

IMPORTANT

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

Prospectus

Dated: 2 October 2002



The Hong Kong Mortgage Corporation Limited

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

Tranche A Notes: Issue No. HKMC305 2.70 per cent. Notes due October 2005

**Tranche B Notes: Issue No. HKMC203E 3.30 per cent. Extendable Notes due October 2004
(extendable to October 2007 at the option of the HKMC)**

**Tranche C Notes: Issue No. HKMC503F 5.50 per cent. Fixed-Inverse Floating Rate Notes due October 2007
(5.50% for 1st Year, thereafter 6.00% minus 6-month HIBOR with a minimum of 0.50%)**

The Notes will be issued by The Hong Kong Mortgage Corporation Limited (the "HKMC"). The minimum issue amount of each tranche of Notes is HK\$50,000,000. The Bank of East Asia, Limited ("The Bank of East Asia"), Citicorp International Limited ("Citigroup"), Standard Chartered Bank, Bank of China (Hong Kong) Limited ("Bank of China (Hong Kong)"), The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), CITIC Ka Wah Bank Limited ("CITIC Ka Wah Bank"), Wing Lung Bank Limited ("Wing Lung Bank"), Dao Heng Bank Limited ("Dao Heng Bank") and International Bank of Asia Limited ("International Bank of Asia") (together the "Underwriting Banks") have, subject to the terms and conditions of an underwriting agreement dated 26 September 2002 among them and the HKMC (the "Underwriting Agreement"), agreed to severally underwrite the issue of the Notes by subscribing for Notes to the extent that public subscription in relation to any tranche of Notes falls short of the total commitment of the Underwriting Banks to underwrite the issue of that tranche, provided that no Underwriting Bank will be required to subscribe for any more Notes of a particular tranche if the public subscription in relation to that tranche of Notes received through it in its capacity as a Placing Bank (as defined herein) (except in the case of Citigroup, through Citibank (as defined herein)) is equal to or more than its commitment to underwrite that tranche of Notes. See the section headed "Placing and Underwriting Arrangements" in this Prospectus. There is no specified maximum aggregate principal amount of Notes; however, the HKMC reserves the right to fix the principal amount of Notes of each tranche to be issued in the light of valid applications received and its funding requirements. In addition, the HKMC may in future increase the issue amount of any tranche of Notes by making a further public offering or private placement of Notes identical in all respects (other than their issue prices and dates of issue) with the Notes of that tranche now being offered. Also, the HKMC may at any time after the Issue Date (as defined in the section headed "Summary of the Notes being Offered" in this Prospectus) issue additional Notes of any tranche (up to a maximum of 30 per cent. of the principal amount of Notes of that tranche issued on the Issue Date) to support market making arrangements for the Notes. References in this Prospectus to "Notes" are to any or all of the Tranche A Notes, the Tranche B Notes and the Tranche C Notes (each a "tranche" of Notes).

Applications for Notes will be made only by Bank of China (Hong Kong), The Bank of East Asia, Chiyu Banking Corporation Limited ("Chiyu Bank"), Citibank, N.A., Hong Kong Branch ("Citibank"), CITIC Ka Wah Bank, Dao Heng Bank, HSBC, Hang Seng Bank Limited ("Hang Seng Bank"), International Bank of Asia, Nanyang Commercial Bank, Limited ("Nanyang Commercial Bank"), Shanghai Commercial Bank Limited ("Shanghai Commercial Bank"), Standard Chartered Bank and Wing Lung Bank (each a "Placing Bank" and together, the "Placing Banks"). In order to instruct a Placing Bank to apply for Notes 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. No application form is being issued for the Notes: you must instruct one of the Placing Banks to apply for Notes on your behalf. See the section headed "Custody Arrangements with Placing Banks" in this Prospectus.

Copies of this Prospectus can be obtained, during the subscription period for the Notes, from the places set out in the section headed "Where to Obtain Copies of the Prospectus" in this Prospectus. The Prospectus will also be available on the HKMC's website — www.hkmc.com.hk, to which the websites of Bank of China (Hong Kong), The Bank of East Asia, Citic Ka Wah Bank, Dao Heng Bank, HSBC, Hang Seng Bank, Standard Chartered Bank and Wing Lung Bank have a hyperlink.

In respect of the Tranche A Notes and the Tranche B Notes, the total return on the Notes, or yield to maturity, will depend on the subscription price for that tranche of the Notes and may be higher or lower than the specified interest rate (on an annualised basis). The subscription price for each of the Tranche A Notes and the Tranche B Notes will be fixed so that the annualised yield on the Notes for each tranche is equal to the annualised yield of an identified issue of Exchange Fund Notes, plus a specified margin. The subscription price may be equal to or more than or less than the principal amount and/or the application price of the Notes. See the sections headed "Summary of the Notes being offered" and "How the Subscription Price of the Notes will be fixed" in this Prospectus. The subscription price for the Tranche C Notes is fixed at 100 per cent. of the principal amount of the Tranche C Notes.

In respect of the Tranche C Notes, after the first year, the coupon on the Notes will decrease if prevailing interest rates (six-month HIBOR as determined under the Terms and Conditions of the Notes) increase and will increase if prevailing interest rates decrease. See the sections headed "Summary of the Notes being offered", "Interest — Terms and Conditions of the Notes" and "Risk Factors" in this Prospectus.

The Notes will not be listed on any stock exchange. Each of the Placing Banks (except Citibank) and Citigroup, subject to certain limitations, has agreed to quote prices at which it will buy or sell Notes — see the section headed "Market Making Arrangements" in this Prospectus. These arrangements do not assure an active trading market for the Notes.

Definitive Notes, or certificates representing Notes, will not be issued to individual holders of Notes (except in very limited circumstances). Three permanent global Notes, each representing the total principal amount of a tranche of Notes, will instead be deposited on the issue date of the Notes with the Central Moneymarkets Unit Service (the "CMU") operated by the Hong Kong Monetary Authority (the "HKMA"). Individual holders of Notes must hold their Notes in an investment account with a participant in the CMU (which must initially be one of the Placing Banks). Most banks and securities dealers in Hong Kong maintain, or have access to, an account with the CMU through which Notes may be held or transferred following issue.

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

Underwriting Banks

The Bank of East Asia	Citigroup
Standard Chartered Bank	HSBC
CITIC Ka Wah Bank	International Bank of Asia
Bank of China (Hong Kong)	
Wing Lung Bank	
Dao Heng Bank	

Placing Banks

Bank of China (Hong Kong)	The Bank of East Asia	Chiyu Bank	Citibank
CITIC Ka Wah Bank	Dao Heng Bank	HSBC	Hang Seng Bank
International Bank of Asia	Nanyang Commercial Bank	Shanghai Commercial Bank	Standard Chartered Bank
			Wing Lung Bank

The Underwriting Banks and the Placing Banks are not persons responsible for, have not authorized 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 Underwriting Banks or the Placing Banks as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the HKMC in connection with the Notes. The Underwriting Banks and the Placing Banks do not accept liability in relation to the information contained in this Prospectus or any other information provided by the HKMC in connection with the Notes.

Notes 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 authorized 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 HKMC in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the HKMC, the Underwriting Banks or the Placing Banks.

Neither this Prospectus nor any other information supplied in connection with the Notes is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the HKMC, the Underwriting Banks or the Placing Banks that any recipient of this Prospectus or any other information supplied in connection with the Notes, should purchase any of the Notes. Each investor contemplating purchasing or holding any of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the HKMC.

The delivery of this Prospectus does not at any time imply that the information contained herein concerning the HKMC is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing such information. Investors should review, inter alia, the financial information relating to the HKMC as is publicly available when deciding whether or not to subscribe for, purchase, or hold any of the Notes.

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 Section 38(1) of the Companies Ordinance and paragraphs 6, 15, 17, 23, 26(b), 27, 31 and 34 of the Third Schedule to the Companies Ordinance.

In this Prospectus, references to “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China.

This Prospectus is available in Chinese and English. The HKMC has undertaken to make available copies of both the Chinese and English versions of this Prospectus for collection at the office of the HKMC and the designated branches of the Placing Banks set out in this Prospectus.

本章程備有中英文本。按揭證券公司已承諾其辦事處及各配售銀行載於本章程的指定分行將備有本章程的中英文本以供索閱。

TABLE OF CONTENTS

	<i>Page</i>		<i>Page</i>
Where to Obtain Copies of the Prospectus . . .	3	Board of Directors	54
Summary of the Notes being offered	17	Directors' Interests in Transactions and Contracts	56
Timetable for Note Issue and Subscription for the Notes	24	Senior Management	58
How the Subscription Price of the Notes will be fixed	27	Change of Auditors	58
Allocation of Notes	29	Business Overview	58
How to Apply for the Notes	30	Profitability	59
Custody Arrangements with Placing Banks . .	36	Mortgage Portfolio	59
Summary of Certain Principal Terms of the Notes	37	Capital-to-Assets Ratio	60
Terms and Conditions of the Notes	39	Capitalisation	61
Risk Factors	49	Unaudited Financial Statements for the six-month period ended 30 June 2002 of the HKMC	62
Use of Proceeds	52	Auditors' Report and Audited Financial Statements for the year ended 31 December 2001 of the HKMC	67
The Hong Kong Mortgage Corporation Limited		Settlement, Clearance and Custody	87
General Profile	53	Market Making Arrangements	89
Shareholding Structure	54	Placing and Underwriting Arrangements . . .	90
Subsidiary	54	Taxation of Notes	91
		General Information	92

WHERE TO OBTAIN COPIES OF THE PROSPECTUS

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Copies of this Prospectus may be collected from:

- (i) **The Hong Kong Mortgage Corporation Limited**
7th Floor Gloucester Tower
11 Pedder Street
Central
Hong Kong

or

- (ii) **Designated Branches of Placing Banks**

The designated branches of each of the Placing Banks are set out on pages 4 to 14 of this Prospectus.

The Prospectus is also available on the HKMC's website — www.hkmc.com.hk, to which the websites of Bank of China (Hong Kong), The Bank of East Asia, CITIC Ka Wah Bank, Dao Heng Bank, HSBC, Hang Seng Bank, Standard Chartered Bank and Wing Lung Bank have a hyperlink.

Bank of China (Hong Kong)

Branch Name	Address
<i>Hong Kong Island</i>	
Bank of China Tower Branch	1 Garden Road
409 Hennessy Road Branch	409-415 Hennessy Road, Wanchai
Aberdeen Branch	25 Wu Pak Street, Aberdeen
Chi Fu Landmark Branch	Shop 510, Chi Fu Landmark, Pokfulam
City Garden Branch	233 Electric Road, North Point
Harbour Road Branch	26 Harbour Road, Wanchai
Hennessy Road (Wanchai) Branch	310-312 Hennessy Road, Wanchai
Java Road Branch	8 Java Road, North Point
Johnston Road Branch	152-158 Johnston Road, Wanchai
King's Road Branch	131-133 King's Road, North Point
North Point (King's Centre) Branch	193-209 King's Road, North Point
North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point
Quarry Bay Branch	Parkvale, 1060 King's Road, Quarry Bay
Queen's Road West (Sheung Wan) Branch	2-12 Queen's Road West, Sheung Wan
Sai Wan Ho Branch	142-146 Shaukeiwan Road, Shaukeiwan
Shaukeiwan Road Branch	289-293 Shaukeiwan Road, Shaukeiwan
Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui
Sheung On Street Branch	77 Sheung On Street, Chaiwan
Sheung Wan Branch	238-252 Des Voeux Road Central
South Horizons Branch	Shop 118, Marina Square East Centre, Apleichau
Taikoo Shing (Hoi Shing Mansion) Branch	Shop G1006, Hoi Shing Mansion, Taikoo Shing
Wan Tsui Road Branch	4 Lin Shing Road, Chaiwan
Wanchai (Easey Commercial Building) Branch	253-261 Hennessy Road, Wanchai
Wanchai Branch	395 Hennessy Road, Wanchai
Wyndham Street Branch	1-3 Wyndham Street, Central
<i>Kowloon</i>	
Canton Road Branch	60 Canton Road, Tsim Sha Tsui
2 Carnarvon Road Branch	2-2A Carnarvon Road, Tsim Sha Tsui
28 Carnarvon Road Branch	24-28 Carnarvon Road, Tsim Sha Tsui
31 Tai Yau Street Branch	31 Tai Yau Street, San Po Kong
35 Tai Yau Street Branch	35 Tai Yau Street, San Po Kong
42 Yu Chau Street Branch	42-46 Yu Chau Street, Shamshuipo
47 Ma Tau Wai Road Branch	47-49 Ma Tau Wai Road, Hunghom
177 Ngau Tau Kok Road Branch	177 Ngau Tau Kok Road
183 Cheung Sha Wan Road Branch	183-185 Cheung Sha Wan Road, Shamshuipo
194 Cheung Sha Wan Road Branch	194-196 Cheung Sha Wan Road, Shamshuipo
248 Castle Peak Road Branch	244-248 Castle Peak Road, Cheung Sha Wan
678 Nathan Road Branch	678 Nathan Road, Mongkok
Choi Hung Branch	19 Clear Water Bay Road, Ngau Chi Wan
Choi Hung Road Branch	58-68 Choi Hung Road, San Po Kong
Chuk Yuen Estate Branch	Shop S1, Chuk Yuen Shopping Centre, Chuk Yuen South Estate
Festival Walk Branch	Unit LG149, Festival Walk, Kowloon Tong
Granville Road Branch	67-69 Granville Road, Tsim Sha Tsui
Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
Hunghom (Eldex Industrial Building) Branch	21 Ma Tau Wai Road, Hunghom
Ivy Street Branch	59-61 Ivy Street, Tai Kok Tsui
Kimberley Road Branch	37 Kimberley Road, Tsim Sha Tsui
Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong
Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong
Lai Chi Kok (Hong Kong Industrial Centre) Branch	A2, G/F., Hong Kong Industrial Centre, 491 Castle Peak Road
Lok Fu Branch	Shop 2, Lok Fu Shopping Centre II, Lok Fu
Ma Tau Kok Road Branch	39-45 Ma Tau Kok Road, Tokwawan
Mongkok (President Commercial Centre) Branch	608 Nathan Road, Mongkok
Mongkok (Silvercorp Int'l Tower) Branch	Shop B, 707-713 Nathan Road, Mongkok
Mongkok Road Branch	50-52 Mongkok Road
Nathan Road (Prince Edward) Branch	774 Nathan Road
Nga Tsin Wai Road Branch	25 Nga Tsin Wai Road
Pak Tai Street Branch	4-6 Pak Tai Street, Tokwawan
Prat Avenue Branch	17-19 Prat Avenue, Tsim Sha Tsui
Prince Edward Road (Kowloon City) Branch	382-384 Prince Edward Road, Kowloon City
Prince Edward Road West (Mongkok) Branch	116-118 Prince Edward Road West, Mongkok
Sau Mau Ping Branch	Shops 1-2, Block 24, Sau Mau Ping (2) Estate
Shanghai Street (Prince Edward) Branch	689-693 Shanghai Street, Mongkok

Branch Name	Address
Shanghai Street (Yaumatei) Branch	364-366 Shanghai Street, Yaumatei
Sheung Fung Street Branch	66-68 Sheung Fung Street, Tsz Wan Shan
Site 3 Whampoa Garden Branch	Shop 2, Willow Mansion, Site 3 Whampoa Garden, Hunghom
Stage 2 Mei Foo Sun Chuen Branch	19 Glee Path, Mei Foo Sun Chuen
Stage 6 Mei Foo Sun Chuen Branch	Shops N47-49, Mount Sterling Mall, Mei Foo Sun Chuen
Tai Kok Tsui Branch	73-77 Tai Kok Tsui Road
Tokwawan Road Branch	80N Tokwawan Road
Tokwawan (Mei King Mansion) Branch	245A Tokwawan Road
Tong Mei Road Branch	54-58 Tong Mei Road
Tseuk Luk Street Branch	86 Tseuk Luk Street, San Po Kong
Tsim Sha Tsui (East Ocean Centre) Branch	G19 East Ocean Centre, 98 Granville Road, Tsim Sha Tsui
Tsim Sha Tsui (Houston Centre) Branch	63 Mody Road, Tsim Sha Tsui
Wong Tai Sin Branch	Shop G1, Wong Tai Sin Commercial Centre, Wong Tai Sin
Woosung Street Branch	149-151 Woosung Street
Wuhu Street Branch	105-107 Wuhu Street, Hunghom
Yaumatei Branch	471 Nathan Road, Yaumatei
<i>New Territories</i>	
33 Chung On Street Branch	31-33 Chung On Street, Tsuen Wan
74 Tai Wai Road Branch	74-76 Tai Wai Road, Shatin
136 San Fung Ave Branch	136 San Fung Avenue, Sheung Shui
331 Sha Tsui Road Branch	329-331 Sha Tsui Road, Tsuen Wan
Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long
City One Shatin Branch	Shop A, 16-20 Ngan Shing Commercial Centre, City One Shatin
Flora Plaza Branch	Shop 28, Flora Plaza, 88 Pak Wo Road, Fanling
Fo Tan Branch	No.2 1/F., Shatin Galleria, 18-24 Shan Mei Street, Fo Tan
Fuk Loi Estate Branch	129-135 Sha Tsui Road, Tsuen Wan
Ha Kwai Chung Branch	192-194 Hing Fong Road, Kwai Chung
Hau Tak Estate Branch	Shop 7, G/F., Hau Tak Shopping Centre, Tseung Kwan O
Kwai Chung Plaza Branch	A18-20, G/F., Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung
Kwai Chung Road Branch	1009 Kwai Chung Road, Kwai Chung
Lek Yuen Branch	No.1 Fook Hoi House, Lek Yuen Estate, Shatin
Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Shatin
Luen Wo Market Branch	17-19 Wo Fung Street, Luen Wo Market, Fanling
Maritime Square Branch	Shop 115, Maritime Square, Tsing Yi Island
Sheung Kwai Chung Branch	7-11 Shek Yi Road, Sheung Kwai Chung
Sheung Shui Branch	61 San Fung Avenue, Sheung Shui
Tai Kwong Lane Branch	16-22 Tai Kwong Lane, Tai Po Market
Tai Po Branch	68-70 Po Heung Street, Tai Po Market
Tsuen Wan (Sin Ching Building) Branch	201-207 Castle Peak Road, Tsuen Wan
Tsuen Wan Branch	297-299 Sha Tsui Road, Tsuen Wan
Tsui Lam Estate Branch	Shop 101, Tsui Lam Shopping Centre, Tseung Kwan O
Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun
Tuen Mun Town Plaza Branch	Shop 2, Tuen Mun Town Plaza Phase II, Tuen Mun
Yuen Long Branch	102-108 Castle Peak Road, Yuen Long

The Bank of East Asia

Branch Name	Address
<i>Hong Kong Island</i>	
Main Branch	10 Des Voeux Road Central
181 Des Voeux Road Central Branch	G/F., Sun House, 181 Des Voeux Road Central
Aberdeen Branch	162-164 Aberdeen Main Road, Aberdeen
Bonham Road Branch	Shops 1-3, Ka Fu Building, 19-27 Bonham Road
Caine Road Branch	Shop C, G/F., Cameo Court, 63-69 Caine Road
Causeway Bay Branch	46 Yee Wo Street, Causeway Bay
Causeway Road Branch	2 Causeway Road, Causeway Bay
Central Branch	31 Des Voeux Road Central
Chaiwan Branch	345 Chaiwan Road, Chaiwan
Des Voeux Road West Branch	Shops 5 & 6, G/F., Pacific Plaza, 410-424B Des Voeux Road West
Happy Valley Branch	5-7 Sing Woo Road, Happy Valley
Harbour Road Branch	Shop 1, 1/F., Causeway Centre, 28 Harbour Road, Wanchai
High Net Worth Centre – Hong Kong	22/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai
International Finance Centre Branch	Shop 3016, Level 3, International Finance Centre, 1 Harbour View Street, Central
Jervois Street Branch	G/F., 117-119 Jervois Street, Sheung Wan
Johnston Road Branch	44-46 Johnston Road
Kennedy Town Centre Branch	Shop D, G/F., Kennedy Town Centre, 23 Belcher's Street, Kennedy Town
King's Road Branch	Shop 2, G/F., S.U.P. Tower, 75-83 King's Road, North Point
Lei King Wan Branch	Shops GD33-34, Upper G/F., 25 Tai On Street, Lei King Wan
Lei Tung Estate Branch	Shop 104, G/F., Phase I, Commercial Centre, Lei Tung Estate
Lyndhurst Terrace Branch	G/F., 44 Lyndhurst Terrace, Central
North Point Branch	326-328 King's Road, North Point

Branch Name	Address
Percival Street Branch	G/F., 60 Percival Street, Causeway Bay
Pokfulam Gardens Branch	Commercial Block B, 180 Pokfulam Road
Port Centre Branch	Shop G10, G/F., Port Centre, 38 Chengtu Road, Aberdeen
Quarry Bay Financial Services Centre	G/F., 1005A King's Road, Quarry Bay
Queen's Road East Branch	G/F., Shops B & C, 228 Queen's Road East, Wanchai
Revenue Tower Branch	G/F., Revenue Tower, 5 Gloucester Road, Wanchai
Sai Ying Pun Branch	338-342 Queen's Road West
Shaukeiwan Branch	G/F., 307-313 Shaukeiwan Road
Sheung Wan Branch	G/F., Kwong Lee Building, 23-25 Queen's Road West, Sheung Wan
Siu Sai Wan Branch	Shops 56-62, G/F., Cheerful Garden, 23 Siu Sai Wan Road
Taikoo Shing Branch	Shops G1010-1011, Yiu Sing Mansion, Taikoo Shing
The University of Hong Kong Branch	Room 203, 2/F., Chong Yuet Ming Amenities Centre
Times Square Branch	Shop B207, Basement 2, Times Square, Causeway Bay
Wanchai Branch	314-324 Hennessy Road, Wanchai
Wong Chuk Hang Branch	Vita Tower, 29 Wong Chuk Hang Road
<i><u>Kowloon</u></i>	
Amoy Plaza Branch	Shops G178-179, G/F., Amoy Gardens Phase II, 77 Ngau Tau Kok Road
Castle Peak Road Branch	154 Castle Peak Road
Cheung Sha Wan Road Branch	132-134 Cheung Sha Wan Road
Chuk Yuen Estate Branch	Shop S2, G/F., Chuk Yuen Shopping Centre
Festival Walk Branch	Unit MTR07, Level MTR, Festival Walk, 80 Tat Chee Avenue, Kowloon Tong
Fu Yan Street Branch	83 Fu Yan Street, Kwun Tong
Hoi Fu Shopping Centre Branch	Shop 1, G/F., Shopping Centre, Hoi Fu Court, Tai Kok Tsui
Hoi Yuen Road Branch	Unit 1, G/F., Hewlett Centre, 54 Hoi Yuen Road
Hong Kong Baptist University Branch	Unit G02, G/F., Jockey Club Academic Community Centre, Hong Kong Baptist University, 9 Baptist University Road, Kowloon Tong
Houston Centre Branch	Shop G53, Houston Centre
Hunghom Branch	Shops C & D, G/F., Billion Court, 63 Wuhu Street, Hunghom
Jordan Branch	Shops 6 & 7, G/F., 238 Nathan Road
Kowloon City Branch	G/F., 90 Nga Tsin Wai Road, Kowloon City
Kowloon City Plaza Branch	Shops LG13 & LG15, Lower G/F., Kowloon City Plaza, 128 Carpenter Road, Kowloon City
Kowloon City Road Branch	G/F., 56B & C Kowloon City Road, Tokwawan
Kwun Tong Branch	7 Hong Ning Road
Laguna City Branch	Shop 38, G/F., Commercial Complex, Laguna City
Lai Chi Kok Branch	277-281 Lai Chi Kok Road
Lok Fu Estate Branch	Shop G3, Lok Fu Shopping Centre
Lower Wong Tai Sin Estate Branch	S13, 2/F., Wong Tai Sin Shopping Centre
Ma Tau Wai Road Branch	23-27 Ma Tau Wai Road
Mei Foo Sun Chuen Branch	Shop N57, G/F., Mount Sterling Mall
Mongkok Branch	638-640 Nathan Road
Mongkok North Branch	G/F., Foon Shing Building, 732 Nathan Road
Mongkok South Branch	G/F. & 1/F., Righteous Centre, 585 Nathan Road
Nga Tsin Wai Road Branch	78 Nga Tsin Wai Road, Kowloon City
Parques Street Branch	G/F., 57-59 Parkes Street, Jordan
Pau Chung Street Branch	Shop D, 154-160 Pau Chung Street, Tokwawan
San Po Kong Branch	65 Shung Ling Street
Shamshuipo Branch	Shops 1-4, G/F., Lai Kwan Court, 438 Castle Peak Road
Tai Hang Sai Branch	1-3 Tai Hang Tung Road
Tai Hang Tung Branch	13 Woh Chai Street
Tai Po Road Branch	18 Tai Po Road, Shamshuipo
Tokwawan Branch	267 Tokwawan Road
Tsim Sha Tsui Branch	12 Granville Road
Tsz Wan Shan Branch	1 Yuk Wah Crescent
Waterloo Road Branch	Shop A, G/F., Richland House, 77B & 77C Waterloo Road, Homantin
Whampoa Garden Branch	Shops 1-3, G/F., Site 9, Whampoa Garden, Hunghom
Yaumatei Branch	Shops 1 & 2, G/F., Hydan Place, 228 Shanghai Street, Yaumatei

Branch Name	Address
	<i>New Territories</i>
Cheung Chau Branch	G/F., 73 Tai Sun Street, Cheung Chau
Chung Fu Shopping Centre Branch	Shop 204, 2/F., Chung Fu Shopping Centre, Tin Shui Wai
Chung On Estate Branch	Shop 132, 1/F., Shopping Centre, Chung On Estate, Ma On Shan
Dragonair House Branch	Room G01, Dragonair House, 11 Tung Fai Road, Hong Kong International Airport, Lantau Island
Fanling Branch	Shops B & C, 39-41 Wo Fung Street, Luen Wo Hui
Fu Tung Estate Branch	Shop 11, G/F., Shopping Centre, Fu Tung Estate, Tung Chung, Lantau Island
Ha Kwai Chung Branch	202 Hing Fong Road
Ka Fuk Estate Branch	Shop 111, 1/F., Shopping Centre, Ka Fuk Estate, Fanling
Kwong Fuk Road Branch	G/F., 94-96 Kwong Fuk Road, Tai Po
Lee On Estate Branch	Shop LG203, L/G 2, Shopping Centre, Lee On Estate, Ma On Shan
Lingnan University Branch	Shop MBG 14, Main Building, Lingnan University, 8 Castle Peak Road, Tuen Mun
Metro City Plaza Branch	Shop 1079, Level 1, Metro City Plaza II, 8 Yan King Road, Tseung Kwan O
Ming Tak Estate Branch	Shop 15, G/F., Shopping Centre, Ming Tak Estate, Tseung Kwan O
Peng Chau Branch	G/F., 1D Wing On Street, Peng Chau
Sam Shing Estate Branch	1/F., Commercial Complex, Sam Shing Estate, Tuen Mun
Sha Tsui Road Branch	G/F., 313 Sha Tsui Road, Tsuen Wan
Shatin New Town Branch	Shops 726-730, Level 7/F., New Town Plaza Phase 1, Shatin
Shatin Plaza Branch	Shop 4, Level 1, Shatin Plaza
Sheung Kwai Chung Branch	44-46 Shek Yam Road, Kwai Chung
Sheung Shui Branch	Shops 1018-19, L1, Sheung Shui Centre Shopping Arcade, 3 Chi Cheong Road, Sheung Shui
Silvermine Bay Branch	Shop A2, Silver Centre Building, Silvermine Bay, Lantau Island
Sun Chui Estate Branch	Shop 12, G/F., Commercial Centre, Sun Chui Estate, Shatin
Tai O Branch	G/F., 6-8 Market Street, Tai O, Lantau Island
Tai Po Plaza Branch	Units 49-52, Level 1, Tai Po Plaza, Tai Po
Tai Wai Branch	16-18 Tai Wai Road, Cheung Fung Mansion, Shatin
The Hong Kong Institute of Education Branch	Room AG-10, Administration Building, The Hong Kong Institute of Education, 10 Lo Ping Road, Tai Po
Tsing Yi Garden Branch	Shops 9-11, G/F., Tsing Yi Garden, Tsing Yi
Tsuen Wan Branch	241 Sha Tsui Road, Tsuen Wan
Tsuen Wan Market Street Branch	G/F., 43A Market Street, Tsuen Wan
Tuen Mun Branch	Shop G16, G/F., Eldo Court Shopping Centre, Tuen Mun
Yuen Long Branch	77 Castle Peak Road, Yuen Long
Yuen Long Main Road Branch	G/F., 172 Yuen Long Main Road, Yuen Long

