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

21 January 2002

Good afternoon ladies and gentlemen,

I would like to welcome you all to this signing ceremony to kick-off the issuance of HKMC retail bonds in 2002.

Promoting the development of the retail bond market is one of the priorities of the HKMC. An active retail bond market is expected to bring significant benefits to the financial market and its participants.

Retail bonds offer the general public an additional investment choice that provides them with a stable return and the means to establish a balanced portfolio comprising assets of different risk profiles. By aggregating the investment amounts of individual investors, the retail bond arrangement enable the small investors to enjoy a higher interest return that is previously the privilege of institutional investors. This is particularly important under the current low interest rate environment. As indicated by the coupons of the coming new issues, the HKMC's retail bonds offer a significant yield pick-up over the prevailing savings and time deposit rates.

The process of channeling the wealth of the general public into bond investment will help to increase the depth of the debt market. 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 5 times of the HK$352 billion of Hong Kong dollar denominated fixed rate bonds outstanding. A transfer of a modest 5% of this amount to the bond market would significantly increase its size by HK$90 billion or 26%.

Development of the retail bond market is also welcomed by the banks. With the current loan-to-deposit ratio at a low level of 65%, the excess liquidity inevitably exerts pressure on the funding cost of the banks. At the same time, the banks are looking at ways to enhance fee income through expanding their securities operations. The conversion of some of this excess liquidity into bonds will help the banks to reduce the cost of deposit interest payments and providing them with a new source of fee income from acting as the placing agent and market makers for the issuers.

The arrangement also benefits the HKMC as an issuer by broadening the investor base for our debt securities and keeping the bond yields at competitive levels.

The benefits present a compelling case for us to further strengthen our efforts to promote the development of the retail bond market. We intend to do so in partnership with the banking industry. The success of the last issue in November 2001 has clearly demonstrated that the new

mechanism of placing bonds through banks is 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, our goal is to make the subscription and trading of retail bonds as convenient as placing deposits.

In this regard, we have further strengthened the offering mechanism for this round of new issues to make it even more convenient for investors. The network of Placing Banks has been increased substantially from three to eight banks. The enlarged Placing Bank group has assigned 308 branches to process applications, which is two times more than the 106 branches for the last issue. In addition to applying in person in the designated branches, investors may also make use of the convenient and familiar telephone and Internet banking facilities to subscribe for the retail bonds.

We have also taken steps to further strengthen the market-making arrangement for the retail bonds. The eight Placing Banks will undertake to quote firm bid prices during business hours. This will ensure that retail investors can liquidate their holdings at any time. To facilitate the quoting of offer prices by the Placing Banks, the HKMC will set aside a certain portion of the total issue amount in reserve to support their market-making activities. In view of the strong demand for the previous issue in the secondary market, we have decided to increase the reserve amount from 20% to 30%. The Placing Banks will be obliged to quote firm offer prices until the reserve amount is exhausted, and will continue to do so on a best-efforts basis afterwards.

The coming issue will be divided into three tranches of 2-year, 3-year and 5-year maturity. This will offer more choices for retail investors to match their investment objectives. We have also deliberately not specified any cap on the maximum amount per application or the total issue size, with the intention to accommodate in full the demand of the retail investors.

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, Bank of Communications, CITIC Ka Wah Bank, Dao Heng Bank, HSBC, Hang Seng Bank, Standard Chartered Bank and Wing Lung Bank to act as the Placing Banks for the coming issue of retail bonds. Aided by their extensive branch networks and sophisticated telephone and Internet banking facilities, I am sure they will be highly effective in promoting the HKMC notes to the general public.

Thank you.