impact on the generation of Tolls by the Tolloed Facilities.

Although there are currently no sales, value-added or other similar taxes imposed on any goods or services in Hong Kong, there can be no assurance that taxes of this kind will not be introduced in the future. If any such taxes are introduced by HKSAR Government and are imposed on the usage of the Tolloed Facilities, such imposition could have an adverse impact on the traffic volume through, and the generation of Tolls by, the Tolloed Facilities. Any revenue derived by HKSAR Government from these taxes will not be treated as Tolls and, accordingly, the Issuer will not benefit from such additional revenue derived from the Tolloed Facilities. In addition, unless specifically directed at motorists in the use of tolloed roads in Hong Kong generally (including the Tolloed Facilities), the imposition of such taxes will not constitute a Toll Adjustment Event and will not trigger a compensating Direct Payment.

Any promotional incentives which may be offered to users of any Tolloed Facility in the future could have an adverse impact on the Net Toll Revenue generated by such Tolloed Facility.

Any promotional incentives which may be offered to users of any Tolloed Facility in the future could have an adverse impact on the Net Toll Revenue generated by such Tolloed Facility. Although the Road Tunnels (Government) Regulations (Cap.368A) of Hong Kong and the Tsing Ma Control Area (Tolls, Fees and Charges) Regulation (Cap.498A) of Hong Kong do not expressly permit the offering of such promotional incentives, they do not expressly restrict HKSAR Government from permitting such incentives. Accordingly, there can be no assurance that HKSAR Government does not have the power to allow such incentives or that, pursuant to a change of law or regulation, it will not be expressly permitted to allow such incentives in the future. The offering of such promotional incentives, if permitted by HKSAR Government, will not constitute a Toll Adjustment Event and will not trigger a compensating Direct Payment.

In addition, while the current MOM Agreements do not expressly allow the Operators to offer promotional incentives, there can be no assurance that these agreements will not be amended to permit, or that terms of any new MOM Agreement will not permit, one or more of the Operators to do so. Such amendment of an existing MOM Agreement or the entry into a new MOM Agreement containing such terms will not constitute an Operator Services Event and will not trigger a compensating Direct Payment.

A key initiative of HKSAR Government's current transport strategy is the promotion of railways as the backbone of Hong Kong's passenger transport system.

As set out in an October 1999 publication entitled “*Hong Kong Moving Ahead: A Transport Strategy For the Future*”), one of the key initiatives of HKSAR Government's transport strategy is the promotion of railways as the backbone of Hong Kong's transport system. In February 2004, HKSAR Government invited the two railway operators, namely MTR Corporation Limited (“**MTRCL**”) and Kowloon-Canton Railway Corporation (“**KCRC**”), to commence negotiations on a possible merger. A merger of the railway operators and an expansion of the railway network could result in increased competition for road-based transport modes and may have an adverse impact on the generation of Tolls by the Tolled Facilities. For a more detailed discussion of transport policy, see the section headed “Transportation Infrastructure and Transport Policy in Hong Kong — HKSAR Government's Transport Policy”.

HKSAR Government policies, intentions, preferences, views or opinions, and any ordinance which sets out the regulatory regime for any Tolled Facility, any other transportation infrastructure or any mode of transport, may be updated or amended in the future.

While the statements in this Prospectus as to the policies, intentions, preferences, views or opinions (including, without limitation, its transport policy, its policy on toll adjustments for Tolled Facilities and any of its policies relating to planning, land or housing development) of HKSAR Government reflect the prevailing policies or the intentions, preferences, views or opinions of HKSAR Government as at the date of this Prospectus, such policies, intentions, preferences, views and opinions could be updated, amended or replaced by HKSAR Government at any time in the future and in its sole discretion. While changes or developments in the economic, legal, political and social environment of Hong Kong could be factors in any such update or amendment, HKSAR Government is not obliged to update, amend or replace its policies, intentions, preferences, views or opinions upon the occurrence of any such change or development. In addition, any ordinance and its subsidiary legislation which set out the regulatory regime for any Tolled Facility, any other transportation infrastructure or any mode of transport (a “**Transport-related Ordinance**”) may be amended, annulled or replaced in accordance with the legislative process in Hong Kong.

Any update, amendment or replacement of HKSAR Government's policies, intentions, preferences, views and opinions, or any amendment, annulment or replacement of a Transport-related Ordinance, could have an adverse effect on the Tolled Facilities and/or the generation of Tolls by such facilities. HKSAR Government may also adopt, in its sole discretion, new policies and enact new laws which could have an adverse impact on the Tolled Facilities and/or the generation of Tolls by such facilities. However, it should be noted that if HKSAR Government, in implementing transport policy, adjusts the toll rates of any or all the Tolled Facilities, such adjustment could be a Toll Adjustment Event and, accordingly, may trigger the making of a Direct Payment by HKSAR Government. For a description of HKSAR Government's current transport policy, see the section headed “Transportation Infrastructure and Transport Policy in Hong Kong — HKSAR Government's Transport Policy”.

Risks relating to the Tolled Facilities, the Operators and Autotoll

The traffic volume through, and the amount of Net Toll Revenues generated by, each Tolled Facility may fluctuate or decrease.

Although the level of traffic volume through, and Tolls generated by, each Tolled Facility has not been volatile during the last five years, there can be no assurance that this lack of volatility will continue.

A decrease in traffic volumes could lead to a decrease in the amount of Net Toll Revenues generated by the Tolloed Facilities. Potential investors in the Retail Bonds should also have regard to the definition of the term “Net Toll Revenues” and, in particular, the various amounts to be deducted from Tolls in order to arrive at Net Toll Revenues. See the section headed “Transaction Summary — Sources of Payment — Net Toll Revenues”.

Since the obligations of the HKSAR Government are in general limited to paying amounts equal to the Net Toll Revenues in respect of each month and (in certain limited circumstances) Direct Payments, no assurance can be given that the Issuer will have available funds sufficient to enable it to meet its payment obligations from time to time under the Retail Bonds fully or at all.

The management, operation and maintenance of the Tolloed Facilities are carried out by the Operators.

HKSAR Government does not perform the day-to-day management, operation and maintenance of the Tolloed Facilities itself. An Operator is selected by HKSAR Government, by open tender, to manage, operate and maintain each Tolloed Facility and each Operator is appointed pursuant to a MOM Agreement. The MOM Agreements are usually for a six-year term or, in the case of the Cross-Harbour Tunnel, two years but may be extended for the period specified in each agreement at the option of HKSAR Government. See the section headed “Description of the Tolloed Facilities” for a further discussion on the management, operation and maintenance of the Tolloed Facilities.

There can be no assurance that the amount which an Operator is allowed to deduct from the Tolls generated by the relevant Tolloed Facility (or the formula used to calculate such amount) will not be changed upon an amendment of the relevant MOM Agreement or the execution of a new MOM Agreement. Any increase in the amount to be deducted by an Operator from the Tolls generated by the relevant Tolloed Facility will not constitute an Operator Services Event and will not trigger a compensating Direct Payment, unless the relevant amended or new MOM Agreement contains terms which make such Operator’s maintenance, servicing or other obligations more expensive or more onerous in scope or standard. For more information, see the section headed “Transaction Summary — Sources of Payment — Operator Services Events”.

Approximately 48.7% of the Tolls generated by all the Tolloed Facilities in 2003 were paid by the Autotoll method.

Tolls collected using the Autotoll method are remitted to Autotoll Limited, which is responsible for daily payments of such Tolls to each Operator in accordance with an agreement with such Operator (an “**Autotoll Agreement**”). Approximately 48.7% of the Tolls generated by all Tolloed Facilities in 2003 were paid by the Autotoll method. Any failure by Autotoll Limited to perform its responsibilities under an Autotoll Agreement, or an insolvency of Autotoll Limited, could adversely affect the relevant Operator’s ability to pay the correct amount of Tolls to HKSAR Government or the traffic volume through the relevant Tolloed Facility. See the section headed “Description of the Tolloed Facilities — Operation, Management and Maintenance — Existing Toll Collection System — Autotoll” for more information.

A malfunction of the computer systems used to ascertain traffic volume and toll collection may have an adverse affect on the ability to make an accurate determination of Net Toll Revenues.

The Operators and HKSAR Government rely on computer systems to ascertain traffic volume and the level of toll collection on a daily basis. Should there be any malfunction in these computer systems, information on traffic volumes and collection could become unreliable, inaccurate or permanently lost. Such information may not be independently verifiable and could have an adverse effect on HKSAR Government’s ability to make an accurate determination of Net Toll Revenues at the relevant time.

The railway system is a significant source of competition for road-based modes of transport and future development of, or changes to, the railway system could adversely affect the traffic volume through, and the amount of toll revenues generated by, each Tolloed Facility.

In 2003, Hong Kong's railway system accounted for 29.6% of total daily transport passenger traffic in Hong Kong and approximately 75% of the total land-based cross-boundary passenger trips made. Adjustments in the fares or any other incentives offered by the operators of the railway system could have an adverse impact on the traffic volume through, and the level of Tolls generated by, any Tolloed Facilities which service the same destinations or the same population catchment areas as the railway system.

In addition, new railways are under construction or planning which, if completed, may compete with the Tolloed Facilities. For more details on new railways under construction or planning, see the section headed "Transportation Infrastructure and Transport Policy in Hong Kong — Recent, Ongoing and Future Transportation Infrastructure Projects — Railway Infrastructure".

There are other competing tunnels which are or could provide a source of competition for the Tolloed Facilities and future development of, or changes to, the road infrastructure in Hong Kong could adversely affect the traffic volume through, and the amount of toll revenues generated by, each Tolloed Facility.

Adjustments in the toll charges or any other incentives offered by the operators of other non-Government owned tunnels which provide an alternative route to the same strategic destinations or service the same population catchment areas as a Tolloed Facility could have an adverse impact on the traffic volume through, and the level of Tolls generated by, such Tolloed Facility. For a discussion on this subject, see the section headed "Transportation Infrastructure and Transport Policy in Hong Kong — Toll Rate Setting and Adjustment — Toll Rate Adjustment for the EHC and the WHC".

In addition, there are new roads under construction or planning which could compete with the Tolloed Facilities if and when completed. In particular, Route 8 (formerly known as Route 9) between Sha Tin and Tsing Yi may provide an alternative to Lion Rock Tunnel and Shing Mun Tunnels if completed. For more details on new roads under construction or planning, see the section headed "Transportation Infrastructure and Transport Policy in Hong Kong — Recent, Ongoing and Future Transportation Infrastructure Projects — Road Infrastructure".

Other Risk Factors

The generation of Tolls by the Tolloed Facilities could be affected by any economic, political, legal or other changes or developments in Hong Kong or affecting Hong Kong.

All the Tolloed Facilities are located in Hong Kong and all the Tolls are derived from Hong Kong. Accordingly, the generation of Tolls by the Tolloed Facilities could be affected by any economic, political, legal or other changes or developments in Hong Kong or affecting Hong Kong. See the section headed "The Hong Kong Special Administrative Region".

Upon the occurrence of an Issuer Event of Default, Holders of any tranche of Retail Bonds or any class of Notes are able to accelerate all tranches of Retail Bonds and both classes of Notes.

Unless it is clear that the subject matter of a resolution only concerns the Holders of one class of Notes or one tranche of Retail Bonds, it is likely that a resolution will only be put into effect if it has been approved by an Extraordinary Resolution of the Holders of each class of Notes and each tranche of Retail Bonds. This means that the wishes of the Holders of one tranche of Retail Bonds to take certain action could be over-riden by a negative vote from the Holders of any class of Notes or a different tranche of Retail Bonds. A significant exception to this is the right of the Holders of any single class

of Notes or tranche of Retail Bonds, by passing an Extraordinary Resolution, to require the Trustee to deliver an Enforcement Notice after an Issuer Event of Default has occurred. In such circumstances, payments under the Retail Bonds and the Notes will be made on an equal and rateable basis and the proportionate entitlement of any Holder to the funds available to the Issuer may be reduced.

Before the acceleration of the Retail Bonds and the Notes, the Holders of the Class A2 Notes are entitled to principal repayments only to the extent that there are funds available which are not required to make interest payments on the relevant Bond Payment Date or to repay, or be accumulated for the future repayment of, principal on the Class A1 Notes or the Retail Bonds. However, upon the occurrence of an Issuer Event of Default, the holders of the Class A2 Notes can accelerate all tranches of Retail Bonds and both classes of Notes by passing an Ordinary Resolution which would result in all of the payments to the Holders of the Retail Bonds and the Notes ranking equally and rateably.

Swap termination payments may rank above sums payable to Holders under the Retail Bonds or the Notes upon the declaration of a TRB Event of Default.

A Hedge Provider may designate the date on which any TRB Event of Default is declared as a swap early termination date and, in such case, any swap termination payment payable to such Hedge Provider by the Issuer will rank above the sums payable by the Issuer to the Holders under the Retail Bonds or the Notes, as the case may be.

A rating may be subject to revision, suspension or withdrawal at any time.

It is expected that the Retail Bonds and the Notes, when issued, will be assigned an “AA-” rating by S&P, an “AA+” rating by Fitch and an “Aa3” rating by Moody’s. Such ratings reflect the Issuer’s ability to make timely payments of interest and repayment of scheduled principal on the Retail Bonds and the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation, and each security should be evaluated independently of any other rating. The rating of the Retail Bonds and the Notes will depend on, among other things, the rating of HKSAR Government from time to time.

The absence of a secondary market for the Retail Bonds may result in limited liquidity and the trading price of the Retail Bonds may fluctuate.

The Retail Bonds are a new issue of securities for which there is currently no trading market. The Retail Bonds are also a relatively new type of investment product for the domestic bond market in Hong Kong and there are presently no official or directly comparable benchmarks or investment products in the domestic bond market in Hong Kong against which the performance or terms of the Retail Bonds could be measured.

If the Retail Bonds are admitted for listing by the Hong Kong Stock Exchange, such admission and listing should not be construed as a guarantee that an active trading market for the Retail Bonds will develop or as to the liquidity or sustainability of any such market. Although market making arrangements have been made for the Retail Bonds, this also does not provide assurance that an active secondary trading market will develop for the Retail Bonds following their issue. In addition, the market making arrangements do not ensure that members of the public will have access to a firm bid price or a firm offer price for Retail Bonds in a principal amount which they wish to purchase or sell. Furthermore, the Retail Bonds could be traded in the secondary market at prices that may be higher or lower than the initial subscription price or purchase price depending on many factors, including prevailing interest rates, significant changes in the overall amount of Net Toll Revenues generated by the Tolloed Revenues, any revision in HKSAR Government’s credit rating and, if any, the market for any similar securities.

There is no obligation on the Issuer to gross-up or otherwise compensate Retail Bondholders for any withholding taxes which may be imposed on payments to Retail Bondholders in the future.

In the event that, as a result of a change in Hong Kong law, withholding taxes are imposed in respect of payments to Retail Bondholders of amounts due pursuant to the Retail Bonds, the Issuer will not be obliged to gross-up or otherwise compensate Retail Bondholders for the lesser amounts the Retail Bondholders may receive as a result of the imposition of withholding taxes.

The road and railway infrastructure projects in the process of construction may not be completed by the estimated or scheduled completion time stated in this Prospectus.

In the section headed “Transportation Infrastructure and Transport Policy in Hong Kong — Recent, Ongoing and Future Transportation Infrastructure Projects”, there are certain statements of expectation, anticipation, estimation or belief as to when certain road and railway infrastructure projects under construction will be completed. While such statements represent the current expectation, anticipation, estimation or belief of HKSAR Government as at the date of this Prospectus, there can be no assurance that these infrastructure projects will be completed on time or in the manner anticipated by HKSAR Government.

Any road or railway infrastructure project at a planning stage may not be implemented in the manner, or at the time, suggested in this Prospectus.

In the section headed “Transportation Infrastructure and Transport Policy in Hong Kong — Recent, Ongoing and Future Transportation Infrastructure Projects”, there are certain statements of expectation, anticipation, estimation or belief as to the routing or purpose of certain road and railway infrastructure projects under planning and the timeline for the implementation of such projects. While such statements represent the current expectation, anticipation, estimation or belief of HKSAR Government as at the date of this Prospectus, there can be no assurance that the stated routing or purpose of these infrastructure projects will not be changed or that such projects will be implemented in accordance with such current expectation, anticipation, estimation or belief or at all.

Each of the Issuer and HKSAR Government believes that the risk factors described above are the principal risks inherent in the transaction for Retail Bondholders, but the inability of the Issuer to pay interest or principal on, or other amounts payable pursuant to, the Retail Bonds may occur for other reasons and neither the Issuer nor HKSAR Government represents that the above statements of the risk of holding the Retail Bonds are exhaustive. While the various structural elements described in this Prospectus are intended to mitigate some of these risks for Retail Bondholders, there can be no assurance that these measures will be sufficient or effective to ensure payment to Retail Bondholders of interest or principal on, or any other amounts in respect of, the Retail Bonds on a timely basis or at all.

TERMS AND CONDITIONS OF THE RETAIL BONDS

The following is the text of the Conditions of the Retail Bonds which (subject to modification and completion and the deletion of the italicised text appearing below Retail Bond Condition 14(b) below) will be endorsed on each Retail Bond in global form and (if issued) definitive form.

The Tranche A 2.75 per cent. Secured Retail Bonds due 2007 (the “**Tranche A Retail Bonds**”), Tranche B 3.60 per cent. Secured Retail Bonds due 2009 (the “**Tranche B Retail Bonds**”) and Tranche C 4.28 per cent. Secured Retail Bonds due 2011 (the “**Tranche C Retail Bonds**” and, together with the Tranche A Retail Bonds and the Tranche B Retail Bonds, the “**Retail Bonds**”) of 香港五隧一橋有限公司 Hong Kong Link 2004 Limited (the “**Issuer**”) are subject to, and have the benefit of, a trust deed to be dated the Issue Date (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer and HSBC Trustee (Hong Kong) Limited as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement to be dated the Issue Date (as amended or supplemented from time to time, the “**Agency Agreement**”) among the Issuer, the Trustee, The Hongkong and Shanghai Banking Corporation Limited, as transaction administrator (the “**Transaction Administrator**”, which expression includes any successor transaction administrator appointed from time to time), as reference agent (the “**Reference Agent**”, which expression includes any successor reference agent appointed from time to time in connection with the Retail Bonds) and as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Retail Bonds) and the paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Retail Bonds). References herein to the “**Agents**” are to the Paying Agents and the Reference Agent and any reference to an “**Agent**” is to any one of them. Certain provisions of these Retail Bond Conditions are summaries of the Trust Deed, the Agency Agreement and the other Transaction Documents (as defined below) and are subject to their detailed provisions. The holders of the Retail Bonds (the “**Retail Bondholders**”) and the holders of the related interest coupons (the “**RB Couponholders**” and the “**RB Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement, the Deed of Charge and the other Transaction Documents applicable to them. Copies of the Trust Deed, the Agency Agreement, the Deed of Charge and the other Transaction Documents are available for inspection by Retail Bondholders during normal business hours at the Specified Offices (as defined in Retail Bond Condition 18 (*Specified Offices*)) for the time being of the Principal Paying Agent, the initial Specified Offices of which are set out below.

The definitions set out in the Master Definitions Schedule attached to the Retail Bonds shall, save where the relevant terms are otherwise defined in these Retail Bond Conditions, be incorporated by reference in these Retail Bond Conditions with the same effect as though set out in full in these Retail Bond Conditions.

1. FORM, DENOMINATION, TITLE AND SECURITY

- (a) *Form and Denomination:* The Retail Bonds are in bearer form in the denomination of HK\$50,000 and with RB Coupons attached at the time of issue. Title to the Retail Bonds and the RB Coupons will pass by delivery. The Holder of any Retail Bond or RB Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing or any notice of any previous loss or theft of such Retail Bond or RB Coupon) and no person shall be liable for so treating such Holder.

- (b) *Status*: The Retail Bonds constitute obligations of the Issuer which are, together with certain other obligations of the Issuer secured in the manner described in paragraph (c) (*Security*) below. The Retail Bonds of each Tranche will at all times rank *pari passu* amongst themselves. Prior to the Enforcement Date, any principal of the Bonds or the Class A1 Notes which is due and payable will rank prior to the principal of the Class A2 Notes. The Retail Bonds will at all times rank *pari passu* amongst themselves and with the Notes with respect to payments of interest and, following the Enforcement Date, with respect to repayments of principal.
- (c) *Security*: The Security will be created pursuant to, and on the terms set out in, the Deed of Charge and will constitute security for the Retail Bonds and the Notes and for any amounts payable by the Issuer to the other Beneficiaries.

The Security will include:

- (i) *Assignments*: assignments to the Trustee by way of security of all of the Issuer's right, title, benefit and interest in, to and under (A) the Toll Revenue Bond and the TRB Subscription Agreement, (B) the Account Trust Property (in which the Issuer has a beneficial interest pursuant to the terms of the Account Trust Deed) and (C) the other Transaction Documents to which the Issuer is a party (other than any equity of redemption which the Issuer may have by operation of law upon payment in full of the Secured Obligations); and
- (ii) *Charges*: (A) a first fixed charge in favour of the Trustee over the Issuer Account (including all sums of money from time to time standing to the credit thereof) and the debt represented thereby and (B) a first floating charge in favour of the Trustee over the whole of the Issuer's undertaking and all of its property, assets and rights (other than the property or assets referred to in the foregoing clause (A) and any equity of redemption which the Issuer may have by operation of law upon payment in full of the Secured Obligations).

The Deed of Charge will provide for enforcement of the Security and the exercise of rights generally by the Trustee in relation to the Security upon the giving of an Enforcement Notice to the Issuer by the Trustee.

Clause 10 (*Payments from Issuer Account*) of the Transaction Administration Agreement and Clause 11 (*Application of Moneys*) of the Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After the service of an Enforcement Notice, the claims of the Trustee, any Receiver appointed in respect of the Issuer, the Transaction Administrator and the Agents, pursuant to the Transaction Documents, will be payable in priority to the claims of the Retail Bondholders pursuant to the Deed of Charge.

- (d) *Interests of Holders*: The Notes are also constituted by the Trust Deed and secured by the Security. Subject to Retail Bond Condition 12 (*Trustee and Agents*), the Trust Deed contains provisions requiring the Trustee to have regard only to the interests of the Noteholders and Retail Bondholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise) and not to have any regard to the interests of the other Beneficiaries.

2. NEGATIVE COVENANTS OF THE ISSUER

As long as any of the Retail Bonds remain outstanding, the Issuer shall not engage in any business or activity other than in respect of the transactions contemplated in the Transaction Documents, and the Issuer shall not (except, in each case, if and to the extent permitted or required by the Transaction Documents):

- (a) *Subsidiaries*: form, or cause to be formed, any subsidiaries;
- (b) *Payments to Shareholders*: redeem any of its shares or make any distributions to its shareholders, including, without limitation, any distribution of dividends;
- (c) *Encumbrances*: sell or otherwise dispose of, or create, incur or suffer to exist, or agree to sell or otherwise dispose of, or create, incur or suffer to exist, or consent to, cause or permit in the future (upon the happening of a contingency or otherwise) the sale or disposal of, or the creation, incurrence or existence of any Encumbrance on, the Charged Property or any interest therein, except for the security created by the Deed of Charge in favour of the Trustee and other than liens arising by operation of law;
- (d) *Issue of Securities*: issue any shares or rights, warrants or options in respect of the shares or securities convertible into or exchangeable for shares, except for the share issued to The Financial Secretary Incorporated prior to the date of the Trust Deed;
- (e) *Enforcement Rights*: take any action, or fail to take any action, if such action or failure to take action may prevent or delay the proper enforcement of any rights of the Trustee under the Transaction Documents;
- (f) *Consolidation and Merger*: consolidate with or merge with or into any person or transfer all or any amount of its properties or assets to any person or liquidate or dissolve or otherwise terminate its existence or enter into any scheme of arrangement to do any of the foregoing;
- (g) *Withholding*: take or (if within its control) permit to be taken any action which would have the effect directly or indirectly of causing any amount to be deducted or withheld from interest payments on any of the Retail Bonds for or on account of any taxes, assessments or governmental charges of whatever nature and will perform all of its obligations under the Transaction Documents to which it is a party to prevent or cure any default by, or other condition or event with respect to, the Issuer which would have the effect, directly or indirectly, of causing any amount to be deducted or withheld from interest payments on any of the Retail Bonds for or on account of any taxes, assessments or governmental charges of whatever nature;
- (h) *Taxes*: fail to pay on or before the final due date any tax, charge or fee properly due and payable with respect to the Issuer's interest in the Charged Property unless and for so long as the same is being contested in good faith;
- (i) *Contracts*: enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents;
- (j) *Accounts*: open or have an interest in any account whatsoever with any bank or other financial institution (other than the Transaction Accounts and the bank account in which the Issuer's share capital is deposited);

- (k) *Indebtedness*: incur any indebtedness for borrowed money (other than the Retail Bonds and the Notes) or give any guarantee or indemnity in respect of any indebtedness;
- (l) *Avoidance*: do anything which would permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created pursuant to the Deed of Charge to be avoided, amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
- (m) *Disposal of Assets*: sell, factor, discount, transfer, assign or hire out, lend or otherwise dispose of any of its assets (including, for the avoidance of doubt, the Toll Revenue Bond) or agree to do any of the foregoing;
- (n) *Business*: engage in any business or activity other than:
 - (i) as provided for or permitted in the Transaction Documents to which it is a party including, without limitation, entering into the TRB Subscription Agreement, the purchase of the Toll Revenue Bond, the holding of the Transaction Accounts and the bank account in which the Issuer's share capital is deposited, or as contemplated in or expressly permitted by the Transaction Documents and entering into and performance under the Transaction Documents to which it is a party;
 - (ii) the ownership, management, disposal and charging of the Charged Property as provided in the Transaction Documents; and
 - (iii) such other matters which are incidental thereto;
- (o) *Commingling*: commingle any moneys held by it with those held by HKSAR Government or any other person;
- (p) *Toll Revenue Bond*: request HKSAR Government to subdivide the Toll Revenue Bond or to issue any further bonds representing an interest in the Toll Revenue Bond; or
- (q) *Liabilities*: enter into any loan, financial agreement or arrangement or incur any liability (including contingent liabilities) for the purpose of (i) lending money to any person except to HKSAR Government pursuant to the TRB Subscription Agreement and the Toll Revenue Bond or (ii) borrowing money from any person (except pursuant to the issuance of the Retail Bonds and the Notes) and shall not give any guarantee, indemnity or otherwise agree to be responsible for any indebtedness or liability of any other person.