Chiyu Bank

Branch Name	Address
	<i>Hong Kong Island</i>
Head Office	78 Des Voeux Road, Central
North Point Branch	390-394 King's Road, North Point
Quarry Bay Branch	997 King's Road, Quarry Bay
Sheung Wan Branch	22-24 Bonham Strand West
Western Branch	429-431 Queen's Road West
Wanchai Branch	325 Hennessy Road, Wanchai
	<i>Kowloon</i>
Castle Peak Road Branch	226-228 Castle Peak Road
Hunghom Branch	23-25 Gillies Avenue, Hunghom
Kowloon Bay Branch	Shop 10 G/F., Kai Lok House, Kai Yip Estate, Kowloon Bay
Kwun Tong Branch	42-44 Mut Wah Street, Kwun Tong
Sham Shui Po Branch	235-237 Lai Chi Kok Road
San Po Kong Branch	61-63 Hong Keung Street, San Po Kong
Tokwawan Branch	G/F., Shop 11-13, 78 Tokwawan Road
Tsz Wan Shan Branch	Shop 202, 2/F., Tsz Wan Shan Shopping Centre, 23 Yuk Wan Street, Tsz Wan Shan
Yau Ma Tei Branch	117-119 Shanghai Street, Yaumatei
	<i>New Territories</i>
Belvedere Garden Branch	Shop 5A, G/F., Belvedere Square, Tsuen Wan
Kwai Hing Estate Branch	Shop 1, G/F., Hing Yat House, Kwai Hing Estate, Kwai Chung
Ma On Shan Branch	Shop 313 Level 3, Ma On Shan Plaza, Bayshore Tower, Ma On Shan
Sui Wo Court Branch	Shop F7, Commercial Centre, Sui Wo Court, Shatin
Sheung Tak Estate Branch	Shop 238, Sheung Tak Shopping Centre, Sheung Tak Estate, Tseung Kwan O
Tai Wo Estate Branch	Shops 112-114, G/F., On Wo House, Tai Wo Estate, Tai Po
Yau Oi Estate Branch	Shops 103-104 G/F., Restaurant Block, Yau Oi Estate, Tuen Mun
Tsuen Wan Centre Branch	Shops 1-9, UG/F., B15-17, Tsuen Wan Centre, Phase II, Tsuen Wan

Citibank

Branch Name	Address
	<u>Hong Kong Island</u>
Causeway Bay Branch	Shops 1-2, G/F., Caroline Centre, 2-38 Yun Ping Road, Causeway Bay
CitiGold Wealth Management Center (Pacific Place)	Shop 202, The Mall, Pacific Place, Admiralty
CitiGold Wealth Management Centre (Wheelock House)	1002-1003, 10/F., Wheelock House, 20 Pedder Street, Central
Dorset Branch	11/F., Dorset House, Taikoo Place, Quarry Bay
Exchange Square Branch	Shops 101, 201-202, 303-304, One Exchange Square, 8 Connaught Place, Central
North Point Branch	Fortress Tower, 250 King's Road, North Point
Queen's Road Central Branch	Loke Yew Building, 50-52 Queen's Road Central, Central
Sogo Branch	Wellable Commercial Building, 513-517 Hennessy Road, Causeway Bay
Wanchai Branch	Yue Hing Building, 101-105 Hennessy Road, Wanchai
Wheelock House Branch	Wheelock House, 20 Pedder Street, Central
	<u>Kowloon</u>
Hankow Centre Branch	Hankow Centre, 4B Ashley Road, Tsim Sha Tsui
Kwun Tong Branch	26 Yue Man Square, Kwun Tong
Mei Foo Branch	8C Nassau Street, Mei Foo Sun Chuen, Mei Foo
Mongkok Branch	Punfet Building, 699-701 Nathan Road, Mongkok
Nathan Road Branch	72 Nathan Road, Tsim Sha Tsui
Whampoa Garden Branch	Shop 9, G/F., Juniper Mansion, Site 1 Whampoa Garden, Hung Hom
	<u>New Territories</u>
Shatin Branch	Shop 7, G/F., Shatin Plaza, Shatin
Tsuen Wan Branch	10-12 Chung On Street, Tsuen Wan
Tuen Mun Branch	28 Heung Sze Wui Road, Tuen Mun
Yuen Long Branch	128 Main Road, Yuen Long

CITIC Ka Wah Bank

Branch Name	Address
	<u>Hong Kong Island</u>
Main Branch	232 Des Voeux Road Central
Aberdeen Branch	196 Aberdeen Main Road
Causeway Bay Branch	451-453 Hennessy Road
Central Branch	G/F., Lansing House, 43-45 Queen's Road Central
North Point Branch	Shop B3, G/F., Hang Ying House, 318-328 King's Road
Quarry Bay Branch	G/F., Westlands Gardens, 1025 King's Road, Quarry Bay
Queen's Road West Branch	G/F., Sun On Building, 488 Queen's Road West, Western District
Wanchai Branch	164-166 Hennessy Road, Wanchai
Wealth Management Centre-Taikoo Place	Shops 5 & 6D, G/F, Hoi Kwong Court, 9-15 Tong Chong Street, Quarry Bay
	<u>Kowloon</u>
Homantin Branch	84B-C, Waterloo Road
Hunghom Branch	46 Wuhu Street
Jordan Branch	G/F., 42 Pilkem Street
Kowloon City Branch	142 Nga Tsin Wai Road
Kwun Tong Branch	6 Yue Man Square
Lai Chi Kok Road Branch	308 Lai Chi Kok Road
Mongkok Road Branch	48 Mongkok Road
Shanghai Street Branch	520A-522 Shanghai Street
Tokwawan Branch	406 Ma Tau Wai Road
Tsim Sha Tsui Branch	Shops 3&4, G/F., Mass Resources Development Building, 12-16 Humphreys Avenue, Tsim Sha Tsui
	<u>New Territories</u>
Shatin Centre Branch	Shops 52C, 52F & 53A, Level 3, Shatin Centre, 2-16 Wang Pok Street, Shatin
Sheung Shui Branch	138 San Fung Ave, Sheung Shui
Tai Wai Branch	G/F., Shop B, Yuet On Building, 49-53 Tai Wai Road, Shatin
Tsuen Wan Castle Peak Road Branch	281-283 Castle Peak Road, Tsuen Wan
Tsuen Wan Chung On Street Branch	G/F., Chau Wan Building, 27 Chung On Street, Tsuen Wan
Tuen Mun Branch	Shops 4-5, G/F., Ming Wai Building, 18-20 Heung Sze Wui Road, Tuen Mun
Yuen Long Branch	G/F., Cheong Yu Building, 143-145 Castle Peak Road, Yuen Long

Dao Heng Bank Group

For the purposes of the giving of instructions by investors to apply for the Notes through Dao Heng Bank, the designated branches of Dao Heng Bank shall include the designated branches of Dao Heng Bank, DBS Kwong On Bank Limited (“**DBS Kwong On Bank**”), Overseas Trust Bank Limited (“**Overseas Trust Bank**”). Investors who have already opened a bank account and an investment account with Dao Heng Bank, DBS Kwong On Bank or Overseas Trust Bank may give their application instructions to any of the aforesaid banks as if they were the same bank for such purposes.

Dao Heng Bank

Branch Name	Address
	<i>Hong Kong Island</i>
Head Office	G/F., The Center, 99 Queen’s Road Central
Causeway Bay Branch	8 Hysan Avenue
Central Branch	Shop A, G/F., Wing On House, 71 Des Voeux Road Central
Chaiwan Branch	Shops 109-119, G/F., Lok Hin Terrace, 350 Chaiwan Road
Eastern Branch	G/F., 391 King’s Road, North Point
Electric Road Branch	128 Electric Road, North Point
Happy Valley Branch	23 Sing Woo Road
Hennessy Road Branch	427-429 Hennessy Road, Causeway Bay
Ice House Street Branch	B1, New Henry House, 10 Ice House Street
Kennedy Town Branch	G/F., 93-95 Belcher’s Street
Quarry Bay Branch	Shop A, G/F., 1063 King’s Road, Quarry Bay
Shaukeiwan Branch	G/F., 143-145 Shaukeiwan Road
Sheung Wan Branch	259-265 Des Voeux Road Central, Sheung Wan
South Horizons Branch	Shop G05, G/F., Marina Square East Commercial Centre, South Horizons
United Centre Branch	1/F., United Centre, 95 Queensway
Wanchai Branch	Shop A, G/F., Jonsim Place, 228 Queen’s Road East
West Point Branch	G/F., 441 Queen’s Road West, West Point
	<i>Kowloon</i>
Castle Peak Road Branch	362 Castle Peak Road
Hunghom Branch	71-73 Ma Tau Wei Road
Kowloon Bay Branch	Shop 9, G/F., Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay
Kowloon Tong Branch	Franki Centre, 320 Junction Road
Kwun Tong Branch	G/F., 54-58 Mut Wah Street, Kwun Tong
Lam Tin Branch	Shop 2, G/F., 49 Kai Tin Road, Lam Tin
Lok Wah Branch	Shop 204 Commercial Centre, Lok Wah North Estate, Ngau Tau Kok
Mongkok Branch	G/F., 742-744 Nathan Road, Mongkok
Ngau Tau Kok Branch	Shop P, G/F., 167-169 Ngau Tau Kok Road
Shamshuiipo Branch	G/F., 173-177 Cheung Sha Wan Road, Shamshuiipo
Tak Man Street Branch	G/F., On Fu Building, 16 Tak Man Street, Hunghom
Tsim Sha Tsui Branch	Shop A, G/F., 30-32 Cameron Road
Yaumati Branch	131-137 Woo Sung Street
	<i>New Territories</i>
Cheung Chau Branch	87-89 Hing Lung Street, Cheung Chau
Chun Shek Estate Branch	Shop 10, Shopping Centre, Chun Shek Estate, Shatin
Fanling Branch	G/F., 27-29 Luen Hing Street, Luen Wo Market, Fanling
Flora Plaza Branch	Shops 67-71, G/F., Flora Plaza, Fanling
Kwai Chung Branch	G/F., 1001 Kwai Chung Road, Kwai Chung
Ma On Shan Branch	Shops 205-206, Level 2, Ma On Shan Plaza
New Town Plaza Branch	Shops 569-570, Level 5, New Town Plaza Phase I, Shatin
Sheung Shui Branch	G/F., 5 San Tsoi Street, Sheung Shui
Tai Po Branch	G/F., 78-80 Po Heung Street, Tai Po
Tin Shui Wai Branch	Shops 23-32, Kingswood Richly Plaza, Tin Wu Road, Tin Shui Wai
TP-Fortune Plaza Branch	Shops 51 & 52, Fortune Plaza, 4 On Chee Road, Tai Po
Tsuen Wan Branch	G/F., 281 Sha Tsui Road, Tsuen Wan
Tuen Mun Branch	G/F., 90A Tuen Mun Heung Sze Wui Road, Tuen Mun
Yuen Long Branch	G/F., 1-5 Tai Tong Road, Yuen Long

DBS Kwong On Bank

Branch Name	Address
	<i>Hong Kong Island</i>
Main Branch	139 Queen’s Road Central, Central
Causeway Bay Branch	12-14 Yee Wo Street, Causeway Bay
Chai Wan Branch	Shops 101-108, G/F., Lok Hin Terrace, 350 Chaiwan Road, Chai Wan
Des Voeux Road Branch	G/F., Tung Ming Building, 40-42 Des Voeux Road Central, Central
Man Yee Branch	Shop G01, G/F Man Yee Building, 68 Des Voeux Road Central, Central
North Point Branch	Shop 2, G/F, Henan Electric Development Bldg., 389 King’s Road, North Point

Branch Name	Address
	<u>Kowloon</u>
Canton Road Branch	Shop 1, G/F., Hanley House, 68 Canton Road, Tsim Sha Tsui
Castle Peak Road Branch	377-379 Castle Peak Road, Cheung Sha Wan
Hip Wo Street Branch	59 Hip Wo Street, Kwun Tong
Hunghom Branch	78A Wuhu Street, Hunghom
Kowloon City Branch	27 Nga Tsin Wai Road, Kowloon City
Mongkok Branch	728 - 730 Nathan Road, Mongkok
Sanpokong Branch	Perfect Industrial Building, 31 Tai Yau Street, San Po Kwong
Shamshuipo Branch	140 - 144 Nam Cheong Street, Shamshuipo
Tsim Sha Tsui East Branch	Shops 12-15 East Ocean Centre, 98 Granville Road, Tsim Sha Tsui
Yaumatei Branch	19-21 Jordan Road, Jordan
	<u>New Territories</u>
Kwai Chung Branch	499 Castle Peak Road, Kwai Chung
Tsuen Wan Branch	39 Tsuen Wan Market Street, Tsuen Wan

Overseas Trust Bank

Branch Name	Address
	<u>Hong Kong Island</u>
Aberdeen Branch	G/F., 9 Wu Nam Street
Gloucester Road Branch	6/F., OTB Building, 160 Gloucester Road
North Point Branch	G/F., 189-191 King's Road
Taikoo Shing Branch	Shop G-406, Ming Kung Mansion, 22 Taikoo Shing Road
Wanchai Branch	G/F., 191-193 Johnston Road
Western Branch	G/F., 51-57 Des Voeux Road West
	<u>Kowloon</u>
Hunghom Branch	G/F., 12-16 Pak Tai Street
Kowloon Branch	G/F., 524 Nathan Road
Mei Foo Branch	Shop N26A, Stage V, Mei Foo Sun Chuen, 10-12 Nassau Street
Tai Kok Tsui Branch	Shop A1, G/F., Tai Fu Building, 133 Tai Kok Tsui Road
Tsim Sha Tsui Branch	G/F., 5 Hanoi Road
Yue Man Square Branch	Shops 4 & 5, G/F., Mido Mansion, 59-61 Yue Man Square, Kwun Tong
	<u>New Territories</u>
Shatin Branch	Shop 5, G/F., Yiu Po Mansion, 37 Tai Wai Road, Shatin
Tsuen Wan Branch	G/F., 23 Chung On Street, Tsuen Wan
Yuen Long Branch	G/F., 95-97 Castle Peak Road, Yuen Long

HSBC

Branch Name	Address
	<u>Hong Kong Island</u>
Head Office	1 Queen's Road Central
128 Queen's Road Central Branch	V Heun Building, 128-140 Queen's Road Central
Aberdeen Centre Branch	Shop 2, G/F., Site I, Aberdeen Centre, Aberdeen
Causeway Bay Branch	1/F., Causeway Bay Plaza Two, 463-483 Lockhart Road, Causeway Bay
Chaiwan Branch	Shops 1-11, Block B, G/F., Walton Estate, Chaiwan
Cityplaza Branch	Unit 065, Cityplaza I, Taikoo Shing
Des Voeux Road Central Branch	China Insurance Group Building, 141 Des Voeux Road Central
Des Voeux Road West Branch	Western Centre, 40-50 Des Voeux Road West
Hay Wah Building Branch	G/F., Hay Wah Building, 71-85B Hennessy Road, Wanchai
North Point Branch	G/F., Winner House, 306-316 King's Road, North Point
Pacific Place Branch	Shop 401, Pacific Place, 88 Queensway, Admiralty
The Westwood Branch	LG01-3, LG/F., The Westwood, 8 Belcher's Street
	<u>Kowloon</u>
Festival Walk Branch	Shops LG1-37, Festival Walk, 80 Tat Chee Avenue, Kowloon Tong
Hung Hom Branch	Hung Hom Commercial Centre, 41 Ma Tau Wai Road, Hung Hom
Kwun Tong Branch	1 Yue Man Square, Kwun Tong
Mei Foo Sun Chuen Branch	79, Broadway Stage 4, Mei Foo Sun Chuen
Mongkok Branch	673 Nathan Road, Mongkok
Telford Gardens Branch	Shop Units P15-16, Block G, Telford Plaza I, Kowloon Bay
Tsim Sha Tsui Branch	82-84 Nathan Road, Tsim Sha Tsui
Waterloo Road Branch	71 Waterloo Road, Ho Man Tin
	<u>New Territories</u>
City Landmark Branch	Shops 117-131, 1/F., City Landmark I, 68 Chung On Street, Tsuen Wan
Shatin Centre Branch	Shop 30D, Level 3, Shatin Centre Shopping Arcade, Shatin
Tai Po Branch	54-62, Kwong Fuk Road, Tai Po
Yuen Long Branch	G/F., HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long

Hang Seng Bank

Branch Name	Address
	<i>Hong Kong Island</i>
Head Office	83 Des Voeux Road Central
Aberdeen Centre Branch	10 Nam Ning Street
Causeway Bay Branch	28 Yee Woo Street
Central District Branch	Basement, Central Building, Pedder Street
Hennessy Road Branch	417 Hennessy Road
North Point Branch	335 King's Road
Quarry Bay Branch	989 King's Road
Wanchai Branch	200 Hennessy Road
	<i>Kowloon</i>
Kowloon Main Branch	618 Nathan Road
Hankow Road Branch	4 Hankow Road
Hunghom Branch	21 Ma Tau Wai Road
Kowloon Bay Branch	Shop P18, Telford Gardens
Kwun Tong Branch	70 Yue Man Square
Mei Foo Sun Chuen (Nassau Street) Branch	10 Nassau Street
Mongkok Branch	677 Nathan Road
Pei Ho Street Branch	151 Pei Ho Street
Tsim Sha Tsui Branch	18 Carnarvon Road
Yaumatei Branch	363 Nathan Road
	<i>New Territories</i>
Chung On Street Branch	38 Chung On Street, Tsuen Wan
Shatin Branch	Shop 18, Lucky Plaza, Wang Pok Street, Shatin
Sun Kwai Hing Plaza Branch	Shop B, 2/F., Sun Kwai Hing Plaza, 168 Hing Fong Road, Kwai Chung
Tsuen Wan Branch	289 Sha Tsui Road, Tsuen Wan
Tuen Mun Town Plaza Branch	Shop 28, Upper G/F., Tuen Mun Town Plaza, Phase II, Tuen Mun

International Bank of Asia

Branch Name	Address
	<i>Hong Kong Island</i>
Central Main Branch	G/F., IBA Building, 38 Des Voeux Road Central
Causeway Bay Branch	G/F., Island Building, 439-445 Hennessy Road
Causeway Bay WMC	M/F., Island Building, 439-445 Hennessy Road, Causeway Bay
Chaiwan Branch	Shops 82, 83, 85 & 86 LG/F., Koway Plaza, 111 Chaiwan Road
Happy Valley Branch	G/F., Rosedale Garden, 25-27 Sing Woo Road
Kennedy Town Branch	Shop B, G/F., Man Kwong Court, 12F-12G, Smithfield
North Point Branch	Shop 2, G/F., Tsing Wan Building, 334-336 King's Road, North Point
Queen's Road East Branch	Shop 2, G/F., Wu Chung House, 213 Queen's Road East
Taikoo Shing Branch	Units 3-4, Cityplaza II, Taikoo Shing
Wanchai Branch	G/F., 113 Wanchai Road
	<i>Kowloon</i>
Cheung Sha Wan Branch	Shops D & E, G/F., Wing Lung Building, 220-240A Castle Peak Road
Hunghom Branch	Shop A3, G/F., 13 Tak Man Street, Wong Po Sun Tsuen, Hunghom
Jordan Road Branch	Shop A, G/F., Ka Woo Building, 131-137 Woo Sung Street
Mongkok Branch	G/F., President Commercial Center, 602 Nathan Road
Ngau Tau Kok Branch	Shop K, G/F., Kwun Tong Lap Shing Building, 325 Ngau Tau Kok Road
Richland Gardens Branch	Shops 111-112 & 117-118, Richland Gardens, Commercial Complex, Wang Kwong Road
Shamshuipo Branch	G/F., Nam Pont Mansion, 128-136 Nam Cheong Street
Tsim Sha Tsui Branch	G/F., Grand Right Center, 10-10A Cameron Road, Tsim Sha Tsui
Mei Foo Branch	G/F., 26B Nassau Street
	<i>New Territories</i>
Shatin Centre Branch	Shop 31L, Shatin Center, 2-16 Wang Poh Street, Shatin
Tai Po Branch	Shop 28, G/F., Jade Plaza, On Chee Road, Tai Po
Tai Wai Branch	Shop 6, G/F., Kam Shan Building, 21 Tai Wai Road, Tai Wai
Tsuen Wan Branch	2/F., Wing On Mansion, 22-28 Tai Ho Road, Tsuen Wan
Tsuen Wan WMC	G/F. & 1/F., Wing On Mansion, 22-28 Tai Ho Road, Tsuen Wan
Tuen Mun Branch	Shop 11, G/F., Mei Hang Building, 15-45 Kai Man Path, Tuen Mun
Yuen Long Branch	G/F., Hing Fat House, 9 Kau Yuk Rd, Yuen Long

Nanyang Commercial Bank

Branch Name	Address
	<i>Hong Kong Island</i>
Head Office	151 Des Voeux Road Central
Aberdeen Branch	171 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	472 Hennessy Road, Causeway Bay
Causeway Centre Branch	Shop 16, Causeway Centre, 28 Harbour Road, Wanchai
Central District Branch	56 Wellington Street, Central
Des Voeux Road West Branch	334 Des Voeux Road West
Happy Valley Branch	29 Wong Nei Chong Road, Happy Valley
Kennedy Town Branch	86 Belcher's Street, Kennedy Town
North Point Branch	351 King's Road, North Point

Branch Name	Address
Quarry Bay Branch	1014 King's Road, Quarry Bay
Sai Wan Ho Branch	63 Shaukeiwan Road, Sai Wan Ho
Sheung Wan Branch	21 Connaught Road West, Sheung Wan
Sunning Road Branch	8 Sunning Road, Causeway Bay
Wanchai Branch	123 Johnston Road, Wanchai
Western Branch	128 Bonham Strand East, Sheung Wan

Kowloon

Ferry Point Branch	32-36 Ferry Street, Yaumatei
Homantin Branch	71A Waterloo Road, Homantin
Hunghom Branch	69A Wuhu Street, Hunghom
Jordan Road Branch	20 Jordan Road
Kowloon City Branch	86 Nga Tsin Wai Road, Kowloon City
Kwun Tong Branch	60 Yue Man Square, Kwun Tong
Laguna City Branch	Shop 26, Laguna Plaza, Cha Kwo Ling Road
Lai Chi Kok Road Branch	236 Lai Chi Kok Road, Lai Chi Kok
Mongkok Branch	727 Nathan Road, Mongkok
Nathan Road Branch	570 Nathan Road, Mongkok
Peninsula Centre Branch	G48 Peninsula Centre, Tsim Sha Tsui East
San Po Kong Branch	G/F., 41-45 Yin Hing Street, San Po Kong
Shamshuiipo Branch	198-200 Tai Po Road, Shamshuiipo
Tokwawan Branch	62 Tokwawan Road, Tokwawan
Tsim Sha Tsui Branch	35 Hankow Road, Tsim Sha Tsui
Tsun Yip Street Branch	48 Tsun Yip Street, Kwun Tong
Yaumatei Branch	309 Nathan Road, Yaumatei

New Territories

Ha Kwai Chung Branch	180 Hing Fong Road, Kwai Chung
Kwai Chung Branch	100 Lei Muk Road, Kwai Chung
Luk Yeung Sun Chuen Branch	P2A-C, 1/F., Luk Yeung Galleria, 22-26 Wai Tsuen Road, Tsuen Wan
Sai Kung Branch	Shops 11-12, Sai Kung Garden, Man Nin Street, Sai Kung
Shatin Branch	Shops 7-8, G/F., Lucky Plaza, Shatin
Sheung Shui Branch	31 Fu Hing Street, Sheung Shui
Tai Po Branch	71 Po Heung Street, Tai Po
Tsuen Wan Branch	78 Chung On Street, Tsuen Wan
Tuen Mun Branch	G/F., Forward Mansion, Yan Ching Circuit, Tuen Mun
Yuen Long Branch	Tung Yik Building, Tai Tong Road, Yuen Long

Shanghai Commercial Bank

Branch Name	Address
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Hong Kong Island

Head Office	12 Queen's Road Central
Aberdeen Branch	118 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	18 Pennington Street, Causeway Bay
Hennessy Road Branch	Shop LG16, C.C.Wu Building, 302 Hennessy Road, Wanchai
North Point Branch	486 King's Road, North Point
Paterson Street Branch	8A Kingston Street, Causeway Bay
Shaukeiwan Branch	136 Shaukeiwan Main Street East, Shaukeiwan
Sheung Wan Branch	19-25 Jervois Street, Sheung Wan
Siu Sai Wan Branch	Shop 9, G/F., Harmony Garden, 9 Siu Sai Wan Road, Chaiwan
Taikoo Shing Branch	G502, Tai Yue Avenue, Taikoo Shing
Victoria Centre Branch	G7, Victoria Centre, 15 Watson Road, Causeway Bay
Wanchai Branch	19-21 Hennessy Road, Wanchai
West Point Branch	47 Catchick Street, West Point

Kowloon

Austin Road Branch	140-142 Austin Road, Jordan
Kowloon Bay Branch	Telford House, 16 Wang Hoi Road, Kowloon Bay
Kowloon Tong Branch	G28, Franki Centre, 320 Junction Road, Kowloon Tong
Kwun Tong Branch	57-61 Hong Ning Road, Kwun Tong
Lai Chi Kok Branch	Shops 5-8, G/F., Lai Kwan Court, 438 Castle Peak Road, Lai Chi Kok
Mei Foo Sun Chuen (Stage 1) Branch	29D Broadway, Mei Foo Sun Chuen, Lai Chi Kok
Mei Foo Sun Chuen (Stage 4) Branch	83B Broadway, Mei Foo Sun Chuen, Lai Chi Kok
Mongkok Branch	666 Nathan Road, Mongkok
Ping Shek Estate Branch	115 Tsuen Shek House, Ping Shek Estate, Ngau Chi Wan
San Po Kong Branch	28 Hong Keung Street, San Po Kong
Shamshuiipo Branch	141 Cheung Sha Wan Road, Shamshuiipo
Tokwawan Branch	60 Tokwawan Road, Tokwawan
Tsim Sha Tsui Branch	7 Hankow Road, Tsim Sha Tsui
Tsim Sha Tsui East Branch	G27, Houston Centre, 63 Mody Road, Tsim Sha Tsui East
TVB Office	Production Block HK-TVB Studio, Lot 214, Clear Water Bay
Waterloo Road Branch	84K Waterloo Road, Homantin
Whampoa Garden Branch	Shop 9, Palm Mansions, Whampoa Garden, Site 4, Hunghom

New Territories

Kingswood Villa Branch	Shop G08, G/F, Phase 2, Kingswood Ginza, 18 Tin Yan Road, Tin Shui Wai
Kwai Chung Branch	Shop 3, Hutchison Estate, 482 Castle Peak Road, Kwai Chung
Ma On Shan Branch	Shop 308, Level 3, Ma On Shan Plaza, 608 Sai Sha Road, Ma On Shan
Shatin Branch	Shop 70B, Level 3, Shatin Centre, Wang Pok Street, Shatin
Sheung Shui Branch	126 San Fung Avenue, Sheung Shui
Texaco Road Branch	Shops B128-131, East Asia Commercial Centre, 36-60 Texaco Road, Tsuen Wan

Branch Name	Address
Tseung Kwan O Branch	Shops G1-2, G/F., Metro City Plaza III, The Metropolis, 8 Mau Yip Road, Tseung Kwan O
Tsuen Wan Branch	Shop 3B, Level 1, Discovery Park Commercial Centre, 398 Castle Peak Road, Tsuen Wan
Tuen Mun Branch	Shop 4A, Level Two (South Wing), Trend Plaza, Tuen Mun
Tung Chung Branch	Shops 1 & 2, Block 5, Tung Chung Crescent, Tung Chung, Lantau
Yuen Long Branch	17 Hong Lok Road, Yuen Long

