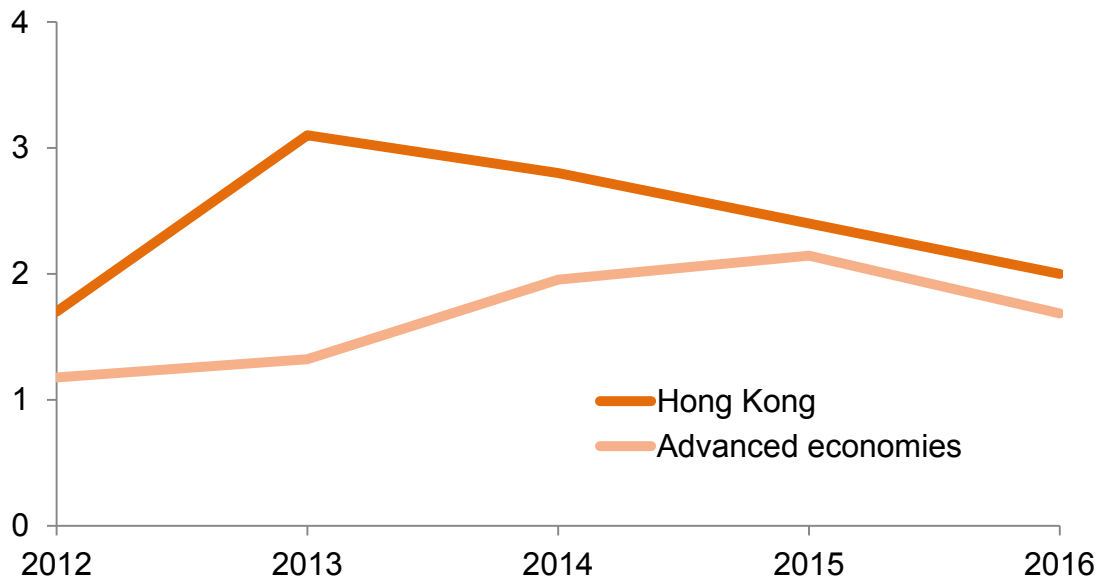


Economy

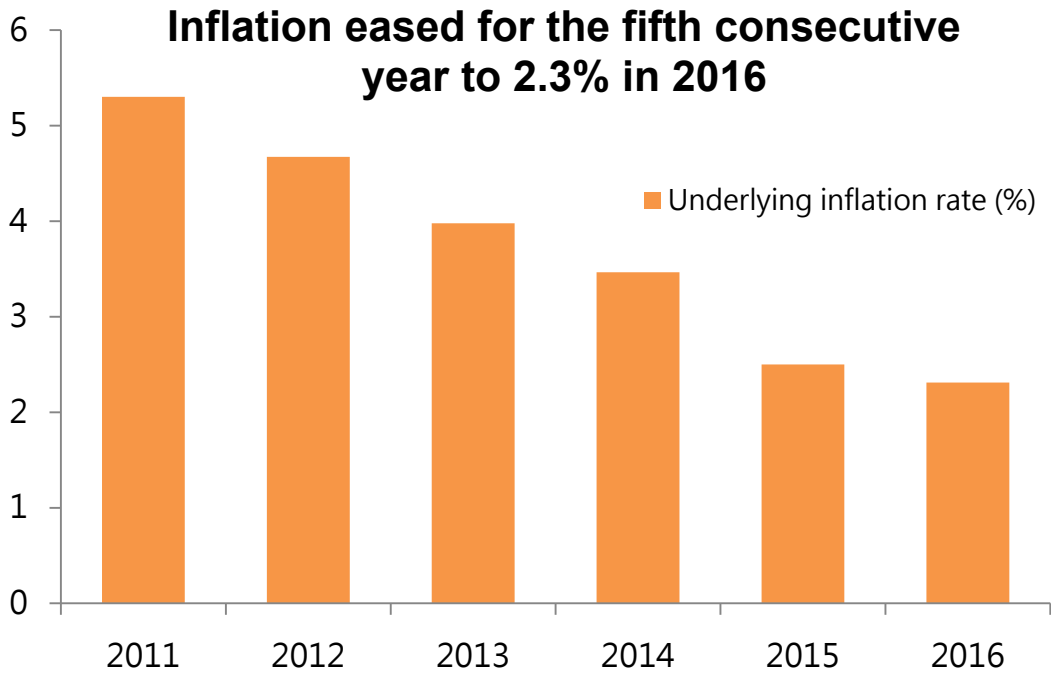
- The Hong Kong economy attained moderate growth in the past five years, averaging 2.4% per annum. This was faster than the 1.7% growth in other advanced economies during the same period. The Hong Kong economy grew by 4.3% year-on-year in the first quarter of 2017.