3. INTEREST

- (a) *Accrual of Interest*: The Retail Bonds bear interest on their Principal Amount Outstanding from the Issue Date, payable on the 7th day of February, May, August and November in each year, starting in August 2004 (each, a "**Bond Payment Date**"), subject as provided in Retail Bond Condition 5 (*Payments*); provided that if any Bond Payment Date is scheduled to fall on a specified day which is a Saturday, a Sunday or a public holiday (a "**Business Day**"), it will be postponed to the next following Business Day unless it would thereby fall into the next following calendar month, in which case it will be brought forward to the preceding Business Day. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Bond Payment Date and each successive period beginning on (and including) a Bond Payment Date and ending on (but excluding) the next Bond Payment Date is herein called a "**Bond Interest Period**". Each Retail Bond will cease to bear interest from the due date for final maturity or redemption thereof unless, upon due presentation of the relevant Retail Bond, payment of principal in full is not made, in which case it will continue to bear interest in accordance with this Retail Bond Condition 3 (*Interest*) (both before and after any judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Retail Bond up to that day are

received by or on behalf of the relevant Retail Bondholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Retail Bondholders that it has received all sums due in respect of the Retail Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

- (b) *Rate of Interest for the Tranche A Retail Bonds:* The rate of interest applicable to the Tranche A Retail Bonds (the “**Tranche A Retail Bond Interest Rate**”) for each Bond Interest Period shall be 2.75 per cent. per annum.
- (c) *Tranche A Retail Bond Interest Amount:* The Reference Agent will, as soon as practicable after the Interest Determination Date in relation to each Bond Interest Period applicable to the Tranche A Retail Bonds, calculate the amount of interest (the “**Tranche A Retail Bond Interest Amount**”) payable in respect of each Tranche A Retail Bond for such Bond Interest Period. The Tranche A Retail Bond Interest Amount will be calculated by applying the Tranche A Retail Bond Interest Rate to the principal amount of such Tranche A Retail Bond, multiplying the product by the actual number of days in such Bond Interest Period divided by 365 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (d) *Rate of Interest for the Tranche B Retail Bonds:* The rate of interest applicable to the Tranche B Retail Bonds (the “**Tranche B Retail Bond Interest Rate**”) for each Bond Interest Period shall be 3.60 per cent. per annum.
- (e) *Tranche B Retail Bond Interest Amount:* The Reference Agent will, as soon as practicable after the Interest Determination Date in relation to each Bond Interest Period applicable to the Tranche B Retail Bonds, calculate the amount of interest (the “**Tranche B Retail Bond Interest Amount**”) payable in respect of each Tranche B Retail Bond for such Bond Interest Period. The Tranche B Retail Bond Interest Amount will be calculated by applying the Tranche B Retail Bond Interest Rate to the principal amount of such Tranche B Retail Bond, multiplying the product by the actual number of days in such Bond Interest Period divided by 365 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (f) *Rate of Interest for the Tranche C Retail Bonds:* The rate of interest applicable to the Tranche C Retail Bonds (the “**Tranche C Retail Bond Interest Rate**”) for each Bond Interest Period shall be 4.28 per cent. per annum.
- (g) *Tranche C Retail Bond Interest Amount:* The Reference Agent will, as soon as practicable after the Interest Determination Date in relation to each Bond Interest Period applicable to the Tranche C Retail Bonds, calculate the amount of interest (the “**Tranche C Retail Bond Interest Amount**”) payable in respect of each Tranche C Retail Bond for such Bond Interest Period. The Tranche C Retail Bond Interest Amount will be calculated by applying the Tranche C Retail Bond Interest Rate to the principal amount of such Tranche C Retail Bond, multiplying the product by the actual number of days in such Bond Interest Period divided by 365 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).
- (h) *Interest Determination Date:* In these Retail Bond Conditions, “**Interest Determination Date**” means, in relation to a Bond Interest Period, the first day of such Bond Interest Period.
- (i) *Publication:* The Reference Agent will cause each Tranche A Retail Bond Interest Amount, Tranche B Retail Bond Interest Amount and Tranche C Retail Bond Interest Amount determined by it to be notified to the Issuer, the Paying Agents, the Trustee, the Transaction Administrator and each stock exchange (if any) on which the Tranche A Retail Bonds, the Tranche B Retail Bonds or (as the case may be) the Tranche C Retail Bonds are then listed as soon as practicable after such determination. Notice thereof shall also promptly be given to the holders of the Tranche A Retail Bonds, the Tranche B Retail Bonds or (as the case may be) the Tranche C Retail Bonds in accordance with Retail Bond Condition 15 (*Notices*). The Reference Agent will be

entitled to recalculate any Tranche A Retail Bond Interest Amount, Tranche B Retail Bond Interest Amount or (as the case may be) Tranche C Retail Bond Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Bond Interest Period.

- (j) *Notifications etc.*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Retail Bond Condition 3 (*Interest*) by the Reference Agent will, subject to certain exceptions, be binding on the Transaction Administrator, the Issuer, the Agents, the Trustee, the Noteholders, the Note Couponholders, the Retail Bondholders and the RB Couponholders and, subject to certain exceptions, no liability to any such person will attach to the Reference Agent or (in the circumstances referred to in paragraph (k) (*Failure of Reference Agent*) below) the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- (k) *Failure of Reference Agent*: If the Reference Agent fails at any time to determine the Tranche A Retail Bond Interest Amount, the Tranche B Retail Bond Interest Amount or the Tranche C Retail Bond Interest Amount as aforesaid, the Trustee may determine such Tranche A Retail Bond Interest Amount, Tranche B Retail Bond Interest Amount or (as the case may be) Tranche C Retail Bond Interest Amount as it in its sole discretion considers fair and reasonable in the circumstances (having such regard as it thinks fit to paragraphs (c) (*Tranche A Retail Bond Interest Amount*), (e) (*Tranche B Retail Bond Interest Amount*) or (as the case may be) (g) (*Tranche C Retail Bond Interest Amount*) above), and such determinations and/or calculations made by the Trustee shall be deemed to have been made by the Reference Agent.

4. REDEMPTION AND PURCHASE

- (a) *Final Redemption*: Unless previously redeemed and cancelled:
 - (i) the Tranche A Retail Bonds will be redeemed at their respective Principal Amount Outstanding, together with accrued interest and all other amounts payable on or in respect of the Tranche A Retail Bonds, on the Bond Payment Date falling in May 2007 (the “**Tranche A Retail Bond Maturity Date**”);
 - (ii) the Tranche B Retail Bonds will be redeemed at their respective Principal Amount Outstanding, together with accrued interest and all other amounts payable on or in respect of the Tranche B Retail Bonds, on the Bond Payment Date falling in May 2009 (the “**Tranche B Retail Bond Maturity Date**”); and
 - (iii) the Tranche C Retail Bonds will be redeemed at their respective Principal Amount Outstanding, together with accrued interest and all other amounts payable on or in respect of the Tranche C Retail Bonds, on the Bond Payment Date falling in May 2011 (the “**Tranche C Retail Bond Maturity Date**”).

The “**Principal Amount Outstanding**” of a Retail Bond on any date shall be the original principal amount of that Retail Bond when first issued, less the aggregate of all payments of principal of that Retail Bond that have been made in respect of that Retail Bond on or prior to that date.

- (b) *Other Redemption*: If HKSAR Government exercises the options set out in TRB Condition 3.2 (*Optional Redemption of the Toll Revenue Bond*) and consequently becomes obliged under TRB Condition 3.2 (*Optional Redemption of the Toll Revenue Bond*) to redeem the Toll Revenue Bond in full on any TRB Payment Date, the Issuer shall be obliged to apply (in accordance with the priority of payments set out in Clause 10.2 (*Payments from Issuer Account on Note Payment Dates*) of the Transaction Administration Agreement or, on or after the Enforcement Date, Clause 11.1 (*Order of Priority*) of the Deed of Charge), the monies received by the Issuer on such TRB

Payment Date in or towards redeeming the Retail Bonds in whole or in part at their Principal Amount Outstanding on the Bond Payment Date immediately following such TRB Payment Date as aforesaid. Notice of such redemption will be given to the Trustee, each Rating Agency and to the Retail Bondholders as promptly as possible, such notice in the case of the Retail Bondholders to be given in accordance with Retail Bond Condition 15 (*Notices*).

- (c) *Notification of Payments of Principal:* The Principal Paying Agent shall notify the Transaction Administrator within ten Business Days after the making of any payment due on any Bond Payment Date of the Principal Amount Outstanding of the Tranche A Retail Bonds, the Tranche B Retail Bonds and the Tranche C Retail Bonds on such Bond Payment Date (after taking into account any repayment of principal made on such Bond Payment Date in accordance with paragraphs (a) (*Final Redemption*) or (b) (*Other Redemption*) above). Each determination by the Principal Paying Agent of any Principal Amount Outstanding of a Retail Bond shall, subject to certain exceptions, be final and binding on all persons.

The Principal Paying Agent will, as soon as practicable after each Bond Payment Date on which the principal of any Retail Bond has been paid, cause each determination of a Principal Amount Outstanding to be notified forthwith to the Issuer, the Trustee, the Transaction Administrator, the other Agents and each stock exchange (if any) on which the Retail Bonds are then listed and will cause notice of each determination of a Principal Amount Outstanding to be given to the holders of such Retail Bonds in accordance with Retail Bond Condition 15 (*Notices*). If a principal payment is to be made on the Retail Bonds on any Bond Payment Date, a notice to this effect will be given by the Issuer to the Retail Bondholders.

If the Principal Paying Agent does not at any time for any reason determine the Principal Amount Outstanding relating to any Retail Bond in accordance with the preceding provisions of this paragraph, such Principal Amount Outstanding may be determined by the Trustee and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent.

- (d) *No Other Redemption:* Without prejudice to the rights of the Trustee under Retail Bond Condition 8 (*Acceleration*), the Issuer shall not be entitled to redeem the Retail Bonds otherwise than as provided in paragraphs (a) (*Final Redemption*) and paragraph (b) (*Other Redemption*) above.
- (e) *No Purchase:* The Issuer may not purchase any Retail Bonds in the open market or otherwise.
- (f) *Cancellation:* All Retail Bonds redeemed by the Issuer and any unmatured RB Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

5. PAYMENTS

- (a) *Principal:* Payments of principal shall (subject as provided below) be made in Hong Kong dollars only against presentation and (*provided that* payment is made in full) surrender of Retail Bonds at the Specified Office of any Paying Agent.
- (b) *Interest:* Payments of interest shall (subject as provided below) be made in Hong Kong dollars only against presentation and (*provided that* payment is made in full) surrender of the appropriate RB Coupons at the Specified Office of any Paying Agent.

- (c) *Payments Subject to Fiscal Laws:* All payments in respect of the Retail Bonds are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Retail Bondholders or RB Couponholders in respect of such payments.
- (d) *Unmatured Coupons Void:* On the due date for redemption pursuant to Retail Bond Condition 4 (*Redemption and Purchase*) or Retail Bond Condition 7 (*Issuer Events of Default*), all unmatured RB Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (e) *Payments on business days:* If the due date for payment of any amount in respect of any Retail Bond or RB Coupon is not a business day, the holder shall not be entitled to payment of the amount due until the next succeeding business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**business day**” means any day (other than a Saturday) on which commercial banks in Hong Kong settle payments.
- (f) *Partial Payments:* If a Paying Agent makes a partial payment in respect of any Retail Bond or RB Coupon presented to it for payment, such Paying Agents will enforce thereon a statement indicating the amount and the date of such payment.

6. TAXATION

All payments of principal and interest in respect of the Retail Bonds and the RB Coupons shall be made subject to any withholding or deduction for any taxes, duties, assessments or governmental charges of whatsoever nature. Neither the Issuer nor any Paying Agents will be obliged to pay any additional amounts in respect of such withholding or deduction.

7. ISSUER EVENTS OF DEFAULT

An Issuer Event of Default shall occur if any of the following occur:

- (a) *Failure to Pay:* the Issuer fails to pay any amount in respect of the Retail Bonds or the Notes within 30 days of the due date for payment thereof;
- (b) *Failure to Perform:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Retail Bonds, the Notes or the Transaction Documents to which it is a party and such default remains unremedied for 30 days after the Trustee has given written notice of such default to the Issuer or, in relation to any such default the occurrence of which is reasonably likely to be materially prejudicial to the interests of the Noteholders or the Retail Bondholders, the Issuer has otherwise become aware of such default (whether or not the Trustee subsequently gives written notice);
- (c) *Insolvency:* an Insolvency Event (which is defined in the Master Definitions Schedule and includes the appointment of a liquidator, receiver, supervisor or other insolvency official with respect to the Issuer, a winding-up, liquidation or dissolution order being passed with respect to the Issuer or the directors or shareholders convening a meeting to wind up the Issuer or an application being made to cause any of those events) occurs in relation to the Issuer;
- (d) *Unlawfulness:* it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Retail Bonds, the Notes or the Transaction Documents; or
- (e) *TRB Default Declaration:* the delivery of a TRB Default Declaration by the Trustee.

8. ACCELERATION

- (a) *Acceleration:* Following the occurrence of an Issuer Event of Default which is not remedied or waived in accordance with the Transaction Documents the Trustee may, at its discretion, and, if so instructed (i) by an Extraordinary Resolution of the holders of any tranche of the Retail Bonds or either Class of the Notes or (ii) in writing by the holders of not less than 50% in aggregate principal amount of any Tranche of the Retail Bonds or either Class of the Notes, shall, (subject in any case to the Trustee having been indemnified and/or secured to its satisfaction) give written notice to the Issuer (an “**Enforcement Notice**”) declaring the Retail Bonds and the Notes to be immediately due and payable, whereupon the Retail Bonds and the Notes shall become immediately due and payable at their Principal Amount Outstanding together with accrued interest without further action or formality.
- (b) *Payments Following Acceleration:* All payments of principal and interest in respect of the Retail Bonds following the giving of an Enforcement Notice will be made subject to and in accordance with the priority of payments set out in Clause 11 (*Application of Moneys*) of the Deed of Charge.

9. MODIFICATION AND WAIVER

- (a) *Modification:* The Trust Deed provides that the Trustee may agree without the consent of the Retail Bondholders or the RB Couponholders to any modification (except a Basic Terms Modification, which requires the consent of the Retail Bondholders) to the Retail Bonds (including these Retail Bond Conditions) or any of the Transaction Documents, which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Retail Bondholders or is to correct a manifest error or is of a formal, minor or technical nature.
- (b) *Waiver:* The Trust Deed provides that the Trustee may agree without the consent of the Retail Bondholders or the RB Couponholders to the waiver, or authorisation of any breach or proposed breach of, the Retail Bonds (including these Retail Bond Conditions) or any breach or proposed breach of the Transaction Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Retail Bondholders. The Trustee may, without the consent of the Retail Bondholders, determine, provided that in the Trustee’s opinion the interests of the Retail Bondholders will not be materially prejudiced thereby, that any Issuer Event of Default or Potential Issuer Event of Default may not or shall not, subject to specified conditions (if any), be treated as such (but the Trustee may not make any such determination in relation to any Issuer Event of Default or Potential Issuer Event of Default or any such waiver or authorisation of any such breach or proposed breach of Retail Bonds (including these Retail Bond Conditions) or any of the Transaction Documents in contravention of an express direction (i) given by an Extraordinary Resolution of the Holders of any Tranche of the Retail Bonds or either Class of Notes or (ii) in writing by the Holders of not less than 50% in aggregate principal amount of any Tranche of the Retail Bonds or either Class of the Notes).
- (c) *Rating Confirmation Condition:* Prior to the Trustee giving its consent or agreeing to any modification, waiver, authorisation or determination (other than in relation to any modification, waiver, authorisation or determination referred to in paragraphs (a) (*Modification*) or (b) (*Waiver*) above), the following conditions must have been satisfied:
 - (i) for so long as each of Standard & Poor’s and Fitch are Rating Agencies, each of Standard & Poor’s and Fitch has given prior written confirmation that such modification, waiver, authorisation or determination will not cause their respective then-current ratings of the Retail Bonds to be withdrawn, downgraded or conditioned; and
 - (ii) for so long as Moody’s is a Rating Agency, prior written notice of such modification, waiver, authorisation or determination has been given to Moody’s.

- (d) *Notification*: Any modification, waiver, authorisation or determination agreed to by the Trustee without the consent of the Retail Bondholders or the RB Couponholders shall be binding on the Retail Bondholders and the RB Couponholders and shall be notified to the Retail Bondholders by the Issuer in accordance with Retail Bond Condition 15 (*Notices*) as soon as practicable thereafter, and any other modification, waiver, authorisation or determination shall be notified by the Issuer to the Retail Bondholders in accordance with Retail Bond Condition 15 (*Notices*) but only if the Trustee shall so require.

10. PRESCRIPTION

Claims for principal shall become void unless the relevant Retail Bonds are surrendered for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant RB Coupons are presented for payment within six years of the appropriate Relevant Date. In this Retail Bond Condition 10 (*Prescription*), “**Relevant Date**” means the date on which a payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given to the Retail Bondholders in accordance with Retail Bond Condition 15 (*Notices*).

11. REPLACEMENT OF RETAIL BONDS AND RB COUPONS

If any Retail Bond or RB Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Retail Bonds or RB Coupons must be surrendered before replacements will be issued.

12. TRUSTEE AND AGENTS

The Trust Deed and the Deed of Charge contain certain provisions relating to the indemnification of the Trustee and relating to its relief from responsibility, including (without limitation) provisions relieving it from taking proceedings to enforce the security for the Retail Bonds and repayment of the Retail Bonds unless indemnified and/or secured to its satisfaction against any liabilities and expenses which may be incurred by it in the execution of its duties, trusts, powers, authorities, rights or discretions under any of the Transaction Documents. The Trustee will be entitled to enter into business transactions with the Issuer and/or any other party to the Transaction Documents without accounting for any profit resulting from such transactions. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any Charged Property, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Trustee.

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

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or additional or successor paying agents; provided, however, that the Issuer shall at all times maintain a principal paying agent and, so long as the Retail Bonds are listed on the Hong Kong Stock Exchange, a paying agent in Hong Kong. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Retail Bondholders by the Issuer in accordance with Retail Bond Condition 15 (*Notices*).

13. MEETINGS OF RETAIL BONDHOLDERS

- (a) *Convening*: The Trust Deed contains provisions for convening meetings of Retail Bondholders of each Tranche to consider matters affecting their interests, including the modification of any provision of these Retail Bond Conditions or the Trust Deed or the other Transaction Documents. Subject to paragraphs (h) (*Basic Terms Modification*) and (i) (*Resolutions Affecting Other Tranches of Bonds or Classes of Notes*) below, any such modification may be made if sanctioned by an Extraordinary Resolution. A meeting of the Holders of the Retail Bonds of any Tranche may be convened by the Trustee, the Issuer or by the Trustee upon the request in writing of Retail Bondholders holding not less than one-tenth of the aggregate principal amount of the outstanding Retail Bonds of that Tranche.
- (b) *Quorum*: At any Meeting of the Holders of the Retail Bonds of any Tranche, the quorum shall be two or more persons present holding or representing:
- (i) in the cases marked “No minimum proportion” in the table below, whatever the proportion of the Retail Bonds which they represent; and
- (ii) in any other case, the proportion of the Retail Bonds of the same Tranche shown by the table below.

Purpose of Meeting	Required proportion of Retail Bonds of the same Tranche outstanding	Required proportion of Retail Bonds of the same Tranche Outstanding
	<i>Any Meeting except for one referred to in Column 3</i>	<i>Meeting previously adjourned through want of quorum</i>
To pass an Extraordinary Resolution relating to a Basic Terms Modification	75 per cent.	25 per cent.
To pass an Extraordinary Resolution other than one relating to a Basic Terms Modification	50 per cent.	No minimum proportion
To pass a Majority Resolution and all other business other than voting on an Extraordinary Resolution	10 per cent.	No minimum proportion

- (c) *Votes*: Each Retail Bondholder will be entitled to one vote for each one HK\$50,000 of the face amount of the Retail Bonds held by such Retail Bondholder.
- (d) *Majority Required*: The majority required to pass an Extraordinary Resolution shall be not less than three quarters of the votes cast on the resolution and the majority required to pass a Majority Resolution shall be not less than one half of the votes cast on the resolution.
- (e) *Binding on Retail Bondholders*: A Majority Resolution or an Extraordinary Resolution passed at any meeting of the Retail Bondholders of any Tranche shall be binding on all Retail Bondholders of the relevant Tranche, whether or not they are, or are entitled to be, present at the meeting.
- (f) *Written Resolution*: A Written Resolution (as defined in the Trust Deed) shall take effect as if it were an Extraordinary Resolution.

- (g) *Meetings for each Tranche*: Separate meetings of the Tranche A Retail Bondholders, the Tranche B Retail Bondholders and the Tranche C Retail Bondholders will be convened and held.
- (h) *Basic Terms Modification*: Any Basic Terms Modification must be sanctioned by Extraordinary Resolution of the Holders of each Tranche of Retail Bonds and by Extraordinary Resolution of the Holders of each Class of Notes passed at separate Tranche and Class Meetings held for that purpose.
- (i) *Resolutions Affecting Other Tranches of Retail Bonds or Classes of Notes*: If, in the opinion of the Trustee, a resolution passed at a Meeting of the Holders of a Tranche of Retail Bonds affects another Tranche of Retail Bonds or a Class of Notes (the “**Affected Securities**”), such resolution shall be deemed not to have been duly passed unless it has been approved at separate Meetings relating to all Tranches and Classes to which the Affected Securities belong.
- (j) *Resolutions Authorising Enforcement*: An Extraordinary Resolution passed by the Holders of either Class of Notes or (as the case may be) any Tranche of Retail Bonds to (i) authorise the giving of an Enforcement Notice pursuant to Note Condition 8 (*Acceleration*) or (as the case may be) Retail Bond Condition 8 (*Acceleration*) or (ii) direct the Trustee to take the actions contemplated in Clause 8.2 (*Legal Proceedings*) of the Trust Deed or Clause 7.6 (*Enforcement*) of the Deed of Charge, shall be binding on the Holders of the other Class of Notes and every other Tranche of Retail Bonds.

14. ENFORCEMENT OF SECURITY

- (a) *Discretion to Enforce Security*: On or after the Enforcement Date, the Trustee may at its discretion enforce the Security in accordance with Clause 7 (*Protection of the Security and Default Procedure*) of the Deed of Charge but the Trustee shall not be bound to enforce the Security unless:
 - (i) *Direction from Retail Bondholders*: the Trustee has been so directed by an Extraordinary Resolution of the Holders of any Tranche of Retail Bonds or either Class of Notes or if it is requested in writing to do so by the Holders of not less than 50% in aggregate principal amount of any Tranche of Retail Bonds or either Class of Notes; and
 - (ii) *Indemnification*: the Trustee has been indemnified or provided with security to its satisfaction.
- (b) *Enforcement by Trustee*: If the Trustee exercises its discretion to enforce the Security in accordance with paragraph (a) (*Discretion to Enforce Security*) above, the Trustee may without further notice to the Issuer or any other person take such steps or institute such proceedings as it may think fit to enforce the Security (subject always to it being indemnified and/or secured to its satisfaction). All monies arising from the enforcement of the Security will be applied by the Trustee in accordance with the priority of payments set out in Clause 11 (*Application of Moneys*) of the Deed of Charge.

For further details of the priority of payments which applies after the enforcement of the Security, see the section headed “Transaction Summary — Management of Cash Flows — Issuer Post-Acceleration Priority of Payments”.

- (c) *Liability*: The Trustee will not be liable for any decline in the value nor any loss realised upon any sale or other disposition of the Security, or any part of the Security, made pursuant to the Deed of Charge. No Retail Bondholder or Noteholder may proceed directly in respect of the Security. The rights of recourse of the Retail Bondholders, the Noteholders and the Trustee in respect of amounts due to them are limited to those assets and rights represented by the Charged Property and/or the actual amount received or recovered from time to time in respect of the Charged Property. Any unpaid obligations which remain unsatisfied when no further amounts are

available or recoverable in respect of the Charged Property and all funds comprising the Charged Property and/or representing the proceeds of realisation thereof have been applied in accordance with Clause 11 (*Application of Moneys*) of the Deed of Charge shall be extinguished. The Trustee has in Clause 2.2 (*Limited Recourse and Non Petition*) of the Deed of Charge agreed and acknowledged that:

- (i) until the date falling two years after the date on which the last remaining of the Classes of Notes or Tranches of Retail Bonds is redeemed in full, neither the Trustee nor any person on its behalf shall initiate or join any person in initiating an Insolvency Event or the appointment of an Insolvency Official in relation to the Issuer other than a Receiver appointed under Clause 9 (*Appointment of Receiver*) of the Deed of Charge; and
- (ii) it shall not be entitled to take or join in the taking of any corporate action, legal proceedings or other procedure or step which would result in the Priorities of Payments not being complied with.

15. NOTICES

Notices to the Retail Bondholders shall be valid if published in accordance with the rules of the Hong Kong Stock Exchange for the time being. Any such notice shall be deemed to have been given on the first date by which publication shall have taken place in both English and Chinese languages. RB Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Retail Bondholders.

16. NOTIFICATIONS AND OTHER MATTERS TO BE FINAL

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Retail Bonds, whether by the Issuer, the Reference Agent, the Principal Paying Agent, the Transaction Administrator or the Trustee, shall (in the absence of wilful default, bad faith or manifest error unless otherwise provided for in these Retail Bond Conditions) be binding on the Issuer, the Reference Agent, the Trustee, the Transaction Administrator, the Principal Paying Agent, the other Paying Agents, the Noteholders, the Note Couponholders, the Retail Bondholders and the RB Couponholders.