Standard Chartered Bank

Branch Name	Address
<i>Hong Kong Island</i>	
Aberdeen Branch	Shop 4A, G/F., Aberdeen Centre, Aberdeen
CIG Building Branch	Shop B, G/F., China Insurance Group Building, 141 Des Voeux Road Central
Causeway Bay Branch	1 Sugar Street, Causeway Bay
Cityplaza Branch	Shops 042-043, G/F., Cityplaza Phase II
Des Voeux Road Branch	4-4A, Des Voeux Road Central
Exchange Square Branch	Automated Banking Centre Shops 301-302, 3/F., One Exchange Square, 8 Connaught Place, Central
Hennessy Road Branch	399 Hennessy Road, Wanchai
Landmark Branch	Shops 135 & 138-141, 1/F., Edinburgh Tower, The Landmark, 15 Queen's Road Central
Leighton Centre Branch	Shops 12-16, UG/F., Leighton Centre, 77 Leighton Road, Causeway Bay
New Jade Garden Branch	Shops 101 & 145, Level 1, New Jade Shopping Arcade, Chaiwan
North Point Centre Branch	284 King's Road, North Point
Pacific Place Automated Banking Centre Branch	Unit 355, Level 3, Pacific Place, 88 Queensway
Quarry Bay Branch	Westlands Gardens, 1027 King's Road, Quarry Bay
Queen's Road Central Branch	G/F., Wah Yuen Building, 145-149 Queen's Road Central
Queensway Plaza Branch	Shops B12-16, Queensway Plaza, 93 Queensway
Shaukeiwan East Branch	118-124 Shaukeiwan Main Street East, Shaukeiwan
Shek Tong Tsui Branch	Shops 8-12, G/F., 455-485 Queen's Road West
Sheung Wan Branch	Centre Mark, 287-299 Queen's Road Central
Taikoo Place Branch	Shops A&B, G/F., King's House 969 King's Road
Tai On Building Branch	85-87 Shaukeiwan Road, Shaukeiwan
Wanchai Branch	3 Fleming Road, Wanchai
Wanchai Great Eagle Branch	Shops 113-117, 1/F., Great Eagle Centre, 23 Harbour Road, Wanchai
Wanchai Southern Branch	Shops 3&4, G/F., Shanghai Industrial Investment Building, 50-52 Hennessy Road, Wanchai
<i>Kowloon</i>	
Amoy Plaza Branch	Shops 81-83 & 96-97, G/F., Amoy Plaza, 77 Ngau Tau Kok Road
Canton Road Branch	G/F. & 1/F., Manley House, 86-98 Canton Road, Tsim Sha Tsui
Cheung Sha Wan Road Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
Dragon Centre Branch	Automated Banking Centre Shop G01, G/F., Dragon Centre, 37K Yen Chow Street, Shamshuipo
Fung Wong Village Branch	6 Sheung Fung Sreet, Fung Wong Village
Hunghom Branch	G/F, 255 & 257 Tokwawan Road, Hunghom
Hunghom Commercial Centre Branch	Shops 33-37, G/F., Hunghom Commercial Centre, Hunghom
Jordan Branch	Shops G3, G4 & G5, G/F., London Plaza, 219 Nathan Road
Kowloon Bay Branch	Shop 1, G/F., Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay
Kowloon City Branch	G/F., 76 Nga Tsin Wai Road, Kowloon City
Kwun Tong Branch	1A Yue Man Square, Kwun Tong
Kwun Tong Plaza Branch	Automated Banking Centre, Shops G9-14, G/F., Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong
Lai Chi Kok Road Branch	Shops D&E, G/F., Carprio Mansion, 1 Lai Chi Kok Road
Lok Fu Shopping Centre Branch	Shops S25-S27, 2/F., Lok Fu Shopping Centre
Mei Foo Stage I Branch	G/F., 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok
Mongkok Bank Centre Branch	630-636 Nathan Road, Mongkok
Mongkok Ka Lok Building Branch	G/F. & 1/F., Ka Lok Building, 720, 720A & 722 Nathan Road, Mongkok
New Mandarin Plaza Branch	Shops 12 -19, G/F., New Mandarin Plaza, 14 Science Museum Road, Tsim Sha Tsui East
Oi Man Branch	G/F., Oi Man Commercial Complex, Oi Man Estate, Homantin
Oterprise Square Branch	Shop 3, G/F. and Shop 1, 1/F., Oterprise Square, 26 Nathan Road, Tsim Sha Tsui
San Po Kong Branch	10-20 Ning Yuen Street, San Po Kong
Sceneway Plaza Branch	Shops 4A2-7, Level 3, Sceneway Plaza, Lam Tin
Tseung Kwan O Branch	Shop 107, 1/F., Hau Tak Shopping Centre, Hau Tak Estate, Tseung Kwan O
Tsim Sha Tsui Branch	G/F., 10 Granville Road, Tsim Sha Tsui
Waterloo Road Branch	Shop A3, G/F., Pine Manor, 61-63 Waterloo Road
Whampoa Estate Branch	Shops 6E, 36-60F Tak Man Street, Phase 4, Whampoa Estate, Hunghom
Yaumatei Branch	546-550 Nathan Road, Yaumatei
<i>New Territories</i>	
Chung On Street Branch	Shop A, G/F., Chau Hop Shing Building, 8 Chung On Street, Tsuen Wan
City One Shatin Branch	Shops 30-33, G/F., Ngan Shing Commercial Centre, City One Shatin
Eightland Garden Branch	Shop 21, G/F., Eightland Gardens, Tai Po
Fo Tan Branch	Shop 3, 1/F., Shatin Galleria, 18-24 Shan Mei Street, Fo Tan, Shatin
Kwai Chung Branch	Shops 26B, 26C&26D, G/F., Tak Cheong Building, 1001 Kwai Chung Road, Kwai Chung
Kwai Chung Plaza Branch	Shops A25-A28, G/F., Kwai Chung Plaza, Kwai Chung
Kwai Fong Branch	Shops 3 & 11, G/F., Kwai Kin House, Kwai Fong Estate, Kwai Chung Road
Ma On Shan Branch	231 - 234, Level 2, Ma On Shan Plaza, Ma On Shan

Branch Name	Address
Maritime Square Branch	Shop 153, Level 1, Maritime Square, Tsing Yi
Nan Fung Centre Branch	Shops A120-A121, 1/F., Nan Fung Centre, 264-298 Castle Peak Road, Tsuen Wan
Sai Kung Branch	1-5 Wan King Path, Sai Kung
Shatin Centre Branch	Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin
Shatin Plaza Branch	Automated Banking Centre, Shop 17B, Level 3, Shatin Plaza, Shatin
Sheung Shui Branch	55 San Fung Avenue, Shek Wu Hui, Sheung Shui
Tai Po Branch	23 & 25 Kwong Fuk Road, Tai Po Market, Tai Po
Tai Wai Branch	Shop 90, G/F., Tai Wai Road, Shops 103 & 105, Chik Fuk Street, Tai Wai
Tin Shui Wai Branch	Shop 103, 1/F., Tin Yiu Commercial Centre, Tin Yiu Estate, Tin Shui Wai, Yuen Long
Tsuen Wan Branch	B1/F., Emperor Plaza, 263 Sha Tsui Road, Tsuen Wan
Tuen Mun Branch	Portions of Shops G & H and the whole of Shops I & F, G/F., Forward Mansion, 26A Yan Ching Street, Tuen Mun
Tuen Mun Town Plaza Branch	Shops G047-G052, Tuen Mun Town Plaza Phase I, Tuen Mun
Wo Yi Hop Road Branch	Shops 1&2, G/F., Lee Wo Building, 124-128 & 132-136 Wo Yi Hop Road, Kwai Chung
Yuen Long Branch	140 Yuen Long Main Road, Yuen Long
Yuen Long, Kuk Ting Branch	G/F., 79 Castle Peak Road, Yuen Long

Wing Lung Bank

Branch Name	Address
<i>Hong Kong Island</i>	
Head Office	45 Des Voeux Road Central
Aberdeen Branch	201 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	45 Jardine's Bazaar, Causeway Bay
Central District Branch	112 Queen's Road Central
Convention Plaza Branch	1 Harbour Road, Wanchai North
Happy Valley Branch	44 King Kwong Street, Happy Valley
Johnston Road Branch	118 Johnston Road, Wanchai
Kennedy Town Branch	28 Catchick Street, Kennedy Town
North Point Branch	361 King's Road, North Point
Percival Street Branch	62 Percival Street, Causeway Bay
Quarry Bay Branch	1A Westlands Road, Quarry Bay
Sai Wan Ho Branch	123 Shaukeiwan Road, Sai Wan Ho
Wanchai Branch	383 Hennessy Road, Wanchai
Western District Branch	262 Queen's Road West
<i>Kowloon</i>	
Grand Century Place Branch	193 Prince Edward Road West, Mongkok
Hunghom Branch	28 Wuhu Street, Hunghom
Jordan Branch	123 Woo Sung Street, Jordan
Kowloon Bay Branch	19 Lam Lok Street, Kowloon Bay
Kwun Tong Branch	339 Ngau Tau Kok Road, Kwun Tong
Lai Chi Kok Road Branch	17 Lai Chi Kok Road, Lai Chi Kok
Mongkok Branch	Bank Centre, 636 Nathan Road, Mongkok
Nam Cheong Street Branch	85 Nam Cheong Street, Shamshuipo
San Po Kong Branch	8 Shung Ling Street, San Po Kong
Shamshuipo Branch	111 Tai Po Road, Shamshuipo
Tokwawan Branch	64 Tokwawan Road, Tokwawan
Tsim Sha Tsui Branch	4 Carnarvon Road, Tsim Sha Tsui
Tsz Wan Shan Branch	25 Fung Tak Road, Tsz Wan Shan
<i>New Territories</i>	
Discovery Park Branch	398 Castle Peak Road, Tsuen Wan
Fanling Branch	15 Luen Hing Street, Fanling
Kwai Chung Branch	128 Wo Yip Hop Road, Kwai Chung
Shatin Branch	8 Tai Wai Road, Shatin
Sheung Shui Branch	128 San Fung Avenue, Sheung Shui
Tai Po Branch	1 On Chee Road, Tai Po
Tsuen Wan Branch	251 Sha Tsui Road, Tsuen Wan
Tuen Mun Branch	42 Tuen Mun Heung Sze Wui Road, Tuen Mun
Yuen Long Branch	37 On Ning Road, Yuen Long

The HKMC's Website

The Prospectus is also available on the HKMC's website — www.hkmc.com.hk, to which the websites of Bank of China (Hong Kong), The Bank of East Asia, CITIC Ka Wah Bank, Dao Heng Bank, HSBC, Hang Seng Bank, Standard Chartered Bank and Wing Lung Bank have a hyperlink.

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 Notes:

Bank of China (Hong Kong)

Telephone Number	Service Hours	
2291 8000	Monday - Friday	9:00 a.m. to 11:00 p.m.
	Saturday	9:00 a.m. to 6:00 p.m.
	Sunday and public holidays	Closed

The Bank of East Asia

Telephone Number	Service Hours	
2211 1333	Monday - Friday	9:00 a.m. to 5:00 p.m.
	Saturday	9:00 a.m. to 1:00 p.m.
	Sunday and public holidays	Closed

Chiyu Bank

Telephone Number	Service Hours	
2232 3608	Monday - Friday	9:00 a.m. to 11:00 p.m.
	Saturday	9:00 a.m. to 1:00 p.m.
	Sunday and public holidays	Closed

Citibank

Telephone Number	Service Hours	
2860 0222	Monday - Sunday (including public holidays)	24-hours

CITIC Ka Wah Bank

Telephone Number	Service Hours	
2287 6767	Monday - Friday	9:00 a.m. to 8:00 p.m.
	Saturday	9:00 a.m. to 6:00 p.m.
	Sunday and public holidays	Closed

Dao Heng Bank

Telephone Number	Service Hours	
2961 2380	Monday - Friday	9:00 a.m. to 6:00 p.m.
	Saturday	9:00 a.m. to 1:00 p.m.
	Sunday and public holidays	Closed

HSBC

Telephone Number	Service Hours	
2269 2121	Monday - Sunday (including public holidays)	24-hours

Hang Seng Bank

Telephone Number	Service Hours	
2998 9898	Monday - Friday	8:30 a.m. to 6:00 p.m.
	Saturday	8:30 a.m. to 1:00 p.m.
	Sunday and public holidays	Closed

International Bank of Asia

Telephone Number	Service Hours	
2842 6262	Monday - Friday	9:00 a.m. to 6:00 p.m.
	Saturday	9:00 a.m. to 1:00 p.m.
	Sunday and public holidays	Closed

Nanyang Commercial Bank

Telephone Number	Service Hours	
2202 8500	Monday - Friday	9:00 a.m. to 11:00 p.m.
	Saturday	9:00 a.m. to 1:00 p.m.
	Sunday and public holidays	Closed

Shanghai Commercial Bank

Telephone Number	Service Hours	
2841 5928	Monday - Friday	9:00 a.m. to 6:00 p.m.
	Saturday	9:00 a.m. to 1:00 p.m.
	Sunday and public holidays	Closed

Standard Chartered Bank

Telephone Number	Service Hours	
2886 8868 (please press 2*9)	Monday - Friday	9:00 a.m. to 5:30 p.m.
	Saturday	9:00 a.m. to 12:30 p.m.
	Sunday and public holidays	Closed

Wing Lung Bank

Telephone Number	Service Hours	
2526 5555	Monday - Friday	8:30 a.m. to 6:30 p.m.
	Saturday	8:30 a.m. to 1:30 p.m.
	Sunday and public holidays	Closed

SUMMARY OF THE NOTES BEING OFFERED

This Prospectus is issued in respect of an offer of the Tranche A Notes, the Tranche B Notes and the Tranche C Notes. The principal terms of the Notes are summarised below.

The Issue No. for each Tranche of Notes:	HKMC305 for Tranche A Notes HKMC203E for Tranche B Notes HKMC503F for Tranche C Notes
Subscription Period:	9:00 a.m. 3 October 2002 (Thursday) — 2:00 p.m. 11 October 2002 (Friday)
Price-fixing Date for the Tranche A Notes and the Tranche B Notes:	16 October 2002 (Wednesday) (the “ Price-fixing Date ”)
Issue Date:	18 October 2002 (Friday) (the “ Issue Date ”)
Application for Notes:	Applications for Notes will be made only by the Placing Banks. In order to instruct a Placing Bank to apply for Notes 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. Different 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 the Placing Bank before you instruct it. (See the section headed “How to apply for the Notes” in this Prospectus.)
Application Price:	<p>The application price (the “Application Price”) of the Tranche A Notes and the Tranche B Notes is 102 per cent. of the principal amount of the Notes of that tranche. The Application Price of the Tranche A Notes and the Tranche B Notes 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 Notes of either tranche.</p> <p>The Application Price of the Tranche C Notes is 100 per cent. of the principal amount of the Tranche C Notes.</p>
Subscription Price:	<p>The subscription price (the “Subscription Price”) of each of the Tranche A Notes and the Tranche B Notes will be expressed as a percentage of the principal amount of the Notes of that tranche and will be determined on the Price-fixing Date so that the Notes of that tranche will have an annualised yield equal to the annualised yield of an identified issue of Exchange Fund Notes (“EFN”) plus a specified margin, as follows:</p> $\begin{aligned} \text{Annualised Yield of Tranche A Notes} &= \text{EFN 5509 offer yield} + \\ &\quad 0.15 \text{ per cent.} \\ \text{Annualised Yield of Tranche B Notes} &= \text{EFN 5709 offer yield} + \\ &\quad 0.20 \text{ per cent.} \end{aligned}$ <p>where the determination will be made by reference to the relevant EFN offer yields as quoted at or around 11:30 a.m. on the Price-fixing Date on Reuters Pages EFHL, EFHN, EFHO, EFHP and EFHQ. If the offer yield of the identified issue of EFN is not available, the Calculation Agent (as defined in the section headed “Terms and Conditions of the Notes” in this Prospectus) and the HKMC jointly shall have the discretion to select an alternative comparable issue of EFN for price-fixing purposes.</p>

The Subscription Price of each of the Tranche A Notes and the Tranche B Notes may be equal to or more or less than the Application Price of that tranche of Notes. See the sections headed “How to Apply for the Notes” and “How the Subscription Price of the Notes will be fixed” in this Prospectus.

The Subscription Price of the Tranche C Notes is 100 per cent. of the principal amount of the Tranche C Notes.

Handling Fee:

The Placing Bank to which you give your instructions to apply for the Notes will charge you a handling fee of 0.15 per cent. of the Subscription Price of Notes which are allotted to you.

Application Amount:

Upon application for any tranche of the Notes, you are required to pay an amount equal to the Application Price of the relevant tranche, plus a handling fee of 0.15 per cent. of the Application Price of the Notes you apply for (the “**Application Amount**”). See the table set out under the section headed “How to Apply for the Notes” in this Prospectus.

Subscription Amount:

The actual amount you are required to pay for the Notes allotted to you is equal to the Subscription Price of the relevant Notes plus a handling fee of 0.15 per cent. of the Subscription Price (the “**Subscription Amount**”). **In respect of the Tranche A Notes and the Tranche B Notes, the Subscription Amount may be equal to or more or less than the Application Amount. If the Subscription Amount is more than the Application Amount, you must make an additional payment of the difference. If the Subscription Amount is less than the Application Amount, the difference will be refunded to you.**

Aggregate Principal Amount of Issue:

The minimum issue amount of each tranche of Notes is HK\$50,000,000. The Underwriting Banks have, subject to the terms of the Underwriting Agreement, agreed to severally underwrite the issue of the Notes by subscribing for Notes to the extent that public subscription in relation to any tranche of Notes falls short of the total commitment of the Underwriting Banks to underwrite the issue of a particular tranche, provided that no Underwriting Bank will be required to subscribe for any more Notes of a particular tranche if the public subscription in relation to that tranche of Notes received through it in its capacity as a Placing Bank (except in the case of Citigroup, through Citibank) is equal to or more than its commitment to underwrite that tranche of Notes. For further information see the section headed “Placing and Underwriting Arrangements” in this Prospectus. There is no specified maximum aggregate principal amount of Notes; however, the HKMC reserves the right to fix the principal amount of Notes of each tranche to be issued in the light of valid applications received and its funding requirements. If the principal amount of Notes of a tranche to be issued is less than the principal amount of Notes of that tranche which has been validly applied for, Notes will be allocated as described in the section headed “Allocation of Notes” in this Prospectus.

Allocation of Notes:	If valid applications are received for more Notes of any tranche than are to be issued, a minimum of HK\$50,000 in principal amount of the Notes of that tranche will be allocated to each of the Placing Bank's accounts through which valid application instructions were given (and so that (i) if more than one valid application instruction is given from the same account, all such valid application instructions will be aggregated and (ii) the accounts to receive such allocation will be chosen by ballot if valid application instructions for Notes of a tranche are received through a greater number of accounts than the number of Notes of that tranche to be allocated), and the remaining Notes of that tranche will be allocated on a pro rata basis to the remaining number of Notes validly applied for (rounded down to the nearest whole Note) and in the case of Notes remaining after rounding, by ballot. Fractions of Notes will not be allotted. No one will be allotted more Notes than they validly applied for.
Maturity Date:	The Notes will be redeemed on the interest payment date (as described below) falling on or nearest to: 18 October 2005 in respect of Tranche A Notes 18 October 2004, subject to extension as described under "Maturity Extension" below, in which case, 18 October 2007, in respect of Tranche B Notes 18 October 2007 in respect of Tranche C Notes
Maturity Extension:	The HKMC may give notice to the holders of the Tranche B Notes to extend the maturity date in respect of the Tranche B Notes from the interest payment date falling on or nearest to 18 October 2004 to the interest payment date falling on or nearest to 18 October 2007. The maturity date in respect of the Tranche B Notes shall be so extended upon the HKMC giving notice of such extension (i) while the Tranche B Notes are represented by a Global Note, to the Paying Agents and the Operator (as defined in the section headed "Settlement, Clearance and Custody" in this Prospectus) or (ii) where Definitive Tranche B Notes have been issued, to the holder of the Definitive Tranche B Notes in accordance with Condition 10(b), in each case on a day at least 10 business days before 18 October 2004. Extension of the maturity of the Tranche B Notes is at the option of the HKMC. The decision of whether or not to extend the maturity of the Tranche B Notes will be based on commercial considerations of the HKMC, which will take into account such factors as the HKMC's need for funding and the cost of any alternative funding.
Redemption Price:	100 per cent. of the principal amount of the Notes
Interest Rate:	Tranche A Notes and Tranche B Notes: 2.70 per cent. per annum in respect of Tranche A Notes 3.30 per cent. per annum in respect of Tranche B Notes

Interest will be calculated and paid at the specified rates by reference to 100 per cent. of the principal amount of the Notes. In respect of each of the Tranche A Notes and the Tranche B Notes, the total return on the Notes, or yield to maturity, however, will depend on the Subscription Price of that tranche. If the Subscription Price is greater than 100 per cent. of the principal amount of the Notes, 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 Notes, the annualised yield will be greater than the specified interest rate (on an annualised basis). The Subscription Price of each of the Tranche A Notes and the Tranche B Notes will be fixed so that the annualised yield on the Notes is equal to the offer yield of an identified issue of EFN, plus a specified margin: see “Subscription Price” above.

Tranche C Notes:

(i) 5.50 per cent. per annum from and including 18 October 2002 to but excluding 20 October 2003 and (ii) the higher of (a) 6.00 per cent. per annum minus six-month HIBOR (as determined under the Terms and Conditions of the Notes, see the Section headed “Interest — Terms and Conditions of the Notes” in this Prospectus) and (b) 0.50 per cent. per annum in respect of each Interest Period (as defined in the section headed “Terms and Conditions of the Notes” in this Prospectus) beginning on or after 20 October 2003.

HIBOR will be determined by reference to the rate for deposits in Hong Kong dollars for a period equal to the relevant Interest Period which appears on the display page designated 9898 on the Moneyline/Telerate (or such other page as may replace that page on that service, or such other service as may be nominated by the information vendor, for the purpose of displaying comparable rates) as at 11.00 a.m. on the first day of the relevant Interest Period, subject to the Terms and Conditions of the Notes. (See the section headed “Terms and Conditions of the Notes” in this Prospectus).

After the first year, the coupon on the Tranche C Notes will decrease if prevailing interest rates (six-month HIBOR as determined under the Terms and Conditions of the Notes) increase and will increase if prevailing interest rates decrease.

The Principal Paying Agent (as defined herein) and the Placing Banks will notify the Tranche C Noteholders of the applicable interest rate and interest amount in respect of each Interest Period in accordance with, respectively, the terms and conditions of the Notes and the terms of the Placing Bank Agreement.

Frequency of Interest Payments:

Interest payments will be made twice in each year.

Interest Payment Dates: Interest is payable semi-annually in arrear on 18 October and 18 April in each year (each an “**interest payment date**”). If an interest payment date is not a business day, it will be postponed to the next business day, unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day, and the amount of interest payable will be adjusted accordingly. Subject always to the Terms and Conditions of the Notes, the interest payment dates for the Notes are expected to fall as follows:

Tranche A Notes:

22 April 2003, 20 October 2003, 19 April 2004, 18 October 2004, 18 April 2005, 18 October 2005

Tranche B Notes:

22 April 2003, 20 October 2003, 19 April 2004, 18 October 2004, and subject to “Maturity Extension” as described above, 18 April 2005, 18 October 2005, 18 April 2006, 18 October 2006, 18 April 2007, 18 October 2007

Tranche C Notes:

22 April 2003, 20 October 2003, 19 April 2004, 18 October 2004, 18 April 2005, 18 October 2005, 18 April 2006, 18 October 2006, 18 April 2007, 18 October 2007

Interest is calculated on the basis of the number of days in the interest period (being a period from and including an interest payment date (or in the case of the first interest period, the Issue Date) to but excluding the next interest payment date) and a 365-day year.

Payments on the Notes: All payments of principal and interest on the Notes will be made by credit through the investment account in which the Notes are held.

Denomination: HK\$50,000 per Note

Form of Notes: Three permanent global Notes in bearer form, each representing the total principal amount of a tranche of Notes, will be deposited on the Issue Date of the Notes with the CMU operated by the HKMA and no Definitive Notes will be issued initially. Definitive Notes will only be issued in the limited circumstances set out in the Global Notes. **Individual Noteholders must hold their Notes in an investment account with a participant in the CMU. For the purpose of initial allotment of Notes, 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.** See the section headed “Custody Arrangements with Placing Banks” in this Prospectus. **Your ability to pledge your interest in the Notes to persons who are not participants of the CMU, or otherwise to take action in respect of your interest, may be affected by the lack of definitive Notes.**

Terms of the Notes while represented by Global Notes:

Title

The Global Notes representing the Notes will be held by a sub-custodian nominated by the HKMA as operator of the CMU. The Global Note will be held for the account of the Placing Banks or other CMU members who have accounts with the CMU Operator (the “**CMU participants**”). Notes, in the form of interests in the Global Notes, will be credited to the accounts of the Placing Banks with the CMU. As long as the CMU Operator is the holder of the Global Notes, the operator will be considered the absolute owner of such Global Notes for all purposes under the Trust Deed.

Payments

While the Global Notes representing the Notes 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 that Global Note 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 HKMC in respect of that payment. Payments by the CMU participants to individual investors will be governed by arrangements agreed between the CMU participants and the individual investors (including the standard terms and conditions of the investment accounts of the Placing Banks) 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 and the individual investors will have no recourse against the HKMC in the case of any non-payment by any CMU participants.

Notices

So long as the Notes are represented by the Global Notes and the Global Notes are held by or on behalf of the CMU Operator, notices required to be given to Noteholders may be given by their being delivered to the CMU Operator. Individual investors will rely on the CMU participants (through which their Notes, in the form of interests in the relevant Global Notes, are held) to deliver the notices to them, subject to the arrangements agreed between the individual investors and the CMU participants.

(See the section headed “Settlement, Clearance and Custody” in this Prospectus.)

Taxation:

All payments of principal and/or interest in respect of the Notes 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.

No Government Guarantee:

The obligations of the HKMC to pay interest on each tranche of the Notes and to repay the principal amount of each tranche of the Notes when they mature are not guaranteed by, and are not obligations of, the Government of Hong Kong. For other considerations relating to an investment in the Notes, see the section headed “Risk Factors” in this Prospectus.

No Listing:

The Notes will not be listed on any stock exchange. Each of the Placing Banks (except Citibank) and Citigroup has, subject to certain limitations, agreed to quote prices at which it will buy or sell Notes — see the section headed “Market Making Arrangements” in this Prospectus. These arrangements do not assure an active trading market for the Notes.

The prices quoted by each Placing Bank may be different. If you have been allotted Notes through, or have bought Notes from, a Placing Bank and wish to sell the Notes to, or buy further Notes from, another Placing Bank, you will be required to open an investment account with such Placing Bank before you will be able to do so.

Cancellation of Offering:

The HKMC reserves the right to cancel the offering of one or more tranches of the Notes on or before the Issue Date for the Notes, in which case, no Notes of the relevant tranche or tranches will be issued and all applicants for the relevant tranche or tranches will be refunded their Application Amounts. The HKMC will give prompt public notice of such cancellation.

The Underwriting Banks may terminate their obligations under the Underwriting Agreement in certain circumstances prior to the issue of the Notes. The HKMC will give prompt public notice if the Underwriting Agreement is terminated in circumstances in which it does not intend to cancel the offering of all three tranches of the Notes. In such circumstances, if less than HK\$50,000,000 of Notes of any tranche is applied for, no Note of that tranche will be issued.

Security Interest in the Notes in favour of the Placing Banks:

The standard terms and conditions of the investment account of each Placing Bank may permit it to take a security interest in, or to impose other restrictions on, the Notes credited to the 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 it to secure any amounts which may be owing by you to the Placing Bank. In particular, if the Placing Bank makes an advance to you in connection with the payment of any Subscription Amount in excess of the Application Amount of the Notes (for example, if the Subscription Price is fixed at more than the Application Price and there are not sufficient monies in your bank account to pay it), the Placing Bank may have the legal right to restrict your ability to transfer the Notes, to collect amounts owing to it out of payments of interest or principal received on the Notes or to sell the Notes and recoup amounts owing to it or other sale expenses, duties and interest costs out of the proceeds of sale and/or to charge interest on amounts owing to it.

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 with Placing Banks” in this Prospectus.)

TIMETABLE FOR NOTE ISSUE AND SUBSCRIPTION FOR THE NOTES

9:00 a.m. on 3 October 2002
Thursday
Commencement Date of
Subscription Period

Applications for Notes may be made from this date on. (See the section headed “How to Apply for the Notes” in this Prospectus.)

You must 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 Application Amount in respect of Notes 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 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. 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 with Placing Banks” in this Prospectus.)

2:00 p.m. on 11 October 2002
Friday
Closing Date of
Subscription Period
(the “Closing Date”)

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

The 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.

