THE HONG KONG MORTGAGE CORPORATION LIMITED

Opening Remarks by Mr. Tony Latter at the Signing Ceremony for the Appointment of the Placing Banks For the Retail Bonds of the HKMC

27 May 2002

Good afternoon, Ladies and Gentlemen,

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

It was last November that the HKMC launched the debut issue under its new arrangement of offering retail bonds through banks as placing agents. Two other public bodies have now followed suit with similar structures, with the result that, in a short span of six months, an aggregate amount of HK$6.6 billion has been raised from over 28,000 retail applicants.

Notwithstanding these encouraging developments, there are still other building blocks that need to be put in place before the retail bond market can realize its full potential. An active retail bond market needs a critical mass of issuers from both the public and private sectors. However, few corporate issuers have so far been visible. This is not due to a lack of interest. Indeed, many blue chip companies have expressed a keen interest to tap this market. Rather, some may be awaiting modifications to the regulatory regime, which would remove obstacles presented by a number of somewhat archaic provisions in the Companies

Ordinance that render the issuance of retail bonds by private companies both complicated and potentially expensive.

Various bodies have been pressing for reform on this front. The HKMC itself presented a package of proposals to the Financial Services Bureau and the Securities and Futures Commission, aiming to make the regulatory regime more friendly for issuers. The proposals can be grouped into three key areas.

First and foremost, there is scope for a substantial simplification of the disclosure requirements for regular issuers. Certain disclosure requirements for prospectuses in the Companies Ordinance should be waived for seasoned issuers, in particular listed companies and public sector entities, where the required information is already in the public domain. Furthermore, for frequent issuers such as the HKMC, the efforts and cost of preparing the issue prospectus would be substantially reduced if the basic information about the issuer could be contained in a base prospectus that only required updating when necessary. The essential information pertaining to specific issues could be provided in a supplemental prospectus for distribution to investors. This would help to substantially reduce costs without sacrificing the interests of investors.

Second, there is a need to clarify and streamline the regulatory requirements for publicity on retail bonds, both during the period prior to the registration of the prospectus and the subsequent offering period. Pre-registration publicity is desirable to enable issuers, particularly newcomers, to alert potential investors of a coming issue. It is important to clarify what a pre-registration advertisement may contain in order not to fall foul of the prospectus provisions of the Companies Ordinance.

Feedback from investors also suggests that it would be helpful for the issuers to provide, in addition to the thick prospectus, fact sheets which contain a summary of the key information that relates to the specific bond issue. Guidelines on the contents of such publicity material would help both the issuers and the regulators in preparing and vetting such material.

Third, the regulatory regime needs to be modernized to keep pace with the development of electronic application channels. One of the key advantages of appointing banks as placing agents is that most investors can make use of convenient and efficient electronic banking facilities to subscribe. Experience has indeed shown that investors are making increasing use of telephone and Internet facilities offered by the placing banks. It is conceivable that we will soon see the use of ATMs for the subscription of retail bonds. The current regulatory regime, which was put in place well before the emergence of electronic application channels, needs to be adjusted. In particular, it will be necessary to devise appropriate arrangements for potential inventors to have ready access to the prospectus. This should not be too difficult, given the extensive branch network of the placing banks and the popularity of the Internet.

The Government has responded quickly and helpfully to ideas such as these. The Financial Services Bureau has formed a Working Group to address these and other proposals for promoting the development of the retail bond market. The Working Group is chaired by the Secretary for Financial Services, with representatives from the Securities and Futures Commission, the Stock Exchange and the HKMC. Good progress has been made and 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 issuers can come up with products that are attractive to investors. The HKMC is keenly aware of the need to tailor retail bond products to match the appetite of investors. In this regard, we are grateful to the many investors who have provided useful feedback through emails and comments made at various promotional seminars.

As a result of this dialogue, the HKMC is introducing two new products in the coming issue. Responding to the clear preference of investors for more products at the short end of the yield curve, the coming issue will contain a tranche with a tenor of one-year, in addition to the 2-year and 3-year maturities. The Corporation is also introducing for the first time a structured product that provides the HKMC with the option to extend the maturity of a three-year fixed rate bond for another two years. This product, which adopts the coupon for a five-year bond, provides investors with a potential upside gain in the event that the HKMC, due either to interest rate or funding considerations, decides not to extend the maturity at the end of the third year. It should be of interest to investors who are prepared to invest in structured products for a possible yield enhancement.

Let me now turn to the real business of this occasion and say how very pleased we are to have secured the support of Bank of China (Hong Kong), HSBC and Standard Chartered Bank to act as underwriters for the coming issue. I would also like to thank the other placing banks: Bank of Communications, Bank of East Asia, CITIC Ka Wah Bank, Dao Heng Bank, Hang Seng Bank, International Bank of Asia, Nanyang Commercial Bank, Shanghai Commercial Bank and Wing Lung Bank, for

their active participation in placing this issue. This means that we have a total of twelve placing banks for this issue, as against just three for our debut issue – a further illustration of the broadening interest in this type of instrument. Aided by their extensive branch networks and sophisticated telephone and internet banking facilities, I am confident these banks will be highly effective in promoting this issue of HKMC notes to the general public.

Thank you.