17. GOVERNING LAW AND JURISDICTION

- (a) *Governing Law*: The Trust Deed and the Retail Bonds are governed by, and shall be construed in accordance with, the laws of Hong Kong.
- (b) *Convenient Forum*: The Issuer has in the Trust Deed agreed that the courts of Hong Kong are the most appropriate and convenient courts to settle any dispute arising out of or in connection with the Trust Deed or the Retail Bonds.
- (c) *Waiver of Immunity*: Each party to the Trust Deed has waived generally (to the fullest extent permitted by law) all immunity it or its assets or revenues may otherwise have in any jurisdiction, including immunity in respect of (i) the giving of any relief by way of injunction or order for specific performance or for the recovery of assets or revenues, and (ii) the issue of any process against its assets or revenues for the enforcement of a judgment or, in an action *in rem*, for the arrest, detention or sale of any of its assets and revenues.

18. SPECIFIED OFFICES

The Principal Paying Agent:

**The Hongkong and Shanghai Banking
Corporation Limited**
1 Queen's Road Central
Hong Kong

The Reference Agent:

**The Hongkong and Shanghai Banking
Corporation Limited**
1 Queen's Road Central
Hong Kong

USE OF PROCEEDS

The gross proceeds of the issue of the Retail Bonds and the Notes will be used by the Issuer to subscribe for the Toll Revenue Bond. HKSAR Government will cause the net proceeds of the issue of the Toll Revenue Bond to be credited to the Capital Works Reserve Fund established by resolutions passed under section 29 of the Public Finance Ordinance (Cap.2) of Hong Kong (the “**Public Finance Ordinance**”). The Financial Secretary may choose to apply sums from the Capital Works Reserve Fund for any of the purposes specified in the relevant resolution passed under that Ordinance.

RATINGS

Certain characteristics of the Tolloed Facilities, the Tolls generated by the Tolloed Facilities, the Toll Revenue Bond and the arrangements for the protection of the Retail Bondholders in light of the risks involved have been reviewed by the Rating Agencies. It is a condition of the issue of the Retail Bonds that the Retail Bonds are assigned a rating of Aa3 by Moody’s, AA+ by Fitch and AA- by S&P.

A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment, if any, or the receipt of default interest and may be subject to revision or withdrawal at any time by the assigning rating organisation.

THE ISSUER

香港五隧一橋有限公司 Hong Kong Link 2004 Limited (the “**Issuer**”) was incorporated as a limited liability company under the laws of Hong Kong on 13 April 2004, with its registered office at 12/F, West Wing, Central Government Offices, Central, Hong Kong. The authorised share capital of the Issuer is 10,000 divided into 10,000 shares of a nominal or par value of HK\$1 each, of which 1 share has, as at the Issue Date, been issued at par, fully-paid up and held by The Financial Secretary Incorporated on behalf of HKSAR Government.

The Directors of the Issuer and their other principal occupations are:

Name	Business Address	Principal Occupation
Lai Nin, Alan	4/F, Main Wing, Central Government Offices, Lower Albert Road, Hong Kong	Permanent Secretary for Financial Services and the Treasury (Treasury)
Martin Mckenzie Glass	4/F, Main Wing, Central Government Offices, Lower Albert Road, Hong Kong	Deputy Secretary for Financial Services and the Treasury (Treasury)
Choi Suk-han, Annie	16/F, Murray Building, Garden Road, Hong Kong	Deputy Secretary for the Environment, Transport and Works (Environment and Transport)

The Issuer has no employees and will have no employees as at the Issue Date.

Certain of the affairs of the Issuer (including the preparation of the necessary books of account and records and certain other corporate, secretarial and administrative services) will be managed by Strath Nominees Limited, the company secretary of the Issuer, a company incorporated under the laws of Hong Kong with its registered address at 24th floor, Prince’s Building, Central, Hong Kong.

The objects of the Issuer as set out in its Memorandum of Association will include, among other things, as of the Issue Date, acquiring by purchase or otherwise one or more notes, bonds or other financial instruments issued by HKSAR Government including the benefit of other arrangements entered into in connection therewith and borrowing and raising money in HK dollars or in any other currency or currencies and in such manner as the Issuer thinks fit.

The Issuer has not engaged, since its incorporation, in any material activities other than those regarding or incidental to the issue of the Notes and the Retail Bonds, the subscription of the Toll Revenue Bond and the matters contemplated in this Prospectus and the Transaction Documents, and the authorisation of its entry into the other documents referred to in this Prospectus to which it is or will be party. As at the date of this Prospectus, the Issuer does not have any hire purchase commitments, guarantees or other material contingent liabilities.

As at the Issue Date, the Issuer will have appointed PricewaterhouseCoopers as its auditors.

Capitalisation of the Issuer

The following table sets forth the capitalisation of the Issuer as at 19 April 2004 (as adjusted to reflect the issue of the Retail Bonds and the Notes):

	Unaudited	
	As at 19 April 2004	
	Actual	As adjusted
	(HK\$)	
Share Capital		
Total Share Capital (authorised, issued and paid up)	1	1
Loan Capital		
Notes and Retail Bonds*	—	6,000,000,000
Total Loan Capital	—	<u>6,000,000,000</u>
Total Capitalisation	<u>1</u>	<u>6,000,000,001</u>

Note: * Assuming that an aggregate principal amount of HK\$6,000,000,000 of Retail Bonds and Notes will be issued by the Issuer.

Other than as described above, there has been no material change in the capitalisation of the Issuer since the date of its incorporation.

The first financial period of the Issuer will end on 31 March 2005.

DESCRIPTION OF THE TOLLED FACILITIES

General

As at the date hereof, the Tolled Facilities comprise the following transportation links in Hong Kong:

- (a) the Cross-Harbour Tunnel;
- (b) the Shing Mun Tunnels;
- (c) the Tseung Kwan O Tunnel;
- (d) the Aberdeen Tunnel;
- (e) the Lion Rock Tunnel; and
- (f) the Lantau Link.

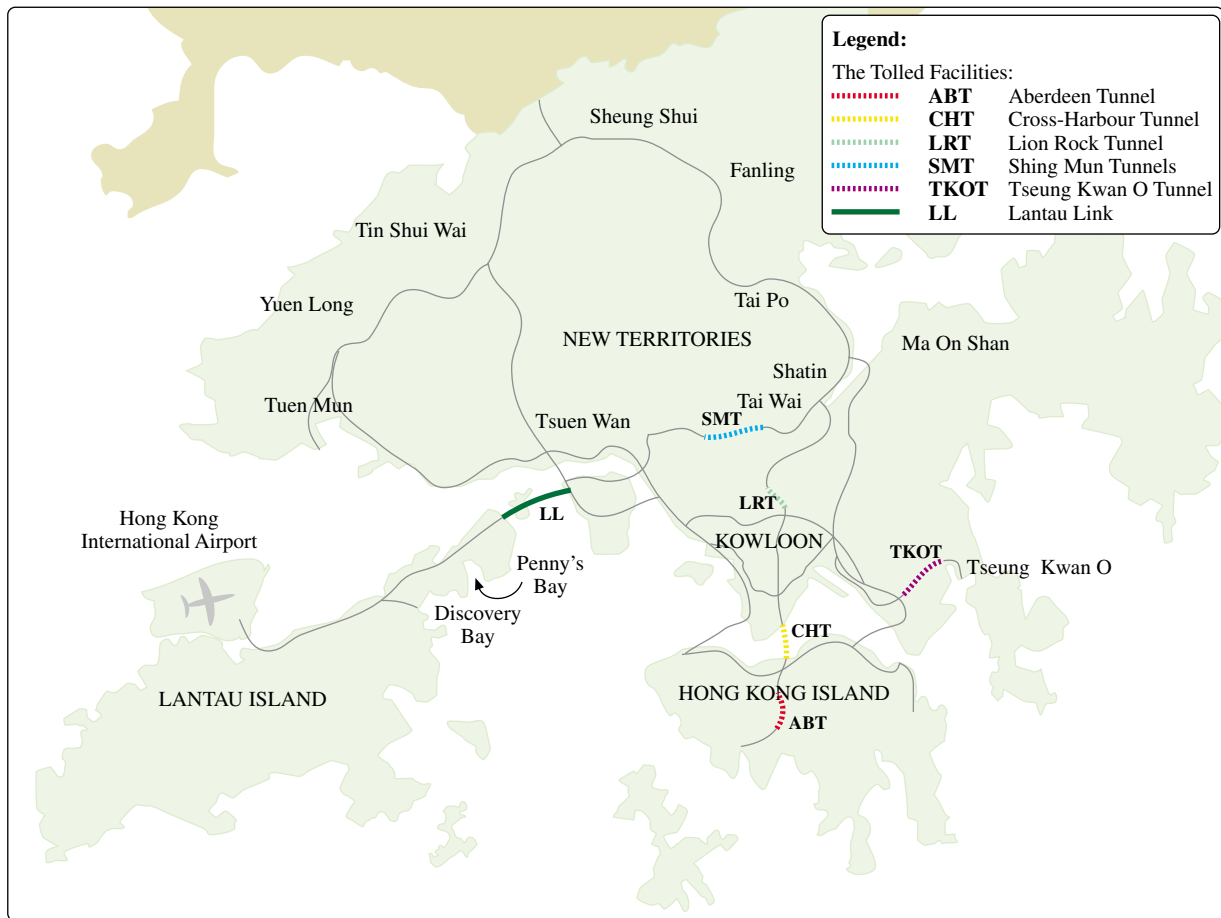
The Tolled Facilities are wholly-owned by HKSAR Government and are each managed and operated by an Operator which is a private company under a MOM Agreement awarded by the Transport Department of HKSAR Government (“**Transport Department**”). See “— Operation, Management and Maintenance” below for an overview of the MOM Agreements. The management and maintenance of the Tolled Facilities are monitored mainly by the Transport Department, the Electrical and Mechanical Services Department and the Highways Department of HKSAR Government (“**Highways Department**”). See the section headed “Transportation Infrastructure and Transport Policy in Hong Kong — Administrative Framework for Transport in Hong Kong” for a further discussion.

With the exception of the Lantau Link, all Tolled Facilities are regulated by the RTGO and the subsidiary legislation enacted thereunder. The Lantau Link forms part of the Tsing Ma Control Area and is regulated by the TMCAO and the subsidiary legislation enacted thereunder. The RTGO and the TMCAO focus on operational matters in connection with, and the delegation of authorities for operating, the relevant tunnels and roads. They also stipulate various offences in connection with the conduct of the vehicles and the drivers of the vehicles at the relevant tunnels and roads. Matters in relation to traffic control, toll and fee collection, permits and the relevant exemptions are mainly stipulated in the subsidiary legislation enacted pursuant to the RTGO and the TMCAO.

There are currently no specific legislative formulae for setting or adjusting toll rates for the Tolled Facilities. For a discussion on the regulatory framework on toll rate setting and adjustment for the Tolled Facilities, see the section headed “Transportation Infrastructure and Transport Policy in Hong Kong — Toll Rate Setting and Adjustment — Toll Rate Setting and Adjustment for the Tolled Facilities”.

The map below shows the locations of the Tolled Facilities (each indicated by a particular colour code) in Hong Kong. See the sub-sections on each Tolloed Facility below for a more detailed description of the geographical location of each Tolloed Facility.

Map of Hong Kong showing the Locations of the Tolloed Facilities



The Cross-Harbour Tunnel

Date opened:	2 August 1972																						
Length:	1.9 km																						
Geographical location:	Connecting Hong Kong Island (Causeway Bay) and the Kowloon Peninsula (Hung Hom)																						
Toll level:	<table border="0"> <thead> <tr> <th style="text-align: left;"><i>Vehicle Type</i></th> <th style="text-align: right;"><i>Toll Rate (HK\$)</i></th> </tr> </thead> <tbody> <tr> <td>1. Motor cycles, motor tricycles</td> <td style="text-align: right;">8</td> </tr> <tr> <td>2. Taxis</td> <td style="text-align: right;">10</td> </tr> <tr> <td>3. Private cars</td> <td style="text-align: right;">20</td> </tr> <tr> <td>4. Public and private light buses</td> <td style="text-align: right;">10</td> </tr> <tr> <td>5. Light goods vehicles of a permitted gross vehicle weight not exceeding 5.5 tonnes</td> <td style="text-align: right;">15</td> </tr> <tr> <td>6. Medium goods vehicles of a permitted gross vehicle weight exceeding 5.5 tonnes but not exceeding 24 tonnes</td> <td style="text-align: right;">20</td> </tr> <tr> <td>7. Heavy goods vehicles of a permitted gross vehicle weight exceeding 24 tonnes</td> <td style="text-align: right;">30</td> </tr> <tr> <td>8. Public and private single-decked buses</td> <td style="text-align: right;">10</td> </tr> <tr> <td>9. Public and private double-decked buses</td> <td style="text-align: right;">15</td> </tr> <tr> <td>10. Each additional axle in excess of two</td> <td style="text-align: right;">10</td> </tr> </tbody> </table>	<i>Vehicle Type</i>	<i>Toll Rate (HK\$)</i>	1. Motor cycles, motor tricycles	8	2. Taxis	10	3. Private cars	20	4. Public and private light buses	10	5. Light goods vehicles of a permitted gross vehicle weight not exceeding 5.5 tonnes	15	6. Medium goods vehicles of a permitted gross vehicle weight exceeding 5.5 tonnes but not exceeding 24 tonnes	20	7. Heavy goods vehicles of a permitted gross vehicle weight exceeding 24 tonnes	30	8. Public and private single-decked buses	10	9. Public and private double-decked buses	15	10. Each additional axle in excess of two	10
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10. Each additional axle in excess of two	10																						
Last revision of toll level:	September 1999. See the section headed “Transportation Infrastructure and Transport Policy in Hong Kong — Toll Rate Setting and Adjustment — Toll Rate Adjustment for the EHC and the WHC” for the history of toll changes for the CHT, the Eastern Harbour Crossing and the Western Harbour Crossing.																						
Average two-way daily traffic volume (year 2003):	119,800 vehicles																						
Number of toll booths:	16 toll booths, including 6 Autotoll collection booths																						
Current Operator:	Hong Kong Tunnels & Highways Management Co. Ltd.																						

The CHT was the first direct road link connecting Hong Kong Island and the Kowloon Peninsula and is one of the three existing cross harbour road tunnels in Hong Kong. See the section headed “Transportation Infrastructure and Transport Policy in Hong Kong — Road Infrastructure” for a discussion on the Western Harbour Crossing and the Eastern Harbour Crossing. Following the expiry of the original “Build-Operate-Transfer” franchise from the private sector on 31 August 1999, the CHT reverted to HKSAR Government with effect from 1 September 1999.

“**Design Daily Flow**” is defined as the typical two-way daily traffic volume for a dual two-lane carriageway under which the traffic density does not cause unreasonable delay, hazard or restriction to the drivers’ freedom to manoeuvre. The Design Daily Flow of the CHT is 78,500 vehicles. The CHT has been operating above its Design Daily Flow for a number of years. Traffic volume of the CHT fell by approximately 4% when the Western Harbour Crossing opened in 1997 and its average daily traffic volume has remained at about 120,000 vehicles per day since then.

Current Operator

The current Operator of the CHT is Hong Kong Tunnels & Highways Management Co. Ltd. (“**HKTHM**”). The existing MOM Agreement had a term of two years from 1 September 2002 to 31 August 2004, which has been extended for another two years to 31 August 2006, with a total Gazetted Contract Amount (as defined in “— Operation, Management and Maintenance — Overview” below) of HK\$138,991,000 for the initial two-year term of the MOM Agreement. The monthly management fee payable to HKTHM over the extended two-year term of the MOM Agreement is the same as that for the second year of the initial term of the MOM Agreement. The existing MOM Agreement will not be subject to any further extension after 31 August 2006.

HKTHM has managed the CHT since 1 September 1999. HKSAR Government understands that The Cross Harbour (Holdings) Ltd. and Adwood Company Ltd. (a joint venture company owned by CITIC Pacific Limited and Kerry Properties Limited) are majority shareholders in both HKTHM and Western Harbour Tunnel Co. Ltd. which currently manages the Western Harbour Crossing. See the section headed “Transportation Infrastructure and Transport Policy in Hong Kong — Road Infrastructure — Western Harbour Crossing” for a further discussion on the Western Harbour Crossing.

Results of Recent Internal Review

An internal review was conducted by the Civil Engineering Department of HKSAR Government (“**Civil Engineering Department**”) in 2001-2002 to study the conditions of the immersed tube structural lining of the CHT. The review showed that the concrete lining was generally in a fair to good condition. With proper maintenance of the CHT, it was expected that the remaining life of the immersed tube structural lining should exceed 80 years. According to the Highways Department, the current condition of the CHT is generally satisfactory. HKSAR Government’s maintenance obligations in respect of the CHT are set out in the MOM Agreement. See “— Operation, Management and Maintenance — Common Key Provisions of the MOM Agreements — Maintenance Obligations” below for a further discussion.

The Shing Mun Tunnels

Date opened:	20 April 1990
Length:	2.6 km
Geographical location:	Connecting Tsuen Wan and Shatin
Toll level:	Flat toll rate of HK\$5
Last revision of toll level:	April 1991, increasing from HK\$3
Average two-way daily traffic volume (year 2003):	53,000 vehicles
Number of toll booths:	13 toll booths, including 4 Autotoll collection booths
Current Operator:	China Tollways Limited

The Shing Mun Tunnels consist of two separate tubes, with the Needle Hills tunnel of 1.6 kilometres in length in the East and the Smugglers Ridge tunnel of 1 kilometre in length in the West, which are separated by the gorge of the lower Shing Mun River. The two tubes are linked by two 100-metre concrete bridges.

Current Operator

China Tollways Limited (“**China Tollways**”) is the current Operator of the Shing Mun Tunnels and the Tseung Kwan O Tunnel under a single MOM Agreement. The existing MOM Agreement has a term of six years from 1 June 2000 to 31 May 2006, with a total Gazetted Contract Amount (as defined in “— Operation, Management and Maintenance — Overview” below) of HK\$426,373,000.

HKSAR Government understands that China Tollways is part of the Wilson Group, which is owned by Sun Hung Kai Properties Limited. The Wilson Group oversees parking, tunnel, bridge, tollway and other transport-related management businesses. China Tollways has managed the Shing Mun Tunnels and the Tseung Kwan O Tunnel since 1 April 1996.

Results of Recent Internal Review

According to the regular inspections by the Highways Department and/or China Tollways in respect of the Shing Mun Tunnels, no major defects were found in the tunnel area and the general condition of the Shing Mun Tunnels is considered satisfactory. The Shing Mun Tunnels are relatively new and a comprehensive review on them is not yet required. HKSAR Government will continue regular inspections on the Shing Mun Tunnels to ensure that they are maintained in a long term sustainable condition. HKSAR Government’s maintenance obligations in respect of the Shing Mun Tunnels are set out in the MOM Agreement.

The Tseung Kwan O Tunnel

Date opened:	9 November 1990
Length:	0.9 km
Geographical location:	Connecting Kwun Tong and Tseung Kwan O New Town
Toll level:	Flat toll rate of HK\$3
Last revision of toll level:	No toll adjustment has been made since commencement of operation
Average two-way daily traffic volume (Year 2003):	65,400 vehicles
Number of toll booths:	12 toll booths, including 4 Autotoll collection booths
Current Operator:	China Tollways Limited

Current Operator

China Tollways is the current Operator for both the Shing Mun Tunnels and the Tseung Kwan O Tunnel under the same MOM Agreement. See “— The Shing Mun Tunnels — Current Operator” above for a discussion on the existing MOM Agreement and China Tollways.

Results of Recent Internal Review

According to the regular inspections by the Highways Department and/or China Tollways in respect of the Tseung Kwan O Tunnel, no major defects were found in the tunnel area and the general condition of the Tseung Kwan O Tunnel is considered satisfactory. The Tseung Kwan O Tunnel is relatively new and a comprehensive review on it is not yet required. HKSAR Government will continue regular inspections on the Tseung Kwan O Tunnel to ensure that it is maintained in a long term sustainable condition. HKSAR Government’s maintenance obligations in respect of the Tseung Kwan O Tunnel are set out in the MOM Agreement.

The Aberdeen Tunnel

Date opened:	12 March 1982
Length:	1.9 km
Geographical location:	Connecting Aberdeen and Happy Valley/Wanchai
Toll level:	Flat toll rate of HK\$5
Last revision of toll level:	April 1991, increasing from HK\$3
Average two-way daily traffic volume (Year 2003):	56,500 vehicles
Number of toll booths:	12 toll booths, including 4 Autotoll collection booths
Current Operator:	Serco Group (HK) Ltd.

Current Operator

Serco Group (HK) Ltd. (formerly known as Serco Guardian (FM) Ltd.) (“**Serco**”) is the current Operator of the Aberdeen Tunnel. The existing MOM Agreement has a term of six years from 29 September 2002 to 28 September 2008, with a total Gazetted Contract Amount (as defined in “— Operation, Management and Maintenance — Overview” below) of HK\$210,777,402.

HKSAR Government understands that Serco is part of Serco Group plc. which engages in businesses including asset and facility management and organisational management. Serco has managed the Aberdeen Tunnel since 29 September 1998.

Results of Recent Internal Review

According to the results of a structural investigation conducted by the Highways Department in 2001 in respect of the Aberdeen Tunnel, it was in a structurally stable condition and no major strengthening work was required. Although the reinforced concrete structures showed signs of carbonation (which is a chemical reaction that is likely to cause steel in concrete to rust), the remaining life of the reinforced concrete against carbonation was expected to be about 30 years even if no proper treatments were carried out. HKSAR Government has been adopting localised repairs in conjunction with long term monitoring so as to maintain the Aberdeen Tunnel in a long term sustainable condition. HKSAR Government’s maintenance obligations in respect of the Aberdeen Tunnel are set out in the MOM Agreement. See “— Operation, Management and Maintenance — Common Key Provisions of the MOM Agreements — Maintenance Obligations” below for a further discussion.

The Lion Rock Tunnel

Date opened:	14 November 1967 (Southbound); 18 January 1978 (Northbound)
Length:	1.4 km
Geographical location:	Connecting north Kowloon and Shatin
Toll level:	Flat toll rate of HK\$8
Last revision of toll level:	April 1999, increasing from HK\$6
Average two-way daily traffic volume (Year 2003):	88,000 vehicles
Number of toll booths:	13 toll booths, including 4 Autotoll collection booths
Current Operator:	Serco Group (HK) Ltd.

The Lion Rock Tunnel has been operating above its Design Daily Flow of 78,500 vehicles for a number of years.

Current Operator

Serco is the current Operator of the Lion Rock Tunnel. The existing MOM Agreement has a term of six years from 26 May 2000 to 25 May 2006, with a total Gazetted Contract Amount (as defined in “— Operation, Management and Maintenance — Overview” below) of HK\$422,239,000. The Airport Tunnel, which is a toll free tunnel leading to the former Kai Tak Airport (the “**Airport Tunnel**”), is managed under the same MOM Agreement. See “— The Aberdeen Tunnel — Current Operator” above for a discussion on Serco. Serco has managed the Lion Rock Tunnel since 17 January 1993.

Results of Recent Internal Review

Based on the regular inspections by the Highways Department and/or Serco, the Lion Rock Tunnel is currently in a fair condition. According to the results of a structural investigation conducted by the Highways Department in 2001 in respect of the Lion Rock Tunnel, it would have a remaining life of 17 to 20 years even if no proper treatments were carried out. HKSAR Government has been adopting localised repairs in conjunction with long term monitoring so as to maintain the Lion Rock Tunnel in a long term sustainable condition. HKSAR Government’s maintenance obligations in respect of the Lion Rock Tunnel are set out in the MOM Agreement. See “— Operation, Management and Maintenance — Common Key Provisions of the MOM Agreements — Maintenance Obligations” below for a further discussion.

The Lantau Link

Date opened:	22 May 1997																										
Length:	3.3 km																										
Geographical location:	Linkage from northeast Lantau to Ma Wan at Kap Shui Mun (the Kap Shui Mun Bridge) and from Ma Wan to Tsing Yi across the Ma Wan Viaduct (the Tsing Ma Bridge)																										
Toll level (double toll rates)⁽¹⁾:	<table border="0"> <thead> <tr> <th style="text-align: left;"><i>Vehicle Type</i></th> <th style="text-align: right;"><i>Toll Rate (HK\$)</i></th> </tr> </thead> <tbody> <tr> <td>1. Motor cycles, motor tricycles</td> <td style="text-align: right;">20</td> </tr> <tr> <td>2. Taxis</td> <td style="text-align: right;">30</td> </tr> <tr> <td>3. Private cars</td> <td style="text-align: right;">30</td> </tr> <tr> <td>4. Public and private light buses</td> <td style="text-align: right;">40</td> </tr> <tr> <td>5. Light goods vehicles of a permitted gross vehicle weight not exceeding 5.5 tonnes</td> <td style="text-align: right;">40</td> </tr> <tr> <td>6. Medium goods vehicles of a permitted gross vehicle weight exceeding 5.5 tonnes but not exceeding 24 tonnes</td> <td style="text-align: right;">50</td> </tr> <tr> <td>7. Heavy goods vehicles of a permitted gross vehicle weight exceeding 24 tonnes</td> <td style="text-align: right;">80</td> </tr> <tr> <td>8. Public and private single-decked buses</td> <td style="text-align: right;">40</td> </tr> <tr> <td>9. Public and private double-decked buses</td> <td style="text-align: right;">60</td> </tr> <tr> <td>10. Articulated vehicle</td> <td style="text-align: right;">80</td> </tr> <tr> <td>11. Vehicle towing another vehicle</td> <td style="text-align: right;">Toll equivalent to amount applicable to both types or classes of vehicle involved</td> </tr> <tr> <td>12. Vehicle (other than articulated vehicle) towing a trailer</td> <td style="text-align: right;">Toll equivalent to amount applicable to type or class of vehicle and 30 in respect of the trailer</td> </tr> </tbody> </table>	<i>Vehicle Type</i>	<i>Toll Rate (HK\$)</i>	1. Motor cycles, motor tricycles	20	2. Taxis	30	3. Private cars	30	4. Public and private light buses	40	5. Light goods vehicles of a permitted gross vehicle weight not exceeding 5.5 tonnes	40	6. Medium goods vehicles of a permitted gross vehicle weight exceeding 5.5 tonnes but not exceeding 24 tonnes	50	7. Heavy goods vehicles of a permitted gross vehicle weight exceeding 24 tonnes	80	8. Public and private single-decked buses	40	9. Public and private double-decked buses	60	10. Articulated vehicle	80	11. Vehicle towing another vehicle	Toll equivalent to amount applicable to both types or classes of vehicle involved	12. Vehicle (other than articulated vehicle) towing a trailer	Toll equivalent to amount applicable to type or class of vehicle and 30 in respect of the trailer
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Last revision of toll level:	No toll adjustment has been made since commencement of operation																										
Average two-way daily traffic volume⁽²⁾ (Year 2003):	40,500 vehicles																										
Number of toll booths⁽³⁾:	10 toll booths, including 3 Autotoll collection booths																										
Current Operator:	Tsing Ma Management Limited																										

Note:

- (1) As one-way toll collection is adopted, vehicles are charged twice the single journey toll.
- (2) One-way toll collection is adopted at the Lantau Link and tolls are only collected at one end of the Lantau Link (from Lantau direction). The daily average number of vehicles is calculated based on the actual number of vehicles passing the toll booths (from Lantau direction) and the estimated number of vehicles travelling to Lantau direction (where tolls are not collected).
- (3) As one-way toll collection is adopted, only toll booths for Kowloon bound traffic are currently used.