You should also make funding arrangements with the Placing Banks to ensure that you have sufficient funds to pay any Subscription Amount in excess of the Application Amount in the event that the Notes allotted to you are issued at a premium in excess of the Application Price. The standard terms and conditions of the investment account of each Placing Bank will provide for it with the right to take actions to recover any amounts, including Subscription Amount in excess of the Application Amount, which may be owing by you to the Placing Bank. See the section headed “Custody Arrangements with Placing Banks” in this Prospectus.

16 October 2002
Wednesday
Price-fixing Date for the Tranche A
Notes and the Tranche B Notes
(Closing Date plus two business days)

The Calculation Agent will fix the Subscription Price and the annualised yield of each of the Tranche A Notes and the Tranche B Notes by reference to the offer yield of the identified issue of EFN quoted by the HKMA at or around 11:30 a.m. on this date. If valid applications are received for more Notes of any tranche than are to be issued, the Notes will be allocated as described in the section headed “Allocation of Notes” in this Prospectus.

In respect of the Tranche A Notes and the Tranche B Notes, if the Subscription Price of any tranche of Notes is more than the Application Price of that tranche, the Subscription Amount in excess of the Application Amount will be debited from your designated bank account with the Placing Bank to which you gave your instructions to apply for Notes of that tranche.

The HKMC will announce the Subscription Price (for each of the Tranche A Notes and the Tranche B Notes only), the issue amount and the principal amount of valid applications received in respect of each tranche of Notes on its website, to which the websites of Bank of China (Hong Kong), The Bank of East Asia, CITIC Ka Wah Bank, Dao Heng Bank, HSBC, Hang Seng Bank, Standard Chartered Bank and Wing Lung Bank have a hyperlink, as specified in the section headed “Where to Obtain Copies of the Prospectus” in this Prospectus.

18 October 2002
Friday
Issue Date
(Closing Date plus four business days)

In respect of the Tranche A Notes and the Tranche B Notes, if the Subscription Price of any tranche of Notes 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 Application Amount was initially debited. If your application for any tranche of Notes is unsuccessful, invalid or partially successful, your Application Amount will also be refunded to you without interest by credit to your bank account from which the Application Amount was initially debited.

All refunds will be made within 5 business days of the Issue Date.

Notes will be issued against payment in full of the Subscription Price by the Placing Banks. Each Placing Bank will transfer the net amount of the subscription monies (being the Subscription Price for all the Notes allocated to successful applicants who applied through it less the combined placing and distribution fee receivable by it in its capacity as a Placing Bank pursuant to the Placing Bank Agreement and the total Underwriting Commission, if any, receivable by it in its capacity as an Underwriting Bank (or in the case of Citibank, the total Underwriting Commission (as defined in the section headed “Placing and Underwriting Arrangements” in this Prospectus) receivable by Citigroup) pursuant to the Underwriting Agreement) with advice to the HKMC, from the HKMC’s nominee account to the Principal Paying Agent by 10:00 a.m.

The Placing Banks will notify the successful applicants by mail of the Subscription Price, any settlement amounts, any refund amounts, their allotment of Notes and, in the case of the Tranche A Notes and the Tranche B Notes, any Subscription Amount in excess of the Application Amount.

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

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

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

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 (e.g. 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 second business day and the fourth 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 second business day and the fourth 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 third business day and the fifth business day, respectively, following the Closing Date.

HOW THE SUBSCRIPTION PRICE OF THE NOTES 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 Notes. The total return on each of the Tranche A Notes and the Tranche B Notes, or yield to maturity, however, will depend on the Subscription Price of that tranche of Notes. If the Subscription Price of the Tranche A Notes or the Tranche B Notes is greater than 100 per cent. of the principal amount of that tranche of Notes, the annualised yield of that tranche of Notes will be lower than its specified interest rate (on an annualised basis); if the Subscription Price of the Tranche A Notes or the Tranche B Notes is lower than 100 per cent. of the principal amount of that tranche of Notes, the annualised yield of that tranche of Notes will be greater than its specified interest rate (on an annualised basis). The Subscription Price of each of the Tranche A Notes and the Tranche B Notes will be fixed so that the annualised yield on that tranche of Notes is equal to the offer yield of an identified issue of EFN on the Price-fixing Date plus a specified margin: (See the section headed “Summary of the Notes being offered — Subscription Price” in this Prospectus).

The Subscription Prices for the Tranche A Notes and the Tranche B Notes will be fixed on the Price-fixing Date (expected to be 16 October 2002).

The following table sets out, for illustrative purposes, the yields to maturity (on an annualised basis) for the Tranche A Notes and the Tranche B Notes for a range of Subscription Prices.

Subscription Price (as a percentage of the principal amount of the Notes)	HKMC305 Interest rate 2.70 per cent. per annum, (payable semi- annually)	HKMC203E Interest rate 3.30 per cent. per annum, (payable semi- annually)	HKMC203E Interest rate 3.30 per cent. per annum, (payable semi- annually)
	Annualised Yield (%)	Annualised Yield (%) (Assume no maturity extension)	Annualised Yield (%) (Assume maturity extension)
98.00	3.435	4.401	3.777
98.10	3.399	4.346	3.754
98.20	3.363	4.292	3.732
98.30	3.326	4.238	3.709
98.40	3.290	4.184	3.686
98.50	3.254	4.129	3.664
98.60	3.218	4.075	3.641
98.70	3.182	4.021	3.618
98.80	3.146	3.967	3.596
98.90	3.110	3.914	3.573
99.00	3.074	3.860	3.551
99.10	3.038	3.806	3.528
99.20	3.003	3.753	3.506
99.30	2.967	3.699	3.483
99.40	2.931	3.646	3.461
99.50	2.896	3.593	3.439
99.60	2.860	3.539	3.416
99.70	2.825	3.486	3.394
99.80	2.789	3.433	3.372
99.90	2.754	3.380	3.349
100.00	2.718	3.327	3.327
100.10	2.683	3.274	3.305
100.20	2.648	3.222	3.283
100.30	2.612	3.169	3.261

Subscription Price (as a percentage of the principal amount of the Notes)	HKMC305 Interest rate 2.70 per cent. per annum, (payable semi- annually)	HKMC203E Interest rate 3.30 per cent. per annum, (payable semi- annually)	HKMC203E Interest rate 3.30 per cent. per annum, (payable semi- annually)
	Annualised Yield (%)	Annualised Yield (%) (Assume no maturity extension)	Annualised Yield (%) (Assume maturity extension)
100.40	2.577	3.116	3.239
100.50	2.542	3.064	3.217
100.60	2.507	3.011	3.194
100.70	2.472	2.959	3.172
100.80	2.437	2.907	3.150
100.90	2.402	2.855	3.128
101.00	2.367	2.802	3.107
101.10	2.332	2.750	3.085
101.20	2.297	2.699	3.063
101.30	2.262	2.647	3.041
101.40	2.228	2.595	3.019
101.50	2.193	2.543	2.997
101.60	2.158	2.491	2.975
101.70	2.124	2.440	2.954
101.80	2.089	2.388	2.932
101.90	2.055	2.337	2.910
102.00	2.020	2.286	2.889
102.10	1.986	2.234	2.867
102.20	1.952	2.183	2.845
102.30	1.917	2.132	2.824
102.40	1.883	2.081	2.802
102.50	1.849	2.030	2.781
102.60	1.815	1.979	2.759
102.70	1.781	1.928	2.738
102.80	1.746	1.878	2.716
102.90	1.712	1.827	2.695
103.00	1.678	1.777	2.673

Note (1): The Subscription Prices of the Tranche A Notes and the Tranche B Notes 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 the Tranche B notes will be determined on the Price-fixing Date so that the Notes of that Tranche will have an annualized yield equal to the offer yield of EFN 5709 plus 0.20 per cent.

The Subscription Price of the Tranche C Notes is fixed at 100 per cent. of the principal amount of the Notes. It is not possible to predict the total return, or yield to maturity, of the Tranche C Notes because the coupon will be refixed semi-annually (after the first year) by reference to HIBOR as described in this Prospectus.

ALLOCATION OF NOTES

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

1. a minimum of HK\$50,000 in principal amount of the Notes of that tranche will be allocated to each of the Placing Bank's accounts through which valid application instructions were given (and so that (i) if more than one valid application instruction is given from the same account, all such valid application instructions will be aggregated and (ii) the accounts to receive such allocation will be chosen by ballot if valid application instructions for Notes of a tranche are received through a greater number of accounts than the number of Notes of that tranche to be allocated);
2. remaining Notes of that tranche will be allocated to each of such Placing Bank's accounts on a pro rata basis to the remaining number of Notes validly applied for through each such account (rounded down to the nearest whole Note); and
3. in the case of Notes remaining after rounding, by ballot.

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

HOW TO APPLY FOR THE NOTES

Applications for Notes will be made only by the Placing Banks. In order to instruct a Placing Bank to apply for Notes 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. No application form is being issued for the Notes.

Application Procedure

1. Decide what principal amount of Notes you want to buy. Notes are available in the principal amount of HK\$50,000 each, so the principal amount of Notes 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 Notes on your behalf. Different 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 the Placing Bank before you instruct it. 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 with Placing Banks" in this Prospectus. You may give application instructions to more than one Placing Bank.
3. The Application Amount for the Notes you have instructed the relevant Placing Bank to apply for will be debited from your bank account with such Placing Bank from 00:00 a.m. on the Closing Date onwards, expected to be 11 October 2002. By then, you must ensure that your bank account with the relevant Placing Bank has sufficient funds to pay the Application Amount of the Notes 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 Notes and payments of Application Amount is set out below.

**TABLE OF MULTIPLES OF NOTES AND PAYMENTS OF APPLICATION AMOUNT
FOR THE TRANCHE A NOTES AND THE TRANCHE B NOTES**

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

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

**TABLE OF MULTIPLES OF NOTES AND PAYMENTS OF APPLICATION AMOUNT
FOR THE TRANCHE C NOTES**

Number of Notes applied for	Principal amount of Notes applied for (HK\$)	Application Amount (Application Price of 100% of principal amount plus handling fee of 0.15% of Application Price) (HK\$)
1	50,000	50,075
2	100,000	100,150
3	150,000	150,225
4	200,000	200,300
5	250,000	250,375
6	300,000	300,450
7	350,000	350,525
8	400,000	400,600
9	450,000	450,675
10	500,000	500,750
11	550,000	550,825
12	600,000	600,900
13	650,000	650,975
14	700,000	701,050
15	750,000	751,125
16	800,000	801,200
17	850,000	851,275
18	900,000	901,350
19	950,000	951,425
20*	1,000,000*	1,001,500

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

4. Decide how to instruct your Placing Bank to make the application for Notes on your behalf.
- **In Person.** You may go to any designated branch (as set out in the section headed “Where to Obtain Copies of the Prospectus” in this Prospectus) of your chosen Placing Bank and give the instructions in person to apply for Notes 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 paperwork can be completed. (See also the section headed “Custody Arrangements with Placing Banks” in this Prospectus.)
 - **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, CITIC Ka Wah Bank, Dao Heng Bank, HSBC or Hang Seng Bank and if you have made the necessary arrangements to use the internet banking facilities provided by The Bank of East Asia, CITIC Ka Wah Bank, Dao Heng Bank, HSBC or Hang Seng Bank. On-line applications cannot be made through Bank of China (Hong Kong), Chiyu Bank, Citibank, International Bank of Asia, Nanyang Commercial Bank, Shanghai Commercial Bank, Standard Chartered Bank or 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, CITIC Ka Wah Bank, Dao Heng Bank, HSBC and Hang Seng Bank are set out below:

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

CITIC Ka Wah Bank: <http://www.ckw-ibanking.com>

Dao Heng Bank: <http://www.daoheng.com>

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

Hang Seng Bank: <http://www.hangseng.com>

- **By Telephone.** You may make a telephone application if you have both a bank account and an investment account with Bank of China (Hong Kong), The Bank of East Asia, Citibank, CITIC Ka Wah Bank, Dao Heng Bank, HSBC, Hang Seng Bank or Standard Chartered Bank and if you have made the necessary arrangements to use the telephone banking services provided by Bank of China (Hong Kong), The Bank of East Asia, Citibank, CITIC Ka Wah Bank, Dao Heng Bank, HSBC, Hang Seng Bank or Standard Chartered Bank. Telephone applications for Notes cannot be made through Chiyu Bank, International Bank of Asia, Nanyang Commercial Bank, Shanghai Commercial Bank or 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 China (Hong Kong), The Bank of East Asia, Citibank, CITIC Ka Wah Bank, Dao Heng Bank, HSBC, Hang Seng Bank and Standard Chartered Bank are set out below:

Bank of China (Hong Kong):

Telephone Number	Service Hours	
2291 8688	Monday - Friday	9:00 a.m. to 5:00 p.m.
	Saturday	9:00 a.m. to 1:00 p.m.
	Sunday and public holidays	Closed

The Bank of East Asia:

Account Type	Telephone Numbers	Service Hours	
Cyberbanking	2211 1888	Monday - Friday	9:00 a.m. to 5:00 p.m.
		Saturday	9:00 a.m. to 1:00 p.m.
		Sunday and public holidays	Closed
i-Account	2211 1888	Monday - Friday	9:00 a.m. to 5:00 p.m.
		Saturday	9:00 a.m. to 1:00 p.m.
		Sunday and public holidays	Closed
Supreme Account	2211 1888	Monday - Friday	9:00 a.m. to 5:00 p.m.
		Saturday	9:00 a.m. to 1:00 p.m.
		Sunday and public holidays	Closed

Citibank:

Telephone Number	Service Hours	
2860 0222	Monday - Friday	9:00 a.m. to 5:00 p.m.

CITIC Ka Wah Bank:

Telephone Number	Service Hours	
2287 6767	Monday - Friday	9:00 a.m. to 8:00 p.m.
	Saturday	9:00 a.m. to 6:00 p.m.
	Sunday and public holidays	Closed

Dao Heng Bank:

Telephone Number	Service Hours	
2961 2380	Monday - Friday	9:00 a.m. to 6:00 p.m.
	Saturday	9:00 a.m. to 1:00 p.m.
	Sunday and public holidays	Closed

HSBC:

Telephone Number	Service Hours	
2269 2121	Monday - Friday	8:00 a.m. to 7:00 p.m.
	Saturday	8:00 a.m. to 1:00 p.m.
	Sunday and public holidays	Closed

Hang Seng Bank:

Account Type	Telephone Numbers	Service Hours	
Prestige Banking Account	2998 9188	Monday - Friday	8:00 a.m. to 7:00 p.m.
		Saturday	8:00 a.m. to 1:00 p.m.
		Sunday and public holidays	Closed
Stamina Account Femina Account	2822 8228	Monday - Friday	8:00 a.m. to 7:00 p.m.
		Saturday	8:00 a.m. to 1:00 p.m.
		Sunday and public holidays	Closed
Bank-in-one Account (with Manned Phone Banking Service)	2998 9333	Monday - Friday	8:00 a.m. to 7:00 p.m.
		Saturday	8:00 a.m. to 1:00 p.m.
		Sunday and public holidays	Closed
Other Bank-in-one Account	2532 3838	Monday - Friday	9:00 a.m. to 5:00 p.m.
		Saturday	9:00 a.m. to 1:00 p.m.
		Sunday and public holidays	Closed

Standard Chartered Bank:

Telephone Number	Service Hours	
2886 8868 (please press 2*9)	Monday - Friday	9:00 a.m. to 5:30 p.m.
	Saturday	9:00 a.m. to 12:30 p.m.
	Sunday and public holidays	Closed

5. 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.
6. The latest time for submitting your application is 2:00 p.m. on the Closing Date (expected to be 11 October 2002). 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 second business day and the fourth 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 second business day and the fourth 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 third business day and the fifth business day, respectively, following the Closing Date.

Confirmations to be Made by ALL Applicants on Applying for Notes

By giving application instructions for the Notes, you confirm to the Placing Banks and to the HKMC, that, amongst other things, you:

- **understand** that in respect of each of the Tranche A Notes and the Tranche B Notes, the Subscription Price 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 EFN quoted by the HKMA at or around 11:30 a.m. on the Price-fixing Date;
- **understand** that in respect of the Tranche C Notes, after the first year, the coupon on the Tranche C Notes will decrease if prevailing interest rates (six-month HIBOR as determined under the Terms and Conditions of the Notes) increase and will increase if prevailing interest rates decrease;
- **undertake** and **agree** to accept the Notes applied for, or any lesser number allotted to you;
- **undertake** and **agree** to pay, in respect of the Tranche A Notes and the Tranche B Notes, in full the Subscription Amount if the Subscription Price of the Notes is set at more than the Application Price of the Notes;

- **understand** that, in respect of each of the Tranche A Notes and the Tranche B Notes, until you pay in full to the relevant Placing Bank any Subscription Amount in excess of the Application Amount in respect of the Notes allotted to you (for example, because there are insufficient monies in your bank account for such payment), the Placing Bank may do, amongst other things, the following under the terms and conditions of the operation of your bank account and/or investment account with such Placing Bank:
 - (i) have a security interest in, or otherwise impose other restrictions on, your Notes for repayment of such unpaid excess Subscription Amount under the terms and conditions of the operation of your investment account with such Placing Bank such that you may not be able to transfer or otherwise dispose of your Notes; and/or
 - (ii) 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 to secure any amounts which may be owing by you to it; and/or
 - (iii) charge interest on such unpaid excess Subscription Amount; and/or
 - (iv) deduct such unpaid excess Subscription Amount from payment of interest or principal on your Notes; and/or
 - (v) sell your Notes to recoup such unpaid excess Subscription Amount or other sale expenses, duties and interest costs;
- **authorise** the Placing Bank to which you give your application instructions to credit any Notes allotted to you to your investment account with it and **understand** that no certificates of title will be available for your Notes and your interest in your Notes is in book-entry form only;
- **agree** that if you are not allotted any Notes, or if, in the case of the Tranche A Notes and the Tranche B Notes, the Subscription Price of either tranche of Notes is less than the Application Price of the Notes or if your application is successful in part, the whole or an appropriate portion of the Application Amount will be returned to you without interest and that all interest will be retained for the benefit of the HKMC;
- **have read** the terms and conditions and application procedures set out in this Prospectus and **agree** to be bound by them;
- **understand** that, if you make your application for Notes on-line or by telephone, the website and phone banking services are being provided by the relevant Placing Bank and not by the HKMC and that the HKMC accepts 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 HKMC accepts 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 neither the Placing Banks nor the HKMC, 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 Notes in accordance with the terms and conditions of the operation of your bank account/investment account with them; 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 Notes on your behalf.

CUSTODY ARRANGEMENTS WITH PLACING BANKS

Definitive Notes, or certificates representing Notes, will not be issued to individual holders of Notes (except in very limited circumstances as described under the section headed “Terms and Conditions of the Notes” in this Prospectus). Three Global Notes, each representing the total principal amount of a tranche of Notes, will instead be deposited on the Issue Date of the Notes with the CMU operated by the HKMA. Notes, in the form of interests in the Global Notes, will be credited to the accounts of the Placing Banks with the CMU. See the section headed “Settlement, Clearance and Custody” in this Prospectus.

Accordingly, upon giving application instructions for the Notes, you must already have, or you must open, an investment account with your chosen Placing Bank to which your Notes can be credited on issue.

If you do not currently have an investment account with a Placing Bank, in order to apply for the Notes, you must arrange to open an investment account in good time before the close of the subscription period. If you do not have an investment account at the time you give your application instructions for Notes, you must give application instructions for the Notes 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 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 Notes on your behalf.

Some important points about opening and holding your Notes in an investment account are as follows:

- Applications to open an investment account with a Placing Bank will be processed by the Placing Bank 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 is refused for any reason, this will result in your application for Notes through that Placing Bank being rejected.
- Investment account and other custody services with respect to the Notes will be supplied by the Placing Banks 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 before making your application to open an investment account. The HKMC accepts no responsibility for the provision of custody services by the Placing Banks or for any consequences of, or arising from the use of the investment account or custody services.
- The Placing Banks will charge fees for the opening and operation of an investment account: you should check with the Placing Bank with which you intend to open an investment account what fees will be chargeable. Fees may be charged in respect of individual transactions, such as transfers of Notes; 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 with which you intend to open an investment account on what basis fees will be charged in respect of your Notes.
- The standard terms and conditions of the investment account of each Placing Bank may permit it to take a security interest in, or to impose other restrictions on, the Notes 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 it to secure any amounts which may be owing by you to the Placing Bank. In particular, if the Placing Bank makes an advance to you in connection with the payment of any unpaid Subscription Amount of the Notes (for example, if, in the case of each of the Tranche A Notes and the Tranche B Notes, the Subscription Price is fixed at more than the Application Price and there are not sufficient monies in your bank account to pay the Subscription Amount in excess of the Application Amount for the Notes allotted to you), the Placing Bank may have the legal right to restrict your ability to transfer the Notes, to collect amounts owing to it out of payments of interest or principal received on the Notes or to sell the Notes 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.

SUMMARY OF CERTAIN PRINCIPAL TERMS OF THE NOTES

The full text of the terms and conditions (the “**Conditions**”) of the Notes is set out in the section headed “Terms and Conditions of the Notes” in this Prospectus and in the trust deed (as amended, supplemented or novated) dated 26 September 2002 (the “**Trust Deed**”) made between the HKMC and DB Trustees (Hong Kong) Limited (the “**Trustee**”). The following is a summary of certain principal terms of the Notes:

Form of the Notes

Each tranche of Notes will initially be represented by a permanent global note in bearer form (each a “**Global Note**”), without interest coupons attached. Each Global Note will be deposited with a sub-custodian for the HKMA as Operator of the CMU. Interests in each Global Note will only be shown on, and transfers thereof will be effected through, records maintained by the Operator. See the section headed “Settlement, Clearance and Custody” in this Prospectus. The Global Notes will be exchangeable for Notes in definitive form only in limited circumstances.

Status

The Notes are direct, unconditional, unsubordinated, general and unsecured obligations of the HKMC ranking pari passu in all respects and rateably without preference or priority (except for any statutory preference or priority applicable in the winding-up of the HKMC) with all other outstanding unsecured and unsubordinated obligations (contingent or otherwise, present or future) of the HKMC.

The obligations, including the Notes, of the HKMC are not guaranteed by, and are not obligations of, the Government of Hong Kong.

No Redemption prior to maturity

The Notes may not be redeemed before their maturity date (except on an event of default).

Events of Default

The Trustee may, at its discretion, declare the Notes to be immediately due and repayable at their principal amount together with accrued interest if any of the following events (“**Events of Default**”) occurs and is continuing (but subject to certain conditions set out below). There is an Event of Default if:

- (a) there is a default for more than seven days in the payment of any principal, interest or other amount due in respect of any Note; or
- (b) (i) the HKMC shall default in the payment of any principal of or interest on any Borrowed Money (as defined in the Conditions) beyond any period of grace provided in respect thereof, or (ii) the HKMC shall fail to honour when due and called upon any guarantee of any Borrowed Money, or (iii) any Borrowed Money of the HKMC shall become due and payable prior to its specified maturity by reason of any default or event of default (howsoever described), in each case in an aggregate principal amount of at least HK\$100,000,000 or the equivalent thereof in another currency or currencies, or (iv) a general moratorium shall be declared on the payment of the debts of the HKMC; or
- (c) the HKMC shall default in the performance or observance of any other obligation contained in the Notes (or to the extent it relates to the Notes) the Trust Deed and (unless the same shall be certified by the Trustee to be, in its opinion, not capable of remedy) such default shall not have been remedied within 30 days after written notice shall have been given to the HKMC by the Trustee requiring the same to be remedied; or

- (d) an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the HKMC; or
- (e) a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the HKMC; or
- (f) as a result of any action on the part of the HKMC or the Government of Hong Kong, the Government of Hong Kong ceases to hold, directly or indirectly, more than half in nominal value of the voting share capital of the HKMC.

However, the Trustee must certify that in its opinion the Event of Default is materially prejudicial to the interests of the holders of Notes in the case of an Event of Default under paragraphs (b), (c), (e) or (f) above before it may declare the Notes immediately due and payable. The Trustee must, subject to certain further provisions set out in the Conditions, declare an Event of Default if directed to do so in writing by the holders of at least 25 per cent. in aggregate principal amount of all the Notes then outstanding or by an Extraordinary Resolution of the Noteholders passed at a meeting of all Noteholders (if certain other conditions are met).

The Trustee

The Conditions and the Trust Deed provide that no holder of a Note is entitled to take action directly against the HKMC to enforce the Notes unless the Trustee, having become bound to take such action in accordance with the Trust Deed, has failed to do so within a reasonable period. The Trustee is entitled to require an indemnity from Noteholders before becoming bound to take enforcement action. In addition, the Trustee has certain discretions to take action on behalf of the holders of Notes and to agree certain modifications to the Conditions and the Trust Deed without the consent of Noteholders.

Meetings

The Trust Deed contains provisions for convening meetings of Noteholders (of one or more outstanding tranches) to consider any matter affecting their interests. A resolution passed at a meeting of Noteholders of the relevant tranche or tranches is binding on other Noteholders of such tranche or tranches whether they were present or not.

Notices

Notices to Noteholders from the HKMC will be published in an English language and a Chinese language newspaper with general circulation in Hong Kong except that for so long as the Notes are in global form, notices to Noteholders will be distributed to accountholders of the CMU.

Governing Law

The Notes and the Trust Deed are governed by Hong Kong law.

TERMS AND CONDITIONS OF THE NOTES

The following (excluding any paragraphs in italics) are the terms and conditions substantially in the form in which they will be endorsed on the Definitive Notes and referred to in the Global Notes and save where expressly stated otherwise, references herein to “Notes” are to the “Tranche A Notes”, the “Tranche B Notes” or the “Tranche C Notes” separately, according to the tranche of Notes to which they are attached or to which the relevant global Note refers.

The Global Notes, Definitive Notes and related terms and conditions will be issued in the English language, which shall prevail over any Chinese language version in the event of conflict or discrepancy.

The issue of the Issue No. HKMC305 2.70 per cent. Notes due October 2005 (“**Tranche A Notes**”), the Issue No. HKMC203E 3.30 per cent. Extendable Notes due October 2004 (“**Tranche B Notes**”) (extendable to October 2007 at the option of the HKMC) and the Issue No. HKMC503F 5.50 per cent. Fixed-Inverse Floating Rate Notes due October 2007 (5.50% for 1st Year, thereafter 6.00% minus 6-month HIBOR with a minimum of 0.50%) (“**Tranche C Notes**”), was authorized by a written resolution of the Board of Directors of The Hong Kong Mortgage Corporation Limited (the “**HKMC**”) on 19 September 2001. Save where expressly stated otherwise, references to “**Notes**” in these conditions are to the Tranche A Notes, the Tranche B Notes or the Tranche C Notes separately, according to the tranche of Notes on which these conditions are endorsed or to which the relevant Global Note (as defined below) refers. The Notes are constituted by a trust deed (as amended, supplemented or novated, the “**Trust Deed**”) dated 26 September 2002 made between the HKMC and DB Trustees (Hong Kong) Limited (the “**Trustee**” which expression shall wherever the context permits, include all other persons for the time being acting as trustee under the Trust Deed). A paying agency agreement dated 26 September 2002 (the “**Paying Agency Agreement**”) has been entered into in relation to the Notes between the HKMC and Bank of China (Hong Kong) Limited as principal paying agent (the “**Principal Paying Agent**”) and as calculation agent (the “**Calculation Agent**”) and the Trustee. The Principal Paying Agent for the time being and any paying agent as may be appointed from time to time in respect of the Notes under the Paying Agency Agreement are referred to below as the “**Paying Agents**”. In connection with the Notes, the HKMC has executed a deed poll (the “**Deed Poll**”) dated 26 September 2002 in favour of certain accountholders of the Central Moneymarkets Unit Service (the “**CMU**”) (as specified therein).

Copies of the Trust Deed, the Paying Agency Agreement and the Deed Poll are available for inspection during normal business hours at the specified offices of the Trustee and the Paying Agents. The holders of the Notes (the “**Noteholders**”) and the holders of the Coupons (as defined below) (whether or not attached to the Note) (the “**Couponholders**”) are deemed to have notice of all the provisions of the Trust Deed, the Paying Agency Agreement and the Deed Poll applicable to them.

References herein to the “**Notes**” shall mean (i) in relation to any Notes represented by a permanent bearer global note (“**Global Note**”), units of the lowest denomination of the relevant Notes, (ii) in relation to any definitive Notes (“**Definitive Notes**”) issued in exchange for interests in a Global Note, such Definitive Notes, and (iii) any Global Note.