Hong Kong's economic growth was notably faster than the average growth pace of advanced economies

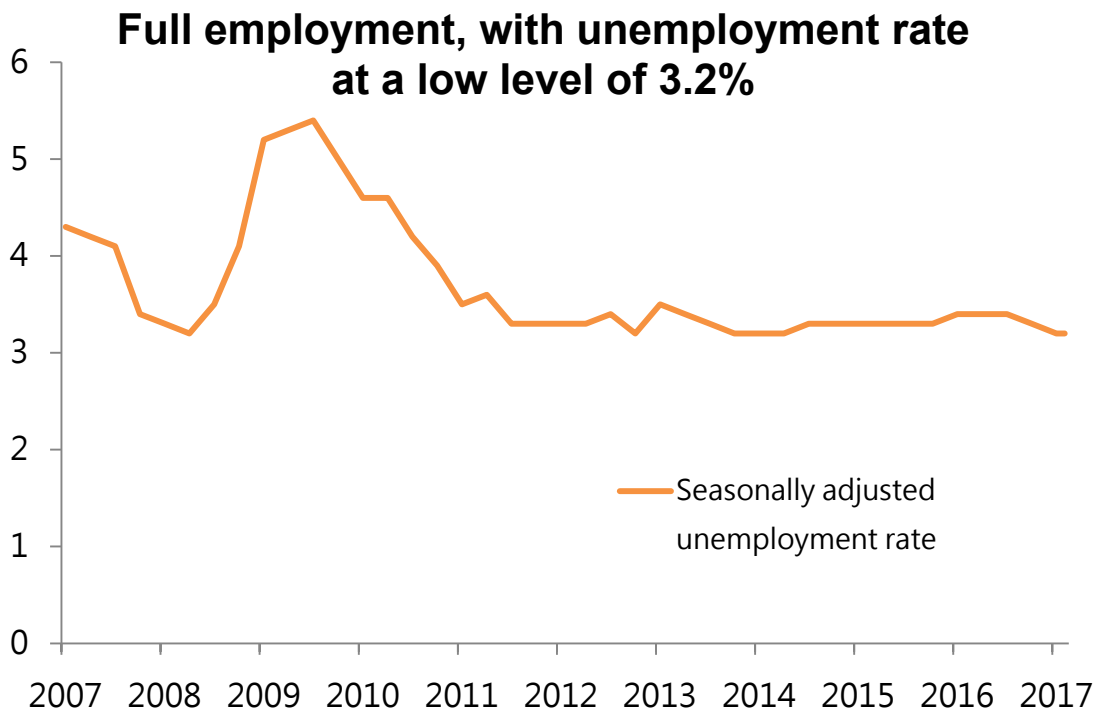
Year-on-year GDP growth in real terms(%)



- Per capita nominal GDP rose cumulatively by 24.1% in the past five years, to reach US\$43,700 in 2016.
- Underlying inflation eased for five consecutive years, to 2.3% in 2016.



- The labour market has remained in a state of full employment. The unemployment rate stayed low at 3.2% in February - April 2017. Total employment increased by 210 000 in the past five years to a record high of 3.79 million in 2016.