The Lantau Link forms part of the Tsing Ma Control Area (“**TMCA**”), comprising the following:

- Route 3 (part): (a) Tsing Kwai Highway, (b) Cheung Tsing Bridge, (c) Cheung Tsing Tunnel, (d) North West Tsing Yi Interchange, (e) Ting Kau Bridge;
- Lantau Link: (a) Tsing Ma Bridge, (b) Ma Wan Viaduct, (c) Kap Shui Mun Bridge;
- Lantau toll plaza; and
- Other major roads: (a) North Lantau Highway (part), (b) Tsing Yi North Coastal Road, (c) The Footbridge, (d) Ma Wan Link Road.

The Lantau Link comprises the Tsing Ma Bridge, the Ma Wan Viaduct and the Kap Shui Mun Bridge. The Tsing Ma Bridge, in the form of a suspension bridge with a main span of 1,377 metres, is one of the longest of its kind in the world and has become a prominent landmark in Hong Kong. The Kap Shui Mun Bridge is a cable stayed bridge with a main span of 430 metres in length. The Lantau Link has a one-way toll collection arrangement. Vehicles are charged twice the single journey toll when they return from the Lantau Island or enter Ma Wan.

Current Operator

Tsing Ma Management Limited (“**TMML**”) is the current Operator of the entire TMCA (which includes the Lantau Link). The existing MOM Agreement has a term of six years from 19 May 2001 to 18 May 2007, with a total Gazetted Contract Amount (as defined in “— Operation, Management and Maintenance — Overview” below) of HK\$1,244,780,000.

HKSAR Government understands that TMML is a subsidiary of the Wilson Group which is owned by Sun Hung Kai Properties Limited. See “— The Shing Mun Tunnels — Current Operator” above for a discussion on the Wilson Group. TMML has managed the entire TMCA since 19 May 1997.

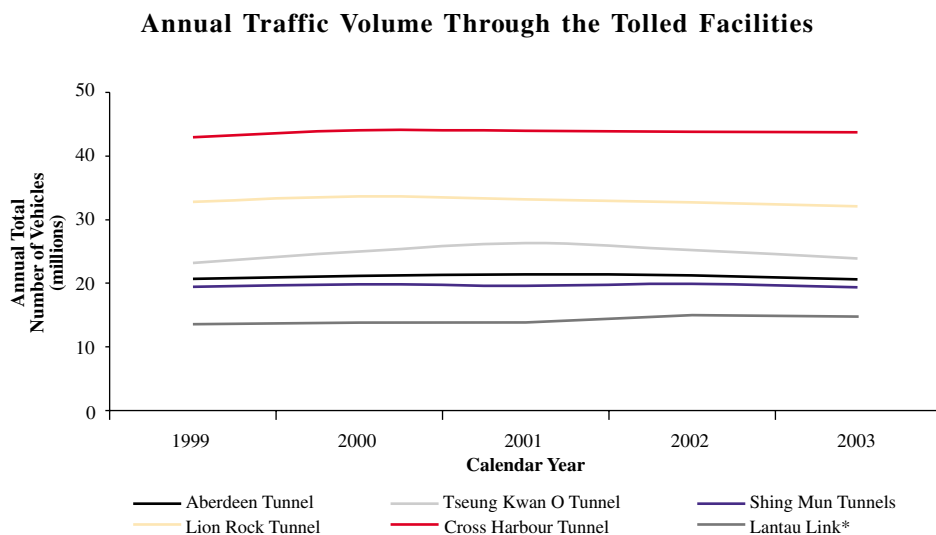
Results of Recent Internal Review

The structural health of the Lantau Link is closely monitored through routine inspections by the Highways Department and a computerised sensory system installed on it. There is currently no indication that the anticipated design life of 120 years cannot be met. HKSAR Government’s maintenance obligations in respect of the Lantau Link are set out in the MOM Agreement. See “— Operation, Management and Maintenance — Common Key Provisions of the MOM Agreements — Maintenance Obligations” below for a further discussion.

Historical Statistics

Historical Traffic Volumes

The following graph provides a comparison between the Tolled Facilities (each indicated by a plotted line with a particular colour code) in respect of their annual total traffic volumes for the past five calendar years:



Note: * One-way toll collection is adopted at the Lantau Link and tolls are only collected at one end of the Lantau Link (from Lantau direction). Accordingly, the graph for the Lantau Link is plotted with estimated total number of two-way vehicles which is calculated based on the actual number of vehicles passing the toll booths (from Lantau direction) and the estimated number of vehicles travelling to Lantau direction (where tolls are not collected).

The following tables set out the historical annual traffic volumes for each of the Tolled Facilities for the past five calendar years:

The CHT

Calendar Year	Traffic (Vehicles in Thousands)			
	Southbound	Northbound	Total	Daily Average
1999	—**	—**	42,997.5	117.8
2000	22,387.9	21,660.1	44,048.0	120.4
2001	22,394.5	21,567.5	43,962.1	120.4
2002	22,287.4	21,515.9	43,803.3	120.0
2003	22,090.9	21,621.1	43,712.0	119.8

Source: The Cross Harbour Tunnel Co. Ltd. and Hong Kong Tunnels and Highways Management Co. Ltd.

Note: ** These figures were not available before the CHT reverted to HKSAR Government on 1 September 1999.

The Shing Mun Tunnels

Calendar Year	Traffic (Vehicles in Thousands)			
	Eastbound	Westbound	Total	Daily Average
1999	9,705.3	9,762.5	19,467.9	53.3
2000	9,903.2	9,933.6	19,836.9	54.2
2001	9,840.4	9,794.3	19,634.7	53.8
2002	9,972.1	9,941.7	19,913.8	54.6
2003	9,652.6	9,688.4	19,341.0	53.0

Source: China Tollways Ltd.

The Tseung Kwan O Tunnel

Calendar Year	Traffic (Vehicles in Thousands)			
	Eastbound	Westbound	Total	Daily Average
1999	11,699.5	11,507.3	23,206.8	63.6
2000	12,712.2	12,320.6	25,032.8	68.4
2001	13,437.7	12,915.0	26,352.6	72.2
2002	12,843.9	12,409.5	25,253.4	69.2
2003	12,114.7	11,774.0	23,888.7	65.4

Source: China Tollways Ltd.

The Aberdeen Tunnel

Calendar Year	Traffic (Vehicles in Thousands)			
	Southbound	Northbound	Total	Daily Average
1999	10,894.3	9,786.0	20,680.3	56.7
2000	11,066.9	10,094.7	21,161.6	57.8
2001	11,133.0	10,240.4	21,373.4	58.6
2002	11,048.5	10,230.8	21,279.4	58.3
2003	10,662.3	9,961.1	20,623.3	56.5

Source: Serco Guardian (F.M.) Ltd and Serco Group (HK) Ltd.

The Lion Rock Tunnel

Calendar Year	Traffic (Vehicles in Thousands)			
	Southbound	Northbound	Total	Daily Average
1999	16,070.9	16,761.2	32,832.0	90.0
2000	16,503.6	17,207.3	33,710.9	92.1
2001	16,268.9	16,900.3	33,169.1	90.9
2002	16,109.5	16,663.4	32,772.9	89.8
2003	15,741.2	16,389.8	32,130.9	88.0

Source: Serco Guardian (F.M.) Ltd and Serco Group (HK) Ltd.

The Lantau Link

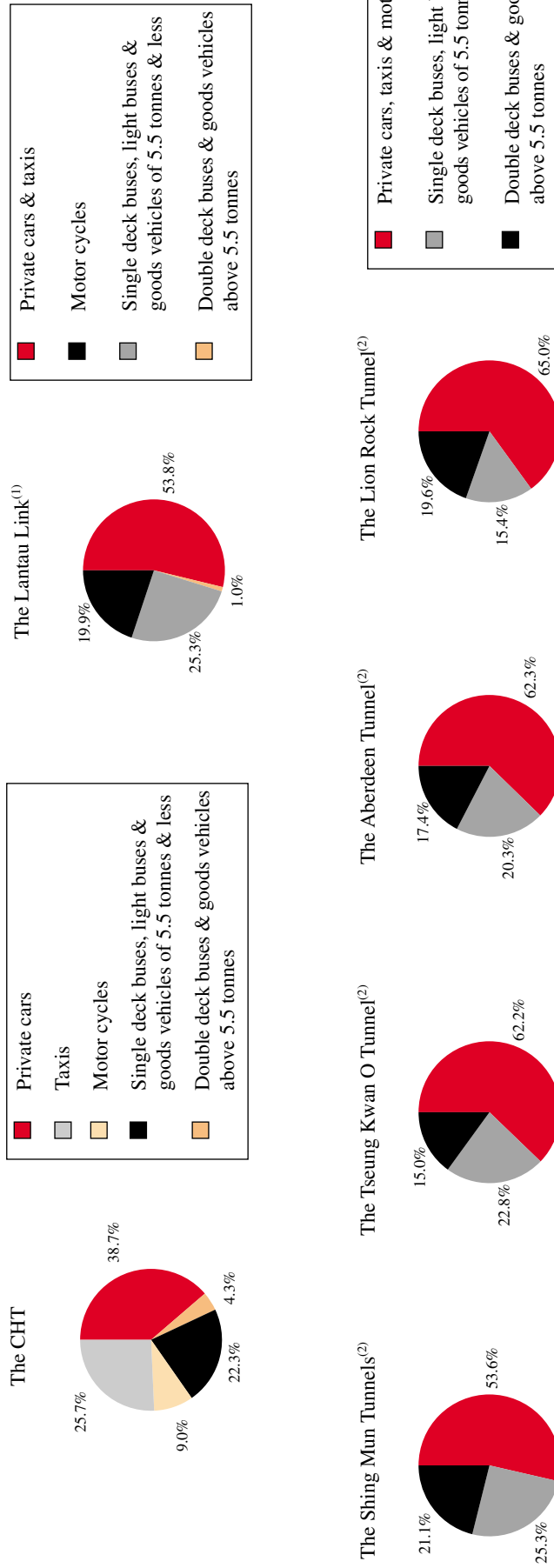
Calendar Year	Traffic (Vehicles in Thousands)		
	From Lantau	Total**	Daily Average**
1999	6,749.4	13,600.0	37.3
2000	6,863.3	13,852.1	37.9
2001	6,898.1	13,877.9	38.0
2002	7,479.0	15,030.0	41.2
2003	7,356.0	14,799.2	40.5

Source: Tsing Ma Management Ltd.

Note: ** One-way toll collection is adopted at the Lantau Link and tolls are only collected at one end of the Lantau Link (from Lantau direction). The total number of two-way vehicles and daily average number of vehicles are calculated based on the actual number of vehicles passing the toll booths (from Lantau direction) and the estimated number of vehicles travelling to Lantau direction (where tolls are not collected).

Historical Traffic Volumes by Vehicle Types

The following charts show the percentages of traffic volume made up by different categories of vehicles for the calendar year 2003:



Note: (1) Figures for the “private cars & taxis” category are not further broken down into sub-categories as these figures are not available for the Lantau Link which charges the same toll rate for private cars and taxis.

(2) Figures for the “private cars, taxis & motor cycles” category are not further broken down into sub-categories as these figures are not available for the Shing Mun Tunnels, the Tseung Kwan O Tunnel, the Aberdeen Tunnel and the Lion Rock Tunnel each of which charges a flat toll rate.

Historical Revenue

The table below sets out the total aggregate gross revenue and the total aggregate net revenue generated by all the Tolloed Facilities for the past three financial years⁽¹⁾:

Financial Year	Total Aggregate Gross Revenue ⁽²⁾ (HK\$ M)	Total Aggregate Net Revenue ⁽³⁾ (HK\$ M)
2000/2001	1,550.4	1,052.0
2001/2002	1,537.0	1,080.3
2002/2003	1,551.6	1,103.1

Note:

- (1) Aggregate figures for all the Tolloed Facilities are only shown for the past three financial years because the CHT reverted to HKSAR Government with effect from 1 September 1999.
- (2) The “gross revenue” figures shown in this Prospectus are different from the amount of “Tolls” as defined in the section headed “Transaction Summary” in that (i) “gross revenue” includes revenue from each use of pre-paid tickets whereas “Tolls” will include proceeds of the sale of pre-paid tickets; and (ii) “gross revenue” includes revenue generated by the TMCA (other than the Lantau Link) whereas “Tolls” will not.
- (3) The “net revenue” figures shown in this Prospectus are different from the amount of “Net Toll Revenues” as defined in the section headed “Transaction Summary” in that certain amounts which are deductible from the “gross revenue” for calculating the “net revenue” will not be deductible from the “Tolls” for calculating the “Net Toll Revenues”. For a discussion of the calculation of the Net Toll Revenues, see the section headed “Transaction Summary — Sources of Payment — Net Toll Revenues”.

The table below sets out the percentage of total aggregate gross revenue and total aggregate net revenue generated by each Tolloed Facility for the past three financial years:

Financial Year	CHT		Shing Mun Tunnels		Tseung Kwan O Tunnel		Aberdeen Tunnel		Lion Rock Tunnel		Lantau Link	
	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾	% of TAGR ⁽¹⁾	% of TANR ⁽²⁾
2000/2001	48.2	64.1	6.4	6.4	4.9	3.8	6.8	6.8	17.2	18.9	16.5	— ⁽³⁾
2001/2002	47.8	61.3	6.4	6.2	5.2	4.2	6.9	6.6	17.0	17.7	16.8	4.0 ⁽⁴⁾
2002/2003	47.0	59.8	6.4	6.1	4.7	3.8	6.8	6.4	16.7	17.1	18.4	6.9 ⁽⁴⁾

Note:

- (1) “TAGR” means the total aggregate gross revenue generated by the Tolloed Facilities.
- (2) “TANR” means the total aggregate net revenue generated by the Tolloed Facilities.
- (3) For financial year 2000/2001, expenditure under the MOM Agreement for the Lantau Link exceeded the revenue generated from the Lantau Link. See “— Operation, Management and Maintenance — Common Key Provisions of the MOM Agreements — Maintenance Obligations — Major Maintenance — The Lantau Link” below for a discussion. For a discussion on the treatment of deductions from the Tolls generated by the Lantau Link for purposes of calculating the Net Toll Revenues, see the section headed “Transaction Summary — Sources of Payment — Net Toll Revenues”.
- (4) For HKSAR Government’s purpose, the amount of this percentage of the total aggregate net revenue generated by the Lantau Link has been used directly to pay down the outstanding balance on the TMCA Advance Account.

Revenue generated from toll collection represents over 95% of the total gross revenue generated from the Tolled Facilities. The following tables set out the annual total gross revenue generated by the CHT for the past four financial years, and in the case of all other Tolled Facilities, for the past five financial years:

The CHT

Financial Year	Total Gross Revenue (HK\$ M)
1999/2000	419.1*
2000/2001	747.2
2001/2002	734.0
2002/2003	728.5

Note: * The CHT reverted to HKSAR Government with effect from 1 September 1999. Accordingly, revenue generated from the CHT prior to that date has not been included in these figures.

The Shing Mun Tunnels

Financial Year	Total Gross Revenue (HK\$ M)
1998/1999	97.0
1999/2000	97.9
2000/2001	98.6
2001/2002	97.9
2002/2003	99.0

The Tseung Kwan O Tunnel

Financial Year	Total Gross Revenue (HK\$ M)
1998/1999	62.9
1999/2000	71.1
2000/2001	76.0
2001/2002	79.4
2002/2003	73.5

The Aberdeen Tunnel

Financial Year	Total Gross Revenue (HK\$ M)
1998/1999	104.5
1999/2000	103.1
2000/2001	105.7
2001/2002	105.5
2002/2003	105.2

The Lion Rock Tunnel

Financial Year	Total Gross Revenue (HK\$ M)
1998/1999	204.6
1999/2000	260.5
2000/2001	266.7
2001/2002	262.0
2002/2003	259.2

The Lantau Link

Financial Year	Total Gross Revenue (HK\$ M)
1998/1999	219.7
1999/2000	249.6
2000/2001	256.2
2001/2002	258.2
2002/2003	286.2

Historical Capital Expenditure

The following table sets out the total capital expenditure by HKSAR Government for each Tolled Facility and the entire TMCA in respect of the programmes for maintenance and replacement of systems and facilities in the Tolled Facilities and the entire TMCA for the period from 1 April 1999 to 31 March 2004:

Period	Capital Expenditure (HK\$ M)					
	CHT	Shing Mun Tunnels	Tseung Kwan O Tunnel	Aberdeen Tunnel	Lion Rock Tunnel	TMCA*
1 April 1999 to 31 March 2004	53.2	37.0	25.1	86.4	139.5	51.8

Note: * Capital expenditure for the entire TMCA includes capital expenditure for the Lantau Link.

Closure of Tolled Facilities due to Major Traffic Incidents

The following tables set out historical statistical information in relation to any full or partial closure of the Tolled Facilities due to major traffic incidents for the past three years. Except for the Lantau Link, major incidents refer to incidents requiring the closure of a traffic lane in a tunnel tube in one direction for a duration of over 20 minutes or both lanes in one tube for a duration of over five minutes. For the Lantau Link, major incidents refer to incidents requiring the closure of two or more traffic lanes in one direction for a duration of over 20 minutes.

Calendar Year 2001

Duration of Incident	CHT			Shing Mun Tunnels			Tseung Kwan O Tunnel			Aberdeen Tunnel			Lion Rock Tunnel			Lantau Link		
	Number of Lanes Closed for each Tolled Facility (Calendar Year 2001)**																	
	1	2	>2	1	2	>2	1	2	>2	1	2	>2	1	2	>2	1	2	>2
Less than 1 hour	2	0	0	8	2	0	7	4	0	5	3	1	5	0	0	0	2	0
1 - 2 hours	0	0	0	1	0	0	1	1	0	1	1	0	0	0	0	0	0	0
2 - 3 hours	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Over 3 hours	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0

*Source: Hong Kong Tunnels and Highways Management Co. Ltd.
China Tollways Ltd.
Serco Group (HK) Ltd.
Tsing Ma Management Ltd.*

Note: ** 1 = one lane closed
2 = two lanes closed
>2 = more than two lanes closed

Calendar Year 2002

Duration of Incident	CHT			Shing Mun Tunnels			Tseung Kwan O Tunnel			Aberdeen Tunnel			Lion Rock Tunnel			Lantau Link		
	Number of Lanes Closed for each Tolled Facility (Calendar Year 2002)**																	
	1	2	>2	1	2	>2	1	2	>2	1	2	>2	1	2	>2	1	2	>2
Less than 1 hour	3	3	0	8	1	0	0	2	0	4	0	0	3	0	0	0	1	0
1 - 2 hours	1	0	0	2	4	0	0	0	0	0	0	0	0	0	0	0	0	0
2 - 3 hours	0	0	0	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0
Over 3 hours	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: Hong Kong Tunnels and Highways Management Co. Ltd.

China Tollways Ltd.

Serco Group (HK) Ltd.

Tsing Ma Management Ltd.

Note: ** 1 = one lane closed

2 = two lanes closed

>2 = more than two lanes closed

Calendar Year 2003

Duration of Incident	CHT			Shing Mun Tunnels			Tseung Kwan O Tunnel			Aberdeen Tunnel			Lion Rock Tunnel			Lantau Link		
	Number of Lanes Closed for each Tolled Facility (Calendar Year 2003)**																	
	1	2	>2	1	2	>2	1	2	>2	1	2	>2	1	2	>2	1	2	>2
Less than 1 hour	0	2	0	13	9	0	6	2	0	6	1	1	3	2	0	0	1	0
1 - 2 hours	0	0	0	4	4	0	1	0	0	4	0	0	1	0	0	0	0	0
2 - 3 hours	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0
Over 3 hours	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: Hong Kong Tunnels and Highways Management Co. Ltd.

China Tollways Ltd.

Serco Group (HK) Ltd.

Tsing Ma Management Ltd.

Note: ** 1 = one lane closed

2 = two lanes closed

>2 = more than two lanes closed

Operation, Management and Maintenance

Overview

The day-to-day management, operation and part of the maintenance functions of the Tolloed Facilities are carried out by the Operators. Each Operator is appointed by HKSAR Government under a MOM Agreement awarded by HKSAR Government through an open tender process. In the tender process, HKSAR Government assesses the tenders mainly based on the tenderers' financial bids, their management experience, management, operation and maintenance proposals and staffing arrangements in respect of road tunnels, bridges or tolloed roads. HKSAR Government's tender process is arranged according to the Stores and Procurement Regulations issued by the Financial Secretary pursuant to the Public Finance Ordinance, which are supplemented by Financial Circulars issued by the Secretary for Financial Services and the Treasury from time to time. The tender assessment criteria adopted by HKSAR Government in the tender process are subject to changes each time before a tender invitation. HKSAR Government is a signatory of the Agreement on Government Procurement of the World Trade Organisation ("WTO GPA") and is bound by its provisions. The procedures set out in the Stores and Procurement Regulations are fully consistent with the provisions of the WTO GPA. The names and contract amounts (the "**Gazetted Contract Amount**") of the successful tenderers are published in the Government of the Hong Kong Special Administrative Region Gazette. The Gazetted Contract Amount represents the estimated total amount payable to the Operator over the term of the MOM Agreement by applying the current Operator's bid at the tender, which is based on projected traffic volume and approved fees provided by HKSAR Government in the tender process. The actual amount payable to an Operator over the term of the MOM Agreement awarded is based on the actual traffic volume and approved fees over the same period.

Upon expiry of a MOM Agreement, HKSAR Government may invite tenders for a new MOM Agreement in accordance with HKSAR Government's tender policy and process at such time. The terms and provisions of the new MOM Agreements may not be the same as those of the existing MOM Agreements.

Each MOM Agreement sets out, among other things, the obligations of the Operator, the standard to which it must perform these obligations and the fees and expenses it is allowed to incur. Operators of the Tolloed Facilities are responsible for the regular maintenance of the equipment and structures of the Tolloed Facilities. The Operators are obliged to provide and maintain a sufficient number of personnel at various levels for the management, operation and maintenance of the Tolloed Facilities. Except with prior written approval of HKSAR Government, the Operators can only engage personnel who satisfy the minimum qualification and experience requirements as set out in the MOM Agreements. In addition, the Operators are required to regulate and maintain traffic order, handle emergency situations, maintain environmental control standards and assist with traffic law enforcement at the Tolloed Facilities. Management and operation of the Tolloed Facilities is generally subject to the provisions of each MOM Agreement and the relevant laws and regulations. See "— General" above for a discussion on the relevant laws and regulations which regulate the Tolloed Facilities. For HKSAR Government's internal procedures for monitoring the performance of the Operators in managing the Tolloed Facilities, see "— HKSAR Government's Internal Monitoring and Approval Procedures for the Tolloed Facilities" below for a discussion.

The following table sets forth a summary of the current Operators and the existing MOM Agreements of the Tolled Facilities.

Tolled Facilities Covered	Operator	Terms of MOM Agreement	Gazetted Contract Amount/Year (HK\$)
The CHT	Hong Kong Tunnels & Highways Management Co. Ltd.	2 years from 1 September 2002 to 31 August 2004 ⁽¹⁾	69,495,500
The Shing Mun Tunnels and the Tseung Kwan O Tunnel	China Tollways Limited	6 years from 1 June 2000 to 31 May 2006	71,062,166
The Aberdeen Tunnel	Serco Group (HK) Ltd.	6 years from 29 September 2002 to 28 September 2008	35,129,567
The Lion Rock Tunnel (and Airport Tunnel)	Serco Group (HK) Ltd.	6 years from 26 May 2000 to 25 May 2006	70,373,166
The Lantau Link (entire TMCA)	Tsing Ma Management Limited	6 years from 19 May 2001 to 18 May 2007	207,463,333 ⁽²⁾

Note:

- (1) This MOM Agreement has been extended for two years until 31 August 2006.
- (2) The Gazetted Contract Amount in relation to the Lantau Link / TMCA includes management fees payable in relation to (i) the management of TMCA Viewpoint Car Park, (ii) the provision of towing service on North Lantau Highway (outside TMCA boundary). However, neither the revenue from (i) and (ii), nor the management fees payable to the Operator for (i) and (ii) will be included in, or deducted from, the Net Toll Revenues for purposes of determining amounts payable to the Issuer under the Toll Revenue Bond. The management fees in relation to (i) and (ii) are estimated to be approximately 4% of the Gazetted Contract Amount.

Common Key Provisions of the MOM Agreements

1. Term of MOM Agreements

The existing MOM Agreements for all Tolled Facilities have a term of six years, except that for the CHT which has a term of two years. HKSAR Government has the right to extend the term of any existing MOM Agreement for further period(s) of, in the case of the CHT, up to 24 months in aggregate, and in the case of all other Tolled Facilities, up to six months in aggregate. The existing MOM Agreement of the CHT has been extended for 24 months and will not be subject to any further option of extension by HKSAR Government. If any Operator goes into liquidation or breaches certain material provisions of the MOM Agreement, such as failure to pay the net revenue to HKSAR Government by the due dates and failure to perform any or all of its obligations under the MOM Agreement, HKSAR Government may terminate the MOM Agreement with 14 days' prior notice to the Operator without prejudice to its rights to recover any loss or damages incurred as a result of such termination.