Words and expressions defined in the Trust Deed, the Paying Agency Agreement or the Deed Poll shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated.

1. Form, Denomination and Title

(a) *Global Notes*

The Notes will be represented by a permanent bearer global Note substantially in the form set out in Schedule 2 to the Trust Deed, without interest coupons (“**Coupons**”) attached. The Global Note will be lodged with a sub-custodian for the Hong Kong Monetary Authority as operator (the “**Operator**”) of the CMU, and will be exchangeable for Notes in definitive form only in the circumstances set out therein.

Each tranche of Notes will be represented by a single Global Note, without Coupons attached. The Global Notes will be deposited with a sub-custodian for the Operator on behalf of the Noteholders. If (i) principal in respect of any Note represented by it is not paid when due and payable or following the giving

of a default notice under Condition 7, or (ii) any Global Note is held on behalf of the CMU or an alternative clearing system and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, the HKMC will issue Definitive Notes in exchange for such Global Note.

Except in these very limited circumstances, owners of interests in Notes represented by each Global Note will not be entitled to receive physical delivery of Definitive Notes.

The HKMC has executed the Deed Poll in favour of certain Accountholders (as defined in the Deed Poll) with the CMU in order to facilitate enforcement by individual investors if (i) there should be any default in payment on the Notes by the HKMC and (ii) the Trustee having become bound to proceed directly against the HKMC in accordance with the Trust Deed, fails to do so within a reasonable period and such failure is continuing.

(b) *Form and denomination*

Definitive Notes, if issued, will be serially numbered and in bearer form in the denomination of HK\$50,000 each with Coupons attached on issue and may be lodged with the CMU.

(c) *Title*

For so long as any of the Notes are represented by a Global Note, each person who is for the time being shown in the records of the Operator as the holder of a particular principal amount of Notes (in which regard any certificate or other document issued by the Operator as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes except in the case of manifest error) shall be treated by the HKMC, the Trustee, the Paying Agents and the Operator as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, the right to which shall be vested, as against the HKMC, the Trustee, the Paying Agents and the Operator solely in the bearer of the relevant Global Note in accordance with and subject to its terms (and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly). Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of the Operator.

Except as set out above, title to the Notes and Coupons appertaining thereto will pass by delivery. The HKMC, the Trustee, the Paying Agents and the Operator may deem and treat the bearer of any Global Note or Definitive Note(s) (and any Coupon appertaining thereto) as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the preceding paragraph.

2. **Status of Notes**

The Notes and Coupons are direct, unconditional, unsubordinated, general and unsecured obligations of the HKMC ranking *pari passu* in all respects and rateably without preference or priority (except for any statutory preference or priority applicable in the winding-up of the HKMC) with all other outstanding unsecured or unsubordinated obligations (contingent or otherwise, present and future) of the HKMC.

3. **Interest**

(a) *Accrual of interest and payments*

The Notes shall bear interest from 18 October 2002 or such later date as shall be specified in the Notes (the “**Issue Date**” or the “**Interest Commencement Date**”), payable semi-annually in arrear on 18 October and 18 April in each year (each an “**Interest Payment Date**”), subject as provided in Condition 5. If any Interest Payment Date would otherwise fall on a day which is not a business day (as defined in Condition 5), it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day. Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date is herein referred to as an “**Interest Period**”.

(b) *Cessation of interest*

Each Note will cease to bear interest from the due date for redemption therefor unless upon due presentation or surrender thereof, payment in full of principal on such Note is improperly withheld or refused or default is otherwise made in the payment thereof in which case interest shall continue to accrue at the Rate of Interest (as defined below) (or, if higher, the rate of interest on judgment debts for the time being provided by Hong Kong law) on the principal amount in respect of which payment has been improperly withheld or refused or default has been made (as well after as before any demand or judgment) until whichever is the earlier of (i) the date on which, upon further presentation or surrender of the relevant Note, all sums due in respect of such Note up to that day are received by or on behalf of the holder of such Note and (ii) the seventh day after the Paying Agents have notified the holder thereof (either in accordance with Condition 10 or individually) of the receipt of all sums due in respect thereof up to that date.

(c) *Rate of Interest:*

- (i) the Tranche A Notes bear interest at 2.70 per cent. per annum;
- (ii) the Tranche B Notes bear interest at 3.30 per cent. per annum; and
- (iii) the Tranche C Notes bear interest at (i) 5.50 per cent. per annum from and including 18 October 2002 to but excluding 20 October 2003 and (ii) the higher of (a) 6.00 per cent. per annum minus six-month HIBOR and (b) 0.50 per cent. per annum in respect of each Interest Period beginning on or after 20 October 2003

and references to “**Rate of Interest**” in these Conditions shall be to the rate of interest applicable to the Notes in question.

(d) *Calculations of Interest*

- (i) The amount of interest payable in respect of any Tranche A Note and Tranche B Note for any Interest Period and of any Tranche C Note for the Interest Periods beginning on, or nearest to, 18 October 2002 and 18 April 2003 shall be calculated by the Calculation Agent by multiplying the Rate of Interest, the principal amount of such Notes and the actual number of days elapsed in such Interest Period and then dividing the product thereof by 365 days (half a cent being rounded upwards).
- (ii) The Rate of Interest applicable to the Tranche C Notes for each Interest Period beginning on or after the Interest Payment Date falling on, or nearest to, 20 October 2003 will be determined by the Calculation Agent on the following basis:
 - (1) the Calculation Agent will determine the rate for deposits in Hong Kong dollars for a period equal to the relevant Interest Period which appears on the display page designated 9898 on the Moneyline/Telerate (or such other page as may replace that page on that service, or such other service as may be nominated by the information vendor, for the purpose of displaying comparable rates) as of 11.00 a.m. (Hong Kong time) on the first day of the relevant Interest Period (the “**Interest Determination Date**”). The Rate of Interest for such Interest Period shall be 6.00 per cent. per annum minus the rate which so appears, as determined by the Calculation Agent;
 - (2) if such rate does not appear on that page, the Calculation Agent will request each of the Reference Banks to provide a quotation of the rate at which deposits in Hong Kong dollars are offered by it in the Hong Kong interbank market at approximately 11.00 a.m. (Hong Kong time) on the Interest Determination Date to prime banks in the Hong Kong interbank market for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time. The Rate of Interest for such Interest Period shall be 6.00 per cent. per annum minus the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations as determined by the Calculation Agent;

- (3) if on any Interest Determination Date one or two only of the Reference Banks, when requested to do so, provide the Calculation Agent with such offered quotations, the Rate of Interest for the Interest Period concerned shall, subject as provided below, be determined as in Condition 3(d)(ii)(2) on the basis of the offered quotations of those Reference Banks providing such quotations. The Rate of Interest for such Interest Period shall be 6.00 per cent. per annum minus such arithmetic mean as determined by the Calculation Agent;
- (4) provided, however, that if none of the Reference Banks or Calculation Agent are able to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be 6.00 per cent. per annum minus the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period; and
- (5) provided that if any Rate of Interest calculated in accordance with this Condition 3(d)(ii) shall be less than 0.50 per cent. per annum, the Rate of Interest for the relevant Interest Period shall be 0.50 per cent. per annum.

“Reference Banks” means each of the principal Hong Kong offices of Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank. If a Reference Bank ceases to quote, the Calculation Agent shall (in consultation with HKMC and with the approval of the Trustee) appoint another bank to replace that Reference Bank.

The Calculation Agent will, as soon as practicable after the Interest Determination Date in relation to each Interest Period, calculate the amount of interest (the **“Interest Amount”**) payable in respect of each Tranche C Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Note during such Interest Period, multiplying the product by the actual number of days in such Interest Period divided by 365 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, in respect of the Tranche C Notes to be notified to the Principal Paying Agent as soon as practicable after such determination but in any event not later than the close of business on the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Tranche C Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 3(d) by the Calculation Agent will (in the absence of manifest error) be binding on the HKMC, the Trustee, the Principal Paying Agent, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

In this Condition, **“Business Day”** means a day on which commercial banks and foreign exchange markets settle payments in Hong Kong.

4. Redemption and Purchase

(a) Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, (i) in the case of the Tranche A Notes, 18 October 2005, (ii) in the case of the Tranche B Notes, 18 October 2004 or, if the maturity date of the Tranche B Notes has been extended in accordance with Condition 4(c), 18 October 2007 and in the case of the Tranche C Notes, 18 October 2007. The Notes may not be redeemed at the option of the HKMC other than in accordance with this Condition.

(b) *Purchases*

The HKMC may at any time purchase Notes (*provided that*, in the case of Notes represented by a Global Note, such Notes are purchased together with the right to receive payments of interest thereon and, in the case of any Definitive Notes, all unmatured Coupons appertaining thereto are surrendered therewith) in the open market or by private treaty at any price. If purchases are made by tender, tenders must be available to all holders of the Notes alike. Any Notes purchased pursuant to this Condition 4(b) may be held, reissued, resold or surrendered to the Principal Paying Agent for cancellation.

(c) *Maturity Extension*

The HKMC may extend the maturity date of the Tranche B Notes by giving notice of such extension (i) while the Tranche B Notes are represented by a Global Note, to the Paying Agents and the Operator or (ii) where Definitive Tranche B Notes have been issued, to the holders of the Definitive Tranche B Notes in accordance with Condition 10(b), in each case on a day which is not less than 10 business days (as defined in Condition 5) before 18 October 2004. Upon the giving of the notice of extension by the HKMC in accordance with the provisions of this Condition 4(c), the maturity date of the Tranche B Notes shall be extended from the Interest Payment Date falling on or nearest to 18 October 2004 to the Interest Payment Date falling on or nearest to 18 October 2007.

5. **Payments**

(a) *Method of Payment*

Subject as provided below, payments will be made by transfer to a Settlement Account. Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in Hong Kong or other place of payment.

For the purpose of this Condition 5(a), “**Settlement Account**” means, in relation to a payee which is a licensed bank, the account maintained by that payee with the Operator through which its own clearing balance is settled or, in relation to a payee which is not a licensed bank, the account maintained by its designated correspondent bank with the Operator for the purpose of settling, inter alia, interbank payments.

(b) *Presentation of Notes and Coupons*

- (i) *Global Notes*: Payments of principal and interest in respect of the Notes represented by any Global Note will (subject as provided below) be made in Hong Kong Dollars in the manner specified above and otherwise in the manner specified in the relevant Global Note, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent. A record of each such payment of principal will be made on such Global Note by any Paying Agent and of each such payment of interest either on the Global Note or in the records of any Paying Agent and such record shall be prima facie evidence that the payment in question has been made.

The holder of the relevant Global Note (or, as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the HKMC’s obligation will be discharged by payment to, or to the order of, the holder of such Global Note (or the Trustee, as the case may be) with respect to each amount so paid. Without prejudice to the provisions of the Deed Poll, no person other than the holder of the relevant Global Note shall have any claim against the HKMC in respect of payments due on that Global Note.

- (ii) *Definitive Notes*: Payments of principal in respect of Definitive Notes will (subject as provided below) be made in Hong Kong Dollars against presentation or surrender, as the case may be, of Definitive Notes and payments of interest in respect of the Definitive Notes will (subject as provided below) be made in Hong Kong Dollars against presentation or surrender, as the case may be, of Coupons, in each case at the specified office of any Paying Agent.

- (iii) *Coupons*: Definitive Notes should be presented for payment together with all unmatured Coupons appertaining thereto. Upon the date on which any such Note in definitive form becomes due and payable, unmatured Coupons relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.
- (iv) *Payments on business days*: A Note or Coupon may only be presented for payment and payment will only be made on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a Settlement Account, in Hong Kong). No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition “**business day**” means (i), if the relevant Note(s) is/are not lodged with the CMU, any day (other than a Saturday) on which commercial banks are open for business in the relevant place or, if the relevant Note(s) is/are lodged with the CMU, any day (other than a Saturday) on which the CMU is operating and (ii), in the case of payment by transfer to a Settlement Account as referred to above, any day (other than a Saturday) on which commercial banks and foreign exchange markets are open in Hong Kong.
- (v) *Interest payable*: If the due date for redemption of any Definitive Note is not an Interest Payment Date, interest (if any) accrued with respect to such Note from and including the preceding Interest Payment Date or, as the case may be, Issue Date shall be payable only against presentation or surrender of the relevant Definitive Note.

(c) *Paying Agents*

The initial Paying Agent and its initial specified office are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain a Paying Agent having a specified office in Hong Kong. Notice of any change in the Paying Agent or its specified office will promptly be given to the Noteholders.

6. Taxation and Withholding

All payments of principal and/or interest in respect of the Notes and the Coupons 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.

Under current Hong Kong law, no withholding tax is imposed in respect of payments of principal and/or interest made to holders of debt securities.

7. Events of Default

If any of the following events (“**Events of Default**”) shall occur and be continuing:

- (a) there is a default for more than seven days in the payment of any principal, interest or other amount due in respect of any Note; or
- (b) (i) the HKMC shall default in the payment of any principal of or interest on any Borrowed Money beyond any period of grace provided in respect thereof, or (ii) the HKMC shall fail to honour when due and called upon any guarantee of any Borrowed Money, or (iii) any Borrowed Money of the HKMC shall become due and payable prior to its specified maturity by reason of any default or event of default (howsoever described), in each case in an aggregate principal amount of at least HK\$100,000,000 or the equivalent thereof in another currency or currencies, or (iv) a general moratorium shall be declared on the payment of the debts of the HKMC; or
- (c) the HKMC shall default in the performance or observance of any other obligation contained in the Notes (or to the extent it relates to the Notes) the Trust Deed and (unless the same shall be certified by the Trustee to be, in its opinion, not capable of remedy) such default shall not have been remedied within 30 days after written notice shall have been given to the HKMC by the Trustee requiring the same to be remedied; or

- (d) an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the HKMC; or
- (e) a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the HKMC; or
- (f) as a result of any action on the part of the HKMC or the Government of Hong Kong, the Government of Hong Kong ceases to hold, directly or indirectly, more than half in nominal value of the voting share capital of the HKMC,

then:

- (i) the Trustee at its discretion may declare the Notes immediately due and repayable;
- (ii) except in the case of the event described in paragraph (a) above, the Trustee shall, if so directed either in writing by the holders of at least 25 per cent. in aggregate principal amount of the Notes of all three tranches then outstanding or by Extraordinary Resolution of the holders of all of the Notes of all three tranches, declare all of the Notes of all three tranches immediately due and repayable; and
- (iii) the Trustee shall, if so directed either in writing by the holders of at least 25 per cent. in principal amount of all the Notes of any tranche then outstanding or by Extraordinary Resolution of the holders of all the Notes of any tranche, declare the Notes of that tranche immediately due and repayable,

provided that in the case of any event described in paragraphs (b), (c), (e) or (f) above the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the holders of Notes, *whereupon* the relevant Notes shall become so due and repayable at their principal amount together with accrued interest (if any). If the Notes become due and repayable pursuant to this Condition 7, they shall continue to bear interest in accordance with the provisions of these Conditions, which will continue to apply.

For the purposes of this Condition, “**Borrowed Money**” means indebtedness for borrowed money, acceptances and the principal amount of any notes (including, for the avoidance of doubt, Notes of any other tranche) debentures, bonds, bills of exchange, promissory notes or similar instruments drawn, made, accepted, issued, endorsed or guaranteed by the HKMC for the purpose of raising money but shall exclude bills of exchange drawn under or in respect of letters of credit or contracts for the provision of goods or services for the purpose of effecting payment and not in connection with the raising of money.

At any time after the Notes shall have become immediately due and repayable pursuant to this Condition 7 or otherwise, the Trustee may, at its discretion and without further notice, institute such proceedings as it may think fit against the HKMC to enforce repayment of the principal of the Notes, together with accrued interest, and to enforce the provisions of the Trust Deed, but it shall not be bound to take any such proceedings unless (1) in the case of any Event of Default other than those described in Condition 7(a), it shall have been so directed by an Extraordinary Resolution of the holders of all tranches of Notes or so requested in writing by persons holding at least 25 per cent. in principal amount of all tranches of Notes then outstanding (as defined in the Trust Deed) or (2) it shall have been directed by an Extraordinary Resolution of the holders of all the Notes of any tranche or so requested in writing by persons holding at least 25 per cent. in principal amount of all the Notes of any tranche then outstanding (as defined in the Trust Deed), and (3) it shall have been indemnified to its satisfaction.

No holder of a Note or beneficiary under the Deed Poll shall be entitled to proceed directly against the HKMC unless the Trustee, having become bound in accordance with the Trust Deed so to proceed, fails to do so within a reasonable period and such failure is continuing.

8. Meetings, Modification of Conditions, Waiver and Substitution

(a) Generally

The Trust Deed contains provisions for convening meetings of the holders of Notes of one or more tranches for the time being outstanding (as defined in the Trust Deed) to consider any matter affecting their

interests, including the sanctioning by Extraordinary Resolution of a modification of, or an arrangement in respect of, the Conditions and the provisions of the Trust Deed. Such a meeting may be convened by the HKMC and the Trustee at any time and shall be convened by the Trustee upon written request by the Noteholders holding not less than 10 per cent. in principal amount of the Notes of any one or more tranches for the time being outstanding. A resolution duly passed at any such meeting shall be binding on the holders of Notes of the relevant tranche or tranches whether present or not. The quorum at any such meeting for passing an Extraordinary Resolution of the holders of Notes of the relevant tranche or tranches shall be two or more persons holding or representing a clear majority in principal amount of the Notes of the relevant tranche or tranches for the time being outstanding, or, at any adjourned meeting, two or more persons being or representing holders of Notes of the relevant tranche or tranches, whatever the principal amount of the Notes so held or represented, except that, at any meeting the business of which includes the modification of certain material conditions of the Notes or of certain provisions of the Trust Deed (as set out therein), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than three-quarters, or at any such adjourned meeting, not less than one-quarter, of the principal amount of the Notes of the relevant tranche or tranches for the time being outstanding. So long as the Notes of any tranche are represented by a Global Note, the holder of the Global Note shall be treated as being two persons for the purposes of any quorum requirements for a meeting of Noteholders and, at any such meeting, as having one vote in respect of each Note of that tranche for which the Global Note may be exchanged.

(b) *Trustee's Discretions*

The Trustee may, subject as aforesaid, without the consent of the holders of Notes (or of the holders of any one tranche of Notes) at any time and from time to time:

- (i) agree to any modification of the provisions of the Trust Deed or the Notes (either generally or in relation to any one or more tranches of Notes) which, in the opinion of the Trustee, is of a formal, minor or technical nature, is made to correct a manifest error, or which may be proper to make, provided that the Trustee is of the opinion that such modification is not materially prejudicial to the interests of the holders of Notes or, as the case may be, the holders of Notes of the relevant tranche or tranches; or
- (ii) waive or authorise any breach or proposed breach by the HKMC of the provisions of the Trust Deed or the Notes (either generally or in relation to any one or more tranches of Notes) or any other act or omission which is or would or might otherwise on its own or together with any other act or omission constitute an Event of Default which, in the opinion of the Trustee, is not materially prejudicial to the interests of the holders of Notes or, as the case may be, the holders of Notes of the relevant tranche or tranches, or determine that such first mentioned act or omission shall, notwithstanding Condition 7, not be an Event of Default if in the opinion of the Trustee the interests of the holders of the Notes or, as the case may be, the holders of Notes of the relevant tranche or tranches shall not be materially prejudiced thereby.

Any such modification, waiver, authorization or determination shall be binding on all the holders of Notes or, as the case may be, the holders of Notes of the relevant tranche or tranches and, unless the Trustee agrees otherwise, any such modification shall be notified by the HKMC to the holders of Notes or, as the case may be, the holders of Notes of the relevant tranche or tranches as soon as possible thereafter.

(c) *Substitution*

Subject as provided in the Trust Deed, the Trustee, if it is satisfied that to do so would not be materially prejudicial to the interests of the holders of the Notes or the Notes of any one tranche, may agree, without the prior consent of such holders, or the holders of any Coupons appertaining thereto, to the substitution of a subsidiary (as defined in the Trust Deed) of the HKMC in place of the HKMC or any previous substitute as principal debtor under the Notes and any Coupons or the Notes and any Coupons of any one tranche and the Trust Deed in respect of such Notes and Coupons, *provided that* the obligations of such subsidiary in respect of such Notes and Coupons and the Trust Deed in respect thereof shall be guaranteed by the HKMC in such form as the Trustee may reasonably require.

Any substitution pursuant to this Condition 8 shall be binding on the Noteholders and the Couponholders (if any) and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 10.

9. Prescription

The right of the holder to receive any payment under the Notes shall become void 12 years (in the case of principal) or six years (in the case of interest) after the Relevant Date for such payment.

For the purposes of this Condition 9, the “**Relevant Date**” in relation to any payment due on a Note means the date on which such payment first becomes due, except that if the full amount of the monies payable on such date in respect of such Note has not been received by the Paying Agents on or prior to such date, the “**Relevant Date**” means the date 14 days after the date on which notice is duly given to the holder of this Notes in accordance with Condition 10 that such monies have been so received.

10. Notices

(a) Global Notes

Until such time as any Definitive Notes are issued and so long as the Global Note is held in its entirety on behalf of the Operator, any notice to the holders of the Notes shall be validly given by the delivery of the relevant notice to the Paying Agents and the Operator for communication to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to the Paying Agents and the Operator.

(b) Definitive Notes

Any notice to the holder of any Definitive Note shall be validly given if published (i) in the South China Morning Post in Hong Kong or, if that newspaper shall cease to be published or timely publication therein shall not be practicable, in another English language newspaper with general circulation in Hong Kong; and (ii) in the Hong Kong Economic Journal in Hong Kong or, if that newspaper shall cease to be published or timely publication therein shall not be practicable, in another Chinese language newspaper with general circulation in Hong Kong or, in either case, in such other manner as the HKMC, with the approval of the Trustee, shall determine. Any such notice shall be deemed to have been given on the date of first publication in an English or Chinese language newspaper. Couponholders (if any) will be deemed for all purposes to have notice of the contents of any notice given to the holders of Definitive Notes in accordance with this Condition 10.

(c) Notices from Noteholders

If Definitive Notes have been issued, notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relevant Note or Notes, with the Trustee (with a copy to the Paying Agents). While any Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Paying Agents in such manner as the Trustee, the Paying Agents and the Operator may approve for this purpose.

11. Further Issues

The HKMC may from time to time without the consent of the Noteholders or Couponholders create and issue further Notes which are (a) expressed to be consolidated and form a series with the Notes; and (b) identical to the Notes in all respects except for their respective issue prices, Issue Dates and Interest Commencement Dates and the dates of first payment of interest on them, and so that the same shall be consolidated and form a single series with the Notes, and references in these Conditions to Notes include (unless the context requires otherwise) any other notes issued pursuant to this Condition and forming a single series with the Notes.

12. Replacement of Notes

Any Note (including for the purposes of this Condition any Coupon) which is lost, stolen, mutilated, defaced or destroyed may be replaced (if it is in definitive form) at the specified office of the Paying Agents upon payment by the claimant of the expense incurred in connection therewith and on such terms as to evidence, indemnity, security or otherwise as the HKMC may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

13. Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the HKMC without accounting for any profit resulting therefrom.

14. Governing Law and Jurisdiction

(a) Governing law

The Notes and the Coupons are governed by, and shall be construed in accordance with, the laws of Hong Kong.

(b) Jurisdiction

For the exclusive benefit of the Trustee, Noteholders, the HKMC hereby irrevocably agrees that the courts of Hong Kong are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes and that accordingly any suit, action or proceedings (together in this Condition 14 referred to as “**Proceedings**”) arising out of or in connection with the Notes may be brought in such courts. Nothing contained in this Condition 14 shall limit the right of the Trustee or the Noteholders (where so permitted by the terms hereof) to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) Waiver of immunity

The HKMC further irrevocably agrees that no immunity (to the extent that it may now or hereafter exist, whether on the grounds of sovereignty or otherwise) from any Proceedings or from execution of judgment shall be claimed by or on behalf of it or with respect to its assets, any such immunity being irrevocably waived by the HKMC, and the HKMC irrevocably consents generally in respect of any such Proceedings to the giving of any relief or the issue of any process in connection with any such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever of any order or judgment which may be made or given in such Proceedings.

RISK FACTORS

Potential investors in the Notes should carefully consider all the information set out in this Prospectus, including the risk factors highlighted below:

Political and Economic Factors

The revenue of the HKMC is generated solely from its operations in Hong Kong. From 1 July 1997, the People's Republic of China ("PRC") resumed its exercise of sovereignty over Hong Kong, which has become a special administrative region of the PRC. The general political and economic circumstances of the PRC and Hong Kong will impact on the operations and performance of the HKMC. Future political or economic instability or a slowdown in domestic economic activities, in particular those related to property, will have an adverse effect on the HKMC's business.

The gradual recovery of the Hong Kong economy has been slackened by the global economic downturn commencing in 2000. Banks and financial institutions have continued to take a cautious approach in their lending businesses, and have generally preferred to originate mortgages for their own portfolios rather than to dispose of them to any party, including the HKMC. This cautious attitude was further strengthened by the outbreak and continuation of a mortgage price war in Hong Kong since 1999, which has reduced returns on the disposal of mortgages to other parties. The continuation or intensification of this trend may have an adverse effect on the business of the HKMC.

Relationship with the Government

Although the HKMC is wholly owned by the Government of Hong Kong, the Government does not provide any form of guarantee of the HKMC's borrowings or other obligations, including the Notes. In addition, partial or full privatisation of the HKMC in future may affect the HKMC's credit standing.

Interest Rate Risk

The HKMC's interest rate risk lies primarily in its mortgage asset and liability portfolios. The HKMC purchases two types of mortgages, namely, fixed rate mortgages and floating rate mortgages. To fund the fixed rate mortgage programme, the HKMC issues fixed rate notes in order to close out the risk of interest rate mismatch. To fund the purchase of floating rate mortgages, some of which are based on Hong Kong prime rate, the HKMC issues fixed rate notes and converts the fixed rate proceeds into floating rate funds, which are Hong Kong Interbank Offer Rate based, by entering into interest rate swap transactions. The basis risk between Hong Kong prime rate and the Hong Kong Interbank Offer Rate remains. As in the case of Authorized Institutions, the HKMC cannot fully hedge this basis risk.

The HKMC also needs to manage interest rate risk as measured by the duration gap arising from the temporary use of short term bank borrowing to finance the purchase of mortgages before refinancing through the issuance of longer term securities. In 2001, the duration gap was kept within three months; however, there can be no assurance that a satisfactory average duration gap will be achieved in future periods.

Mortgage Portfolio

The quality of the HKMC's mortgage portfolio and the exposure of the HKMC to the risk of default by mortgagors in respect of mortgages in its portfolio depend on both a careful initial selection of mortgages for purchase and the maintenance of a low delinquency ratio following purchase. There can be no assurance that the HKMC will in the future continue to have access to mortgages of sufficient quality to maintain the current overall quality of its portfolio. In addition, the residential property market in Hong Kong has been adversely affected by the global economic downturn in general. A continuation or intensification of these trends could lead to increased delinquency rates in the HKMC's portfolio and a decline in the quality of mortgages available for purchase. Any of these factors may materially and adversely affect the HKMC's result of operations and its ability to service payments due on the Notes.

Mortgage-Backed Securitisation Programme

The HKMC established a Guaranteed Mortgage-Backed Pass-Through Securitisation Programme in October 1999 under which the HKMC will, in return for a fee, guarantee timely repayment of principal and interest in respect of the mortgage-backed securities issued by a special purpose vehicle formed for the purposes of this programme. In addition, the HKMC established a US\$3 Billion Mortgage-Backed Securitisation Programme in December 2001 under which Bauhinia MBS Limited, a Cayman Islands special purpose vehicle formed for the purposes of such programme, will from time to time issue mortgage-backed securities (which may or may not be guaranteed by the HKMC). It is envisaged that as the amount of notes guaranteed by the HKMC under these two programmes expands, the HKMC's guarantee liability will increase correspondingly and may become substantial.

Mortgage Insurance Programme

The exposure of the HKMC to the risk of default by the respective mortgagors in respect of its 90 per cent. Mortgage Insurance Programme (the "MIP") for mortgage loans secured by completed residential properties, 90 per cent. MIP for equitable mortgage loans secured on residential properties under construction and 140 per cent. mortgage insurance programme ("HOME Programme") for mortgage loans secured by completed residential properties of negative equity value depends on the quality of the mortgage loans under the insurance cover provided by the HKMC and on a careful initial screening of mortgage loans eligible for the MIP and HOME Programme. The expansion of the 90 per cent. MIP to include equitable mortgage loans secured on residential properties under construction exposes the HKMC to additional risks: the project completion risk and liquidity risk of the equitable mortgage loan.