- The average employment earnings of full-time employees rose cumulatively by 9.1% in real terms in the past five years. The average employment earnings in the lowest three income decile groups grew cumulatively by 11.2% in real terms.
- The position of direct investment liabilities rose by 51% in the past five years to \$13.8 trillion in 2016, equivalent to 560% of GDP.
- The number of business operations in Hong Kong with parent companies from around the world climbed by 15% in the past five years to a record high of 7 986 in 2016, with the importance of Hong Kong as a “super-connector” continuing to rise.
- Hong Kong continued to be ranked the world’s freest economy in the past five years by the Heritage Foundation, and also the world’s most competitive economy for the second consecutive year in the World Competitiveness Yearbook 2017 by the International Institute for Management Development.

Financial Services

- The Stock Exchange of Hong Kong ranked first globally for two consecutive years in 2015 and 2016 for raising Initial Public Offering (IPO) funds. In the past five years, around \$950 billion were raised through IPOs. From 2012 to 2016, total loans and advances of Authorised Institutions increased by around 60% to \$8 trillion, while loans and advances denominated in currencies other than the Hong Kong dollar also grew by 85%. As at the end of April 2017, the amount of customer deposits and outstanding certificates of deposit in Hong Kong reached Renminbi (RMB) \$602 billion. According to the statistics published by the Society for Worldwide Interbank Financial Telecommunication (SWIFT), around 75% of the world’s RMB payment transactions were processed via Hong Kong in April 2017. Hong Kong’s asset management industry plays a leading role in the region, with the number of asset management companies increasing by almost 50% in five years. Almost 70% of our fund management business

(excluding real estate investment funds) comes from non-Hong Kong investors.

- Since the implementation of the Employee Choice Arrangement for Mandatory Provident Fund (MPF) Schemes in 2012, it provides 2.6 million employees with greater control over MPF investment, enhances market competition and creates room for fee reduction. In April 2017, the fee-controlled Default Investment Strategy was implemented to address the concerns over “high fees and difficulty in making choices” in some MPF Schemes.
- Established the Financial Services Development Council (FSDC) in 2013. The FSDC has released 30 reports with an array of recommendations on the sustainable development of Hong Kong’s financial market and financial services sector. The Government has actively considered and followed up on the recommendations, implementing, where feasible, appropriate measures in response to the recommendations in the reports. The FSDC has maintained close liaison with the financial services sector and promoted Hong Kong’s financial services industry in the Mainland and overseas through different activities such as seminars and roadshows.
- Since 2013, implemented the Basel III standards in phases with a view to improving banks' ability to absorb shocks and enhancing the resilience of the banking system.
- In 2013, the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013 was enacted to provide a comparable taxation framework for Islamic bonds (or sukuk) vis-à-vis conventional bonds; and since September 2014, successfully issued under the Government Bond Programme three sukuk denominations in US dollar with different structure and tenor.
- The new Companies Ordinance came into effect in 2014 to provide a modernised legal framework for the incorporation and operation of over 1.2 million companies in Hong Kong, which enhances corporate governance, ensures better regulation and facilitates business.

- In 2014, Shanghai-Hong Kong Stock Connect was launched.
- In February 2015, the Stamp Duty (Amendment) Ordinance 2015 was enacted to waive the stamp duty for the transfer of shares or units of all exchange traded funds. In July 2015, the Inland Revenue (Amendment) (No. 2) Ordinance 2015 was enacted to extend the profits tax exemption for offshore funds to private equity funds.
- In 2015, implemented the mutual recognition of funds (MRF) arrangement between the Mainland and Hong Kong. As at end-April 2017, 55 funds have been authorised or approved for public offerings in the Mainland or Hong Kong, with net sales of more than 7.4 billion RMB. In December 2016, an MRF arrangement with Switzerland was implemented.
- In 2015, the Insurance Companies (Amendment) Ordinance 2015 was enacted and the Insurance Authority was established in December of the same year.
- In 2015, the Clearing and Settlement Systems (Amendment) Ordinance 2015 was enacted to regulate stored value facilities and retail payment systems, with a view to strengthening the public's confidence in the use of these products and services, and fostering the development and innovation of the industry.
- Introduced an array of measures to promote the development of financial technologies (Fintech) in Hong Kong: financial regulators have set up dedicated Fintech liaison platforms to enhance communications with the Fintech industry; Invest Hong Kong has established a dedicated Fintech team to appeal to start-ups and investors to establish a presence in Hong Kong; the Hong Kong Monetary Authority launched Cybersecurity Fortification Initiative, the Fintech Supervisory Sandbox, Innovation Hub and Distributed Ledger Technology White Paper, etc. in 2016.
- In 2016, the Deposit Protection Scheme (Amendment) Ordinance 2016 was enacted to adopt a gross payout approach for the determination of compensation, in order to speed up the payout process in case the Deposit Protection Scheme is triggered.