2. Removal of Operator and Temporary Operation

If an Operator goes into liquidation, fails to perform its obligations satisfactorily, or abandons any part of the MOM Agreement, HKSAR Government has the right to take over the operation and management of the relevant Tolled Facility in addition to all its other rights under the MOM Agreement. After such takeover, the Operator will not be entitled to any remuneration and will be liable to pay damages to HKSAR Government in accordance with the MOM Agreement. As at the date hereof, HKSAR Government has never removed any Operator from a Tolled Facility.

Each Operator is required, upon HKSAR Government's request, to assist in the temporary operation of another Tolloed Facility (which it is not currently operating and managing) for a period of not exceeding 180 days in the event of the closure of any such other Tolloed Facility due to unsatisfactory performance of the existing Operator or any other emergency factors.

3. *Maintenance Obligations*

Regular Day-to-Day Maintenance

Other than the maintenance responsibilities of various HKSAR Government departments as set out in each MOM Agreement, each Operator is responsible, at its own cost, for day-to-day, non-structural, corrective and repairing works for the upkeep of the relevant Tolloed Facility, including the maintenance and cleansing of roads within the Tolloed Facility area. Each Operator is also required to operate and maintain equipment including electrical and mechanical equipment, such as ventilation, air conditioning and power supply systems, and electronics and computer equipment, such as toll collection and traffic control and surveillance systems. Any replacement of equipment whose unit cost exceeds HK\$120,000 may be reimbursed by HKSAR Government if the Operator can satisfy HKSAR Government that such replacement is urgent and essential for the proper operation and performance of the equipment. Any such reimbursement by HKSAR Government will be borne by HKSAR Government and will not be deductible from the gross revenue generated from the Tolloed Facilities.

Major Maintenance

General. Each Operator is responsible for carrying out regular inspections, and examination of the state of repair, of the relevant Tolloed Facility, and is required to report promptly in writing any material defect or want of repair to the relevant HKSAR Government departments responsible for remedying or repairing the same as set out in the MOM Agreement. With the exception of the Lantau Link, HKSAR Government is obliged to perform major maintenance works at its own cost, which cost will be met by the relevant HKSAR Government departments directly. See “— HKSAR Government's Internal Monitoring and Approval Procedures for the Tolloed Facilities — Process for Initiating Maintenance — General (except the Lantau Link)” below for a discussion on HKSAR Government's internal approval procedures for funding such maintenance works. HKSAR Government's maintenance obligations include carrying out structural maintenance of certain highway structures and tunnel structures, maintenance of road pavement and public lighting and large scale repair or maintenance works of the watermains and firemains at the Tolloed Facilities. These obligations are mainly performed by the Highways Department, the Civil Engineering Department and the Architectural Services Department of HKSAR Government.

HKSAR Government has no plan for any major expansion or upgrading of the infrastructure or design capacity of any of the Tolloed Facilities in the next ten years, but only has plans for replacement of certain tunnel equipment in some of the Tolloed Facilities.

The Lantau Link. For those maintenance obligations which fall within the “non-scheduled maintenance works” category as set out in the MOM Agreement (the “**Non-scheduled Maintenance Works**”), HKSAR Government is required to undertake any such Non-scheduled Maintenance Works, at its own cost, either by itself or through its sub-contractors, or it may require TMML to perform or supervise the sub-contractor engaged to perform any such Non-scheduled Maintenance Works. TMML is entitled to deduct the cost incurred for carrying out any Non-scheduled Maintenance Works, together with any appropriate supervision fees, from the gross revenue generated from the Lantau Link provided however that, to the extent there is insufficient revenue from which to deduct such cost, HKSAR Government will make a payment from an Advance Account to make up such shortfall.

TMML entered into two co-operation agreements with MTRCL (the “**MTRCL Co-operation Agreement**”) and Wilson Tunnel Management Limited respectively for co-operating in the management, operation and maintenance of shared or adjoining infrastructure, structure, equipment, facilities or system adjoining or in the TMCA. TMML is entitled to the recovery of cost for any Non-scheduled Maintenance Works carried out in accordance with the MTRCL Co-operation Agreement by deducting such cost from the gross revenue generated from the Lantau Link.

4. *Toll Collection*

Each Operator is responsible for operating the toll booths at the relevant Tolled Facility and collecting the appropriate tolls and fees in accordance with the toll collection arrangement and operating standards provided in the MOM Agreement. The non-toll fees collected by the Operators include any removal fees payable for the removal of any vehicle causing an obstruction in the Tolled Facilities, any permit fees payable for certain vehicles in accordance with the relevant regulations, any income from the display of advertisements within the control area of the Tolled Facilities and any other income as approved by HKSAR Government.

In the absence of extraordinary circumstances, the Tolled Facilities are open for use 24 hours a day. Each MOM Agreement sets out the minimum number of operational toll booths required to be maintained by the Operator at all times. Each Operator is also responsible, at its sole cost, for managing, operating and maintaining the Autotoll collection system and has entered into a separate sub-agreement with Autotoll for the administration of the Autotoll collection system at the relevant Tolled Facility. See “— Existing Toll Collection System” below for a discussion on the existing toll collection system for the Tolled Facilities.

5. *Operators’ Remuneration*

General. Monthly remuneration for the Operators comprises a management fee and other income. Management fees are the principal item payable to the Operators and are either fixed lump sum amounts or amounts calculated according to fixed formula(e) which is typically linked to the traffic volume passing through the relevant Tolled Facility. Other income generally comprises shares of advertising revenue and other non-toll fees, such as permit fees, collected in respect of the relevant Tolled Facilities during the month and have historically constituted a small proportion of the total amount payable to the Operators. Each Operator’s monthly remuneration is directly deducted from the monthly gross revenue generated from the relevant Tolled Facility in that month before the monthly payments of net revenue are made to HKSAR Government in accordance with the MOM Agreement.

According to the MOM Agreements, except for the Operator’s remuneration in respect of the CHT and the Lion Rock Tunnel which comprise fixed lump sum amounts throughout the term of the MOM Agreement regardless of vehicle usage, Operators’ monthly remuneration in respect of all other Tolled Facilities depends partly on the traffic volume passing through the relevant Tolled Facility during the month. The formulae for calculating Operators’ remuneration vary from MOM Agreement to MOM Agreement and may be changed when new MOM Agreements are entered into upon expiry of the existing MOM Agreements.

The Lion Rock Tunnel. The Lion Rock Tunnel is managed by Serco under the same MOM Agreement as the Airport Tunnel. Accordingly, as well as the monthly remuneration for the management of the Lion Rock Tunnel, Serco is also entitled to monthly remuneration for the management of the Airport Tunnel. As a result, there will be a deduction of remuneration in respect of both the Lion Rock Tunnel and the Airport Tunnel from the monthly gross revenue generated from the Lion Rock Tunnel for purposes of determining amounts payable to the Issuer under the Toll Revenue Bond.

The Lantau Link. The Lantau Link is managed by TMML under a MOM Agreement for the management and operation of the entire TMCA. The monthly remuneration for TMML comprises a monthly management fee broken down into four parts each of which is in respect of a different part of the TMCA. Part of the monthly management fee comprises fixed lump sum amounts which are subject to annual adjustment in accordance with the cumulative movement of the Consumer Price Index (Composite), and the other part is an amount calculated according to a fixed formula linked to the amount of toll revenue generated from the Lantau Link during the month. The monthly gross revenue generated from the Lantau Link is subject to deductions in respect of TMML’s remuneration for operating and managing, and any cost incurred by TMML for any Non-scheduled Maintenance Works performed for, the whole of the TMCA. For a discussion on the treatment of deductions from the Tolls generated by the Lantau Link for purposes of calculating the Net Toll Revenues, see the section headed “Transaction Summary — Sources of Payment — Net Toll Revenues”.

6. *Payments to HKSAR Government*

General. The tolls and fees collected by each Operator are HKSAR Government revenues and held by each Operator on trust for HKSAR Government. In the event of any toll evasion or underpayment, each Operator is responsible for making up the shortfall. Each Operator is required to make payments to HKSAR Government of revenue generated by the relevant Tolled Facility twice per month on the due dates, after deduction of its relevant remuneration, including provisional sums, as calculated according to the MOM Agreement.

The Shing Mun Tunnels, the Tseung Kwan O Tunnel and the Aberdeen Tunnel. Except for the CHT, the Lion Rock Tunnel and the Lantau Link, according to the MOM Agreements for the other Tolled Facilities, monthly payments of revenue required to be made to HKSAR Government may be subject to claims by the relevant Operators for deductions in case of (i) any increase of the toll rates which the Operator claims has reduced the average daily traffic volume in the 180 days immediately following the date of the increase in tolls as compared with that in the 180 days period immediately preceding the date of increase; or (ii) full closure of the Tolled Facility for a continuous period in excess of twenty four hours. The amounts deductible from the gross revenue are calculated in accordance with fixed formulae as set out in the relevant MOM Agreement, which compensate for the reduction in the Operator's remuneration due to a reduction in traffic volume as a result of the increase in tolls to the extent of the 180 days immediately following the date of increase or, as the case may be, caused by full tunnel closure to the extent of the period during which the relevant Tolled Facility is fully closed. See “— Operators' Remuneration” above for a discussion on how certain Operators' remuneration are directly linked with the traffic volume passing through the relevant Tolled Facilities.

The Lantau Link. For the Lantau Link, other than the monthly remuneration, TMML may also deduct the relevant cost incurred of carrying out any approved Non-scheduled Maintenance Works from the monthly gross revenue before paying the net revenue to HKSAR Government. See “— Maintenance Obligations — Major Maintenance — The Lantau Link” above for a discussion on Non-scheduled Maintenance Works. Any toll increase during the term of the MOM Agreement will accrue to HKSAR Government entirely and TMML will not be entitled to any compensation in the event that any such toll increase results in a drop of the traffic volume.

7. *Assignment and Sub-contracting*

An Operator may not assign or sub-contract any part of the MOM Agreement without the prior written approval of, and subject only to such conditions as may be imposed by, HKSAR Government. Major activities in connection with the management and operation of the Tolled Facilities including collection of appropriate tolls and fees and the routine daily administrative works cannot be contracted out.

8. *Insurance Obligations*

General. Each Operator is required to effect and maintain, at its own expense, insurance coverage for certain risks in the joint names and benefit of itself and HKSAR Government for the entire term of the MOM Agreement, including the following:

- property damage insurance on, among other things, equipment, vehicles and buildings (except the Tolled Facilities themselves);
- third party/public liability insurance for injury to persons or loss of or damage to property;
- money insurance on loss or destruction of or damage to any money collected by an Operator on behalf of HKSAR Government;
- employee's compensation insurance.

The terms, insured amounts and insurers of the insurance policies maintained by the Operators are subject to HKSAR Government's approval. Renewal of insurance coverage will be examined by the

Transport Department prior to the expiry of existing insurance agreements. If a loss suffered on any of the insured risks is beyond the amount of insurance protection, the Operator is obliged to reimburse HKSAR Government for the difference. Currently, the structures of the Tolled Facilities are not insured.

The Lantau Link. In addition to the required insurance coverage as listed above, TMML is required to effect and maintain, at its own expense, other insurance coverage specifically listed in the MOM Agreement for the TMCA, including the following:

- motor vehicle insurance on third party liability for death or bodily injury or arising out of damage to property and loss or damage to vehicles;
- fidelity guarantee insurance on loss of money collected arising from the dishonest or fraudulent act of the employees of the Operator or its sub-contractors;
- machinery breakdown insurance on loss or damage necessitating repair or replacement of the electrical and mechanical systems;
- computer insurance on loss or damage necessitating repair or replacement of computer equipment.

9. *Guarantee of Operators' Performance*

Banker's Guarantee

Each Operator is required to lodge a banker's guarantee from a licensed bank in Hong Kong with HKSAR Government under the MOM Agreement. HKSAR Government may draw under the banker's guarantee any amount owed by the Operator to HKSAR Government by reason of the Operator's failure in performing or observing any of the terms of the MOM Agreement up to the amount originally required to be provided by the Operator under the banker's guarantee. Any drawn banker's guarantee has to be reinstated to the original level. Upon any increase in toll rates or increase in gross revenue, HKSAR Government may require an increase to the banker's guarantee. Since 1 April 1998, no banker's guarantee has been drawn by HKSAR Government in accordance with the MOM Agreements. The following table sets forth the initial level of banker's guarantee required for each Tolled Facility:

Tolled Facility	Initial Required Level of Banker's Guarantee (HK\$ M)
The CHT	51
The Shing Mun Tunnels and the Tseung Kwan O Tunnel (under the same MOM Agreement)	33
The Aberdeen Tunnel	12
The Lion Rock Tunnel (under the same MOM Agreement as the Airport Tunnel)	36
The Lantau Link (under the MOM Agreement for the entire TMCA)	100

Performance Guarantee

In addition to the banker's guarantee, each Operator is required to provide a performance guarantee in favour of HKSAR Government to guarantee its performance and liability under the relevant MOM Agreement. The performance guarantor is typically a related entity of the Operator, such as the parent company of the Operator. HKSAR Government may require the Operators to provide additional

performance guarantee if there shall be any changes in the management and control of the Operators or the performance guarantors as set out in the MOM Agreements which may substantially prejudice any of the rights of HKSAR Government under the MOM Agreements or the performance guarantee or the guarantor's ability to perform its obligation under the performance guarantee.

10. Tunnel or Bridge Closure

Pursuant to the regulations enacted under the RTGO and the TMCAO, HKSAR Government may direct any Operator to close or partially close a Tolled Facility to the public whenever such closure appears to be reasonably necessary for public order, for the safety of persons using or employed in the Tolled Facility or for any other reasons. Operators are generally prohibited from fully or partially closing any of the Tolled Facilities to the public without prior permission of HKSAR Government or without reasonable excuse. In the event of an emergency partial or full closure of a Tolled Facility, its Operator is required to follow the appropriate emergency and transport procedures formulated in accordance with the MOM Agreement and be accountable to HKSAR Government for such closure. HKSAR Government is entitled to take over the operation and management of the relevant Tolled Facility if any closure of such Tolled Facility is effected without reasonable excuse from the Operator for a certain short continuous period as specified in the MOM Agreement. See “— Historical Statistics — Closure of Tolled Facilities due to Major Traffic Incidents” above for historical statistical information in respect of any full or partial closure of the Tolled Facilities.

Existing Toll Collection System

Tolls are collected by toll collectors from vehicles driven past the toll booths at either direction or both directions of the Tolled Facilities or automatically via Autotoll booths equipped with computerised processing systems. All the Tolled Facilities currently adopt a two-way toll collection system, with the exception of the Lantau Link which adopts a one-way toll collection system which collects twice the single journey toll at one end of the Lantau Link irrespective of whether it is used only in one direction or both directions by the vehicle concerned. Notices setting out the appropriate toll rates for any Tolled Facility are displayed at the toll booths of the Tolled Facility. Appropriate tolls can be paid or tendered by the driver of any vehicle which uses any of the Tolled Facilities in the following manner:

Cash

Tolls paid by means of cash are collected by toll collectors at the toll booths. Currently, cash toll collections are transferred from the toll booths to the administrative building of the relevant Operators at the Tolled Facilities several times a day and will be paid by the Operators to HKSAR Government as part of the Toll revenue twice every month in accordance with the MOM Agreements. The estimated utilisation of cash toll payment in 2003 for all Tolled Facilities was about 49.3%.

Autotoll

Autotoll users are required to lodge an upfront deposit in order to set up an account with Autotoll. They are required to maintain a positive balance on their accounts with Autotoll (by authorising Autotoll to debit their bank accounts should the positive balance fall below a certain level). In addition, users of Autotoll are required to pay a periodic administration fee to Autotoll for utilising the service.

One day after a vehicle utilising the Autotoll service travels on a Tolled Facility, Autotoll will transfer the gross amount of toll to the relevant Operator. Tolls collected via Autotoll are treated the same way as cash tolls collected by an Operator, that is as part of the Toll revenue to be paid to HKSAR Government periodically. The estimated utilisation of Autotoll for toll payment for all Tolled Facilities in 2003 was about 48.7%.

Pre-paid Tickets

Tolled Facility users may purchase pre-paid tickets from vendors authorised by HKSAR Government. Cash proceeds from sale of pre-paid tickets by vendors will be sent to HKSAR Government's contractor responsible for printing and distribution of these pre-paid tickets. The contractor will pay to HKSAR Government proceeds received from sale of pre-paid tickets twice a month. In return for its services, the contractor will receive a fixed fee per ticket. Currently, the contractor appointed by HKSAR Government has executed both a banker's guarantee and a performance guarantee to guarantee its performance and liability under the existing agreement with HKSAR Government.

As HKSAR Government has already received the proceeds from sale of pre-paid tickets from its contractor, there will be no cash transfer between the Operator and HKSAR Government following the Operator's receipt of any pre-paid tickets from Tolled Facility users. The estimated utilisation of pre-paid tickets was about 1% in 2003 for all Tolled Facilities and their utilisation is declining.

Exempted Vehicles and Drivers

When a HKSAR Government vehicle travels on any Tolled Facility, its driver will settle the appropriate toll at the toll booth by handing in a ticket or utilising Autotoll. There will be no cash transfer between the Operator and HKSAR Government as a result of a HKSAR Government vehicle travelling on any Tolled Facility. The estimated utilisation of HKSAR Government vehicles for all Tolled Facilities in 2003 was about 0.7%.

Registered vehicles for disabled drivers are entitled to a certain number of free tickets every year for use at any Tolled Facility. When such a vehicle travels on any Tolled Facility, its driver can settle the appropriate toll at the toll booth by handing in such a ticket. When a Rehabus on dial-a-ride service, which is a service subsidised by HKSAR Government and monitored by the Transport Department, travels on any Tolled Facility, its driver will settle the appropriate toll at the toll booth by utilising Autotoll. As with HKSAR Government vehicles, there will be no cash transfer between the Operator and HKSAR Government as a result of such vehicles travelling on any Tolled Facility. The estimated utilisation of disabled drivers' tickets and Rehabuses in 2003 for all Tolled Facilities was about 0.3%.

The current practice on HKSAR Government vehicles, disabled drivers and Rehabuses will continue after the date hereof. As a result, HKSAR Government vehicles, vehicles of disabled drivers and Rehabuses will not contribute to the amounts payable to the Issuer under the Toll Revenue Bond.

HKSAR Government's Internal Monitoring and Approval Procedures for the Tolled Facilities

Monitoring Procedures

Under the MOM Agreements, HKSAR Government has the right to appoint a monitoring team for monitoring and auditing the Operators' performance in respect of the safe and efficient management, operation and maintenance of the Tolled Facilities, and in respect of the safety, reliability and performance levels of the Tolled Facility equipment. HKSAR Government currently has monitoring teams for all of the Tolled Facilities which perform spot checks at the Tolled Facilities several times a week, checking for compliance with the requirements as set out in the MOM Agreements, such as the procedures for handling emergency situations. In the event of any non-compliance by an Operator, the Transport Department will take actions, such as sending a reminder letter to the Operator requesting it to comply with the relevant requirement or remedy the breach, requesting for an explanation or an incident report in relation to the non-compliance or breach, which may be followed by meetings with the Operator and sending a warning letter to the Operator demanding it to comply with the relevant requirement or to remedy the breach, failing which HKSAR Government is entitled to terminate the MOM Agreement and recover any loss or damages from the Operator. HKSAR Government also has the right to take over the operation and management of the relevant Tolled Facility. See "— Operation, Management and Maintenance — Common Key Provisions of the MOM Agreements — Removal of Operator and Temporary Operation" above for a further discussion on

HKSAR Government's rights to remove an Operator and to request another Operator to assist in the temporary operation of another Tolled Facility. In addition, for the Lantau Link, HKSAR Government is entitled to impose a financial penalty on an Operator if it fails to comply with any requirement of the TMCAO or is in breach of the MOM Agreement without reasonable excuse according to the provisions of the TMCAO.

There is currently an internal auditing unit in the Transport Department with officers who are responsible for checking the financial records in respect of each Tolled Facility around twice every year.

Computer Monitoring Systems

Toll Collection

There are currently both manual and automatic toll collection systems installed at each Tolled Facility for statistical recording and registration of toll collections. Both manual and automatic toll collection systems comprise different sub-systems or equipment, which are installed in the control centres and toll booths at each Tolled Facility, capable of performing own system checks on the system status, carrying out all the toll database management operations, recording toll transactions and producing toll reports. Apart from the central computer system installed in the administrative building at each Tolled Facility, toll field equipment, such as toll lane computers, vehicle detection devices, toll classification signs and toll-paid signs, are capable of recording and displaying toll collection data at the toll booths. For the Autotoll systems, there are cameras installed particularly for capturing and recording any toll evasion incidents by vehicles. There are also safeguards to ensure that there is no interruption to power supply at each Tolled Facility in order to maintain a stable power supply for the sub-systems and equipment. Toll collection systems at the Tolled Facilities are capable of performing an automatic daily tape backup to prevent any toll data loss and to enable a quick system recovery. The backed-up data is usually stored in these tapes for approximately one week. Apart from automatic backup, the backup function can also be performed manually to meet specific requirements under different circumstances. Only certain authorised persons can have access to the toll collection systems at each Tolled Facility and the activities during any such access by the authorised persons are recorded for security purpose. The Operators are responsible for operating the toll collection systems at the relevant Tolled Facilities and taking regular preventive and corrective measures to maintain such systems at the highest security and reliability level.

Traffic Control

There is currently a traffic control and surveillance system ("TCSS") installed at each Tolled Facility for monitoring traffic passing through the Tolled Facility. The TCSS comprises different sub-systems or equipment which generally include, among other things, semi-automatic or computer-controlled traffic signs, traffic signals and lane signals to provide necessary traffic information to drivers using the relevant Tolled Facility, a closed circuit television system to monitor the real time traffic flow within the control area so that appropriate actions can be taken at the occurrence of any incidents, an incident detection system to alert the relevant Operator to any detected incidents, an emergency telephone system to provide a reliable communication channel for the drivers in cases of emergency where they need to communicate with the staff of the relevant Operator at the control room and an over-height vehicle detection system to stop any over-height vehicles from entering the relevant Tolled Facility to prevent damage to the tunnel or road facilities. Apart from operating the TCSS, each Operator is required to carry out regular patrolling, regulate and maintain traffic order within the control area of the relevant Tolled Facility. The Operators are also required to take regular preventive and corrective measures to make the TCSS available and maintain it at the highest reliability and safety level.

Process for Initiating Maintenance

General (except the Lantau Link)

Maintenance works undertaken by the relevant HKSAR Government departments in respect of the Tolled Facilities may be initiated as a result of discovery of any want of repair from the regular inspections carried out by the Operators or various HKSAR Government departments, or as recommended in the condition surveys conducted by HKSAR Government departments. See “— Operation, Management and Maintenance — Common Key Provisions of the MOM Agreements — Maintenance Obligations” above for a discussion on the maintenance responsibilities of HKSAR Government. Works items each costing not more than HK\$15 million are funded under the relevant block votes of the General Revenue Account and the Capital Works Reserve Fund. The Finance Committee (“**Finance Committee**”) of the Legislative Council (“**LegCo**”) approves the provision for block votes on an annual basis, and has delegated the power to authorise expenditure for individual maintenance works items to HKSAR Government provided that the aggregate expenditure does not exceed the approved annual provision. For works items each costing more than HK\$15 million, funding is subject to the approval of the Finance Committee on a merit basis.

The Lantau Link

Maintenance works undertaken by the relevant HKSAR Government departments in respect of the Lantau Link are normally initiated as a result of routine or special inspections carried out by the Operator or various HKSAR Government departments. The frequency of maintenance works undertaken by HKSAR Government departments largely follows the relevant operation and maintenance manuals prepared by project consultants and the Operators and/or the Highways Department’s in-house maintenance manuals or guidance notes, but is also affected by other factors, such as weather conditions and traffic volume. At present, Non-scheduled Maintenance Works for the entire TMCA, which are carried out by the Operator, are funded by revenue generated by the Lantau Link in accordance with the MOM Agreement. See “— Operation, Management and Maintenance — Common Key Provisions of the MOM Agreements — Maintenance Obligations — Major Maintenance — The Lantau Link” above for a further discussion on the cost incurred for the performance of Non-scheduled Maintenance Works.

TRANSPORTATION INFRASTRUCTURE AND TRANSPORT POLICY IN HONG KONG

Overview

Between 1991 and 2001, Hong Kong's population increased by 18.2% and its gross domestic product ("GDP") per capita increased by 26.7% in real terms. This socio-economic growth, together with limited land resources, the expansion of Hong Kong's port and airport facilities and an increase in cross-boundary traffic between Hong Kong and mainland China, are some of the key factors behind the significant demands placed on Hong Kong's transportation infrastructure. Hong Kong's public transport system, a combination of railway, bus, taxi, tram and ferry services, catered for approximately 10.8 million passenger trips each day in 2003.