The HKMC obtains reinsurance from the Approved Reinsurers for the whole or a portion of the insurance cover amount. There can be no assurance that the HKMC will in the future continue to have mortgages for the MIP of sufficient quality to maintain the current overall quality of its mortgage insurance portfolio. In addition, the residential property market in Hong Kong has been adversely affected by the global economic downturn in general. A continuation or intensification of these trends could lead to increased delinquency rates in the mortgages underlying the HKMC's mortgage insurance portfolio. Any of these factors may materially and adversely affect the HKMC's result of operations and its ability to make payments due on the Notes.

Market for and Trading Price of the Notes

Although market making arrangements have been made for the Notes, there can be no assurance that an active secondary trading market will develop for the Notes following their issue. In addition, the market making arrangements do not assure that members of the public will have access to a firm bid price or a firm offer price for Notes in a principal amount which they wish to purchase or sell. Furthermore, the Notes in the secondary market 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, the HKMC's results of operations and its perceived credit quality and the market for any similar securities.

Interest will be calculated and paid at the specified rates by reference to 100 per cent. of the principal amount of the Notes. In respect of the Tranche A Notes and the Tranche B Notes, the total return on the Notes, 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 Notes, 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 Notes, the annualised yield will be greater than the specified interest rate (on an annualised basis). The Subscription Price of each of the Tranche A Notes and the Tranche B Notes will be fixed so that the annualised yield on a tranche of the Notes is equal to the offer yield of an identified issue of EFN plus a specified margin: see the section headed "Summary of the Notes being Offered — Subscription Price" in this Prospectus. Accordingly, there can be no assurance that the annualised yield on each of the Tranche A Notes and the Tranche B Notes by reference to the Subscription Price will not be significantly less than the specified interest rate, or that the Subscription Price will not be fixed at a level significantly higher than 100 per cent. of the principal amount of the Notes. The Subscription Price for the Tranche C Notes is fixed at 100 per cent. of the principal amount of the Notes. It is not possible to predict the total return, or yield to maturity, of the Tranche C Notes because the coupon will be re-fixed semi-annually (after the first year) by reference to HIBOR as described in this Prospectus.

The Rate of Interest applicable to the Tranche C Notes for each Interest Period beginning on or after the Interest Payment Date falling on, or nearest to, 20 October 2003 will be the higher of (a) 6.00 per cent. per annum minus six-month HIBOR (as determined under the Terms and Conditions of the Notes) and (b) 0.50 per cent. per annum for each Interest Period. After the first year, the coupon on the Tranche C Notes will decrease if prevailing interest rates (six-month HIBOR as determined under the Terms and Conditions of the Notes) increase and will increase if prevailing interest rates decrease. Potential investors in the Tranche C Notes should also note that if the prevailing interest rates rise significantly during the term of the Tranche C Notes so that the coupon on the Notes is substantially less than the prevailing market rates, the trading price of the Tranche C Notes in the secondary market will fall correspondingly. As the Subscription Price of the Tranche C Notes is fixed at 100 per cent. of the principal amount of the Notes, any Noteholders who seek to sell the Tranche C Notes in such circumstances will lose some of their initial investment if the trading price of the Notes falls below 100 per cent. of the principal amount of the Notes.

Accordingly, the Tranche C Notes are suitable for investors whose view is that prevailing interest rates will remain at relatively low levels during the term of the Notes and the Tranche C Notes are not suitable for investors whose view is that prevailing interest rates are likely to rise during the term of the Notes. Although there have been successive cuts in interest rates in Hong Kong since January 2001, there can be no assurance that the prevailing interest rates will continue to fall in future. Any increase in prevailing interest rates will diminish the Rate of Interest for, and hence the return on, the Tranche C Notes.

USE OF PROCEEDS

The proceeds of issue of the Notes will be used by the HKMC for general working capital purposes.

THE HONG KONG MORTGAGE CORPORATION LIMITED

General Profile

The Hong Kong Mortgage Corporation Limited (the “**Corporation**” or the “**HKMC**”) is a corporation wholly owned by the Government of the Hong Kong Special Administrative Region of the People’s Republic of China (“**Hong Kong**” or the “**HKSAR**”) through the Exchange Fund. The HKMC was incorporated in March 1997 as a public company with limited liability under the *Companies Ordinance*.

Strategic Mission

The HKMC is established on a commercial basis with the mission of promoting the development of the secondary mortgage market in Hong Kong. Over time, its operations are expected to bring benefits to Hong Kong in terms of improving banking and monetary stability, facilitating the development of the local debt market and promoting home ownership.

Principal Activities

The Corporation’s principal activities are:

- (i) to purchase mortgage loans secured by residential properties located in Hong Kong from the approved sellers (“**Approved Sellers**”) including institutions authorized under the *Banking Ordinance* (the “**Authorized Institutions**” or “**AIs**”), subsidiaries or affiliated companies of Authorized Institutions, government bodies and agencies and related organisations, statutory bodies, public bodies (as such entities are designated under the *Prevention of Bribery Ordinance*) and property developers (or a financing entity affiliated to any such property developer), according to predetermined purchasing criteria;
- (ii) to raise funds for its purchase of mortgage loans through the issuance of debt securities in the capital markets;
- (iii) to securitise mortgage portfolios by issuing mortgage-backed securities (the “**MBS**”) to investors; and
- (iv) to provide mortgage insurance for Authorized Institutions in their business of granting mortgage loans secured by residential properties or those under construction located in Hong Kong, according to predetermined insurance eligibility criteria.

Public Sector Entity Status

The HKMC is recognised by the Monetary Authority as a “public sector entity” under the *Banking Ordinance*. Accordingly, debt securities issued or guaranteed by the HKMC carry a 20 per cent. risk weighting for the purposes of calculating the capital adequacy ratio of Authorized Institutions under the *Banking Ordinance*. The Notes issued by the HKMC therefore carry a 20 per cent. risk weighting in relation to the Authorized Institutions’ capital adequacy ratio under the *Banking Ordinance*. In addition, the Notes qualify as “liquefiable assets” for the purposes of the *Banking Ordinance*.

Authorized Insurer Status

The HKMC is approved by the Insurance Authority as an “authorized insurer” under the *Insurance Companies Ordinance*. The HKMC’s mortgage insurance business is subject to the regulatory requirements of the *Insurance Companies Ordinance* and the prudential supervision of the Insurance Authority.

Credit Ratings

On 26 July 2001, the international credit rating agencies Moody's and Standard & Poor's assigned to the HKMC the following credit ratings, which are the same as those of Hong Kong:

	Standard & Poor's		Moody's	
	Short-term	Long-term	Short-term	Long-term
Foreign currency (Outlook)	A-1 (stable)	A+ (stable)	P-1 (stable)	A3 (positive)
Local currency (Outlook)	A-1+ (stable)	AA- (stable)	P-1 (stable)	Aa3 (stable)

Revolving Credit Facility from the Exchange Fund

On 27 January 1998, the HKMC entered into an agreement with the Monetary Authority through which the Exchange Fund provides a HK\$10 billion revolving credit facility to the Corporation. This credit facility provides a fallback for the Corporation in terms of access to short-term funding for the purposes of bridging the gap between the purchase of mortgage loans and the issuance of debt securities.

Shareholding Structure

The Corporation has an authorized share capital of HK\$3,000,000,000, of which HK\$2,000,000,000 has been paid-up, divided into 3,000,000,000 shares of HK\$1 each. All of the issued shares of the HKMC are beneficially owned by the Financial Secretary of Hong Kong as Controller of the Exchange Fund.

The Exchange Fund was originally constituted by the *Currency Ordinance* of 1935 which was later renamed the *Exchange Fund Ordinance*. Under the *Exchange Fund Ordinance*, the Exchange Fund is placed under the control of the Financial Secretary and is available for use by him for purposes specified in that Ordinance, including for matters affecting, directly or indirectly, the exchange value of Hong Kong's currency and for maintaining the stability and integrity of the monetary and financial systems of Hong Kong with a view to maintaining Hong Kong as an international financial centre.

Subsidiary

On 21 August 2002, HKMC Mortgage Management Limited was incorporated in Hong Kong as a wholly-owned subsidiary of the Corporation with an authorized capital of HK\$5,000,000 of which HK\$1,000,000 has been subscribed. The subsidiary was established to assist the Corporation in its business of acquiring and servicing mortgage loans.

Board of Directors

The Financial Secretary of Hong Kong is *ex officio* the Chairman of the Board of Directors of the HKMC. Following the convening of the HKMC's Fifth Annual General Meeting held on 15 April 2002, the composition of the Board of Directors of the HKMC for the year 2002-2003 is as follows:

<u>Name and Business Address</u>	<u>Position</u>	<u>Other Interests</u>
The Honourable LEUNG Kam Chung, GBS, JP 12th Floor, West Wing Central Government Offices Lower Albert Road Hong Kong	Chairman and Executive Director	Financial Secretary of Hong Kong

<u>Name and Business Address</u>	<u>Position</u>	<u>Other Interests</u>
Joseph YAM Chi Kwong, GBS, JP 30th Floor 3 Garden Road Central Hong Kong	Deputy Chairman and Executive Director	Chief Executive of the Hong Kong Monetary Authority
Norman CHAN Tak Lam, SBS, JP 30th Floor 3 Garden Road Central Hong Kong	Executive Director	Deputy Chief Executive of the Hong Kong Monetary Authority
Anthony Robert LATTEr, JP 30th Floor 3 Garden Road Central Hong Kong	Executive Director	Deputy Chief Executive of the Hong Kong Monetary Authority
Ronald Joseph ARCULLI, GBS, JP Room 2012, Hutchison House 10 Harcourt Road, Central Hong Kong	Director	Managing Partner of Arculli and Associates
Professor Andrew Chi Fai CHAN, Ph.D. 22nd Floor, K.Wah Centre 191 Java Road North Point Hong Kong	Director	Chairman of Consumer Council
The Honourable Bernard Charnwut CHAN, JP 16th Floor, Worldwide House 19 Des Voeux Road Central Hong Kong	Director	Executive Director of Asia Financial Group
The Honourable CHAN Kwok Keung Room 603, Citibank Tower 3 Garden Road Hong Kong	Director	Legislative Councillor
Clifford Rowland FORSTER 39th Floor, Suites 3901-04 Two Exchange Square Central Hong Kong	Director	Deputy Chief Executive and Regional Director, Asia Lloyds TSB Bank plc
LAM Yim Nam 11th Floor, Bank of China Building 2A Des Voeux Road Central Hong Kong	Director	Deputy Chief Executive Bank of China (Hong Kong) Limited
Dr. the Honourable David LI Kwok Po, GBS, LLD (Cantab), JP 22nd Floor 10 Des Voeux Road Central Hong Kong	Director	Chairman and Chief Executive The Bank of East Asia, Limited

<u>Name and Business Address</u>	<u>Position</u>	<u>Other Interests</u>
The Honourable Frederick MA Si Hang 8th Floor, West Wing Central Government Offices Lower Albert Road Hong Kong	Director	Secretary for Financial Services and the Treasury
The Honourable SIN Chung Kai Room 601, Citibank Tower 3 Garden Road, Central Hong Kong	Director	Legislative Councillor
The Honourable Michael SUEN Ming Yeung, GBS, JP 8th Floor, West Wing Central Government Offices Lower Albert Road Hong Kong	Director	Secretary for Housing, Planning and Lands
Mr. David SUN Tak Kei 15th Floor, Hutchison House 10 Harcourt Road, Central Hong Kong	Director	Chairman, Assurance & Advisory Business Services Ernst & Young
Brian YIU Chi Pang 8th Floor Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong	Director	Head, Debt Capital Markets Global Markets – Asian Fixed Income Standard Chartered Bank

Directors' Interests in Transactions and Contracts

The following Directors may be deemed to be interested in any contracts which have been entered, or may be entered, into between the HKMC and them for the reasons set out below:

- (1) The Hon. Leung Kam Chung is the Financial Secretary of Hong Kong as Controller of the Exchange Fund. Mr. Joseph Yam is the Monetary Authority appointed by the Financial Secretary under the Exchange Fund Ordinance. The Monetary Authority acted as the arranger, agent and operator in respect of the HKMC's HK\$20 billion Note Issuance Programme (the "NIP") until 31 August 2001. The Monetary Authority also acts as the custodian and clearing agent for the HKMC's HK\$20 billion Debt Issuance Programme (the "DIP"). On 27 January 1998, the HKMC entered into an agreement with the Monetary Authority through which the Exchange Fund provides a HK\$10 billion revolving credit facility to the HKMC. This credit facility provides a fallback for the HKMC in terms of access to short term funding for the purposes of bridging the gap between the purchase of mortgage loans and the issuance of debt securities.
- (2) Mr. Ronald Arculli is a director of Sino Land Company Limited, the shareholding company of 9 affiliated companies from which the HKMC has purchased mortgage loans of around HK\$514 million.
- (3) Dr. the Hon. David Li is the Chairman and Chief Executive of The Bank of East Asia, Limited which is (a) a selling group member under the DIP; (b) an approved seller/servicer under the Mortgage Purchase Programme ("MPP"); (c) an approved Authorized Institution under the Mortgage Insurance Programme ("MIP"); (d) a placing bank in the HKMC's retail note issuance in May 2002; (e) a placing bank and an underwriting bank in the HKMC's current retail note issuance; (f) a co-lead manager in the Series 2002-1 issue of the HKMC's US\$3 billion Mortgage-Backed Securitisation Programme (the "**Bauhinia MBS Programme**"); and (g) an

approved Authorized Institution under the Home Owner Mortgage Enhancement Programme (“**HOME Programme**”). Dr. Li is also a director of Tengis Limited which is the corporate services provider of HKMC Funding Corporation (1) Limited, a special purpose entity formed for the purpose of the Guaranteed Mortgage-Backed Pass-Through Securitisation Programme.

- (4) The Hon. Bernard Chan is a director of (a) Asia Commercial Bank Limited which is an approved seller/servicer under the MPP; (b) an approved Authorized Institution under the MIP and (c) an approved Authorized Institution under the HOME Programme. He is also a director of Asia Insurance Company, Limited which is an approved reinsurer under the MIP.
- (5) Mr. Lam Yim Nam is the Deputy Chief Executive of Bank of China (Hong Kong) Limited, which is (a) an approved seller/servicer under the MPP; (b) an approved Authorized Institution under the MIP; (c) a placing bank in the HKMC’s retail note issuance in January 2002; (d) an underwriting bank, a placing bank and principal paying agent in the HKMC’s retail note issuance in May 2002 and the current issuance and (e) a co-lead manager in the Series 2002-1 issue of the HKMC’s Bauhinia MBS Programme.
- (6) Mr. Brian Yiu is the Head, Debt Capital Markets, Global Markets — Asian Fixed Income of Standard Chartered Bank, which is (a) selling group member under the DIP; (b) an approved seller/servicer under the MPP; (c) an Approved Authorized Institution under the MIP; (d) a placing bank in the HKMC’s retail note issuance in January 2002; (e) an underwriting bank and a placing bank in the HKMC’s retail note issuance in May 2002 and the current issuance and (f) an approved Authorized Institution under the HOME Programme.
- (7) The Hon. Sin Chung Kai is an Assistant IT Project Manager of HSBC which is (a) a primary dealer under the HKMC’s DIP; (b) an approved seller/servicer under the MPP; (c) an approved Authorized Institution under the MIP; (d) an adviser to the HKMC in connection with credit rating of the HKMC by Standard & Poor’s and Moody’s in 2001; (e) a placing bank in the HKMC’s retail note issuances in October 2001 and January 2002; (f) an underwriting bank and a placing bank in the HKMC’s retail note issuance in May 2002 and the current issuance; (g) a dealer in the HKMC’s Bauhinia MBS Programme and a co-lead manager in the Series 2002-1 issue of such programme; and (h) an approved Authorized Institution under the HOME Programme
- (8) The Hon. Sin Chung Kai is a member of The Hong Kong Housing Authority which is an approved seller/servicer under the MPP from which the HKMC has purchased mortgage loans of around HK\$18 billion.
- (9) Mr. Frederick Ma is the Secretary for Financial Services and the Treasury of Hong Kong and the Hon. Michael Suen is the Secretary for Housing, Planning and Lands of Hong Kong. Both Mr. Ma and Mr. Suen are members of The Hong Kong Housing Authority. The HKMC has purchased mortgage loans from The Hong Kong Housing Authority as described in the preceding paragraph.
- (10) Mr. David Sun is a Partner and Chairman of Assurance and Advisory Business Services of Ernst & Young which acts as consultant to Merrill Lynch Reinsurance Solutions Ltd. (“**ML Re**”). The HKMC has entered into reinsurance arrangements with ML Re in July 2002 under the HOME Programme in which ML Re acts as the arranger and reinsurer to the HKMC thereunder.

Except for the above disclosure and the related party transactions as stated in Note 24 to the audited financial statements of the HKMC for the year ended 31 December 2001 (save and except that Ms. Anita Fung and Mr. Andy Hon referred to therein resigned as Directors of the HKMC with effect from 15 April 2002 and Mr. Eddy Fong resigned as Director of the HKMC with effect from 28 June 2002), no contracts of significance in relation to the HKMC’s business to which the HKMC was a party and in which any of the HKMC’s Directors had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the HKMC a party to any arrangement to enable any of its Directors to acquire benefits by means of acquisition of shares in, or debt securities of, the HKMC or any body corporate.

Senior Management

Members of the Senior Management of the HKMC as at the date hereof are:

Mr. PANG Sing Tong, Peter, JP, Chief Executive Officer
Mr. LI Wing Kuen, Philip, Senior Vice President (Finance)
Mr. FOK Tsz Chun, Kenny, Senior Vice President (Operations)
Ms. CHEUNG Sau Fun, Susie, General Counsel and Company Secretary

Change of Auditors

With effect from 1 July 2002, PricewaterhouseCoopers have been appointed as auditors of the HKMC to replace Arthur Andersen & Co. Arthur Andersen & Co. stated in their resignation notice that there were no circumstances connected with their resignation which they considered should be brought to the notice of members or creditors of the HKMC.

Business Overview

The Corporation has planned to establish its business in two phases.

Phase I: the purchase of mortgage loans for its own retained portfolio with funding obtained primarily through the issuance of unsecured debt securities (the interest spread between the mortgage yield gained by the Corporation and its funding costs generates income for the Corporation); and

Phase II: the packaging of mortgage loans from its own portfolio and/or from portfolios of the Approved Sellers into MBS and the guaranteeing of the timely repayment of principal and interest of the MBS issued by special purpose vehicle(s) established by the HKMC in exchange for a guarantee fee or otherwise.

The HKMC commenced its business in 1997 by purchasing mortgages from the Authorized Institutions and by issuing debt securities to fund its mortgage purchases. In December 2000, the Corporation widened the scope of the Approved Sellers to include government bodies and agencies and related organisations, statutory bodies, public bodies and property developers. In March 2001, the Corporation concluded an agreement with The Hong Kong Housing Authority, a government housing agency, for the purchase of around HK\$18 billion of mortgage loans under the Home Purchase Loan Scheme. Up to 31 July 2002, the HKMC has purchased a total of HK\$43.8 billion of mortgage loans. As at 31 May 2002, the HKMC retained a portfolio of 35,488 residential mortgage loans with a total outstanding principal balance of approximately HK\$20.4 billion. As at 31 July 2002, the number of loans and their outstanding principal balance were estimated to be 43,897 and HK\$24.5 billion respectively.

The Corporation launched the MIP in March 1999. Under the MIP, the HKMC provides mortgage insurance cover at a fee to the Approved AIs under its MIP. The amount of mortgage insurance cover provided by the HKMC under the MIP is up to 20% (increased in August 2000 from the original 15%) of the value of the properties. This enables the HKMC's Approved AIs to advance mortgage loans up to a 90% loan-to-value ratio of the properties. In April 2001, the Corporation expanded the range of eligible products under the MIP to include equitable mortgage loans secured on residential properties under construction for the amount of mortgage insurance cover up to 15% of the value of the properties. This insurance cover ratio was increased to 20% of the value of the properties in July 2001. The HKMC covers its insurance risk by taking out mortgage reinsurance from its approved mortgage reinsurers (the "**Approved Reinsurers**") on a back-to-back and risk-sharing basis. The HKMC obtains reinsurance from the Approved Reinsurers for the whole or a portion of the insurance cover amount.

The Board of Directors of the HKMC approved the launch of a mortgage insurance programme, the Home Owner Mortgage Enhancement Programme on 14 June 2002, which will allow negative equity homeowners to refinance existing mortgages at a lower interest rate. The programme is designed to help alleviate such homeowners' financial burden by reducing their monthly instalment repayments. Under the programme, the HKMC provides mortgage insurance cover to participating financial institutions, in the event of loan default, on the loan amount over and above 90% and up to 140% of the value of the mortgaged property. The HKMC covers its insurance risk by taking out reinsurance cover through reinsurance arrangements.

The Corporation's mortgage purchase programme requires efficient fund-raising through debt issuance. The Corporation has adopted a systematic approach to develop its debt issuance capability starting with raising funds in the Hong Kong dollar debt market. Up to 31 July 2002, the HKMC has issued HK\$42.9 billion of debt securities in the professional and retail markets. The outstanding balance of debt securities was HK\$25.6 billion as at 31 July 2002. Having established a track record in the local debt market, the Corporation is considering tapping the overseas capital markets as part of its fund-raising strategy in the future.

In December 2001, the HKMC launched the Bauhinia MBS Programme under which Bauhinia MBS Limited, a Cayman Islands special purpose vehicle formed for the purpose of such programme, will from time to time issue MBS in different currencies and structures. Up to 31 July 2002, the HKMC has guaranteed a total of HK\$2,268 million and HK\$2 billion for the MBS issues launched under this programme and the Bauhinia MBS Programme respectively. As at 31 July 2002, the aggregate security principal balance of MBS guaranteed by the HKMC was HK\$730 million and HK\$1,880 million under this programme and the Bauhinia MBS Programme respectively.

Profitability

For the fiscal year ended 31 December 2001, the Corporation earned an after-tax profit of HK\$255.5 million, thus providing a 9.4% return on shareholder's equity and a 1.2% return on average total assets, and its capital-to-assets ratio was 11.6%.

For the six months ended 30 June 2002, the Corporation earned an unaudited profit after tax of HK\$115 million (compared with HK\$110 million for the first half of 2001). This translates into a 7.9% annualized return on average shareholder's equity (compared with 8.3% for the first half of 2001) and an 0.9% annualized return on average total assets (compared with 1.2% for the first half of 2001). Its capital-to-assets ratio was 7.3% as at 30 June 2002.

Mortgage Portfolio

The HKMC believes it possesses a high quality mortgage portfolio. The Corporation adopts a four-pronged approach to uphold the asset quality of its mortgage portfolio, which includes the careful selection of Approved Seller/Service providers, the adoption of a rigorous due diligence process, a well-defined mortgage purchasing criteria, and the provision of adequate protection for higher risk mortgage loans.

As at 31 May 2002, the delinquency rate (for loans delinquent more than 90 days) of the HKMC's retained portfolio was 0.31% in terms of outstanding principal balance. This figure is derived from the policy that estimated losses on mortgage loans overdue for more than 180 days are to be written off from the HKMC's asset book and will be excluded for computation of the delinquency rate of the HKMC's retained portfolio. The delinquency rate as at 31 July 2002 was estimated to be 0.25%. Other key statistics for the HKMC's retained portfolio (excluding the mortgage loans with co-financing arrangements) as at 31 July 2002 were as follows:

Loan-to-Value ("LTV") ratio at origination	65.0%
Estimated current LTV ratio	104.5%
Average loan size	HK\$1.2 million
Occupancy status of underlying properties	100%
Debt-to-Income ratio at origination	38.0%

As there is a three-month time lag for reconciliation of the mortgage loans purchased from The Hong Kong Housing Authority and the top-up mortgage loans purchased from Hong Kong Housing Society and property developers do not have comparable statistics to the first-charge loan in the HKMC's retained portfolio, the mortgage loans purchased from these Approved Sellers are excluded from the calculation of the above key statistics for the HKMC's retained portfolio.

Capital-to-Assets Ratio

The Financial Secretary has issued guidelines in respect of the minimum capital-to-assets ratio (the “CAR”) to be maintained by the Corporation. The guidelines may be revised from time to time by the Financial Secretary. The Senior Management of the HKMC are required to report quarterly to the Board of Directors on the Corporation’s CAR. If the Corporation has failed, or if it seems likely that the Corporation will fail, to maintain the minimum CAR as stipulated in the guidelines, the Board of Directors of the HKMC is required to report any such non-compliance to the Financial Secretary.

On 25 April 2001, the Financial Secretary approved a modification of the capital requirement framework of the Corporation which reflects the different levels of risk of the products comprised in the HKMC’s retained mortgage portfolio, mortgage insurance and MBS portfolio of the revised CAR framework as follows:

Product	Minimum Capital-to-Assets Ratio
Mortgage Portfolio	5% of retained mortgage portfolio (based on notional amount; no change)
MBS Portfolio	2% of MBS portfolio (based on notional amount, previously at 5%)
Mortgage Insurance	0% of risk-in-force value of exposure covered by the reinsurance arrangement with Approved Reinsurers (previously at 5%) 5% of risk-in-force value of exposure not covered by reinsurance arrangement (no change)

CAPITALISATION

The following table sets out the unaudited capitalisation of the HKMC as at 31 July 2002:

	HK\$'000
Short-Term Liabilities	
HK\$ Short-term bank loans	511,800
HK\$ Note Issuance Programme Notes due within 1 year	2,500,000
HK\$ Debt Issuance Programme Notes due within 1 year	780,000
HK\$ OTC Retail Notes Issuance due within 1 year	770,250
Long-Term Liabilities	
HK\$ Note Issuance Programme Notes due after 1 year	4,500,000
HK\$ Debt Issuance Programme Notes due after 1 year	13,411,000
HK\$ OTC Retail Notes Issuance due after 1 year	<u>3,615,400</u>
Total Loan Capital	<u>26,088,450</u>
Shareholder's Equity	
Share capital 2,000,000,000 shares issued and fully paid (authorized 3,000,000,000 shares of HK\$1 each)	2,000,000
Retained profit and contingency reserves	<u>983,680</u>
Shareholder's equity	<u>2,983,680</u>
Total Capitalisation	<u><u>29,072,130</u></u>

Note:

Save as disclosed herein, there has been no material change in the capitalisation of the HKMC since 31 July 2002.

**UNAUDITED FINANCIAL STATEMENTS FOR
THE SIX-MONTH PERIOD ENDED 30 JUNE 2002**

THE HONG KONG MORTGAGE CORPORATION LIMITED

**UNAUDITED PROFIT AND LOSS ACCOUNT
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2002**

	6 months ended 30 June 2002	6 months ended 30 June 2001
	HK\$'000	HK\$'000
Interest income	411,099	527,478
Interest expense	<u>(225,681)</u>	<u>(370,556)</u>
Net interest income	185,418	156,922
Other income, net	<u>25,257</u>	<u>15,806</u>
Operating income	210,675	172,728
Operating expenses	<u>(52,483)</u>	<u>(48,163)</u>
Operating profit before provisions	158,192	124,565
Provisions for bad and doubtful loans	<u>(28,413)</u>	<u>(14,109)</u>
Profit before taxation	129,779	110,456
Taxation	<u>(14,788)</u>	<u>(200)</u>
Net profit for the period	114,991	110,256
Retained profit brought forward	840,059	589,814
Transfer to contingency reserve	<u>(4,581)</u>	<u>(1,905)</u>
Retained profit carried forward	<u>950,469</u>	<u>698,165</u>

A separate statement of recognized gains and losses is not presented because there were no recognized gains or losses other than the net profit for the period.