- In 2016, the Inland Revenue (Amendment) (No. 2) Ordinance 2016 was enacted to attract multinational and Mainland corporations to establish corporate treasury centres in Hong Kong.
- In 2016, the Securities and Futures (Amendment) Ordinance 2016 was enacted to introduce a legal framework for the open-ended fund company as a form of fund vehicle.
- In 2016, the Financial Institutions (Resolution) Ordinance was enacted to establish a cross-sectoral resolution regime for financial institutions that meets the international standards.
- In 2016, the Hong Kong Monetary Authority established the Infrastructure Financing Facilitation Office (IFFO) to facilitate infrastructure investments and their financing. So far, over 60 organisations from the Mainland, Hong Kong and overseas have joined IFFO as its partners.
- In 2016, launched a three-year Pilot Programme to Enhance Talent Training for the Insurance Sector and the Asset and Wealth Management Sector to attract new blood to the sectors and enhance the professional competency of in-service practitioners.
- In 2016, Shenzhen-Hong Kong Stock Connect was launched.
- In 2016, launched the Silver Bond pilot scheme with a view to providing an investment product with steady returns for senior residents, and encouraging financial institutions to tap into the potential of the “silver market”.
- In 2017, the Companies (Winding Up and Miscellaneous Provisions) (Amendment) Ordinance 2016 came into effect to provide a modernised corporate winding-up regime, which increases protection of creditors, as well as streamlines and further enhances the integrity of the winding-up process.
- In the past five years, the number of Comprehensive Avoidance of Double Taxation Agreements signed by Hong Kong increased from 25 to 37, thereby effectively easing the tax burden borne by enterprises and fostering investment and trade.

- In 2017, a tax policy unit was set up in the Financial Services and the Treasury Bureau, with a priority to actively study ways to foster the development of local industries through tax measures.
- In March 2017, introduced the Inland Revenue (Amendment) (No. 2) Bill 2017 into the Legislative Council (LegCo) to create a dedicated tax regime so as to strengthen the competitiveness of Hong Kong for developing offshore aircraft leasing activities. Under the regime, the tax rate on the qualifying profits of qualifying aircraft lessors and qualifying aircraft leasing managers will be 8.25%; and the taxable amount of lease payments derived from leasing of an aircraft to any aircraft operator by a qualifying aircraft lessor will be equal to 20% of the tax base. This regime will also be applicable to onshore aircraft leasing activities.
- Hong Kong became a new member of the Asian Infrastructure Investment Bank in June 2017. We will support the bank's operation through our highly liquid capital markets and our professionals with reputable experiences in designing, constructing and operating major infrastructure projects.