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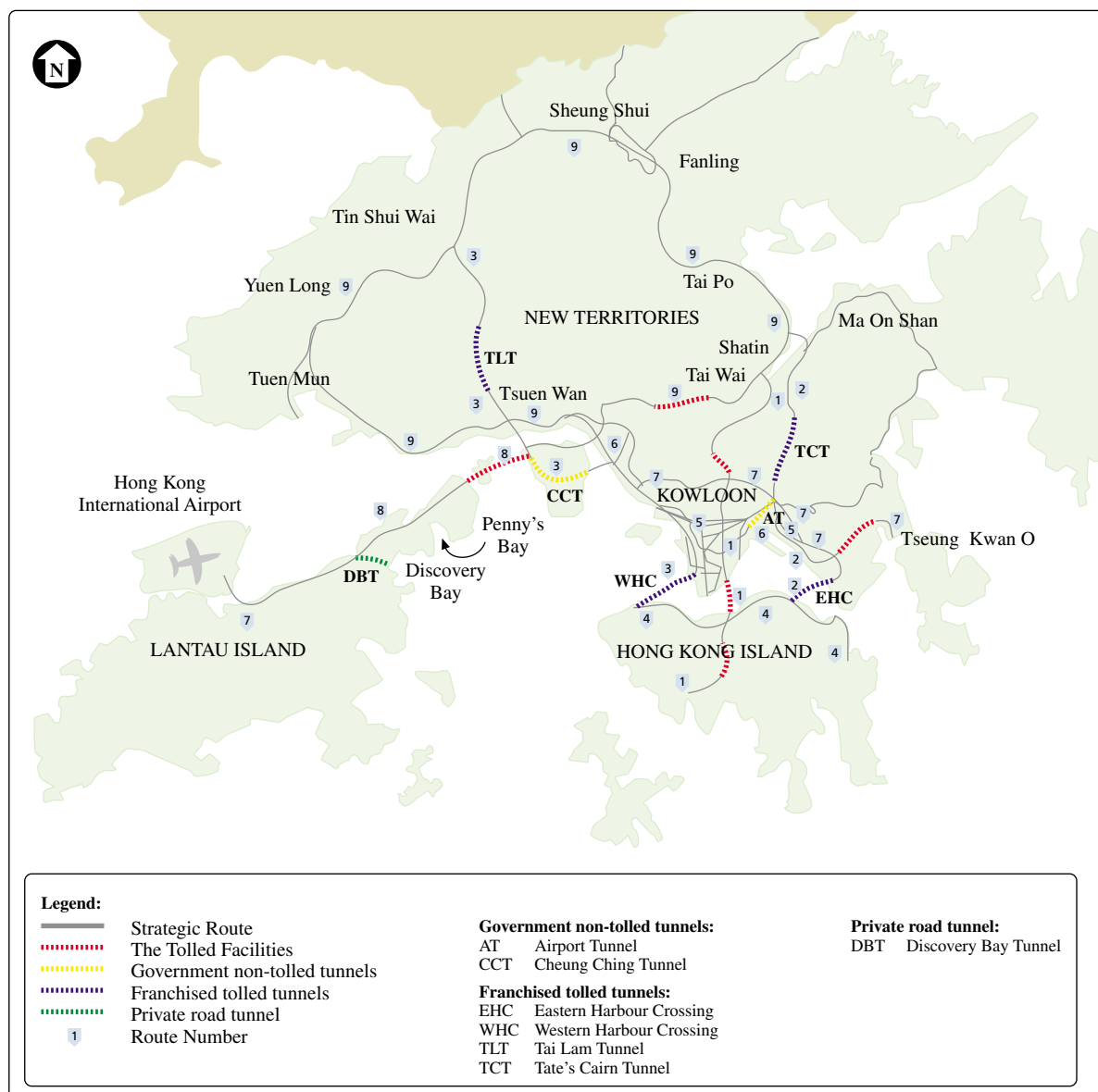
- the existing railway and road infrastructure in Hong Kong and the main modes of public transportation in Hong Kong;
- the bureau and the departments of HKSAR Government principally responsible for implementing transport policy, regulating the public transport system and constructing new railway and road infrastructure;
- HKSAR Government's transport policy, focusing on the key policy initiatives set out in "*Hong Kong Moving Ahead: A Transport Strategy For the Future*" (an October 1999 publication by HKSAR Government) and the implementation of these initiatives;
- certain demographic characteristics of Hong Kong; and
- the new railway and road infrastructure under construction or planning as of the date of this Prospectus.

Road Infrastructure

As at 31 December 2003, Hong Kong's road network consisted of three immersed-tube cross-harbour tunnels, nine on-land tunnels, three mega-scale bridges and approximately 1,934 kilometres of at-grade roads and viaducts. The Highways Department is responsible for the overall design and construction of the highways and their repair and maintenance.

The map below shows Hong Kong's strategic road routes and tunnels as at 31 March 2004:

Hong Kong's Strategic Road Routes and Tunnels



Eastern Harbour Crossing

The two-kilometre Eastern Harbour Crossing (the “EHC”) was built by the New Hong Kong Tunnel Co. Ltd. (“NHKTC”) and opened in 1989. The EHC is held and operated by NHKTC under a “Build-Operate-Transfer” franchise agreement between itself and HKSAR Government. HKSAR Government has a 7.5% share stake in NHKTC and the Deputy Secretary for the Environment, Transport and Works (Environment and Transport) and the Commissioner for Transport (the “Commissioner”) are currently members of NHKTC’s board of directors.

The EHC provides a link between Quarry Bay on Hong Kong Island and Cha Kwo Ling in Kowloon and a daily average of approximately 71,300 vehicles used it in 2003. The table below shows the historical annual traffic volume for the EHC in the past five years:

Calendar Year	Traffic (Vehicles in Thousands)			
	Southbound	Northbound	Total	Daily Average
1999	12,381.8	12,734.9	25,116.7	68.8
2000	12,994.7	13,440.7	26,435.4	72.2
2001	13,320.4	13,907.0	27,227.4	74.6
2002	13,069.8	13,719.8	26,789.6	73.4
2003	12,759.1	13,259.6	26,018.8	71.3

Source: NHKTC.

Western Harbour Crossing

The two-kilometre Western Harbour Crossing (the “WHC”), the first six-lane cross-harbour road tunnel in Hong Kong, was built by the Western Harbour Tunnel Co. Ltd. (the “WHTC”) and opened in 1997. The WHC is held and operated by WHTC under a “Build-Operate-Transfer” franchise agreement between itself and HKSAR Government. The Secretary for the Environment, Transport and Works and the Commissioner are currently members of WHTC’s board of directors.

The WHC provides a link between Sai Ying Pun on Hong Kong Island and the West Kowloon Reclamation near Yau Ma Tei in Kowloon and was used by an average of approximately 37,300 vehicles daily in 2003. The table below shows the historical annual traffic volume for the WHC in the past five years:

Calendar Year	Traffic (Vehicles in Thousands)			
	Southbound	Northbound	Total	Daily Average
1999	—	—	14,313.4	39.2
2000	—	—	15,663.6	42.8
2001	7,053.3	7,438.0	14,491.3	39.7
2002	7,142.8	7,470.9	14,613.7	40.0
2003	6,682.3	6,918.1	13,600.4	37.3

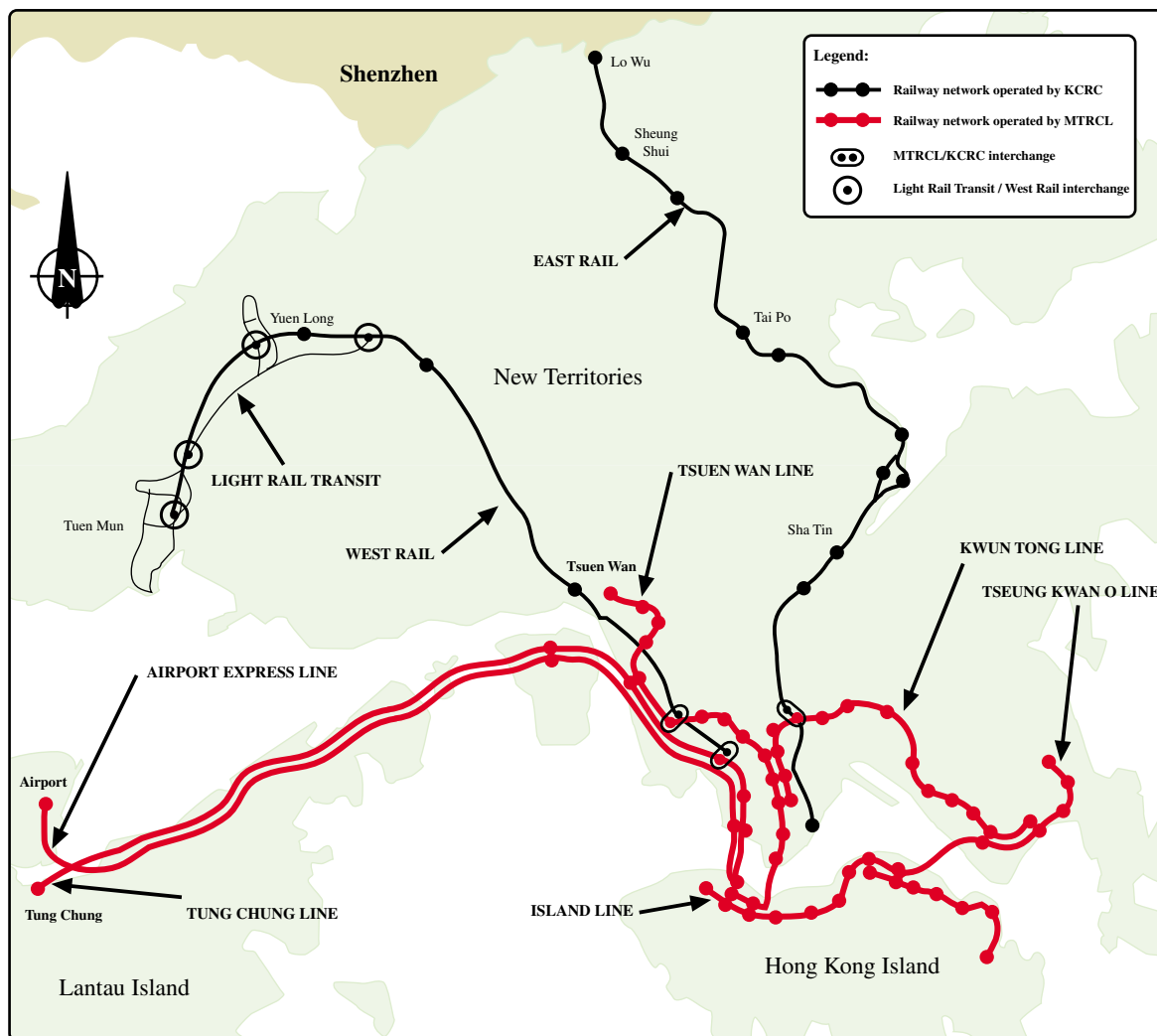
Source: WHTC.

Railway Infrastructure

As at 31 December 2003, Hong Kong's railway network had a total track length of approximately 190 kilometres and included three railway harbour crossings. Hong Kong's railways are operated and maintained by KCRC and MTRCL.

The map below shows the railway network in Hong Kong as at 31 December 2003:

Railway Network in Hong Kong



Railway Network Operated by MTRCL

MTRCL, a company incorporated under the Companies Ordinance, operates a railway network consisting of six lines serviced by a total of 50 stations with a total track length of about 87.7 kilometres. Although MTRCL has the autonomy to determine the fares for the services provided by it, it has to comply with a specified procedure set out in an operating agreement between itself and HKSAR Government before changing the level of any fare. This procedure requires MTRCL to consider, amongst other things, the level of public acceptance of any proposed change (based on passenger surveys), to consult the Transport Advisory Committee and the Panel on Transport of the Legislative Council and to make a public announcement of a new fare. The Secretary for the Environment, Transport and Works, the Secretary for Financial Services and the Treasury and the Commissioner are currently members of MTRCL's board of directors.

Railway Network Operated by KCRC

The railway network operated by KCRC consists of:

- *East Rail* — about 34 kilometres of railway track which runs from Hung Hom in Kowloon to Lo Wu on the boundary with mainland China;
- *West Rail* — about 30.5 kilometres of railway track which runs from Tuen Mun in the north-west New Territories to Sham Shui Po in West Kowloon; and
- *Light Rail Transit* — about 36.15 kilometres of light railway track which services the communities of Tuen Mun, Yuen Long and Tin Shui Wai in the north-west New Territories.

KCRC is a statutory corporation established in 1982 under the Kowloon-Canton Railway Corporation Ordinance (Cap.372) of Hong Kong (the “**KCRC Ordinance**”) and wholly-owned by HKSAR Government. Under the KCRC Ordinance, KCRC is required to conduct its business according to prudent commercial principles and its managing board is empowered to determine the fares for its passenger, freight and other services. KCRC also has a duty under the KCRC Ordinance to have regard to the reasonable requirements of Hong Kong’s public transport system. All managing board members of KCRC are appointed by the Chief Executive. The Secretary for the Environment, Transport and Works and the Secretary for Financial Services and the Treasury are currently members of the managing board.

Possible Merger between MTRCL and KCRC

On 24 February 2004, HKSAR Government invited MTRCL and KCRC to commence negotiations on a possible merger. HKSAR Government has set the following parameters for the negotiations between MTRCL and KCRC:

- adoption of a more objective and transparent fare adjustment mechanism;
- abolition of the second boarding charge between the railway network operated by MTRCL and the railway network operated by KCRC and review of the fare structure with the objective of reducing fares;
- early resolution of interchange arrangements for railway projects under planning, notably the Sha Tin to Central Link;
- ensuring job security for the front-line staff of both corporations at the time of the merger; and
- provision of seamless interchange arrangements in the long term.

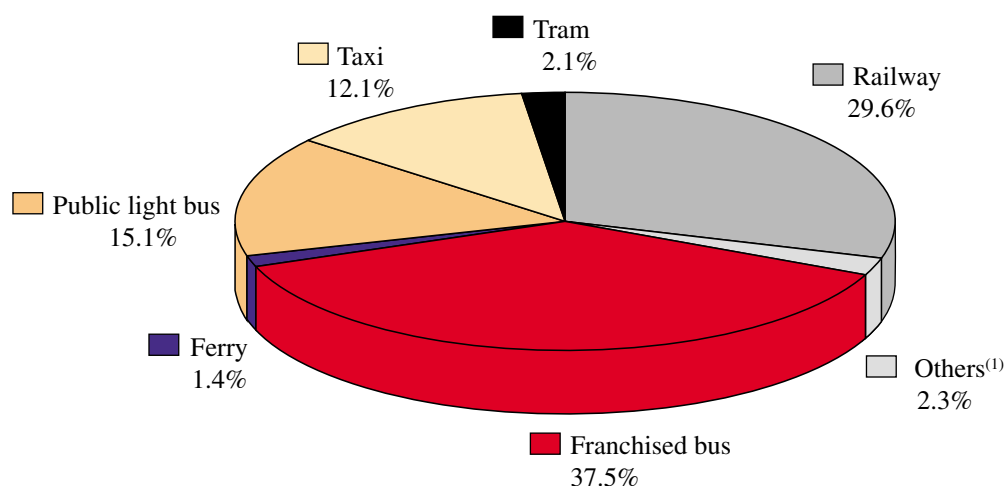
MTRCL and KCRC have been given until the end of August 2004 to conclude their negotiations and HKSAR Government has indicated that it will assess carefully the outcome of the negotiations before deciding on the way forward. In his 2004-2005 budget speech, Hong Kong’s Financial Secretary indicated that HKSAR Government was hoping to implement the merger between KCRC and MTRCL in fiscal year 2005-2006, provided the required legislative process could be completed in 2005. HKSAR Government currently owns about 76% of all the shares in MTRCL and KCRC is wholly-owned by HKSAR Government.

Public Transport

Railway, bus, taxi, tram and ferry services are the main forms of public transport in Hong Kong. Public transport operators are mostly franchisees or licencees regulated by the Transport Department. The District Councils, the Transport Advisory Committee and the Panel on Transport of the Legislative Council also perform a monitoring role in respect of public transport services.

Although railways play an important role in Hong Kong's public transport system, road-based modes of public transport accounted for approximately 69% of all public transport journeys in 2003. The diagram below shows the percentage share (by mode of public transport) of the total daily transport passenger traffic in Hong Kong for 2003:

Percentage Share of the Total Daily Public Transport Passenger Traffic in Hong Kong for 2003⁽²⁾



The table below shows the percentage share of the total daily public transport passenger traffic in Hong Kong for each mode of public transport in the last 5 years:

Mode of Public Transport	Share of Total Daily Public Transport Passenger Traffic (% per Calendar Year)				
	1999	2000	2001	2002	2003 ⁽²⁾
Railway	30.3	29.8	29.3	29.3	29.6
Franchised bus	37.1	38.1	38.5	38.6	37.5
Public light bus	14.9	14.8	14.8	14.8	15.1
Taxi	12.2	12.0	11.9	11.7	12.1
Tram	2.2	2.2	2.2	2.1	2.1
Ferry	1.5	1.4	1.4	1.3	1.4
Others ⁽¹⁾	1.8	1.7	1.9	2.2	2.3

Note:

(1) "Others" represents the percentage share for the services provided by Peak Tramways, KCRC feeder bus services and residents' bus services.

(2) The percentage figures for 2003 do not add up to 100% due to rounding.

Railway Services

Hong Kong's railways play a vital role in serving the transport needs of Hong Kong and accounted for 29.6% of the total daily public transport passenger traffic in Hong Kong and approximately 75% of the total land-based cross-boundary passenger trips made in 2003. For more detail on the railway systems in Hong Kong, see "— Railway Infrastructure" above.

Franchised Bus Services

As at the end of 2003, franchised bus services accounted for approximately 37.5% of the total daily public transport passenger traffic in Hong Kong. Franchise bus services are currently being offered by Kowloon Motor Bus Company (1933) Limited, New World First Bus Services Limited, Citybus Limited, Long Win Bus Company Limited and New Lantao Bus Company (1973) Limited.

Under the relevant franchise agreements, each of these bus companies are required, among other things, to:

- have two directors appointed by HKSAR Government on its board;
- provide financial and operational information to the public periodically; and
- make annual submissions of five-year forward planning programmes to the Commissioner for approval. These programmes include route development programmes for the first two years. The bus companies are required to consult the relevant District Councils before these route development programmes are finalised.

Public Light Bus Services

As at 31 December 2003, public light bus services accounted for approximately 15.1% of the total daily public transport passenger traffic in Hong Kong. Services provided by public light buses are regulated through conditions imposed by the Commissioner under passenger service licences. There are currently about 4,350 public light buses in Hong Kong.

Taxi Services

As at 31 December 2003, taxi services accounted for approximately 12.1% of the total daily public transport passenger traffic in Hong Kong. In total, there are currently about 15,250 taxis principally servicing the urban areas of Hong Kong, 2,838 taxis servicing the New Territories and 50 taxis servicing Lantau Island. The operating right of each taxi is regulated by licence.

Tram Services

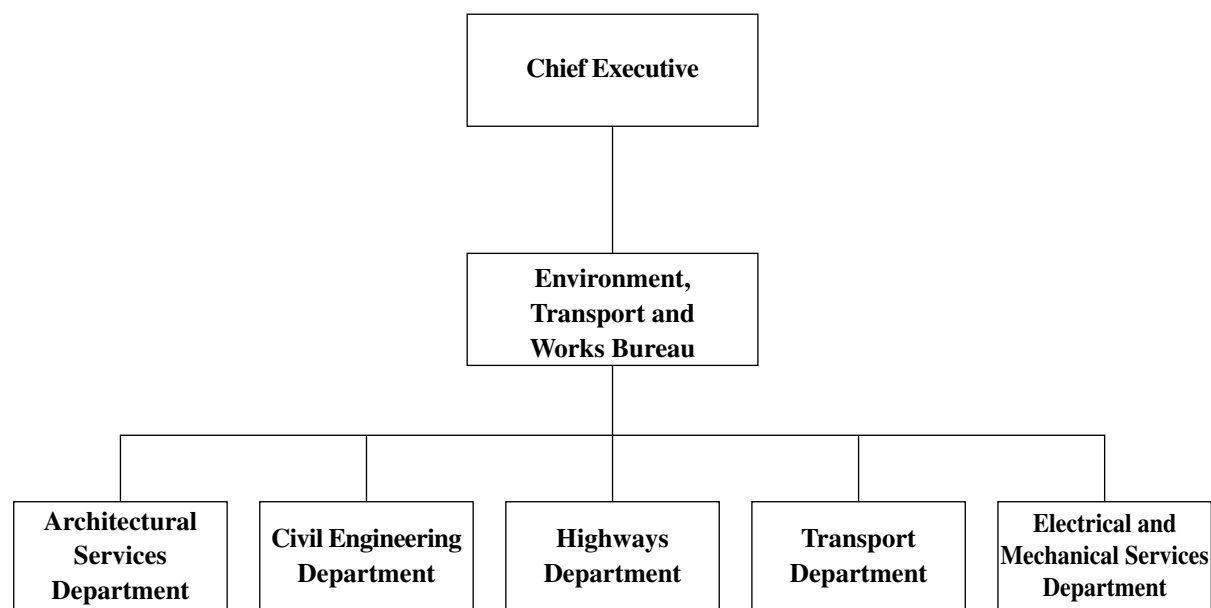
As at 31 December 2003, tram services accounted for approximately 2.1% of the total daily public transport passenger traffic in Hong Kong. The Hong Kong Tramways Limited (“HKTL”) operates a fleet of about 164 trams and is regulated by the Tramway Ordinance (Cap.107) of Hong Kong. The trams run on 6 routes, consisting of approximately 13 kilometres of double track along the northern shore of Hong Kong Island between Kennedy Town and Shau Kei Wan, and approximately 3 kilometres of single track around Happy Valley.

Ferry Services

As at 31 December 2003, ferry services accounted for approximately 1.4% of the total daily public transport passenger traffic in Hong Kong. Ferry services are regulated by franchise or licence granted under the Ferry Services Ordinance (Cap. 104) of Hong Kong. There are currently two franchised ferry services operated by one franchisee and 28 licensed passenger ferry services operated by 11 licensees serving certain outlying islands (including Lantau Island), new towns and the inner-harbour. There are also 78 licensed ferry services serving more remote parts of Hong Kong.

Administrative Framework for Transport in Hong Kong

The organisational structure diagram below shows the Chief Executive of HKSAR Government, the bureau and the departments of HKSAR Government which are involved in formulating and implementing HKSAR Government's transport policy, regulating Hong Kong's public transport system and constructing and maintaining Hong Kong's transportation infrastructure:



The Environment, Transport and Works Bureau of HKSAR Government (“**ETWB**”) is headed by the Secretary for the Environment, Transport and Works and is responsible for, among other matters, the overall policy formulation, direction and coordination of land transport and ferry services. The Secretary is assisted by the Transport Advisory Committee, which advises the Chief Executive in Council on major transport policies and issues. The committee has 17 appointed members, including the chairman and three government officials. On local transport matters, HKSAR Government is advised by the District Councils and their traffic and transport committees.

ETWB is supported by, amongst others, the Transport Department and the Highways Department. The Transport Department is headed by the Commissioner. The Transport Department is the authority for administering the Road Traffic Ordinance (Cap.374) of Hong Kong (the “**Road Traffic Ordinance**”) and legislation regulating public transport operations. Its responsibilities cover transport planning, road traffic and tunnel management, carparks and metered parking spaces, regulation of roads, railways and waterborne public transport, licensing of drivers and the registration, licensing and inspection of vehicles. The Transport Department also operates an Emergency Transport Coordination Centre which provides a focal point for liaison with public transport operators on traffic and transport arrangements during serious traffic and transport disruptions, rainstorms and typhoons. The Highways Department is headed by the Director of Highways and is responsible for the overall design and construction of highways, and their repair and maintenance. The Highways Department also studies new railway proposals, monitors their construction, and helps to resolve any interfacing problems they may have with other works projects.

Transport Tribunals, established under the Road Traffic Ordinance, hear appeals from members of the public against decisions made by the Commissioner in respect of the registration and licensing of vehicles, the issue of hire car permits and passenger service licences, and the designation of car testing centres, vehicle emission testing centres, driving schools and driving improvement schools.

HKSAR Government's Transport Policy

HKSAR Government's transport policy is based principally on periodic transport studies commissioned by the Transport Department. The First Comprehensive Transport Study was completed in 1976 and reaffirmed the decision by the then government of Hong Kong to construct an underground mass transit railway network. The Second Comprehensive Transport Study ("**CTS-2**") was conducted from 1986 to 1989 and subsequently updated from 1990 to 1993. CTS-2 formed the basis of the 1990 White Paper of the then government of Hong Kong on transport policy entitled "*Moving into the 21st Century*" (the "**White Paper**") and many of the road and railway infrastructure recommendations of the White Paper have been implemented by HKSAR Government.

The most recent of these transport studies is the Third Comprehensive Transport Study ("**CTS-3**"), which was completed in 1999 and extends Hong Kong's transport planning horizon to 2016. HKSAR Government's current transport strategy (set out in an October 1999 publication entitled "*Hong Kong Moving Ahead: A Transport Strategy For The Future*") is principally based on CTS-3 and adopts the following five policy initiatives:

- Better integration of transport and land use planning;
- Better use of railways as the backbone of Hong Kong's passenger transport system;
- Better public transport services and facilities;
- Better use of advanced technologies in transport management; and
- Better environmental protection.

Better integration of transport and land use planning

CTS-3 recommends that an integrated approach be taken in relation to land-use and transportation infrastructure programmes. In particular, CTS-3 recommends that future population and employment centres should be placed in the vicinity of railway stations served by integrated pedestrian systems and other transport feeder services to maximise the usage of railways.

HKSAR Government's Planning Department has adopted such an integrated approach in its town planning studies. In addition, HKSAR Government has updated and reviewed its territorial development strategy approved by the Executive Council in 1998 with subsequent studies and consultations, the latest being the "*Study on Hong Kong 2030: Planning Vision and Strategy*" (the "**HK2030 Study**"). The HK2030 Study adopts the integrated approach recommended by CTS-3 and proposes the formulation of a territorial development strategy which minimizes the need for additional transportation infrastructure and optimises the use of existing transportation infrastructure. In November 2003, HKSAR Government issued a consultation booklet on the HK2030 Study for the purpose of seeking public opinion and views on its territorial development strategy.

Better use of railways as the backbone of Hong Kong's passenger transport system

CTS-3 recommends that the railways should form the backbone of Hong Kong's future passenger transport network on the principal basis that, compared to road-based transport services, railways are capable of carrying large numbers of passengers at low marginal cost and with low adverse environmental impact. CTS-3 refers to the examination of the railway development programme under the Second Railway Development Study ("**RDS-2**") which was being undertaken at the same time as CTS-3 and was completed in early 2000. The recommendations of RDS-2 formed the basis of the Railway Development Strategy 2000 ("**RDS-2000**"), which is discussed in further detail under " — Recent, Ongoing and Future Transportation Infrastructure Projects — Railway Infrastructure — RDS-2000" below.