THE HONG KONG MORTGAGE CORPORATION LIMITED

**UNAUDITED BALANCE SHEET
AS AT 30 JUNE 2002**

	Notes	At 30 June 2002	At 31 December 2001
		HK\$'000	HK\$'000
ASSETS			
Cash and short-term funds		6,403,748	1,256,740
Interest and remittance receivables		304,585	337,176
Prepayments, deposits and other assets		61,988	36,326
Tax recoverable		—	5,109
Deferred expense, net		6,972	38,273
Mortgage portfolio, net	1	20,293,889	19,777,884
Investment in debt securities		1,842,660	1,736,266
Fixed assets		27,317	32,058
		28,941,159	23,219,832
LIABILITIES			
Interest payable		243,624	194,216
Accounts payable, accrued expenses and other liabilities		76,736	60,755
Provisions for taxation		9,679	—
Unearned premiums		73,469	60,301
Debt securities	2	25,576,650	20,058,550
		25,980,158	20,373,822
SHAREHOLDER'S EQUITY			
Share capital		2,000,000	2,000,000
Retained profit		950,469	840,059
Contingency reserve		10,532	5,951
		2,961,001	2,846,010
		28,941,159	23,219,832

THE HONG KONG MORTGAGE CORPORATION LIMITED

**UNAUDITED CASH FLOW STATEMENT
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2002**

	Notes	6 months ended 30 June 2002	6 months ended 30 June 2001
		HK\$'000	HK\$'000
Net cash outflow from operating activities	3	<u>(261,858)</u>	<u>(2,645,690)</u>
Taxation			
Hong Kong profits tax paid		<u>—</u>	<u>(12,171)</u>
Investing activities			
Purchase of fixed assets		(2,434)	(6,230)
Purchase of investment in debt securities		(576,251)	(210,381)
Proceeds from redemption of investment in debt securities		<u>469,220</u>	<u>662,056</u>
Net cash (outflow)/ inflow from investing activities		<u>(109,465)</u>	<u>445,445</u>
Net cash outflow before financing		<u>(371,323)</u>	<u>(2,212,416)</u>
Financing			
Proceeds from issue of debt securities		9,268,331	10,601,647
Redemption of debt securities		<u>(3,750,000)</u>	<u>(2,600,000)</u>
Net cash inflow from financing		<u>5,518,331</u>	<u>8,001,647</u>
Increase in cash and cash equivalents		5,147,008	5,789,231
Beginning cash and cash equivalents		<u>1,256,740</u>	<u>1,640,934</u>
Ending cash and cash equivalents		<u><u>6,403,748</u></u>	<u><u>7,430,165</u></u>
Analysis of the balance of cash and cash equivalents			
Cash and short-term funds		<u><u>6,403,748</u></u>	<u><u>7,430,165</u></u>

THE HONG KONG MORTGAGE CORPORATION LIMITED

**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2002**

1. Mortgage portfolio, net

	(Unaudited) At 30 June 2002	(Audited) At 31 December 2001
	HK\$'000	HK\$'000
Outstanding principal balance of mortgage portfolio	20,338,452	19,812,453
Provisions for bad and doubtful loans		
- specific	(2,880)	(2,002)
- general	(41,683)	(32,567)
	20,293,889	19,777,884

At 30 June 2002, the mortgage portfolio had a weighted average remaining term of 13 years on a contractual basis, without taking into account any prepayment of the mortgage loans. Final maturity of the mortgage portfolio is in the year 2038.

2. Debt securities

	(Unaudited) At 30 June 2002	(Audited) At 31 December 2001
	HK\$'000	HK\$'000
Bills and notes issued under the		
- NIP	7,000,000	10,500,000
- DIP	14,191,000	8,896,000
Retail bonds	4,385,650	662,550
	25,576,650	20,058,550
At 1 January	20,058,550	11,621,000
Issuance for the period/year	9,268,100	15,583,550
Less: Redemption	(3,750,000)	(7,146,000)
At the end of the period/year	25,576,650	20,058,550

Notes and bills issued during the period up to 30 June 2002 comprise:

	DIP	Other notes
	HK\$'000	HK\$'000
Amount issued	5,545,000	3,723,100
Consideration received	5,544,712	3,723,619

All the debt securities issued are unsecured obligations of the Company, and are issued for the purposes of providing general working capital and refinancing.

3. Note to the cash flow statement

Reconciliation of profit before taxation to net cash outflow from operating activities:

	(Unaudited) 6 months ended 30 June 2002	(Unaudited) 6 months ended 30 June 2001
	HK\$'000	HK\$'000
Profit before taxation	129,779	110,456
Depreciation	7,175	5,605
Amortization of deferred expenses	31,070	105,816
Net charge for bad and doubtful loans	26,986	14,142
Mortgage portfolio written off net of recoveries	(16,992)	(4,518)
Amortization of investment in debt securities	637	(65)
Decrease/(increase) in interest and remittance receivables	32,591	(104,030)
Increase in prepayments, deposits and other assets	(25,662)	(1,811)
Increase in mortgage portfolio	(525,999)	(2,834,006)
Increase in interest payable	49,408	49,722
Increase/ (decrease) in accounts payable, accrued expenses and other liabilities	15,981	(2,834)
Increase in unearned premiums	13,168	15,833
	<u>13,168</u>	<u>15,833</u>
Net cash outflow from operating activities	<u>(261,858)</u>	<u>(2,645,690)</u>

**AUDITORS' REPORT AND AUDITED FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2001 OF THE HKMC**



ARTHUR ANDERSEN

Arthur Andersen & Co

21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

**Auditors' Report to the Shareholder of
The Hong Kong Mortgage Corporation Limited
(Incorporated in Hong Kong with limited liability)**

We have audited the financial statements of The Hong Kong Mortgage Corporation Limited (the "Company") on pages 68 to 86, which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements that give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2001 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Certified Public Accountants
Hong Kong,
15 April 2002.

THE HONG KONG MORTGAGE CORPORATION LIMITED

**AUDITED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001**

	<u>Notes</u>	<u>2001</u>	<u>2000</u>
		HK\$'000	HK\$'000
Interest income	3	1,019,025	1,009,737
Interest expense	4	<u>(694,595)</u>	<u>(652,026)</u>
Net interest income		324,430	357,711
Other income, net	5	<u>34,855</u>	<u>34,359</u>
Operating income		359,285	392,070
Operating expenses	6	<u>(101,424)</u>	<u>(98,427)</u>
Operating profit before provisions		257,861	293,643
Provisions for bad and doubtful loans	7	<u>(35,299)</u>	<u>(17,229)</u>
Profit before taxation		222,562	276,414
Taxation	8(a)	<u>32,964</u>	<u>(43,308)</u>
Net profit for the year		255,526	233,106
Retained profit brought forward		589,814	357,378
Transfer to contingency reserve	25	<u>(5,281)</u>	<u>(670)</u>
Retained profit carried forward		<u>840,059</u>	<u>589,814</u>

A separate statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the net profit for the year.

THE HONG KONG MORTGAGE CORPORATION LIMITED

**AUDITED BALANCE SHEET
AS AT 31 DECEMBER 2001**

	Notes	2001 HK\$'000	2000 HK\$'000
ASSETS			
Cash and short-term funds	10, 17	1,256,740	2,068,134
Interest and remittance receivables	11	337,176	249,112
Prepayments, deposits and other assets	12	36,326	5,636
Tax recoverable	8(b)	5,109	—
Deferred expense, net	13	38,273	112,879
Mortgage portfolio, net	14(a)	19,777,884	11,083,025
Investment in debt securities	16, 17	1,736,266	1,304,753
Fixed assets	15	32,058	21,077
		<u>23,219,832</u>	<u>14,844,616</u>
LIABILITIES			
Short-term bank loans	17	—	427,200
Interest payable	18	194,216	120,240
Accounts payable, accrued expenses and other liabilities	19	60,755	45,646
Provisions for taxation	8(b)	—	14,152
Unearned premiums	9	60,301	25,894
Debt securities	17, 20	20,058,550	11,621,000
		<u>20,373,822</u>	<u>12,254,132</u>
SHAREHOLDER'S EQUITY			
Share capital	22	2,000,000	2,000,000
Retained profit		840,059	589,814
Contingency reserve	25	5,951	670
		<u>2,846,010</u>	<u>2,590,484</u>
		<u>23,219,832</u>	<u>14,844,616</u>

Approved by the Board of Directors on 15 April 2002 and signed on behalf of the Board by:

Yam Chi Kwong, Joseph
Deputy Chairman

Anthony Robert Latter
Executive Director

THE HONG KONG MORTGAGE CORPORATION LIMITED

**AUDITED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2001**

	Notes	2001	2000
		HK\$'000	HK\$'000
Net cash outflow from operating activities	23	<u>(8,247,032)</u>	<u>(1,969,797)</u>
Taxation			
Hong Kong profits tax paid		(12,171)	(71,580)
Hong Kong profits tax refunded		<u>25,874</u>	<u>—</u>
Net tax refunded/(paid)		<u>13,703</u>	<u>(71,580)</u>
Investing activities			
Purchase of fixed assets		(21,208)	(8,402)
Purchase of investment in debt securities		(1,406,381)	(1,740,733)
Proceeds from redemption of investment in debt securities		<u>974,678</u>	<u>436,000</u>
Net cash outflow from investing activities		<u>(452,911)</u>	<u>(1,313,135)</u>
Net cash outflow before financing		<u>(8,686,240)</u>	<u>(3,354,512)</u>
Financing			
Proceeds from issue of debt securities		15,448,046	6,443,708
Redemption of debt securities		<u>(7,146,000)</u>	<u>(6,445,000)</u>
Net cash inflow/(outflow) from financing		<u>8,302,046</u>	<u>(1,292)</u>
Decrease in cash and cash equivalents		(384,194)	(3,355,804)
Beginning cash and cash equivalents		<u>1,640,934</u>	<u>4,996,738</u>
Ending cash and cash equivalents		<u>1,256,740</u>	<u>1,640,934</u>
Analysis of the balance of cash and cash equivalents			
Cash and short-term funds	10	1,256,740	2,068,134
Short-term bank loans	17	<u>—</u>	<u>(427,200)</u>
		<u>1,256,740</u>	<u>1,640,934</u>

THE HONG KONG MORTGAGE CORPORATION LIMITED

NOTES TO THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001

1. Basis of Preparation

The financial statements of The Hong Kong Mortgage Corporation Limited (the "Company") have been prepared under the historical cost convention, and in accordance with the provisions of the Hong Kong Companies Ordinance and accounting principles generally accepted in Hong Kong.

2. Principal accounting policies

a. *Adoption of Statements of Standard Accounting Practice ("SSAPs")*

In the current year, the Company has adopted, for the first time, the following SSAPs issued by the Hong Kong Society of Accountants:

SSAP 14 (revised) Leases

SSAP 32 Consolidated financial statements and accounting for investments in subsidiaries.

There were no effects on net profit and opening balance of retained profit for the current year and prior year from the adoption of the above accounting standards.

b. *Income and expense recognition*

Provided it is probable that the economic benefits associated with a transaction will flow to the Company and the income and costs, if applicable, can be measured reliably, interest income, interest expense and others are recognised on the following bases:

(i) Interest income and expense

Interest income and expense are accrued on a time-apportioned basis on the principal outstanding and at the rate applicable, except in case of bad and doubtful loans (Note 2(g)).

(ii) Fee income and expense

Fee income and expense are recognised when earned or incurred.

c. *Fixed assets and depreciation*

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of fixed assets, the expenditure is capitalized as an additional cost of the fixed asset.

Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life.

The annual rates are as follows:

Leasehold improvements	over the unexpired period of the lease
Furniture and fixtures	over the unexpired period of the lease
Computer and related software	33-1/3%
Office equipment	33-1/3%
Motor vehicle	25%

d. *Foreign currencies*

The books and records are maintained in Hong Kong dollars. Transactions in other currencies during the year are translated into Hong Kong dollars at exchange rates prevailing in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange in effect at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

e. *Deferred taxation*

Deferred taxation is provided under the liability method at the current tax rate in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

Deferred tax assets are not recognised unless the related benefits are expected to crystallize in the foreseeable future.

f. *Operating leases*

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the relevant leases. Lease income from operating sub-leases is recognised on a straight-line basis over the lease term.

g. *Bad and doubtful loans*

Provisions for bad and doubtful loans are charged to the profit and loss account on a monthly basis in accordance with the guidelines approved by the Board of Directors. General provision relates to exposures not separately identified but known from experience to exist in the mortgage portfolio. Specific provision for bad and doubtful loans generally applies to a mortgage loan that is overdue for more than 90 days and the current market value of the underlying property is less than the outstanding principal balance ("OPB") of the mortgage loan. When there is no longer any realistic prospect of recovery of the OPB of the mortgage loan, it will be written off at the discretion of the Credit Committee.

The accrual of interest on mortgage loans is discontinued when they become overdue for 90 days or more. Any previously accrued and uncollected interests on the loans are reversed against current period's interest income. Interest income on the overdue loans is only recognised when all arrears of principal and interest from the borrowers have been cleared and it is probable that the customer is capable of fully servicing his obligations under the terms of the loans for the foreseeable future.

h. *Investment in debt securities*

Held-to-maturity investments are investments which the Company has the expressed intention and ability to hold to maturity. They are carried at amortized cost less any provision for impairment in value.

The carrying amounts of held-to-maturity securities are reviewed at each balance sheet date to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when the carrying amounts are not expected to be recovered and are recognised as an expense in the profit and loss account.

Provision against the carrying value of held-to-maturity securities are reversed to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future.

Upon disposal or transfer of held-to-maturity securities, any profit and loss thereon is accounted for in the profit and loss account.

i. *Notes issuance*

The notes issued under the Note Issuance Programme ("NIP") and Debt Issuance Programme ("DIP") and notes offered to retail investors through the Placing banks are stated at par value under debt securities in the balance sheet. Interest on the notes is accrued on a daily basis and charged to the profit and loss account. Discount on the notes is regarded as deferred expense whereas premium is accounted for as deferred income. Discount and premium are amortized over the entire life of the notes on an effective interest rate method and are accounted for as adjustment to the interest expense of the notes. The arranger and custodian fees paid under the NIP and DIP are amortized to the profit and loss account over the life of the notes issued.

On redemption/repurchase of the notes, the resulting gains or losses, being the difference between the redemption/repurchase amount and the carrying amount, are recognised in the profit and loss account in the year in which the redemption/repurchase takes place.

j. *Interest rate swap ("IRS") contracts for hedging purposes*

The IRS contracts are solely entered into as a hedge against interest rate risk on the assets and liabilities.

The net interest payable or receivable arising from the IRS contracts is recorded on an accrual basis and charged against interest income or interest expenses of the underlying assets and liabilities.

Gains and losses on early termination of the IRS contracts are immediately recognised in the profit and loss account when the underlying assets/liabilities are early disposed of/redeemed.

Gains and losses on early termination of the IRS contracts originally accounted for as a hedge to a asset/liability are amortized over the remaining original life of the IRS contracts when the underlying asset and liability is not early disposed of/redeemed.

k. *Mortgage guarantee business*

The mortgage guarantee business of the Company is accounted for on the annual accounting basis. Under the annual accounting approach, the Company makes provisions based on credible estimates of future income and outgoings to determine the underwriting result for the current accounting period. The underwriting result includes any adjustments arising from the correction of the previous estimates.

Gross premiums represent direct business written through the Authorized Institutions during an accounting period. The gross premiums include a major portion of reinsurance premiums paid to approved reinsurers and the net premiums including risk premium portion and/or servicing fee to be earned by the Company. The net premiums are recognised as income on a time-apportioned basis when the insurance coverage has been effective.

Unearned premiums represent that portion of net premiums written which are estimated to relate to risks and services subsequent to the balance sheet date.

Provisions are made for outstanding claims, claims incurred but not reported, loss reserve and unexpired risk at the end of each year. For risk sharing business, 50% of the net risk premiums earned is set aside as a Contingency Reserve for a reasonable period of time in accordance with relevant regulatory guidelines and considered by directors as appropriate.

l. *Guaranteed mortgage-backed pass-through securitization*

Upon completion of the sale of a mortgage pool to a third party Special Purpose Entity (“SPE”) under the Guaranteed Mortgage-Backed Pass-Through Securitisation Programme (“MBS Pass-Through Programme”), the Company derecognizes the applicable mortgage pool from its balance sheet; recognizes all assets obtained and liabilities incurred in consideration as proceeds of the sale, including cash and contingent liability in respect of guarantee on timely payment of principal and interest on the MBS; and recognizes in the profit and loss account any gain or loss on the sale.

In the event that the Company guarantees the collectibility of the mortgage pool, it recognizes a monthly guarantee fee income from the SPE in the profit and loss account on a time-apportioned basis. Since the Company assumes all credit risks arising from the mortgage loans under the MBS Pass-Through Programme, it adheres to the loan provisioning guidelines in Note 2(g) approved by the Board of Directors for making necessary provisions in the profit and loss account.

3. Interest income

	<u>2001</u>	<u>2000</u>
	HK\$'000	HK\$'000
Mortgage portfolio	776,631	736,337
Cash and short-term funds	191,442	187,367
Investment in debt securities – listed	5,760	1,935
Investment in debt securities – unlisted	45,192	84,098
	<u>1,019,025</u>	<u>1,009,737</u>

4. Interest expense

	<u>2001</u>	<u>2000</u>
	HK\$'000	HK\$'000
Bank loans, short-term bills and debt securities wholly repayable within 5 years	689,616	638,164
Debt securities not wholly repayable within 5 years	4,979	13,862
	<u>694,595</u>	<u>652,026</u>

5. Other income, net

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Early prepayment fees and late charges	6,435	9,706
Subletting income of office premises (Note 24)	2,640	2,640
Net premiums earned (Note 9)	24,163	8,352
Guarantee fee income on MBS	3,318	6,060
Excess servicing receipts on MBS	1,329	4,053
Issuance costs of debt securities	(2,829)	(1,823)
Others	(201)	5,371
	<u>34,855</u>	<u>34,359</u>

6. Operating expenses

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Staff costs		
Salaries and benefits	62,647	58,736
Premises		
Rental	10,422	10,422
Others	3,188	3,118
Directors' emolument	—	—
Depreciation	10,227	12,181
Consultancy fee	2,776	3,450
Auditors' remuneration	250	250
Other operating expenses	11,914	10,270
	<u>101,424</u>	<u>98,427</u>

7. Provisions for bad and doubtful loans

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Provisions against mortgage portfolio		
— specific	25,712	13,418
— general	9,587	3,811
	<u>35,299</u>	<u>17,229</u>

8. Taxation

(a) Taxation (credit)/charge in the profit and loss account represents:-

	<u>2001</u>	<u>2000</u>
	HK\$'000	HK\$'000
Hong Kong profits tax		
Provision for the year	1,414	44,012
Overprovision in respect of prior years	<u>(36,620)</u>	<u>(328)</u>
	(35,206)	43,684
Deferred taxation	<u>2,242</u>	<u>(376)</u>
	<u><u>(32,964)</u></u>	<u><u>43,308</u></u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year. Deferred taxation has been provided on the timing difference arising from tax allowance in excess of depreciation. There is no significant unprovided deferred taxation as at and for the year ended 31 December 2001.

(b) (Tax recoverable)/Provision for taxation in the balance sheet represents:-

	<u>2001</u>	<u>2000</u>
	HK\$'000	HK\$'000
Tax recoverable for Hong Kong profits tax	(9,991)	—
Hong Kong profits tax	—	11,512
Deferred taxation	<u>4,882</u>	<u>2,640</u>
	<u><u>(5,109)</u></u>	<u><u>14,152</u></u>

9. Revenue account for mortgage guarantee business

	<u>2001</u>	<u>2000</u>
	HK\$'000	HK\$'000
Gross premiums written	204,791	122,698
Reinsurance premiums	<u>(146,049)</u>	<u>(93,524)</u>
Net premiums written	<u>58,742</u>	<u>29,174</u>
Add: unearned premium brought forward	25,894	5,018
unearned premium carried forward	<u>(60,301)</u>	<u>(25,894)</u>
Increase in unearned premiums	<u>(34,407)</u>	<u>(20,876)</u>
Net premiums earned before provision	24,335	8,298
(Provisions)/write-back for outstanding claims (Note 21)	<u>(172)</u>	<u>54</u>
Net premiums earned (Note 5)	24,163	8,352
Management expenses	<u>(3,320)</u>	<u>(2,554)</u>
Underwriting gains	<u><u>20,843</u></u>	<u><u>5,798</u></u>

The management expenses formed part of the operating expenses in Note 6.

10. Cash and short-term funds

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Cash at banks (Note 17)	2,664	2,393
Time deposits with banks (Note 17)	<u>1,254,076</u>	<u>2,065,741</u>
	<u>1,256,740</u>	<u>2,068,134</u>

11. Interest and remittance receivables

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Interest receivable from mortgage portfolio	34,749	36,298
Interest receivable from interest rate swap contracts	244,674	124,715
Interest receivable from investment in debt securities	3,038	22,618
Interest receivable from time deposits with banks	1,638	6,638
Loan instalments, in transit, from the Servicers	<u>53,077</u>	<u>58,843</u>
	<u>337,176</u>	<u>249,112</u>

12. Prepayments, deposits, and other assets

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Office rental deposit	2,293	2,239
Corporate club debentures	670	670
Other receivables, net	23,401	—
Others	<u>9,962</u>	<u>2,727</u>
	<u>36,326</u>	<u>5,636</u>

The Company reclassified a net amount of HK\$23,401,000 from “Mortgage portfolio, net” (Note 14(a)) to “Other receivables, net” in 2001. Of which the mortgage loans were overdue for 180 days or more, or the collateral properties were repossessed, or the mortgagors became bankrupt. The net amount represented the forced sale value of the collateral properties after setting off specific provisions of HK\$19,894,000 against the outstanding principal balance (HK\$43,295,000) of the mortgage loans.

13. Deferred expense, net

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Deferred expenses/(income) arising on issuance of debt securities		
At 1 January	112,879	39,050
Additions for the year		
— deferred expenses	137,459	182,447
— deferred income	(1,955)	(1,155)
Less: amortization	<u>(210,110)</u>	<u>(107,463)</u>
At 31 December	<u>38,273</u>	<u>112,879</u>

14. Mortgage portfolio, net

(a) Mortgage portfolio less provisions

	<u>2001</u>	<u>2000</u>
	HK\$'000	HK\$'000
Outstanding principal balance of mortgage portfolio (Note 17)	19,812,453	11,119,240
Provisions for bad and doubtful loans		
— specific	(2,002)	(13,248)
— general	(32,567)	(22,967)
	<u>19,777,884</u>	<u>11,083,025</u>

At 31 December 2001, the mortgage portfolio had a weighted average remaining term of 13 years on a contractual basis, without taking into account any prepayment of the mortgage loans. Final maturity of the mortgage portfolio is in the year 2038.

The Company reclassified mortgage loans of HK\$43,295,000 and specific provision of HK\$19,894,000 from the "Mortgage portfolio, net" to "Other receivables, net" with a net balance of HK\$23,401,000 in 2001 (Note 12).

(b) Provisions for bad and doubtful loans

	<u>Specific</u>	<u>General</u>	<u>Total</u>	<u>Suspended Interest</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	13,248	24,307	37,555	2,958
Amounts written off	(36,958)	—	(36,958)	(4,325)
Charge to profit & loss account	25,712	9,587	35,299	—
Interest suspended during the year	—	—	—	6,755
Suspended interest recovered	—	—	—	(1,174)
At 31 December 2001	<u>2,002</u>	<u>33,894</u>	<u>35,896</u>	<u>4,214</u>
	<u>Specific</u>	<u>General</u>	<u>Total</u>	<u>Suspended Interest</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000	4,042	20,496	24,538	661
Amounts written off	(4,212)	—	(4,212)	(1,137)
Charge to profit & loss account	13,418	3,811	17,229	—
Interest suspended during the year	—	—	—	4,042
Suspended interest recovered	—	—	—	(608)
At 31 December 2000	<u>13,248</u>	<u>24,307</u>	<u>37,555</u>	<u>2,958</u>

(c) The total mortgage loans on which interest has been placed in suspense or has ceased to accrue are as follows:-

	<u>2001</u>	<u>2000</u>
	HK\$'000	HK\$'000
Gross mortgage loans	49,920	46,148
Specific provisions	(2,002)	(11,392)
	<u>47,918</u>	<u>34,756</u>

Specific provisions were made after taking into account the current market value of the collateral of the delinquent loans.

15. Fixed assets

	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Computers & related software</u>	<u>Office equipment</u>	<u>Motor vehicle</u>	<u>Total</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>Cost</u>						
As at 1 January 2001	11,233	1,775	39,060	1,749	539	54,356
Additions	<u>7</u>	<u>8</u>	<u>20,752</u>	<u>441</u>	<u>—</u>	<u>21,208</u>
As at 31 December 2001	<u>11,240</u>	<u>1,783</u>	<u>59,812</u>	<u>2,190</u>	<u>539</u>	<u>75,564</u>
<u>Accumulated depreciation</u>						
As at 1 January 2001	5,440	909	24,965	1,493	472	33,279
Charge for the year	<u>1,449</u>	<u>218</u>	<u>8,312</u>	<u>181</u>	<u>67</u>	<u>10,227</u>
As at 31 December 2001	<u>6,889</u>	<u>1,127</u>	<u>33,277</u>	<u>1,674</u>	<u>539</u>	<u>43,506</u>
<u>Net book value</u>						
Ending balance as at 31 December 2001	<u>4,351</u>	<u>656</u>	<u>26,535</u>	<u>516</u>	<u>—</u>	<u>32,058</u>
Ending balance as at 31 December 2000	<u>5,793</u>	<u>866</u>	<u>14,095</u>	<u>256</u>	<u>67</u>	<u>21,077</u>

16. Investment in debt securities

	2001	2000
	HK\$'000	HK\$'000
Held-to-maturity securities		
Listed outside Hong Kong	90,235	129,832
Unlisted	<u>1,646,031</u>	<u>1,174,921</u>
	<u>1,736,266</u>	<u>1,304,753</u>
Market value of listed securities		
Issued by:		
— corporate entities	31,545	30,912
— others	<u>60,322</u>	<u>99,900</u>
	<u>91,867</u>	<u>130,812</u>

The held-to-maturity securities included above are issued by:

	2001	2000
	HK\$'000	HK\$'000
Banks and other financial institutions	1,646,031	1,174,921
Corporate entities	29,961	29,931
Other	<u>60,274</u>	<u>99,901</u>
	<u>1,736,266</u>	<u>1,304,753</u>

17. Maturity profile

	2001						
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets							
— Cash and short-term funds	2,664	1,254,076	—	—	—	—	1,256,740
— Mortgage portfolio	10,133	453,827	1,004,146	5,744,416	12,598,484	1,447	19,812,453
— Investment in debt securities	—	399,994	50,037	1,286,235	—	—	1,736,266
	<u>12,797</u>	<u>2,107,897</u>	<u>1,054,183</u>	<u>7,030,651</u>	<u>12,598,484</u>	<u>1,447</u>	<u>22,805,459</u>
Liabilities							
— Short-term bank loans	—	—	—	—	—	—	—
— Debt securities	—	2,750,000	3,650,000	13,558,550	100,000	—	20,058,550
	<u>—</u>	<u>2,750,000</u>	<u>3,650,000</u>	<u>13,558,550</u>	<u>100,000</u>	<u>—</u>	<u>20,058,550</u>

	2000						Total
	Repayable on demand	3 months or less	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Assets							
— Cash and short-term funds	2,393	2,065,741	—	—	—	—	2,068,134
— Mortgage portfolio	1,696	132,880	401,722	2,431,559	8,133,774	17,609	11,119,240
— Investment in debt securities	—	649,954	125,023	429,875	99,901	—	1,304,753
	<u>4,089</u>	<u>2,848,575</u>	<u>526,745</u>	<u>2,861,434</u>	<u>8,233,675</u>	<u>17,609</u>	<u>14,492,127</u>
Liabilities							
— Short-term bank loans	—	427,200	—	—	—	—	427,200
— Debt securities	—	2,600,000	4,546,000	4,275,000	200,000	—	11,621,000
	<u>—</u>	<u>3,027,200</u>	<u>4,546,000</u>	<u>4,275,000</u>	<u>200,000</u>	<u>—</u>	<u>12,048,200</u>

18. Interest payable

	2001	2000
	HK\$'000	HK\$'000
Short-term bank loans	—	251
Debt securities	<u>194,216</u>	<u>119,989</u>
	<u>194,216</u>	<u>120,240</u>

19. Accounts payable, accrued expenses and other liabilities

	2001	2000
	HK\$'000	HK\$'000
Accounts payable and accrued expenses	55,411	39,942
Other provisions (Note 26)	<u>5,344</u>	<u>5,704</u>
	<u>60,755</u>	<u>45,646</u>

20. Debt securities

	<u>2001</u>	<u>2000</u>
	HK\$'000	HK\$'000
Fixed-rate bills and notes issued under the		
— NIP	10,500,000	9,000,000
— DIP	8,896,000	2,621,000
Other notes	<u>662,550</u>	<u>—</u>
	<u>20,058,550</u>	<u>11,621,000</u>
At 1 January	11,621,000	11,441,000
Issuance for the year	15,583,550	6,625,000
Less: Redemption	<u>(7,146,000)</u>	<u>(6,445,000)</u>
At the end of the year	<u>20,058,550</u>	<u>11,621,000</u>

Notes and bills issued during the year comprise:

	<u>NIP</u>	<u>DIP</u>	<u>Other notes</u>
	HK\$'000	HK\$'000	HK\$'000
Amount issued	<u>7,500,000</u>	<u>7,421,000</u>	<u>662,550</u>
Consideration received	<u>7,364,333</u>	<u>7,421,000</u>	<u>662,713</u>

All the debt securities issued are unsecured obligations of the Company, and are issued for the purposes of providing general working capital and refinancing.

