THE HONG KONG MORTGAGE CORPORATION LIMITED

Opening Remarks by Mr Peter Pang at the
Signing Ceremony for the Appointment of the Placing Banks
For the Retail Bonds of the HKMC

2 October 2002

Good afternoon Ladies and Gentlemen,

I am pleased to welcome you all to this signing ceremony for the fourth retail bond issue by the Hong Kong Mortgage Corporation.

The HKMC has devoted substantial resources to promoting its debt securities to retail investors. This commitment serves the multiple objectives of broadening the Corporation's investor base, providing the general public with an additional and relatively safe investment choice, and developing the bond market in Hong Kong.

Being the pioneer, we are very pleased to see that other companies and financial institutions have enthusiastically embraced this new vehicle of financing. This is reflected in a phenomenal growth of the retail bond market in a short span of twelve months. Since the HKMC launched the new mechanism of offering bonds to retail investors through placing banks in October 2001, 15 companies and banks have raised over HK$19 billion through 61 issues of retail bonds and retail certificate of deposits.

This amount accounts for a significant 13% of the HK$142 billion of Hong Kong dollar debt securities issued during the same period. For the HKMC, the amount of HK$3.7 billion raised under the retail bond programme so far in 2002 accounts for 35% of the Corporation's debt securities issued this year, reflecting our commitment to developing this important source of financing.

This rapid expansion of the retail bond market is not a short-term phenomenon. The essential conditions are there to support the building of a critical mass for this important market on a sustainable basis. Five factors are particularly important. These include a large potential demand for retail bonds, an effective distribution channel, an increasing number of issuers, a supportive regulatory regime and continuous product innovation.

The growth potential of the retail bond market is quite considerable. The size of Hong Kong dollar time deposits in the banking system, which gives some indication on the amount the public is prepared to put in assets that produce a stable return, exceeds HK$1.8 trillion. This is roughly 6 times of the HK$305 billion of Hong Kong dollar denominated fixed rate bonds outstanding.

The full potential of the retail bond market cannot be realized without the right distribution channel. We have achieved a major breakthrough by leveraging on the distribution capabilities of the banking sector. The mechanism of placing bonds through banks has proven to be highly effective in promoting bonds to the general public. Through the extensive branch network and the highly convenient phone and Internet

banking facilities of the placing banks, the subscription and trading of retail bonds is now almost as convenient as placing deposits. The arrangement also presents a win-win solution for the banks. With the current loan-to-deposit ratio at a low level of 65%, the conversion of some of the excess deposits into bonds will help the banks reduce the cost of deposit interest payments and provide them with a new source of fee income from acting as the placing agent and market makers for the issuers.

An active retail bond market also needs a critical mass of regular issuers from both the public and private sectors. We expect this will gather momentum as retail bonds offer issuers the benefits of an enlarged investor base and an efficient cost of fund. We are glad to see that more blue chip companies and banks have come forward to tap this market. The number is expected to substantially increase after the impending announcement by the Government of new measures to remove the obstacles presented by a number of archaic provisions in the Companies Ordinance that render the issuance of retail bonds by private companies both complicated and potentially expensive.

I would like to take this opportunity to thank the Hong Kong Monetary Authority and the Hong Kong Capital Market Association for developing with us a package of measures that aim to make the regulatory regime for the issuance of retail bonds more friendly for the issuers. The key measures include a substantial simplification of the disclosure requirements for regular issuers; more flexible arrangement for issuers to promote retail bonds both during the period prior to the registration of the prospectus and in the subsequent offering period; and modernization of the regulatory regime

to keep pace with the development of electronic application channels. The Government has responded quickly and helpfully to the proposals. We expect specific measures, covering both short-term and long-term solutions, to be announced soon.

Other than having the right distribution channel and a friendly regulatory regime, a thriving retail bond market ultimately depends on whether or not the issuers can come up with products that are attractive to investors. This is rather challenging under the current low interest rate environment. To address these challenges, the HKMC is committed to working closely with banks to bring innovative products to the market. In this new issue, HKMC offers three tranches of bonds. Responding to the preference of investors, the coming issue will contain a tranche with a tenor of three-year and a tranche with an extendable structure that provides the HKMC the option to extend the maturity of a two-year bond for another three years. The Corporation is also introducing a new structured product that offers investors a fixed coupon of 5.5% for the first year followed by a floating rate coupon to be fixed at 6% minus the 6-month HIBOR. The new product, which is previously available mainly to private banking and institutional investors, offers retail investors a high upfront coupon and a potential yield enhancement compared with a 5-year fixed rate bond.

This new issue is a clear demonstration of the HKMC's strong and continuing commitment to further develop the retail bond market. The wider selection of product structure and yield provides many choices to suit the retail investors' investment objectives of portfolio diversification and yield enhancement under current market conditions.

Now let me turn to the real business of this occasion and say how very pleased we are to have secured the support of the Bank of East Asia, Citigroup, Standard Chartered Bank, Bank of China (Hong Kong), HSBC, CITIC Ka Wah Bank, Wing Lung Bank, Dao Heng Bank and International Bank of Asia to act as underwriters for the coming issue. I would also like to thank the other placing banks: Chiyu Bank, Hang Seng Bank, Nanyang Commercial Bank and Shanghai Commercial Bank, for their active participation in placing this issue. Aided by the Placing Banks' extensive branch networks, and sophisticated telephone and the Internet banking facilities, I am confident that they will be highly effective in placing this issue to the retail investors.

Thank you.