Better public transport services and facilities

CTS-3 recommends that the capacity and efficiency of public transport services in Hong Kong could be maximised through better coordination and integration of various transport modes. In particular, CTS-3 recommends that:

- a number of major public transport interchanges at strategic locations be considered and that these interchanges should be served by railways operated by either KCRC or MTRCL;
- “park and ride” facilities be provided at suitable locations to encourage a shift from private car use to public transport;
- the quality of bus services be improved by the expansion of air-conditioned bus fleets;
- existing fare collection integration schemes be expanded to cover all major public transport services; and
- a passenger information system be developed.

HKSAR Government’s regulation of the public transport system is conducted in line with this policy and is periodically reviewed by ETWB with a view to improving the co-ordination between the different modes of public transport and the efficiency of the public transport system as a whole.

Better use of advanced technologies in transport management

To complement the provision of additional transportation infrastructure to meet an increase in travel demand, CTS-3 recommends that certain traffic management techniques should also be implemented, particularly if there is high GDP growth in Hong Kong.

Private Vehicle Restraint

CTS-3 asserts that a significant increase in GDP would lead to an increase in private car ownership in Hong Kong and that people with access to private vehicles are likely to make more trips and are less likely to use public transport services. The table below shows the total number of licensed private cars in Hong Kong for the past five years:

Calendar Year	1999	2000	2001	2002	2003
No. of licensed private cars	321,617	332,379	340,568	340,855	338,930

The traffic management techniques recommended by CTS-3 include:

- the increase of road taxes or licence fees for private vehicles.
- the introduction of electronic road pricing (“**ERP**”). ERP would charge drivers directly for the use of certain roads at certain times.

HKSAR Government completed a feasibility study on the implementation of an ERP system in Hong Kong in April 2001. After considering all the relevant factors, including public acceptance and traffic patterns, HKSAR Government decided not to pursue ERP at that time. In considering the practicability of implementing an ERP system in Hong Kong, HKSAR Government will consider various factors and issues, including the experience of other jurisdictions which have implemented an ERP system, vehicle growth rate, the preservation of privacy, cost implications for road users, traffic patterns and technological developments applicable to ERP systems.

New Technologies

CTS-3 proposes that the provision of “real time” information to the public would be an effective traffic management tool. HKSAR Government is developing a Transport Information System, a central data warehouse of transport information, for the purposes of enhancing the operations of the Transport Department and aiding in the development of car navigation and fleet management systems by the private sector. In addition, HKSAR Government has also installed journey-time indicators along the approach roads to the three cross-harbour tunnels on Hong Kong Island.

Better environmental protection

CTS-3 encourages the promotion of transport modes which have low adverse environmental impact, such as railways and trams, and traffic management in order to reduce the environmental impact of transportation infrastructure and services.

Toll Rate Setting and Adjustment

Toll Rate Setting and Adjustment for the Tolled Facilities

In relation to the Tolled Facilities, the RTGO currently stipulates that the Chief Executive in Council may by Regulation (i.e. subsidiary legislation subject to the approval of LegCo) provide for the collection and imposition of tolls by any method, including methods other than the collection of cash at toll booths, and the tolls and fees payable for the use of the relevant tunnels regulated thereunder. The TMCAO stipulates that the Chief Executive in Council may by Regulation (i.e. also subsidiary legislation subject to the approval of LegCo) provide for the imposition and collection of tolls, fees and charges payable for the use of the Lantau Link and the Secretary for the Environment, Transport and Works may by Regulation provide for the method of toll collection, including methods other than by the collection of cash at toll booths, for the Lantau Link. Current toll rates for each of the Tolled Facilities, except for the Lantau Link, are provided under Schedule 2 of the Road Tunnels (Government) Regulations (Cap. 368A) of Hong Kong, and current toll rates for the Lantau Link are provided under Schedule 1 of the Tsing Ma Control Area (Tolls, Fees and Charges) Regulation (Cap. 498A) of Hong Kong.

HKSAR Government's Policy

There are currently no specific legislative formulae for setting or adjusting toll rates for the Tolled Facilities. Any proposed toll rate adjustment will be based on HKSAR Government policy as follows:

- *Financial and fiscal perspective.* In respect of the Tolled Facilities, HKSAR Government generally adopts the principle of charging users the full cost of the services provided, including a return on the capital employed, for the provision of its services. Target return is set for the capital employed and such target is usually reviewed every five years. In determining toll rates for the Tolled Facilities, HKSAR Government takes the target return into consideration as one, but not the sole or overriding, factor. Other factors that HKSAR Government will take into consideration are outlined below.

- *Traffic management perspective.* HKSAR Government will assess the current and forecast traffic flow of any Tolled Facility by drawing reference to the peak hour volume/capacity ratio (“**V/C Ratio**”) of that particular Tolled Facility. A V/C Ratio for any Tolled Facility exceeding 1.0 would mean that the peak hour traffic volume has exceeded the capacity designed for that particular Tolled Facility, which may constitute a case for an increase in toll rates based on traffic management grounds. In addition, from the traffic management perspective, HKSAR Government will take into account the impact of any change in toll rates on the forecast traffic flow of the Tolled Facility concerned and any alternative route(s) available at present or in the medium term.
- *Other considerations.* Other than the above two major considerations, HKSAR Government will also take into account other factors, such as acceptability by the public of the proposed change in toll rates, impact on the planning and development of areas served or to be served by the Tolled Facility concerned, the general level of prices and the prevailing economic climate.

Procedures for Making Legislative Changes to the Toll Rate

The relevant policy bureau of HKSAR Government will submit a recommendation on any toll adjustment to the Executive Council (“**ExCo**”) for its approval to introduce such proposal to LegCo. Usually, any toll rate adjustment proposal will be considered by the Toll-Tunnels and Bridges Accounts Committee comprising members from the Financial Services and the Treasury Bureau (“**FSTB**”), ETWB and the Transport Department before it is submitted to ExCo. Any toll adjustment relating to the Tolled Facilities would require amendment to the relevant Regulations enacted pursuant to the RTGO or the TMCAO and will be subject to vetting by LegCo.

In addition, HKSAR Government may choose to adjust a toll rate by way of an order under the Public Revenue Protection Ordinance (Cap.120) of Hong Kong (the “**PRPO**”) if the Chief Executive approves the introduction of a proposal to alter such toll rate. The order will give provisional effect to the toll rate adjustment for up to four months pending amendment of the relevant Regulations. HKSAR Government will then introduce the relevant amendment to the Regulations under the RTGO or the TMCAO to LegCo. If HKSAR Government’s proposed amendment to the relevant Regulations does not pass the LegCo vetting procedure during the four month period, the order made under the PRPO will lapse with prospective effect.

HKSAR Government’s Intention Towards Toll Rate Adjustment

HKSAR Government has stated that it has no immediate plan to propose adjustments to the toll rates in respect of the Tolled Facilities. Any future changes in toll rates will be subject to the governmental and legislative procedures described above.

Toll Rate Adjustment for the EHC and the WHC

The following table sets out the history of toll rate changes for the EHC, the WHC and, for the purposes of comparison, the CHT:

History of Toll Rate Changes for the EHC, the WHC and the CHT

Type of Vehicle	EHC		WHC					CHT*			
	Toll effective from (HK\$)										
	21 Sept 1989	1 Jan 1998	30 Apr 1997	3 Dec 2000	31 Jun 2002	16 Feb 2003	24 Feb 2004	1972 Aug	1984 Jun**	1992 Aug**	1 Sept 1999
Motorcycles	5	8	15	20	25 (20)	25 (20)	30 (20)	2	4	4	8
Private Cars	10	15	30	40 (35)	50 (35)	50 (37)	60 (37)	5	10	10	20
Taxis	10	15	30	40 (35)	50 (35)	50 (35)	60 (35)	5	10	10	10
Public and private light buses	15	23	40	50 (45)	60 (45)	60 (47)	70 (47)	8	10	10	10
Light goods vehicles	15	23	45	60 (50)	75 (50)	75 (50)	90 (50)	10	15	15	15
Medium goods vehicles	20	30	65	85 (70)	105 (70)	105 (70)	125 (70)	15	20	20	20
Heavy goods vehicles	30	45	95	125 (100)	155 (100)	155 (100)	185 (100)	20	25	30	30
Public and private single-decked buses	20	30	40	50	60 (50)	60	70 (60)	10	10	10	10
Public and private double-decked buses	30	45	55	70	85 (70)	85	100 (85)	15	15	15	15
Each additional axle in excess of two	10	15	30	40 (30)	50 (30)	50 (30)	60 (30)	5	5	10	10

Note: * The CHT reverted to HKSAR Government on 1 September 1999.

** Includes passage tax.

() Denotes concessionary tolls in effect as of the date of this Prospectus.

Toll Rate Adjustment for the EHC

Toll rates for the EHC may only be varied by agreement between the Chief Executive in Council and NHKTC, pursuant to section 55(3) of the Eastern Harbour Crossing Ordinance (Cap.215) of Hong Kong. If an agreement cannot be reached, either party may resort to arbitration under the Arbitration Ordinance (Cap.341) of Hong Kong. Where the Chief Executive in Council agrees to a variation of the toll rates, or in an award pursuant to submission to arbitration, it is determined that the toll rates should be varied, the Commissioner will, by way of notice in the Gazette, amend the tolls according to the agreement or arbitration award. The last toll rate increase which took place on 1 January 1998 was determined as a result of an arbitration between NHKTC and HKSAR Government. An application by NHKTC in September 2002 for a further toll rate increase is, as at the date of this Prospectus, subject to another arbitration.

Toll Rate Adjustment for the WHC

The Western Harbour Crossing Ordinance (Cap.436) of Hong Kong (the “**WHC Ordinance**”) provides for a specified toll rate adjustment mechanism in respect of the Western Harbour Crossing. The maximum levels of increase in respect of different categories of vehicles are specified in Schedules 2 and 3 to the WHC Ordinance. In order to vary the relevant toll rate for the WHC, the Commissioner will, by notice published in the Gazette, amend Schedule 1 to the WHC Ordinance. Although the statutory toll rates for the WHC have increased four times, the concessionary toll rates either have not increased to the same degree or have not increased at all.

Demographic Characteristics of Hong Kong

Hong Kong’s population was 6.8 million at the end of June 2003, representing an increase of 16,100 or 0.2% from the end of June 2002.

The table below shows Hong Kong’s population by District Council District in 1991 and 2001:

Population by District Council District, 1991 and 2001

District Council District	Population			
	1991		2001	
	Number	%	Number	%
Hong Kong Island				
Central and Western	253,383	4.5	261,884	3.9
Wan Chai	180,309	3.2	167,146	2.5
Eastern	560,200	9.9	616,199	9.2
Southern	257,101	4.5	290,240	4.3
<i>Sub-total</i>	1,250,993	22.0	1,335,469	19.9
Kowloon				
Yau Tsim Mong	282,060	5.0	282,020	4.2
Sham Shui Po	380,615	6.7	353,550	5.3
Kowloon City	402,934	7.1	381,352	5.7
Wong Tai Sin	386,572	6.8	444,630	6.6
Kwun Tong	578,502	10.2	562,427	8.4
<i>Sub-total</i>	2,030,683	35.8	2,023,979	30.2
New Territories				
Kwai Tsing	440,807	7.8	477,092	7.1
Tsuen Wan	271,576	4.8	275,527	4.1
Tuen Mun	380,683	6.7	488,831	7.3
Yuen Long	229,724	4.0	449,070	6.7
North	165,666	2.9	298,657	4.5
Tai Po	202,117	3.6	310,879	4.6
Sha Tin	506,368	8.9	628,634	9.4
Sai Kung	130,418	2.3	327,689	4.9
Islands	47,459	0.8	86,667	1.3
<i>Sub-total</i>	2,374,818	41.9	3,343,046	49.8
Land population total	5,656,494	99.7	6,702,494	99.9
Marine population total	17,620	0.3	5,895	0.1
Total population in Hong Kong	5,674,114	100.0	6,708,389	100.0

Note: The above table is compiled based on the results of the 1991 and 2001 Population Censuses. The 1991 population was compiled using the “de facto” enumeration approach and the 2001 population was compiled using the “resident population” enumeration approach. Notwithstanding the different approaches used, the 2001 Population Census figures are broadly comparable with those of the 1991 Population Census.

Recent, Ongoing and Future Transportation Infrastructure Projects

One of the concerns raised by CTS-3 was that, historically, many transportation infrastructure projects in Hong Kong reached their capacity within a few years of opening. As Hong Kong has limited land resources, CTS-3 proposes that transport facilities should be built with long term growth in mind and sets out certain recommendations on road and railway infrastructure projects and on the timing of their implementation based on three different GDP growth scenarios. Also in line with CTS-3 recommendations, HKSAR Government reviews each project before implementation to take into account the need, timing, scope and priorities for a project in light of any changes in economic conditions, population growth and other infrastructure developments.

Road Infrastructure

The table below sets out the ten strategic highway projects under construction or planning as at 31 March 2004, and the accompanying map shows the location of these projects:

Strategic Road Project under Construction or Planning	Status or Scheduled Completion Year	Estimated Project Cost (in 2003 prices)	Length (km)
Hong Kong-Shenzhen Western Corridor	2005	HK\$2.7 billion	3.2
Deep Bay Link	2005	HK\$4.0 billion	5.4
Route 9 (previously Route 5) (Section between Shek Wai Kok and Chai Wan Kok)	2006	HK\$0.95 billion	2.0
Sha Tin New Town II - Construction of Road T3	2007	HK\$1.93 billion	2.0
Route 8 (previously Route 9) (Sha Tin to Cheung Sha Wan section)	2007	HK\$5.4 billion	5.9
Route 8 (previously Route 9) (Tsing Yi to Cheung Sha Wan section)	2008	HK\$9.7 billion	7.6
Route 4 (previously Route 7) (Section between Kennedy Town and Aberdeen)	Under planning.	HK\$9.1 billion	6.8
Central Kowloon Route	Under planning.	HK\$9.1 billion	4.7
Central - Wanchai Bypass and Island Eastern Corridor Link	Under planning.	HK\$8.7 billion	4.0
Hong Kong - Zhuhai - Macao Bridge (Hong Kong Section and North Lantau Highway Connection)	Under planning.	Under planning.	Under planning.

Highway Projects under Construction or Planning



Railway Infrastructure

Railway infrastructure development is an important component of CTS-3's recommendations and HKSAR Government's transport strategy. Should all the railway infrastructure projects under construction or planning as at 31 March 2004 be completed, it is envisaged that the total track length of Hong Kong's railway network will increase to 300 kilometres, which would be about a 60% increase of the total track length as at the end of 2003. Some of the railway infrastructure projects under construction or planning may capture traffic that would otherwise use the Tolled Facilities.

1994 Railway Strategy

The then government of Hong Kong appointed consultants to carry out the first Railway Development Study between December 1991 and March 1993 ("**RDS-1**"). RDS-1's main objective was to establish a priority list of recommended railway network developments to meet Hong Kong's needs up to 2011. After consulting the public between April and July 1993, a railway development strategy was announced in December 1994 and provided for six railway infrastructure projects which were scheduled for completion between 2003 and 2007. Two of these projects, the West Rail and the extension of MTRCL's railway line from Lam Tin to Tseung Kwan O, have been completed in the last two years. The other three projects remain under construction and are described in the table below.

The table below provides a summary of the four railway infrastructure projects under construction as at 31 March 2004 and the accompanying map shows the geographical location of these projects:

Project	Length (km)	Routing	Scheduled Completion Year	Estimated Project Cost (Money of the Day)
Ma On Shan to Tai Wai Rail Link	11.4	This link will connect the new town at Ma On Shan to East Rail at Tai Wai.	2004	HK\$26.7 billion
East Rail Extension to Tsim Sha Tsui	1.1	This extension will extend the East Rail from the Hung Hom Terminus to a new station at East Tsim Sha Tsui.		
Sheung Shui to Lok Ma Chau Spur Line	7.4	This line will provide a new boundary crossing at Lok Ma Chau to East Rail at Sheung Shui.	2007	
Penny's Bay Rail Link	3.5	This link will connect Sunny Bay and Hong Kong Disneyland (currently under construction at Penny's Bay) on Lantau Island.	2005	HK\$2.0 billion

Railway Infrastructure Projects Under Construction



In 2000, HKSAR Government updated its railway strategy in the form of RDS-2000, based on the findings and recommendations of RDS-2. RDS-2000 provided a blueprint for the next phase of railway development up to 2016 and recommended seven new railway infrastructure projects, all of which are described in the table below.

The table below provides a summary of the seven railway infrastructure projects under planning as at 31 March 2004 and the accompanying map shows the geographical location of these projects:

Project	Length (km)	Routing	Status or Scheduled Completion Year	Estimated Project Cost (Money of the Day)
Sha Tin to Central Link	17	This link will provide railway services from Tai Wai to Central via Diamond Hill, South East Kowloon and Hung Hom. This link will increase the cross-harbour and Sha Tin to Kowloon rail capacity of the railway network operated by KCRC.	KCRC is currently working on the scheme design for this link. This link is expected to open around 2011.	HK\$35.1 billion
Kowloon Southern Link	4.5	This link will connect the West Rail Nam Cheong Station and the East Rail Tsim Sha Tsui Station. This link will provide an east-west link within the Kowloon peninsula.	KCRC is currently working on the scheme design for this link. This link is expected to open in early 2009.	HK\$8.3 billion
Regional Express Line	30	This link will form the Hong Kong section of the Guangzhou - Shenzhen - Hong Kong Express Rail Link (the “ ERL ”) and will link the urban areas of Hong Kong with the boundary at Lo Wu or Lok Ma Chau.	ETWB is currently conducting a joint study with mainland China authorities as to the feasibility of the ERL (the “ ERL Study ”).	Estimate to be verified in the ERL study.
Island Line Extensions	7	This project comprises a North Hong Kong Island Line (“ NIL ”) and a West Hong Kong Island Line (“ WIL ”). The NIL will provide an additional railway corridor along the north shore of Hong Kong Island between MTRCL’s Hong Kong Station and Fortress Hill Station. The WIL will be an extension of the Island Line from Sheung Wan to Kennedy Town.	Implementation of the NIL has been deferred until 2016, in view of the slower than anticipated growth in population in the northern and western parts of Hong Kong. In early 2004, MTRCL submitted a preliminary project proposal for the WIL and the South Hong Kong Island Line to HKSAR Government for consideration. Review of the project proposal is in progress. Plans for the WIL (Phase 2) from the Belchers Estate to Kennedy Town have been dropped following HKSAR Government’s decision not to proceed with the reclamation of land in the Western District.	Under review.

Project	Length (km)	Routing	Status or Scheduled Completion Year	Estimated Project Cost (Money of the Day)
South Hong Kong Island Line	13	This line will provide a connection between the Southern District and MTRCL's railway network on Hong Kong Island. In June 2002, MTRCL submitted to HKSAR Government a preliminary proposal which suggested a monorail system looping from the future Belcher Station of the WIL to the Island Line at Wan Chai.	In early 2004, MTRCL submitted a preliminary project proposal for the WIL and the South Hong Kong Island Line to HKSAR Government for consideration. Review of the project proposal is in progress.	Under planning.
Northern Link	11	This link will connect the West Rail Kam Sheung Road Station to both the Lok Ma Chau boundary crossing and the East Rail at Northern New Territories.	Although RDS-2000 sets an indicative completion date for this link between 2011 and 2016, the actual time for implementation of this link is under planning by HKSAR Government and will depend, among other factors, on the planning timeframe for certain new development areas in North New Territories and the growth of cross-boundary traffic.	Under planning.
Port Rail Line	8.2	This line will provide a direct freight link from the boundary crossing at Lo Wu to the container ports at Kwai Chung. The line has two route options, one as part of West Rail via Kam Sheung Road to Kwai Chung and the other via East Rail and then a new tunnel from Tai Wai to Kwai Chung.	The implementation of this line is under planning by HKSAR Government and will depend, among other factors, on the demand for cross-boundary rail-borne freight to the Kwai Chung ports.	Under planning.

Railway Infrastructure Projects under Planning



Planned New Cross-Boundary Links

To meet the anticipated growth in cross-boundary traffic, new road and railway crossings have been planned in coordination with the mainland China authorities. These include the Hong Kong – Shenzhen Western Corridor, a fourth road crossing which will provide a link between Hong Kong and Shekou in Shenzhen. A second railway passenger crossing at Lok Ma Chau/Huanggang will be provided upon the commissioning of the Sheung Shui to Lok Ma Chau Spur Line in 2007.

A joint study is being conducted with the mainland China authorities on the feasibility of the ERL. In addition, HKSAR Government and the governments of Guangdong and Macao have established, with the approval of the Government of the People’s Republic of China (“**Central People’s Government**”), an advance work co-ordination group to co-ordinate the advance planning for the proposed Hong Kong-Zhuhai-Macao Bridge. A feasibility study on the Hong Kong-Zhuhai-Macao Bridge commissioned by the co-ordination group is scheduled for completion by the end of 2004.

THE HONG KONG SPECIAL ADMINISTRATIVE REGION

Constitution and Legal System

On 1 July 1997 Hong Kong became a Special Administrative Region of the People's Republic of China in accordance with Article 31 of the Constitution of the People's Republic of China. The reunification of Hong Kong with the People's Republic of China (the "**PRC**") is a consequence of an agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and Central People's Government, as embodied in the Sino-British Joint Declaration on the Question of Hong Kong (the "**Joint Declaration**") signed on 19 December 1984 and subsequently ratified by both governments.

Central People's Government declares in the Joint Declaration that Hong Kong shall be directly under its authority and shall enjoy a high degree of autonomy except in relation to foreign and defence affairs, and that it shall be vested with executive, legislative and independent judicial power including that of final adjudication. It also declares that the basic policies of the PRC regarding Hong Kong and the elaboration of these policies in the Joint Declaration will be stipulated by the National People's Congress of the PRC in a Basic Law of Hong Kong (the "**Basic Law**").

The Basic Law was adopted by the National People's Congress of the PRC on 4 April 1990 in accordance with Article 31 of the Constitution of the PRC. It is a constitutional document for Hong Kong. Although the power of interpretation of the Basic Law is vested in the Standing Committee of the National People's Congress of the PRC, the Standing Committee shall authorise the courts of Hong Kong to interpret the Basic Law in adjudicating cases, in accordance with the provisions of Article 158 of the Basic Law. The power of amendment of the Basic Law is vested in the National People's Congress of the PRC.

The Basic Law provides, among other things, that the Hong Kong dollar will continue to circulate as legal tender in Hong Kong, no foreign exchange control policies will be applied in Hong Kong, the Hong Kong dollar will be freely convertible into other currencies, and Hong Kong will retain autonomy over monetary and financial policy and enact its own laws regarding taxation.

HKSAR Government's Power to Borrow

Section 27 of the Public Finance Ordinance provides that HKSAR Government shall not borrow money except in accordance with an ordinance, unless the borrowing is by means of advances from a bank or fluctuating overdrafts and is for the purpose of meeting day to day payments.

Section 3(1) of the Loans Ordinance (Cap.61) of Hong Kong (the "**LO**") empowers HKSAR Government to borrow from any person such sum or sums and for such purposes as may be approved by resolution of LegCo. Any such borrowing may be on such terms and subject to such conditions as are agreed between HKSAR Government and the relevant lender or lenders. Under section 5 of the LO, any sums borrowed by HKSAR Government under the LO and all interest and other related charges shall be charged upon and payable out of the general revenue and assets of Hong Kong. Also, any expenses of, or incidental to, the raising of a loan may be defrayed from the sums borrowed.

By a resolution passed under the LO on 18 February 2004 (and which has the status of subsidiary legislation designated Cap.61B), LegCo has authorized HKSAR Government to borrow, for the purposes of the Capital Works Reserve Fund, a sum or sums not exceeding in total HK\$6,000,000,000 or equivalent by way of securitising government revenue receivable from the tolls on any or all of the Tolled Facilities.

Proceedings against HKSAR Government

The Crown Proceedings Ordinance (Cap.300) of Hong Kong (the “CPO”) sets out the manner in which proceedings may be taken in the courts of Hong Kong for the purpose of enforcing claims against HKSAR Government. The CPO has not yet been the subject of an adaptation of laws ordinance; however, certain references to the “Crown” in the title and text of the CPO should, as from 1 July 1997, be construed as a reference to HKSAR Government pursuant to the Interpretation and General Clauses Ordinance (Cap.1) of Hong Kong. Proceedings against HKSAR Government arising out of the Transactions Documents to which it is a party would be brought under the CPO and be instituted against the Secretary for Justice.

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

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

- (a) an order for the payment of money cannot be enforced against HKSAR Government by the usual modes of enforcing judgment. Section 21 of the CPO provides that if an order is made against HKSAR Government, the proper officer of the Hong Kong courts will issue to the successful plaintiff a certificate containing particulars of the order. If the order provides for payment of money the certificate will state the amount payable and the CPO states that on being served with that certificate HKSAR Government must pay the sum shown to be due. There is no other method of enforcing judgment against HKSAR Government;
- (b) in proceedings against HKSAR Government, the Hong Kong courts have no power to:
 - (i) grant an injunction or to make an order for specific performance but may, instead, make an order declaratory of the rights of the parties; or
 - (ii) make an order for the recovery of land or the delivery of other property but may, instead, make an order declaring that the plaintiff is entitled as against HKSAR Government to the land or property or to the possession of the same; and
- (c) no summary judgment is available against HKSAR Government and no default judgment is available against HKSAR Government, save with the leave of the Court.

Section 9 of the CPO also provides that the relevant provisions of the CPO shall not extinguish or abridge any prerogative or statutory power or authority otherwise conferred on, or exercisable by, HKSAR Government.

Hong Kong’s Economy

HKSAR Government believes that Hong Kong maintains one of the world’s most open economies and a business-friendly environment characterized by a relatively high degree of free trade and free flow of information, an established financial regulatory regime and legal system and a developed transportation and telecommunications infrastructure. In 2002, Hong Kong was ranked the eleventh largest trading entity in the world by the World Trade Organisation based on value of total merchandise trade and is home to the busiest container port in the world in terms of throughput (according to the March 2004 issue of “*Containerisation International*”). As at 29 February 2004, the stock market in Hong Kong was Asia’s second largest after the stock market in Tokyo in terms of market capitalisation.