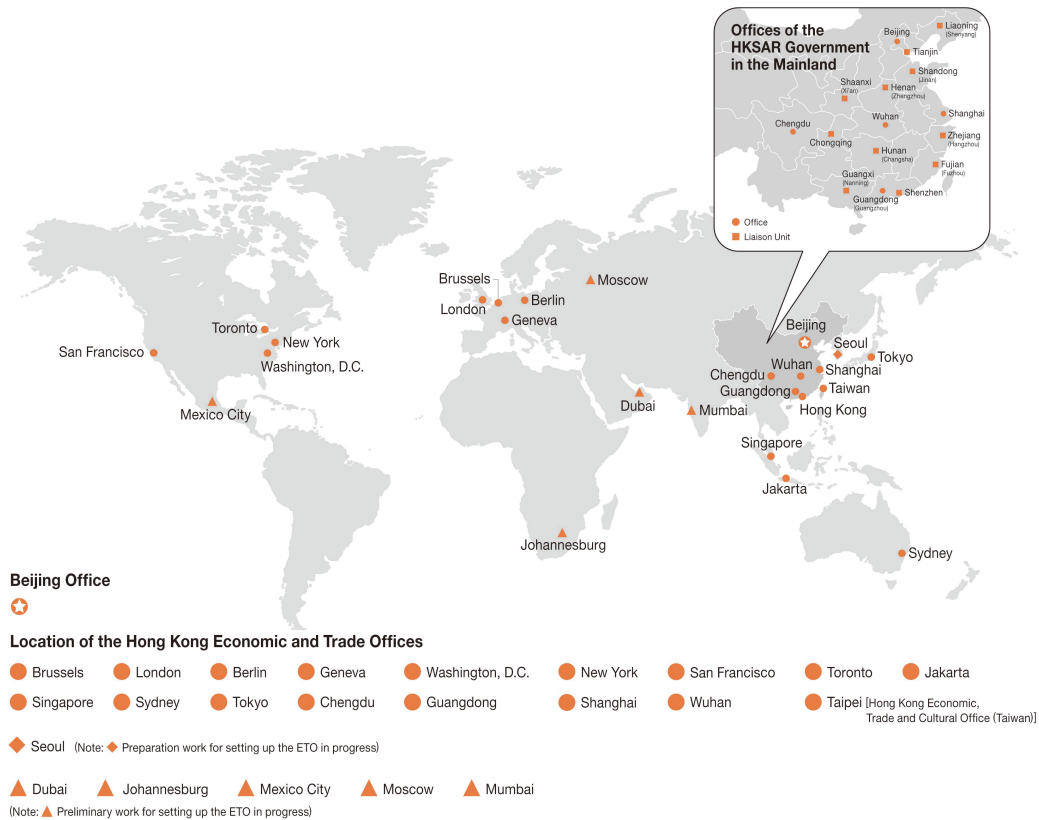
Trade and Commerce

- Signed the Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in 2013 and implemented in January 2014.
- Signed the Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong in 2014 and implemented in March 2015.
- Signed the Agreement on Trade in Services with the Mainland in 2015. The Mainland and Hong Kong basically achieved liberalisation of trade in services in June 2016.
- The application period of the special concessionary measures under the Small and Medium Enterprise (SME) Financing Guarantee Scheme of the Hong Kong Mortgage Corporation Limited, which has a loan guarantee commitment of \$100 billion,

was extended several times until end February 2018. The annual guarantee fee rate was reduced by 10%, and the minimum guarantee fee was removed.

- In 2015, injected \$1.5 billion into the SME Export Marketing and Development Funds. Enhancement measures were implemented.
- In 2017, extended the application period of the \$1 billion Dedicated Fund on Branding, Upgrading and Domestic Sales to June 2022.
- Signed the free trade agreement (FTA) with Chile in 2012. Commenced FTA negotiations with the Association of Southeast Asian Nations in 2014, with Georgia and Maldives respectively in 2016, and with Australia in 2017.
- Established the high-level Economic Development Commission in 2013, underpinned by four Working Groups on Transportation; Convention and Exhibition Industries and Tourism; Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries; and Professional Services.
- Established the Working Group on Intellectual Property (IP) Trading in 2013 to study measures for promoting Hong Kong as an IP trading hub. In 2015, the Working Group report put forward 28 recommended measures.
- In 2016, the number of ship calls at Kai Tak Cruise Terminal was 95, representing nearly 70% increase over that in 2015. It is expected that the number of ship calls in 2017 will be doubled to around 200.
- Since April 2015, adjusted the “multiple-entry” endorsements for permanent residents of Shenzhen to “one trip per week”.
- The plan to set up an Economic and Trade Office (ETO) in Jakarta was announced in September 2015 and the ETO was established in June 2016. In November 2015, the plan to set up an ETO in Seoul was announced. In January 2017, preliminary work to set up ETOs in India, Mexico, Russia, South Africa and the United Arab Emirates commenced. The number of overseas ETOs will increase significantly from 11 offices five years ago to 18.