21. Provisions for outstanding claims

Provisions for outstanding claims under the MIP are recorded net of recoveries from the approved reinsurers. At 31 December 2001, there was no loss reserve made for risk sharing business and no provision made in respect of "claims incurred but not reported" for both back-to-back and risk sharing businesses. For the year ended 31 December 2001, the gross claim was HK\$1,864,000 (2000: HK\$497,000), of which HK\$1,692,000 (2000: HK\$497,000) was recovered from the approved reinsurers.

22. Share capital

	<u>2001 & 2000</u>
	HK\$'000
Authorized	
3 billion ordinary shares of HK\$1 each	<u>3,000,000</u>
Issued and fully paid	
2 billion ordinary shares of HK\$1 each	<u>2,000,000</u>

23. Note to the cash flow statement

Reconciliation of profit before taxation to net cash outflow from operating activities:

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Profit before taxation	222,562	276,414
Depreciation	10,227	12,181
Amortization of deferred expenses	210,110	107,463
Provisions for bad and doubtful loans	35,312	17,833
Mortgage portfolio written off net of recoveries	(36,958)	(4,212)
Amortization of investment in debt securities	190	(20)
Increase in interest and remittance receivables	(88,064)	(64,060)
(Increase)/decrease in prepayments, deposits and other assets	(30,690)	2,519
Increase in mortgage portfolio	(8,693,213)	(2,369,870)
Increase in interest payable	73,976	23,470
Increase in accounts payable and accrued expenses and other liabilities	15,109	7,609
Increase in unearned premiums	34,407	20,876
	<u>(8,247,032)</u>	<u>(1,969,797)</u>

24. Related party transactions

Both Mr. Norman Chan and Mr. Tony Latter are the Deputy Chief Executives of the Hong Kong Monetary Authority. The Company is a member under the Central Moneymarkets Unit ("CMU") Membership Agreement with the Monetary Authority through his CMU in respect of the Company's HK dollar debt issuance and securities investment.

On 12 February 1999, the Company entered into a sub-tenancy agreement with Exchange Fund Investment Limited ("EFIL") in which EFIL occupies part of the Company's office premises at a fair market price. EFIL is wholly owned by the Exchange Fund. The sub-letting income was approximately HK\$2.6 million for the year ended 31 December 2001 (2000: HK\$2.6 million). Both Mr. Norman Chan and Mr. Eddy Fong are the directors of EFIL.

Ms. Anita Fung is the Head of Trading, Asia Pacific, Treasury and Capital Markets of HSBC, and The Hon. Sin Chung-kai is an Assistant IT Project Manager of HSBC. HSBC is (a) a primary dealer under the Company's DIP; (b) an approved seller/servicer under the MPP; (c) an approved Authorized Institution under the MIP; (d) an adviser to the HKMC in connection with credit rating of the HKMC by Standard & Poor's and Moody's in 2001; and (e) one of the Placing Banks in the HKMC's issuance of retail notes in October 2001.

Mr. Andy Hon is the General Manager, Mortgages and Auto, Consumer Banking Division of Standard Chartered Bank which is (a) a selling group member of the DIP; (b) an approved seller/servicer under the MPP; and (c) an approved Authorized Institution under the MIP.

25. Contingency reserve

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
At 1 January	670	—
Transfer of 50% of the net risk premiums earned from retained profits	5,281	670
	<u>5,951</u>	<u>670</u>

26. Effects on the consolidated financial statements of special purpose entities

In October 1999, the Company launched the MBS Pass-Through Programme under which the Company, in return for a guarantee fee, guarantees the timely payment of principal and interest in respect of the MBS issued by HKMC Funding Corporation (1) Limited, a Hong Kong special purpose entity (“SPE”) formed for the purpose of this programme.

In December 2001, the Company also launched the US\$3 Billion Mortgage-Backed Securitisation Programme, under which Bauhinia MBS Limited, a SPE incorporated in the Cayman Islands for the purpose of this programme, will from time to time issue mortgage-backed securities. MBS will be issued by Bauhinia MBS Limited in different currencies under different tranches.

The two SPEs are bankruptcy remote “orphan” companies. In the context of section 2(4) of the Companies Ordinance, the two SPEs are not construed as the Company’s subsidiaries. In accordance with the provisions of paragraph 27 of SSAP 32 “Consolidated financial statements and accounting for investments in subsidiaries”, the financial statements of these two SPEs have therefore not been consolidated into the Company’s financial statements for the year ended 31 December 2001. With regard to the mortgage loans sold by the Company to the two SPEs, this would be effected by way of a “clean sale” of such mortgage loans to the SPEs. All the mortgage loans sold to the SPEs will no longer be recognised as an asset in the balance sheet of the Company.

Up to 31 December 2001, HKMC Funding Corporation (1) Limited had issued 7 series of MBS totalling HK\$2,268 million and the Company had guaranteed the timely payment of principal and interest of the MBS. At 31 December 2001, the aggregate security principal balance of MBS guaranteed by the Company under the MBS Pass-Through Programme was HK\$873.8 million. As regards the Company’s loan provisioning on the guaranteed mortgage loans under the MBS Pass-Through Programme, a sum of HK\$1,327,000 (2000: HK\$1,340,000) was grouped under “Other provisions” (Note 19). The loan provision written back amounting to HK\$13,000 (2000: HK\$604,000) was included in the profit & loss account of the Company.

Bauhinia MBS Limited had not issued any MBS up to 31 December 2001. No financial accounts had been prepared for Bauhinia MBS Limited at 31 December 2001.

The operating profit after tax of HKMC Funding Corporation (1) Limited was HK\$20,000 for the year ended 31 December 2001. At 31 December 2001, HKMC Funding Corporation (1) Limited reported total assets of HK\$876,219,000 and total liabilities of HK\$876,177,000 with the shareholder’s equity of HK\$42,000. Its total assets and total liabilities consisted mainly of HK\$857,589,000 of securitized mortgage loans and HK\$873,822,000 of debt securities respectively.

In accordance with paragraph 46 of SSAP 32, the Company has set out below the significant items of the pro-forma consolidated profit and loss account and balance sheet of the Company and HKMC Funding Corporation (1) Limited for the years ended 31 December 2001 and 2000:

	2001	2000
	HK\$’000	HK\$’000
Net interest income	327,842	363,771
Net profit for the year	255,546	233,124
Mortgage portfolio, net	20,635,473	11,700,766
Cash and short-term funds	1,268,523	2,087,559
Interest and remittance receivables	343,999	259,483
Total Assets	24,095,571	15,491,764
Debt securities	20,932,372	12,263,546
Total Liabilities	21,249,519	12,901,258
Total Shareholder’s Equity	2,846,052	2,590,506
Capital-to-Assets ratio	11.4%	13.2%

27. Commitments

(a) Capital

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Authorized and contracted for	—	4,774
Authorized but not contracted for	<u>9,165</u>	<u>17,378</u>
	<u><u>9,165</u></u>	<u><u>22,152</u></u>

(b) Operating lease

Total future minimum lease payments under non-cancellable operating leases at the balance sheet date are analysed as follows:

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Office premises		
not later than one year	<u>11,001</u>	10,422
later than one year and not later than five years	<u>22,001</u>	<u>31,264</u>
	<u><u>33,002</u></u>	<u><u>41,686</u></u>

28. Operating sublease arrangement

At the balance sheet date, the total future minimum sublease payments expected to be received under the non-cancellable operating subleases in respect of the premises were HK\$6,840,000 (2000: HK\$2,160,000).

29. Fixed adjustable rate mortgages ("FARM") programme

The Company has committed to purchase a certain amount of eligible FARM from the approved seller/servicers on a first come, first served loan-by-loan basis. The gross mortgage rates are fixed for a period of one, two or three years. At 31 December 2001, there was no outstanding commitment amount to purchase FARM (2000: HK\$3.45 billion).

30. Mortgage insurance programme ("MIP")

The Company offers mortgage insurance which provides cover to the approved seller/servicers for credit loss of up to 20% of the property value of a mortgage loan when the loan amount has exceeded 70% of the property value at origination.

Under the back-to-back arrangement, the Company reinsures the risk exposure with the approved reinsurers on a 100% basis. The Company expanded risk sharing in mortgage insurance business from 20% to 50% with some approved reinsurers in 2001. At 31 December 2001, the risk-in-force was approximately HK\$2.85 billion (2000: HK\$1.55 billion) of which HK\$2.34 billion (2000: HK\$1.38 billion) risk for credit loss was ceded to the approved reinsurers and the balance of HK\$513 million (2000: HK\$172 million) was assumed by the Company.

31. Off-balance-sheet exposures

(a) Contingent liabilities

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Guarantees under MBS programme	<u>873,822</u>	<u>642,546</u>

(b) Financial contracts

Interest rate swap contracts are entered into for hedging the interest rate risk of the assets and liabilities.

i) The outstanding contracted notional amount of the interest rate swap contracts is as follows:

	<u>2001</u>	<u>2000</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Interest rate swap contracts	<u>20,547,550</u>	<u>11,228,000</u>

ii) The replacement costs and credit risk-weighted amounts of the interest rate swap contracts are as follows. These amounts do not take into account the effects of bilateral netting arrangements with the counterparties.

	<u>2001</u>		<u>2000</u>	
	<u>Replacement cost</u>	<u>Credit risk-weighted amount</u>	<u>Replacement cost</u>	<u>Credit risk-weighted amount</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Interest rate swap contracts	<u>527,257</u>	<u>78,443</u>	<u>247,323</u>	<u>24,225</u>

The replacement costs represent the cost of replacing all interest rate swap contracts that have a positive value when marked to market. The credit risk-weighted amounts refer to the amount as computed in accordance with the Capital-to-Assets ratio guidelines (Note 32). The Company has not experienced any non-performance by its counterparties.

32. Capital-to-Assets ratio

To ensure that the Company is managed in a prudent manner, the Financial Secretary of the Government of the Hong Kong Special Administrative Region issued guidelines in 1997 in respect of the minimum Capital-to-Assets ratio ("CAR") to be maintained by the Company. With the Board of Directors' approval in October 2000, the Company proposed to the Financial Secretary to modify the guidelines to account for the different levels of risk of the products in the MBS guaranteed by the Company, retained mortgage portfolio and mortgage insurance. The revised guidelines were approved in April 2001. The minimum CAR stipulated in the guidelines is still at 5%. The CARs as at 31 December were calculated under the revised framework (31 December 2000: previously reported at 12.3%).

	<u>2001</u>	<u>2000</u>
Capital-to-Assets ratio	<u>11.6%</u>	<u>13.5%</u>

The Capital-to-Assets ratio is calculated as a ratio, expressed as a percentage, of its total capital base to the sum of its total on-balance sheet assets and total off-balance sheet exposures.

33. Comparative figures

Certain comparative figures for 2000 have been reclassified to conform to the current year's presentation as a result of adopting the latest SSAPs issued by the Hong Kong Society of Accountants.

34. Subsequent event

On 13 March 2002, the Company sold HK\$2 billion of mortgage loans from its retained mortgage portfolio at par to Bauhinia MBS Limited (the "Issuer") on a clean sale basis under the US\$3 Billion Mortgage-Backed Securitization Programme (the "Bauhinia MBS Programme"). The sale proceeds were used to meet general working capital requirements of the Company.

The Issuer issued mortgage-backed securities ("MBS") to fund the purchase of the above-mentioned mortgage loans from the Company on 13 March 2002. As a guarantor under the new issue, the Company guarantees timely repayment of the principal and interest of the MBS when they are contractually due in consideration of guarantee fee income. The contingent liability of the Company under the Bauhinia MBS Programme was approximately HK\$2 billion at 15 April 2002.

35. Approval of financial statements

The financial statements were approved by the Board of Directors on 15 April 2002.

SETTLEMENT, CLEARANCE AND CUSTODY

The following is a summary of the custody, settlement and clearance arrangements for the Notes.

Central Moneymarkets Unit Service

The Notes of each tranche will be represented by a Global Note which will be delivered to and held by a sub-custodian nominated by the Hong Kong Monetary Authority as operator (the “**Operator**”) of the CMU. The Global Note will be held for the account of the Placing Banks or other CMU members who have accounts with the Operator (the “**CMU Participants**”).

Interests in the Global Notes will only be shown on, and transfers of interests will be effected through, records maintained by the Operator.

As long as the Operator is the holder of the Global Notes, the Operator will be considered the absolute owner of such Global Notes for all purposes under the Trust Deed. Owners of interests in such Global Notes will be entitled to receive Definitive Notes in limited circumstances as described under the section headed “Terms and Conditions of the Notes” in this Prospectus. Since the 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 Notes 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 Notes.

While the Global Notes representing the Notes are held by or on behalf of the Operator, payments of interest or principal will be made to the persons for whose account a relevant interest in that Global Note is credited as being held by the CMU at the relevant time, as notified to the Principal Paying Agent by the Operator in a relevant CMU Instrument Position Report (as defined in the rules of the CMU) or in any other relevant notification by the Operator. Such payment shall discharge the obligations of the HKMC 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 Notes may be subject to various policies and procedures adopted by the Operator from time to time. None of the HKMC, the Underwriting Banks, the Placing Banks, the Operator, the Paying Agents, the Trustee, the sub-custodian for the Operator or any of their agents will have any responsibility or liability for any aspect of the Operator’s records relating to, or for payments made on account of, interests in the Global Notes, or for maintaining, supervising or reviewing any records relating to such interests.

So long as the Notes are represented by the Global Notes and the Global Notes are held by or on behalf of the Operator, notices required to be given to Noteholders may be given by their being delivered to the Operator. Indirect participants will have to rely on the CMU Participants (through which their Notes, in the form of interests in the Global Notes, are held) to deliver the notices to them, subject to the arrangements agreed between the indirect participants and the CMU Participants.

The Operator is under no obligation to maintain or continue to operate the CMU and the 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 HKMC, the Trustee nor any of their agents will have any responsibility for the performance by the Operator or the CMU Participants of their respective obligations under the rules and procedures governing their operations.

Custody

Because the Global Notes will be deposited with the Operator as described above and settlement and clearance facilities will be provided by the CMU, Noteholders must make arrangements for their Notes to be held in custody with a CMU Participant (or an indirect participant). On issue, Notes will be delivered through the Placing Banks and in order to apply for Notes 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 Notes may be held or transferred following issue.

Investment account and other custodian arrangements with respect to the Notes will be supplied by the Placing Banks (or other custody provider) subject to their standard terms and conditions for the provision of such services. The HKMC accepts no responsibility for the provision of such services or for any consequences of, or arising from, the use of such investment account or custody services.

MARKET MAKING ARRANGEMENTS

Bank of China (Hong Kong), The Bank of East Asia, Chiyu Bank, Citigroup, CITIC Ka Wah Bank, Dao Heng Bank, HSBC, Hang Seng Bank, International Bank of Asia, Nanyang Commercial Bank, Shanghai Commercial Bank, Standard Chartered Bank and Wing Lung Bank (the “**market makers**”) have agreed with the HKMC in a market making agreement dated 26 September 2002 (the “**Market Making Agreement**”), to make a market in the Notes of each tranche. 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 Notes (a “**bid**” price); and
- a price at which it is willing to sell Notes (an “**offer**” price).

The prices quoted will be firm prices for so long as the market maker may request the issue of additional Notes as described below, and thereafter the offer price will be quoted on a best efforts basis only.

The prices quoted will be by reference to a Note 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 Notes.

Prices quoted by the market makers will reflect the trading price of the Notes from time to time in the secondary market. Prices quoted by different market makers may not be the same. The trading price of the Notes 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 HKMC’s results of operations and its perceived credit quality and the market for any similar securities. If you have been allotted Notes through, or have bought Notes from, a Placing Bank and wish to sell the Notes to, or buy further Notes from another Placing Bank, you will be required to open an investment account with such Placing Bank before you will be able to do so.

The prices quoted by each market maker will be obtainable at designated branches of the market maker as set out on pages 4 to 14 of this Prospectus. Each market maker may also make available the prices quoted by them by other means, you may enquire with the designated branches of the market makers as to the availability of such other means.

The Market Making Agreement provides for the issue by the HKMC of additional Notes of each tranche up to a maximum of 30 per cent. of the amount of Notes of that tranche issued on the Issue Date to the market makers at a price to be agreed between them and the HKMC at the time of issue of such additional Notes. Within this 30 per cent. limit, the HKMC may by notice to the market makers adjust their individual ceilings at any time after three months from the initial issue date of the Notes. It is expected that these arrangements for the issue of additional Notes will be used to ensure that the market makers are able to deliver Notes to purchasers who wish to purchase Notes at the quoted offer price. It is expected that market makers may, in addition, make other arrangements, which may include Note borrowing and/or repurchase arrangements, to support their market making activities.

The HKMC may from time to time appoint additional or replacement market makers; it is the current intention of the HKMC to maintain market making arrangements similar to those described above for as long as the Notes remain outstanding, so far as reasonably practicable.

The initial market makers may resign their roles on giving not less than 90 days’ prior written notice to the HKMC.

These market making arrangements do not assure an active trading market for the Notes or that members of the public will have access to a firm bid price or a firm offer price for Notes in a principal amount which they may wish to purchase or sell.

PLACING AND UNDERWRITING ARRANGEMENTS

In respect of the placing of the Notes, the Placing Banks have entered into a Placing Bank Agreement with the HKMC dated 26 September 2002. Pursuant to that agreement, each of the Placing Banks will receive from the HKMC a placing and distribution fee of in respect of the Tranche A Notes, 0.15 per cent. of the total principal amount of Notes allotted to it, in respect of the Tranche B Notes, 0.20 per cent. of the total principal amount of Notes allotted to it, and in respect of the Tranche C Notes, 0.30 per cent. of the total principal amount of Notes allotted to it. In addition, each Placing Bank will charge each successful applicant a handling fee of 0.15 per cent. of the Subscription Price of Notes subscribed through such Placing Bank.

In respect of the underwriting arrangements for the Notes, the Underwriting Banks have entered into an Underwriting Agreement with the HKMC dated 26 September 2002. Pursuant to the Underwriting Agreement, the Underwriting Banks have agreed severally to underwrite the issue of Notes by subscribing for Notes to the extent that public subscription in relation to any tranche of Notes falls short of the total commitment of the Underwriting Banks to underwrite the issue of that tranche. The Underwriting Banks will subscribe for any shortfall in proportion to their respective underwriting commitments, but subject to adjustments set out in the Underwriting Agreement (under which credit will be given for the principal amount of Notes subscribed as a result of valid applications received from the public through each Underwriting Bank in its capacity as a Placing Bank (except in the case of Citigroup, through Citibank)). Pursuant to the Underwriting Agreement, the HKMC will pay to each Underwriting Bank a commission of 0.15 per cent. of its underwriting commitment in respect of the Tranche A Notes and 0.20 per cent. of its underwriting commitment in respect of the Tranche B Notes. In respect of the Tranche C Notes, the HKMC will pay to each Underwriting Bank a commission of 0.50 per cent. of its underwriting commitment if the commitment is more than HK\$25,000,000 but less than HK\$50,000,000; or 0.70 per cent. of its underwriting commitment if the commitment is equal to or more than HK\$50,000,000 (each an “**Underwriting Commission**”). The Underwriting Agreement provides that the HKMC will indemnify the Underwriting Banks against certain potential liabilities in connection with the underwriting arrangements; in addition, the HKMC has agreed to reimburse certain expenses of the Underwriting Banks in connection with the underwriting arrangements. The Underwriting Agreement provides that the subscription obligations of the Underwriting Banks are subject to certain conditions precedent, and entitles the Underwriting Banks to terminate the Underwriting Agreement in certain circumstances prior to the scheduled Issue Date for the Notes. The HKMC will give prompt public notice if the Underwriting Agreement is terminated in circumstances in which it does not intend to cancel the offering of all three tranches of the Notes. In such circumstances, if less than HK\$50,000,000 of Notes of any tranche is applied for, no Note of that tranche will be issued.

Each Placing Bank and Underwriting Bank has acknowledged that no action has been or will be taken in any jurisdiction by the HKMC, any Underwriting Bank or any Placing Bank that would permit a public offering of the Notes, 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 in 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 Notes, and that it has not distributed and will not distribute, this Prospectus, any application form or any offering or publicity material relating to the Notes, outside Hong Kong. Each of the Underwriting Banks has warranted and agreed that it will (i) comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus or any such other material, in all cases, at its own expense; and (ii) ensure that no obligations are imposed on the HKMC in any such jurisdiction as a result of any of the foregoing actions. The HKMC will not have any responsibility for, and each of the Underwriting Banks has agreed that it will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery.

TAXATION OF NOTES

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 Notes.

Withholding tax

Under existing Hong Kong law, payments of principal and interest in respect of the Notes may be made without withholding for or on account of any Hong Kong taxes.

Stamp duty

The Notes are not subject to Hong Kong stamp duty or bearer instrument 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 as it is currently applied, interest on the Notes will be subject to Hong Kong profits tax where such interest is received by or accrued to:

- a financial institution (as defined in the Inland Revenue Ordinance) 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 and such interest is derived from Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong and is in respect of the funds of the trade, profession or business.

In addition, Hong Kong profits tax may be charged on profits arising on the sale, disposal or redemption of Notes where such sale, disposal or redemption are or form part of a trade, profession or business carried on in Hong Kong.

Estate duty

The Notes are Hong Kong property for the purposes of Hong Kong estate duty for so long as the Global Notes are (or, if definitive Notes are issued, the definitive Notes are) located in Hong Kong. Accordingly, Hong Kong estate duty may be payable in respect of the Notes on the death of the beneficial owner of the Notes (regardless of the place of the owner's residence, citizenship or domicile) or, where the holder of the Notes is a company, on the death of a related person.

GENERAL INFORMATION

1. The issue of the Notes was authorized and approved by written resolutions of the Board of Directors of the HKMC passed on 19 September 2001.
2. Save as disclosed in this Prospectus, there has been no material adverse change in the financial or trading position of the HKMC and its subsidiary considered as a whole since the last day of the financial period in respect of which the most recent audited accounts of the HKMC have been published.
3. Save as disclosed in this Prospectus, there is no litigation, nor are there any claims, of material importance pending or, to the HKMC's knowledge, threatened against the HKMC or its subsidiary.
4. The HKMC will publish its audited annual report and accounts following the end of each of its financial years and its unaudited interim financial statements following the end of each of its semi-annual interim financial periods. So long as any Notes are outstanding, copies of the most recently published audited annual report and accounts and copies of the most recently published unaudited interim financial statements of the HKMC may be inspected upon request during normal business hours at the registered office of the HKMC and the principal office of the Principal Paying Agent, each as specified at the end of this Prospectus.
5. Until the Closing Date, copies of the following documents will be available for inspection at the principal office of the Principal Paying Agent and the registered office of the HKMC, each as specified at the end of this Prospectus:
 - (i) Memorandum and Articles of Association of the HKMC;
 - (ii) this Prospectus and any supplements thereto;
 - (iii) Placing Bank Agreement;
 - (iv) Underwriting Agreement;
 - (v) Trust Deed;
 - (vi) Paying Agency Agreement;
 - (vii) Deed Poll;
 - (viii) Market Making Agreement; and
 - (ix) Consent letter of Arthur Andersen & Co.

For so long as any Notes are outstanding, copies of the documents referred to in (v), (vi), (vii) and (viii) above will be available for inspection as described above under "Terms and Conditions of the Notes".
6. This Prospectus and the consent letter of Arthur Andersen & Co, attached to a signed copy of the Prospectus, have been registered with the Registrar of Companies in Hong Kong.
7. Arthur Andersen & Co, independent accountants and auditors of the HKMC for the years ended 31 December 2000 and 2001, have given and have not withdrawn their written consent to the inclusion of their report dated 15 April 2002 in this Prospectus, in the form and context in which it is included. Such report was not prepared exclusively for incorporation in this Prospectus. Arthur Andersen & Co resigned as independent auditors of the HKMC on 1 July 2002 and were replaced by PricewaterhouseCoopers with effect from 1 July 2002. Arthur Andersen & Co's notice of resignation pursuant to section 140(A)(2) of the Companies Ordinance (Cap. 32) contained a statement to the effect that there were no circumstances in connection with their resignation which they considered should be

brought to the notice of the members or creditors of the HKMC. During their term of office as the independent auditors of the HKMC, Arthur Andersen & Co did not have any shareholding in the HKMC or any of its subsidiaries, nor did they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the HKMC or any of its subsidiaries.

8. No application form is being issued for the Notes. However, persons who instruct a Placing Bank to apply for Notes on their behalf will be treated as persons who subscribe for Notes for the purposes of section 40 of the Companies Ordinance of Hong Kong, 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 HKMC.
10. No shares or debentures of the HKMC 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 HKMC provide that the Directors may exercise all the powers of the HKMC to borrow money for the purposes of the company without limit and upon such terms as they think fit.
12. DB Trustees (Hong Kong) Limited, whose principal office is at 55th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong, has been, and has agreed to its being, appointed as Trustee pursuant to the Trust Deed dated 26 September 2002 relating to the Notes, 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 that Trust Deed.
13. The Notes have been accepted for clearance through the CMU with the following CMU Instrument Numbers:

Tranche A	HKMCFN02036
Tranche B	HKMCFN02037
Tranche C	HKMCLN02038

ISSUER

The Hong Kong Mortgage Corporation Limited

7th Floor
Gloucester Tower
11 Pedder Street
Hong Kong

UNDERWRITING BANKS

The Bank of East Asia, Limited

10 Des Voeux Road Central
Hong Kong

Citicorp International Limited

47th-48th Floor, Citibank Tower,
Citibank Plaza
3 Garden Road, Central
Hong Kong

Standard Chartered Bank

4-4A Des Voeux Road Central
Hong Kong

Bank of China (Hong Kong) Limited

1 Garden Road
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited

1 Queen's Road Central
Hong Kong

CITIC Ka Wah Bank Limited

232 Des Voeux Road Central
Hong Kong

Wing Lung Bank Limited

45 Des Voeux Road Central
Hong Kong

Dao Heng Bank Limited

11th Floor
The Center
99 Queen's Road Central
Hong Kong

International Bank of Asia Limited

38 Des Voeux Road Central
Hong Kong

PLACING BANKS

Bank of China (Hong Kong) Limited

1 Garden Road
Hong Kong

The Bank of East Asia, Limited

10 Des Voeux Road Central
Hong Kong

Chiyu Banking Corporation Limited

78, Des Voeux Road Central
Hong Kong

Citibank, N.A., Hong Kong Branch

50th Floor
Citibank Tower, Citibank Plaza
3 Garden Road, Central
Hong Kong

CITIC Ka Wah Bank Limited

232 Des Voeux Road Central
Hong Kong

Dao Heng Bank Limited

11th Floor
The Center
99 Queen's Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited

1 Queen's Road Central
Hong Kong

Hang Seng Bank Limited

83 Des Voeux Road Central
Hong Kong

International Bank of Asia Limited

38 Des Voeux Road Central
Hong Kong

Nanyang Commercial Bank, Limited

151 Des Voeux Road Central
Hong Kong

Shanghai Commercial Bank Limited

12 Queen's Road Central
Hong Kong

Standard Chartered Bank

4-4A Des Voeux Road Central
Hong Kong

Wing Lung Bank Limited

45 Des Voeux Road Central
Hong Kong

PRINCIPAL PAYING AGENT

Bank of China (Hong Kong) Limited

7th Floor
Bank of China Tower
1 Garden Road
Hong Kong

TRUSTEE

DB Trustees (Hong Kong) Limited

55th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

AUDITORS

PricewaterhouseCoopers

33rd Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

LEGAL ADVISERS TO THE ISSUER

Linklaters

10th Floor
Alexandra House
Chater Road
Hong Kong

LEGAL ADVISERS TO THE UNDERWRITING BANKS

Allen & Overy

9th Floor
Three Exchange Square
Central
Hong Kong