Over the past two decades, the Hong Kong economy (as measured by GDP) has more than doubled in size, with GDP growing at an average annual rate of 5.0% in real terms. In 2003, Hong Kong's GDP reached HK\$1,235 billion and its per capita GDP of US\$23,300 was amongst the highest in Asia.

Since 1997, Hong Kong's economy has been adversely affected by the volatility in the Asian financial markets and the onset of a general global economic downturn. More recently, the outbreak of Severe Acute Respiratory Syndrome had a significant negative impact on Hong Kong's economy in the first half of 2003. The effect of these events on Hong Kong's economic activity has led to deflation and a weakening of HKSAR Government's fiscal position. HKSAR Government's revenue fell from HK\$233.0 billion (18.7% of GDP) in fiscal year 1999-2000 to HK\$177.5 billion (14.1% of GDP) in fiscal year 2002-03 and HKSAR Government's budget deficit has averaged HK\$44 billion, or 3.5% of GDP, in the last three fiscal years.

As at 29 February 2004, HKSAR Government had no fiscal debt and had accumulated reserves of about HK\$263 billion. In his 2004-05 budget speech, Hong Kong's Financial Secretary outlined HKSAR Government's intention to issue bonds of up to HK\$20 billion in fiscal year 2004-2005 (in addition to the proposed issue of the Retail Bonds and the Notes) to fund certain infrastructure and investment projects.

The table below sets out certain economic indicators with respect to Hong Kong for the past five years:

Economic Indicators	1999	2000	2001	2002	2003
Nominal GDP at constant (2000) market prices (in HK\$ billion)	1,169.5	1,288.3	1,294.3	1,323.7	1,367.6
Composite Consumer Price Index	103.2	99.4	97.8	94.8	92.4
Unemployment rate (%)	6.2	4.9	5.1	7.3	7.9

The table below sets out certain fiscal indicators with respect to Hong Kong for 1998-99 to 2002-03:

Fiscal Indicators	1998-99	1999-00	2000-01	2001-02	2002-03
Consolidated Government surplus (deficit) (HK\$ billion)	(23.2)	10.0	(7.8)	(63.3)	(61.7)
Government debt (excluding Exchange Fund Bills and Notes)	—	—	—	—	—
Fiscal Reserves (as at 31 March) (HK\$ billion)	434.3	444.3	430.3	372.5	311.4

SETTLEMENT, CLEARANCE AND CUSTODY

The following is a summary of the custody, settlement and clearance arrangements for the Retail Bonds.

Settlement and Clearance within Central Moneymarkets Unit Service

The Retail Bonds of each tranche will be represented by a Global Retail Bond which will be delivered to and held by a sub-custodian nominated by the Hong Kong Monetary Authority as operator of the CMU (the “**CMU Operator**”). The Global Retail Bonds will be held for the account of the Placing Banks, HKSCC or other CMU members who have accounts with the CMU Operator (the “**CMU Participants**”). Applicants who have instructed a Placing Bank to apply for the Retail Bonds on their behalf must initially hold their interests in the Retail Bonds allotted to them through an account with such Placing Bank.

HKSCC, the operator of CCASS, maintains an account with the CMU Operator. Applicants who have instructed HKSCC to apply for the Retail Bonds on their behalf (either directly as a CCASS Investor Participant or indirectly through their designated CCASS Broker/Custodian Participant) must initially hold their interests in the Retail Bonds allotted to them through an account with HKSCC (either directly as a CCASS Investor Participant or indirectly through your designated CCASS Broker/Custodian Participant). HKSCC will in turn hold the corresponding interest in the Global Retail Bonds through its account with the CMU Operator.

Interests in the Global Retail Bonds will only be shown on, and transfers of interests will be effected through, records maintained by the CMU Operator.

As long as the CMU Operator is the holder of the Global Retail Bonds, the CMU Operator will be considered the absolute owner of such Global Retail Bonds for all purposes under the Trust Deed. Since the CMU Operator can act only on behalf of the CMU Participants, who in turn may act on behalf of persons who hold interests through them (“**indirect participants**”), the ability of persons having interests in the Global Retail Bonds to pledge such interests to persons or entities that are not the CMU Participants, or otherwise take action in respect of such interests, may be affected by the lack of Definitive Retail Bonds.

While a Global Retail Bond representing a tranche of the Retail Bonds is held by or on behalf of the CMU Operator, payments of interest or principal will be made to the persons for whose account a relevant interest in that Global Retail Bond is credited as being held by the CMU at the relevant time, as notified to the Principal Paying Agent by the CMU Operator in a relevant CMU Instrument Position Report (as defined in the rules of the CMU) or in any other relevant notification by the CMU Operator. Such payment shall discharge the obligations of the Issuer in respect of that payment. Payments by the CMU Participants to indirect participants will be governed by arrangements agreed between the CMU Participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU Participants.

Payments, transfers, exchanges and other matters relating to interests in the Global Retail Bonds may be subject to various policies and procedures adopted by the CMU Operator from time to time. None of the Issuer, HKSAR Government, HKSCC, the Placing Banks, the Agents, the Account Bank, the Trustee, the sub-custodian for the CMU Operator or any of their agents will have any responsibility or liability for any aspect of the CMU Operator’s records relating to, or for payments made on account of, interests in the Global Retail Bonds, or for maintaining, supervising or reviewing any records relating to such interests.

Notwithstanding Retail Bond Condition 15 (*Notices*), so long as a tranche of Retail Bonds is represented by a Global Retail Bond and such Global Retail Bond is held by or on behalf of the CMU Operator, notices required to be given to Retail Bondholders of that tranche of Retail Bonds may be

given by their being delivered to the Paying Agents and the CMU Operator and, in any case, such notices will be deemed to have been given to such Retail Bondholders in accordance with Retail Bond Condition 15 (*Notices*) on the date of such delivery; *provided, however, that*, so long as that class of the Retail Bonds are listed on the Hong Kong Stock Exchange and its rules so require, notices will also be published in accordance with the rules of the Hong Kong Stock Exchange for the time being. See the section headed “Terms and Conditions of the Retail Bonds — Retail Bond Condition 15 — Notices”. Indirect participants will have to rely on the CMU Participants (through which their Retail Bonds, in the form of interests in the Global Retail Bonds, are held) to deliver the notices to them, subject to the arrangements agreed between the indirect participants and the CMU Participants.

The CMU Operator is under no obligation to maintain or continue to operate the CMU and the CMU Operator is under no obligation to perform or continue to perform the procedures described above. Accordingly, the CMU and such procedures may be discontinued or modified at any time. None of the Issuer, HKSAR Government, the Trustee nor any of their agents will have any responsibility for the performance by the CMU Operator or the CMU Participants of their respective obligations under the rules and procedures governing their operations.

Settlement and Clearance within CCASS

The settlement and clearance services with respect to Retail Bonds that are held through HKSCC on behalf of the CCASS Investor Participants and the CCASS Broker/Custodian Participants who may be securities dealers or banks will be provided by HKSCC in accordance with the Rules of CCASS in effect from time to time. Ownership of interests in the Global Retail Bonds will be shown on, and the transfer of those interests will be effected only through, records of CCASS Investor Participants and CCASS Broker/Custodian Participants who may be securities dealers or banks with HKSCC.

Payments, transfers, exchanges and other matters relating to interests in the Global Retail Bond may be subject to various policies and procedures adopted by HKSCC from time to time. None of the Issuer, HKSAR Government, the Placing Banks, the CMU Operator, the Agents, the Trustee, the sub-custodian for the CMU Operator, HKSCC or any of their agents will have any responsibility or liability for any aspect of HKSCC’s records relating to, or for payments made on account of, interests in the Global Retail Bonds, or for maintaining, supervising or reviewing any records relating to such interests.

Definitive Retail Bonds will be issued only under certain very limited circumstances. Accordingly, the ability of public investors holding interests in the Global Retail Bond through the accounts with HKSCC to pledge such interests to persons or entities that are not CCASS Investor Participants or CCASS Broker/Custodian Participants, or otherwise take action in respect of such interests, may be affected by the lack of Definitive Retail Bonds.

Custody

As the Global Retail Bonds will be deposited with the CMU Operator as described above and settlement and clearance facilities will be provided by CMU, Retail Bondholders must make arrangements for their Retail Bonds to be held in custody with a CMU Participant (or an indirect participant).

Where you have instructed a Placing Bank to apply for the Retail Bonds on your behalf, on issue, Retail Bonds will be delivered through the Placing Banks and in order to apply for Retail Bonds you must have, or open, an investment account with the Placing Bank to which you give your application

instructions, each of which is a CMU Participant. The Placing Banks will charge a fee for the opening and operation of the investment account. Most banks and securities dealers in Hong Kong maintain, or have access to, an account with the CMU through which Retail Bonds may be held or transferred following issue.

Where you have instructed HKSCC to apply for the Retail Bonds on your behalf (either directly as a CCASS Investor Participant or indirectly through your designated CCASS Broker/Custodian Participant), on issue, Retail Bonds will be delivered through CCASS and in order to apply for Retail Bonds you must either already have, or you must open, an Investor Account with HKSCC, or a securities or custodian account with your designated CCASS Broker/Custodian Participant who is willing to make the application on your behalf. HKSCC, or your designated CCASS Broker/Custodian Participant, will charge a fee for the opening and operation of the Investor Account or securities or custodian account, as the case may be. Most banks and securities dealers in Hong Kong maintain, or have access to, an account with HKSCC through which Retail Bonds may be held or transferred following issue.

Investment account, Investor Account and other custodian arrangements with respect to the Retail Bonds will be supplied by the Placing Banks (or other custody provider), HKSCC or a CCASS Broker/Custodian Participant subject to their standard terms and conditions for the provision of such services. All services with respect to Retail Bonds that are held through HKSCC on behalf of the CCASS Investor Participants and the CCASS Broker/Custodian Participants will be provided by HKSCC in accordance with the Rules of CCASS in effect from time to time. The Issuer and HKSAR Government accept no responsibility for the provision of such services or for any consequences of, or arising from, the use of such investment account or services.

MARKET MAKING ARRANGEMENTS

Asia Commercial Bank, BA Asia Limited, Bank of China (Hong Kong), Bank of Communications, The Bank of East Asia, Chekiang First Bank, Chiyu Bank, Citicorp International Limited, CITIC Ka Wah Bank, Dah Sing Bank, DBS Bank, Fortis Bank Asia HK, Hang Seng Bank, HSBC, ICBC (Asia), International Bank of Asia, Liu Chong Hing Bank, MEVAS Bank, Nanyang Commercial Bank, Shanghai Commercial Bank, Standard Chartered Bank, Wing Hang Bank and Wing Lung Bank (the “**market makers**”) have agreed with the Issuer in a market making agreement dated on or around 19 April 2004 (the “**Market Making Agreement**”), to make a market in the Retail Bonds of each tranche in over-the-counter transactions. In the Market Making Agreement, each market maker has agreed that, subject to the terms of the Market Making Agreement, it will quote

- a price at which it is willing to purchase Retail Bonds (a “**bid**” price); and
- a price at which it is willing to sell Retail Bonds (an “**offer**” price).

The offer prices quoted will be firm prices for so long as there are available Retail Bonds to the market maker and thereafter the offer price will be quoted on a best efforts basis only.

The prices quoted will be by reference to a Retail Bond of HK\$50,000 or an integral multiple of HK\$50,000 and will be expressed as a percentage of the principal amount of the Retail Bonds.

Prices quoted by the market makers will reflect the over-the-counter trading price of the Retail Bonds from time to time in the secondary market. The trading price of the Retail Bonds may be equal to, higher or lower than the initial Subscription Price or purchase price and will vary depending on many factors, including prevailing interest rates, the Issuer’s financial condition (in particular, the revenue from the Tolloed Facilities) and the market for any similar securities. The bid and offer prices quoted by one market maker for a Retail Bond may differ from another market maker and from the last traded price of such Retail Bond on the Hong Kong Stock Exchange.

The Issuer may from time to time appoint additional or replacement market makers; it is the current intention of the Issuer to maintain market making arrangements similar to those described above for as long as the Retail Bonds remain outstanding, so far as reasonably practicable.

The initial market makers may resign their roles by giving not less than 90 days’ prior written notice to the Issuer.

These market making arrangements do not assure an active secondary trading market for the Retail Bonds or that members of the public will have access to a firm bid price or a firm offer price for Retail Bonds in a principal amount which they may wish to purchase or sell.

As long as the Retail Bonds are in global form, they must be held in the account with the CMU Operator. Most banks and securities dealers in Hong Kong maintain, or have access to, an account with the CMU through which Retail Bonds may be held or transferred following issue. If you wish to transfer your interest in the Retail Bonds from your investment account with a Placing Bank to another Placing Bank, to your Investor Account with HKSCC or your securities or custodian account with your designated CCASS Broker/Custodian Participant, you should check that the proposed entity has or will have access to such an account with the CMU Operator. You should also check if any expenses will arise on any transfer of your interest in the Retail Bonds to the relevant account with such new entity.

TRADING OF RETAIL BONDS ON THE HONG KONG STOCK EXCHANGE

Listing of, and dealings in, the Retail Bonds on the Hong Kong Stock Exchange are expected to commence on or around 10 May 2004. If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Retail Bonds and the Issuer complies with the admission requirements of HKSCC, the Retail Bonds will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Retail Bonds on the Hong Kong Stock Exchange or any other date HKSCC chooses. Retail Bonds will be quoted and traded on the basis of a price expressed as a percentage of their principal amount. For example, a price of “99.50” means 99.50% of the principal amount of a Retail Bond. Retail Bonds will be traded in units of HK\$100 each in principal amount and each trading lot of Retail Bonds has 500 units.

Settlement of trades in Retail Bonds on the Hong Kong Stock Exchange is required to take place in CCASS on the second trading day after the trade date. A transaction levy of 0.005%, an investor compensation levy of 0.002% and a trading fee of 0.005%, of the principal amount of the Retail Bonds traded will be chargeable on both the buyer and the seller.

The Retail Bonds are not subject to Hong Kong stamp duty or bearer instrument duty on transfer.

All activities under CCASS are subject to the Rules of CCASS and CCASS Operational Procedures in effect from time to time.

You should seek the advice of your stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect your rights and interests.

All necessary arrangements have been made enabling the Retail Bonds to be admitted to CCASS.

PLACING ARRANGEMENTS

With respect to the placing of the Retail Bonds, the Placing Banks have entered into a Placing Bank Agreement with the Issuer and HKSAR Government dated on or around 19 April 2004. Pursuant to that agreement, the Placing Banks will receive from the Issuer a placing and distribution fee, in respect of the Tranche A Retail Bonds, 0.15 per cent. of the principal amount of Retail Bonds allotted through them and, in respect of the Tranche B Retail Bonds, 0.20 per cent. of the principal amount of Retail Bonds allotted through them and, in respect of the Tranche C Retail Bonds, 0.30 per cent. of the principal amount of Retail Bonds allotted through them. In addition, each Placing Bank will charge each successful applicant a handling fee of 0.15 per cent. of the Subscription Price of Retail Bonds subscribed through such Placing Bank.

Each of the Placing Banks has acknowledged that no action has been or will be taken in any jurisdiction by the Issuer, HKSAR Government or any Placing Bank that would permit a public offering of the Retail Bonds, or the possession or distribution of the Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required other than Hong Kong. Each of the Placing Banks has represented and agreed that it has not offered or sold and will not offer or sell any Retail Bonds, and that it has not distributed and will not distribute, this Prospectus, any application form or any offering or publicity material relating to the Retail Bonds, outside Hong Kong.

TAXATION OF RETAIL BONDS

The following summary of certain taxation provisions under Hong Kong law is based on current law and practice. It does not purport to be comprehensive and does not constitute legal or tax advice. Investors (particularly those subject to special tax rules, such as banks, dealers, insurance companies and tax-exempt entities) should consult their own tax advisers regarding the tax consequences of an investment in the Retail Bonds.

Withholding Tax

Under existing Hong Kong law, payments of principal and interest in respect of the Retail Bonds may be made without withholding for or on account of any Hong Kong taxes. In addition, no tax is withheld in Hong Kong in respect of any gains arising from resale of Retail Bonds.

Stamp Duty

The Retail Bonds are not subject to Hong Kong stamp duty either upon issue or on any subsequent transfer.

Profits Tax

Profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Cap.112) of Hong Kong (the “**IRO**”) as it is currently applied, the Tranche A and Tranche B Retail Bonds will qualify as “medium term debt instruments” as defined in the IRO, and any interest on the Tranche A and Tranche B Retail Bonds will be subject to Hong Kong profits tax at one-half of the applicable profits tax rate where such interest is received by or accrued to:

- a financial institution (as defined in the IRO) and such interest arises through or from the carrying on by the financial institution of its business in Hong Kong;
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Interests on the Tranche A and Tranche B Retail Bonds received by or accrued to investors not carrying on a trade, profession or business in Hong Kong will not be subject to Hong Kong profits tax.

In addition, Hong Kong profits tax may be charged on a person carrying on a trade, profession or business in Hong Kong in respect of his gains or profits arising in or derived from Hong Kong on sale, disposal or redemption of the Tranche A and Tranche B Retail Bonds at one-half of the applicable profits tax rate.

Any gains or profits arising on the sale, disposal or redemption of the Tranche A and Tranche B Retail Bonds which are derived by investors not carrying on a trade, profession or business in Hong Kong will not be subject to Hong Kong profits tax.

The Tranche C Retail Bonds will qualify as “long term debt instruments” as defined in the IRO, and any interest, gain or profit derived from the Tranche C Retail Bonds will be exempt from Hong Kong profits tax.

Estate Duty

The Retail Bonds are Hong Kong property for the purposes of Hong Kong estate duty for so long as the Global Retail Bonds are (or, if Definitive Retail Bonds are issued, the Definitive Retail Bonds are) located in Hong Kong. Accordingly, Hong Kong estate duty may be payable in respect of the Retail Bonds on the death of the beneficial owner of the Retail Bonds (regardless of the place of the owner's residence, citizenship or domicile) or, where the holder of the Retail Bonds is a controlled company as defined under the Estate Duty Ordinance, on the death of a related person.

GENERAL INFORMATION

1. The creation and issue of the Retail Bonds and the Notes have been authorised by resolutions of the Board of Directors of the Issuer passed on 15 April 2004. The creation and issue of the Toll Revenue Bond and the entry into the related documentation by HKSAR Government have been authorised by a resolution passed on 18 February 2004 by the Legislative Council of Hong Kong pursuant to section 3(1) of the LO authorising HKSAR Government to borrow a sum or sums not exceeding in total HK\$6,000,000,000 by way of securitising HKSAR Government revenue receivable from tolls on bridges and tunnels and such other HKSAR Government revenue receivable from bridges and tunnels as specified by the Financial Secretary. The categories of non-toll revenue receivable from bridges and tunnels were specified by the Secretary for Financial Services and the Treasury (exercising the powers of the Financial Secretary) in a minute signed prior to the passing of the resolutions of the Board of Directors of the Issuer referred to above. It is anticipated that the Financial Secretary will exercise his discretion pursuant to section 3(4) of the LO not to lay on the table of the Legislative Council any of the documents relating to the borrowing by HKSAR Government.
2. Save as disclosed in this Prospectus, there are no litigation or arbitration proceedings or claims, material in the context of the offering of the Retail Bonds, pending or, to the Issuer's or HKSAR Government's knowledge, threatened against either the Issuer or HKSAR Government.
3. There has been no material adverse change in the financial or trading position of the Issuer since its incorporation on 13 April 2004.
4. So long as any Retail Bonds are outstanding, copies of the following documents will be available for inspection (requests for photocopies will be subject to the payment of a reasonable fee which reflects the cost of making such copies) at the Specified Office of the Principal Paying Agent:
 - a. the Memorandum and Articles of Association of the Issuer;
 - b. this Prospectus and any supplements thereto;
 - c. a list of the contact details of the market makers; and
 - d. the following Transaction Documents:
 - (i) the Placing Bank Agreement;
 - (ii) the Market Making Agreement;
 - (iii) the Nominee Appointment Agreement;
 - (iv) the CCASS Admission Agreement;
 - (v) the Representation and Indemnity Deed;
 - (vi) the Trust Deed;
 - (vii) the Agency Agreement;
 - (viii) the Deed of Charge;
 - (ix) the Transaction Administration Agreement;
 - (x) the Account Trust Deed;
 - (xi) the Account Mandate;

- (xii) the Subscription Agreement;
- (xiii) the TRB Subscription Agreement; and
- (xiv) the Master Definitions Schedule.

From 19 April 2004 to the Issue Date, copies of the Memorandum and Articles of Association of the Issuer, this Prospectus and any supplements thereto, a list of the contact details of the market makers and copies of the executed forms (to the extent that any of the material contracts have been executed) (the “**Executed Contracts**”), or drafts in a substantially agreed form (subject to modification) (the “**Final Forms**”), of the material contracts (save for the Swap Agreement) will be available for inspection (requests for photocopies will be subject to the payment of a reasonable fee which reflects the cost of making such copies) at the Specified Office of the Principal Paying Agent. To the extent that any of the Final Forms are executed after the date of this Prospectus, the executed copies will replace such Final Forms and be available for inspection. Prospective investors who wish to have sight of any of the Final Forms after their replacement by executed versions can obtain copies from the Registrar of Companies (subject to the payment of any applicable fees).

5. The annual audited financial statements of the Issuer and all notices given to Retail Bondholders will be available to Retail Bondholders for inspection (requests for photocopies will be subject to the payment of a reasonable fee which reflects the cost of making such copies) during normal office hours at the Specified Office of the Principal Paying Agent. Each TA Report with the Facilities Operations Report attached will be available to Retail Bondholders for inspection during normal office hours at the Specified Office of the Principal Paying Agent, on the Issuer’s website — www.hklink2004.com.hk, and the Hong Kong Stock Exchange’s website — www.hkex.com.hk on the Business Day after the TA Report Date for such TA Report.
6. The documents attached to a signed copy of this Prospectus and delivered to the Registrar of Companies in Hong Kong for registration were copies of the Executed Contracts (if any) and the Final Forms. Copies of the material contracts which are not Executed Contracts as at the date of this Prospectus will be delivered as soon as practicable after execution by the Issuer but in any event no later than 14 days after the Issue Date or, in the case of the Swap Agreement, 14 days after it has been executed, to the Registrar of Companies in Hong Kong for filing as a public record. The material contracts are lengthy and complex documents entered into or to be entered into by the Issuer with numerous different counterparties. Accordingly, the process by which the material contracts are reviewed and agreed involves lengthy negotiations between the Issuer and such counterparties. In addition, the Rating Agencies are also involved in commenting on and reviewing the material contracts. Accordingly, it would be unduly burdensome for the Issuer to agree all the material contracts with the counterparties and to execute all such material contracts by the date of this Prospectus. For the reasons summarised above, the Issuer has applied to the SFC and the SFC has granted a certificate of exemption from strict compliance with paragraph 17 of the Third Schedule to the Companies Ordinance in respect of the obligation to include a statement that a copy of every material contract has been delivered to the Registrar of Companies in Hong Kong for registration on the conditions that:
 - a. the Prospectus contains a statement that a copy of every material contract in a substantially agreed form has been delivered to the Registrar of Companies for registration with the Prospectus;
 - b. the executed versions of all such material contracts will be delivered to the Registrar of Companies for filing as a public record as soon as practicable thereafter but in any event no later than 14 days after the Issue Date or, in the case of the Swap Agreement(s), 14 days after each has been executed; and

- c. the substantially agreed forms and (where available) executed versions of the material contracts will be made available for inspection in accordance with paragraph 4 under the section headed “General Information”.
7. An application has been made by the Issuer to the Hong Kong Monetary Authority for the Issuer to be specified as a public sector entity under the Third Schedule to the Banking Ordinance (Cap.115) of Hong Kong (the “**Banking Ordinance**”). If the Issuer is so specified, Retail Bonds and Notes which are held by an authorised institution under the Banking Ordinance will carry a risk weighting of 20% for purposes of calculating that authorised institution’s capital adequacy ratio under section 98 of the Banking Ordinance.
 8. No application form is being issued for the Retail Bonds. However, persons who instruct a Placing Bank or HKSCC by electronic instructions to apply for Retail Bonds on their behalf will be treated as persons who subscribe for Retail Bonds for the purposes of section 40 of the Companies Ordinance, which imposes liability on certain persons, including the directors of a company, to pay compensation to persons who subscribe for shares or debentures of a company on the faith of a prospectus for loss or damage sustained by reason of an untrue statement in the prospectus.
 9. No person has, or is entitled to be given, an option to subscribe for shares or debentures of the Issuer.
 10. No shares or debentures of the Issuer have been issued or agreed to be issued or fully or partly paid up otherwise than in cash within the three preceding years.
 11. The Articles of Association of the Issuer provide that the Directors may exercise all the powers of the Issuer to borrow money for the purposes of the company without limit and upon such terms as they think fit.
 12. HSBC Trustee (Hong Kong) Limited, whose principal office is at 1 Queen’s Road Central, Hong Kong, has been, and has agreed to its being, appointed as Trustee pursuant to the Trust Deed, and details of the scope of its mandate as Trustee and the conditions under which it may be replaced as such may be found in the Trust Deed.
 13. The Retail Bonds have been accepted for clearance through CMU with the following CMU Instrument Numbers:

Tranche A	HSBCFB04009
Tranche B	HSBCFB04010
Tranche C	HSBCFB04011
 14. The aggregate commissions and fees, together with the Hong Kong Stock Exchange listing fees, SFC transaction levy and investor compensation levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the offering of the Retail Bonds, which are estimated to amount in aggregate to approximately HK\$6,500,000, are payable by HKSAR Government.
 15. HKSAR Government has applied to the Registrar of Money Lenders under section 33A of the Money Lenders Ordinance (Cap.163) of Hong Kong for general exemption for a class of loans made by a class of persons (including the loan made by the Issuer to HKSAR Government under the Toll Revenue Bond) from all the provisions of that Ordinance.

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