- Significantly increased the number of liaison units in the Mainland from three to 11 over the past five years and completed the network of having an office in each of the eastern, southern, western, northern and central regions in the Mainland. Each Mainland Office is supported by at least two liaison units.



Map of Offices Outside Hong Kong

- Signed investment agreements with Canada and Chile respectively in 2016. Investment agreement negotiations with Russia commenced in 2012, the Association of Southeast Asian Nations in 2014, Maldives and Iran in 2016, and Australia in 2017. Concluded negotiations with Bahrain and Myanmar were in 2013, the United Arab Emirates in 2016, and Mexico in 2017.

- Organised the inaugural Belt and Road Summit in 2016. Over 2 400 participants, including key government officials from markets along the Belt and Road, representatives from international organisations, business leaders and experts from relevant sectors, attended the Summit.
- Promoted mega events and activities. In 2016, the FIA Formula E Hong Kong ePrix was held in Hong Kong for the first time, which attracted more than 20 000 spectators with around 25% of them being visitors.
- In 2016, launched the \$200 million Professional Services Advancement Support Scheme to support Hong Kong's professional services sector in undertaking external exchanges, cooperation and publicity activities, and in enhancing standards and competitiveness.
- Promoted Hong Kong as a start-up hub. As at mid-2016, there were a total of 1 926 start-ups in Hong Kong, representing a 80% increase compared to 2014.
- In 2017, the Travel Industry Bill was introduced into the LegCo to provide for the establishment of the Travel Industry Authority.
- Fostered the development of tourism infrastructure, including the redevelopment of Ocean Park and expansion of Hong Kong Disneyland Resort.
- Over the past five years, we have provided additional resources, out of which an additional \$700 million is provided for the CreateSmart Initiative (CSI) and \$220 million for the Film Development Fund (FDF), to promote the development of creative industries, with a focus on talent and start-up nurturing, market development and promotion of cross-sectional and cross-territorial collaboration. During this period, projects supported by the CSI have scooped 34 international awards and films supported by the FDF have won 60 awards in total.
- Through the Hong Kong Young Design Talent Awards, 43 young designers or design graduates have been subsidised to undertake internships or further studies overseas. In 2016, efforts have been stepped up to nurture design talents by raising the admission quota of the Design Incubation

Programme by 50% from 20 to 30 each year. In 2017, the Fashion Incubation Programme was launched with a view to recruiting 15 fashion design companies within three years and providing them with incubation support over a two-year programme.

- New blood for various creative sectors have been nurtured through the Animation Support Program, Mobile Game Start-Ups Support Program, Ear Up Record Label Creation & Incubation Program, and a programme for supporting advertising and music talents, etc.
- Financing or grant has been provided through the Film Production Financing Scheme and the Film Production Grant Scheme to 19 film productions, of which ten directors and 12 producers directed and produced their films for the first time respectively. The First Feature Film Initiative launched in 2013 has so far selected seven up-and-coming directors and subsidised the production of their first feature films.
- Collaborated with the film industry in 2017 to run professional training programmes with a total of 200 places, and subsidise ten practitioners in the post-production sector in each of the next three years to further their studies or undertake internships overseas.
- Organised Belt and Road promotional tours from 2017 onwards to countries with market potential, such as Iran, Indonesia, Malaysia, India, etc., with a view to attracting film producers to come to Hong Kong for post-production and location filming and production facilitation services.
- To arrest the declining trend of the number of cinemas and promote the development of the film industry, announced in 2017 that provision of cinemas should be mandated by lease conditions at appropriate sites so that movie-watching will be more convenient and audiences will be consolidated and build up. Two government land sale sites have been preliminary identified.

Economic and Trade Cooperation with the Mainland

- Participated in the preparatory work to complement the drawing up of the National 13th Five-Year Plan since July 2012 through research into key subjects such as economic and trade, innovation and technology and professional services, and communication with stakeholders. The Dedicated Chapter on Hong Kong and Macao in the Outline of the National 13th Five-Year Plan promulgated in March 2016 fully reaffirms Hong Kong's strategic position as international financial, transportation and trade centres and acknowledges the unique advantages of the HKSAR in areas such as professional services and regional cooperation.
- Commenced the work to draw up the Development Plan for a city cluster in the Guangdong-Hong Kong-Macao Bay Area based on the proposal in the Dedicated Chapter on Hong Kong and Macao, together with the National Development and Reform Commission, and the Guangdong Provincial Government and Macao SAR Government.
- Worked closely with the Guangdong Provincial Government through the Hong Kong/Guangdong cooperation mechanism to leverage the pioneering effect of “early and pilot implementation” measures, and made good use of the regional cooperation mechanisms with the Pan Pearl River Delta (PRD), Beijing and Shanghai.
- Established the Fujian-Hong Kong Cooperation Conference in 2015 to strengthen cooperation in economic, trade, social and livelihood areas; and took forward in-depth cooperation with other provinces and municipalities (including Sichuan and Guangxi).
- Established the Consultative Committee on Economic and Trade Cooperation between Hong Kong and the Mainland in 2013. In late 2015, the Committee submitted to the Chief Executive study reports on promoting cooperation between Hong Kong and Nansha, Qianhai and Hengqin; assisting Hong Kong professional service sectors to open up the Mainland

market and capitalise on the opportunities arising from the country's Belt and Road initiative, as well as facilitating young people to work and develop in the Mainland.

Arbitration, Mediation and Legal Services

- The Arbitration (Amendment) Ordinance 2013 was enacted in 2013 to implement the arrangement with Macao concerning reciprocal recognition and enforcement of arbitral awards, and to further enhance Hong Kong's arbitration regime in the light of international practices.
- In 2015, the Permanent Court of Arbitration (PCA) (based in The Hague) signed a host country agreement with the Central People's Government and a related memorandum of administrative arrangements with the Government of the HKSAR to facilitate the conduct of PCA-administered arbitration in Hong Kong, including state-investor arbitration.
- The Arbitration (Amendment) Ordinance 2017 was enacted in 2017 to clarify the arbitrability of intellectual property (IP) disputes, thereby facilitating the conduct of IP arbitration in Hong Kong as well as consolidating and enhancing Hong Kong's status as an international arbitration centre and an IP trading hub.
- The Arbitration and Mediation Legislation (Third Party Funding) (Amendment) Ordinance 2017 was enacted in 2017 to clarify that third-party funding of arbitration, mediation and related proceedings is permitted in Hong Kong.
- Pursuant to the recommendation of the Steering Committee on Mediation, the Apology Bill was introduced into LegCo in February of 2017 to clarify the legal consequences of making apologies. The main objective of the Bill is to promote and encourage the making of timely apologies so as prevent the escalation of disputes and facilitate their settlement.
- To facilitate the effective use of mediation and to provide more choices to users, in addition to the promotion of facilitative mediation, to consider the use of evaluative mediation in

suitable cases for resolving IP disputes.

- Signed the Arrangement on Mutual Taking of Evidence in Civil and Commercial Matters between the Courts of the Mainland and the HKSAR in 2016 to assist litigants in civil and commercial cases to obtain evidence more efficiently under the existing legal framework.
- In June 2017, signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil Matrimonial and Family Cases by the Courts of the Mainland and of the HKSAR with the Supreme People's Court, thereby establishing a mechanism for parties to seek recognition and enforcement of judgments on matrimonial and related matters in both Hong Kong and the Mainland, as well as providing better safeguards to relevant families and their children.
- Facilitating the development of practices by world class law-related organisations in Hong Kong. In the past five years, a number of international and regional organisations have established their offices in Hong Kong, including the Hague Conference on Private International Law, China International Economic and Trade Arbitration Commission as well as China Maritime Arbitration Commission.
- Hong Kong e-Legislation, the new legislation database was launched in February 2017 to facilitate access to the text of Hong Kong legislation.