**Press Release**

**The Hong Kong Mortgage Corporation Limited**

**Fifth Issuance of Retail Bonds**

The Hong Kong Mortgage Corporation Limited (HKMC) is pleased to announce today (Monday) the launch of a new issue of retail bonds that will be placed to investors through 12 Placing Banks.

The HKMC signed the Placing Bank Agreement with Bank of China (Hong Kong), Bank of Communications, Bank of East Asia, Chiyu Bank, DBS Bank, Hongkong and Shanghai Banking Corporation, Hang Seng Bank, ICBC (Asia), International Bank of Asia, Nanyang Commercial Bank, Shanghai Commercial Bank and Wing Lung Bank at the signing ceremony held this afternoon. The HKMC also entered into an Underwriting Agreement with HSBC for an amount of HK$600 million in respect of the 7-year notes of the issue.

The issuing mechanism through placing banks introduced by the HKMC in October 2001 has proved to be highly effective in placing bonds to retail investors. So far, the HKMC has issued HK$6.1 billion of retail bonds to around 15,000 investors. 24 banks and companies have raised over HK$37 billion through issuance of retail bonds and retail certificates of deposit in the same period.

This new issue will adopt the same offering mechanism (see Technical Brief at Annex 1). Key features of the issue that will bring additional benefits to retail investors are as follows:

(a) More choices on tenor and return: to give retail investors more choices in bond products for portfolio diversification and return enhancement, the new issue will be divided into four tranches. The HKMC will introduce its first 7-year retail bonds in addition to fixed rate bonds of 2-year maturity, 3-year maturity and a 3-year extendable for 2-year note (see Annex 2 for details).

(b) Flexible investment amount: to provide more flexibility in the investment amount, retail investors may choose to invest in each tranche of the new issue a minimum amount of HK$50,000 or a higher amount in integral multiples of HK$10,000 instead of HK$50,000.

(c) Extensive Placing Bank network: to reach out effectively to retail investors, the 12 Placing Banks have designated 525 bank branches for handling subscription. In addition, retail investors can make use of the phone and/or Internet banking facilities of some Placing Banks to subscribe for the bonds.

(d) Established market making arrangement: the 12 Placing Banks have committed to quoting firm bid prices for the retail bonds during business hours until the maturity dates of the bonds. This will ensure that retail investors can liquidate their holdings at any time. To facilitate the Placing Banks to quote offer prices, the amount to be available to support secondary market making activities is 30% of the initial issued amount. The Placing Banks have also committed to quoting firm offer prices until the reserve amount is exhausted and will continue to do so on a best effort basis afterwards.

The coupons of the four tranches are as follows.

| Tenor | Coupon per annum (payable semi-annually) |
|---|---|
| 2-year | 1.75% |
| 3-year | 2.50% |
| 3-year extendable for 2-year note | 3.25% |
| 7-year | 4.25% |

An investor may subscribe for one or more of the above tranches. The actual subscription price for each tranche of the Notes will be determined by reference to the relevant Exchange Fund Notes as specified in the Prospectus.

The subscription period will commence at 9:00 a.m. on 25 November 2003 (Tuesday) and end at 2:00 p.m. on 2 December 2003 (Tuesday). The timetable for the issue is set out in Annex 3. As applicants need to have a bank account and an investment account with any one of the Placing Banks they intend to instruct, they are encouraged to submit applications early and not to wait until the closing date of the subscription period. The subscription money will only be deducted from the applicant's account on the closing date.

Retail investors who are interested in subscribing for the bonds can obtain the prospectus from the designated branches of the 12 Placing Banks (see Annex 4) and the office of the HKMC. Investors may access the website of the HKMC (www.hkmc.com.hk) for details of the issue.

Mr Norman Chan, Executive Director of the HKMC, said, "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."

The Hong Kong Mortgage Corporation Limited
24 November 2003

**Annex 1**

**The Hong Kong Mortgage Corporation Limited**

**HKMC204 2-year 1.75% Notes due December 2005**
**HKMC306 3-year 2.50% Notes due December 2006**
**HKC307E 3-year 3.25% Extendable Notes due December 2006**
**HKMC701 7-year 4.25% Notes due December 2010**

**Technical Brief**

## What are HKMC retail bonds?

- They represent senior and unsecured debts issued by The Hong Kong Mortgage Corporation Limited ("HKMC") to retail investors through the appointed Placing Banks.

## Why does HKMC issue retail bonds?

- To enhance the HKMC's fund-raising capabilities by broadening its investor base to include retail investors.

- To promote the development of an active retail bond market in Hong Kong.

- To meet the increasing demand for high quality bonds by retail investors as evidenced by their enthusiastic response to the Corporation's latest retail bond issue in October 2002 as well as the retail bond and CD issues of other issuers year-to-date.

## What are the benefits of investing in HKMC's retail bonds?

- The HKMC Notes are a stable investment that provides steady interest income to investors – the HKMC is wholly owned by the Hong Kong SAR Government through the Exchange Fund and is rated Aa3 by Moody's and AA- by S&P as a long-term, local currency issuer. However, the Notes are not guaranteed by either the HKSAR Government or the Exchange Fund.

- The HKMC Notes carry higher yields than those of the Exchange Fund Notes of comparable tenors as well as the prevailing saving and time deposit rates.

- The HKMC Notes have assured liquidity in the secondary market as the Placing Banks have committed to quote firm bid prices for the Notes during business hours until the maturity date. The Corporation has also set aside 30% of the issue amount for tapping by the Placing Banks to facilitate the quoting of offer prices.

- The HKMC Notes are flexible to invest in with a small minimum denomination (minimum of HK$50,000 or a higher amount in integral multiples of HK$10,000), low transaction costs (0.15% subscription fee) and different tenors (2 years to 7 years) to suit the needs of different investors.

- The HKMC Notes are convenient to subscribe through the 12 Placing Banks' 525 designated branches, as well as their telephone and Internet banking facilities.

- Prices of the HKMC Notes may fall as well as rise.

**What are the key terms of the upcoming Note Issue?**

| | |
|---|---|
| Issuer | The Hong Kong Mortgage Corporation Limited ("HKMC")<br>*Wholly-owned by the Hong Kong SAR Government through the Exchange Fund* |
| Issuer's Credit Ratings | Aa3 (Moody's) / AA- (S&P)<br>Local-currency, long-term issuer ratings |
| Issue number | HKMC204 ("Tranche A")<br>HKMC306 ("Tranche B")<br>HKMC307E ("Tranche C")<br>HKMC701 ("Tranche D") |
| Minimum Issue Amount | Minimum issue amount of each tranche is HK$50 million. By not setting a cap on the size of the issue, the HKMC reserves the right to fix the principal amount of each tranche in the light of valid applications received. |
| Subscription Period | 25 November 2003, 9:00 a.m. to<br>2 December 2003, 2:00 p.m. |
| Issue Date | 8 December 2003 |
| Maturity Date | Tranche A: 8 December 2005<br>Tranche B: 8 December 2006<br>Tranche C: 8 December 2006 (extendable to 8 December 2008 at the option of the Issuer)<br>Tranche D: 8 December 2010 |
| Coupon | Tranche A: 1.75% p.a., payable semi-annually<br>Tranche B: 2.50% p.a., payable semi-annually<br>Tranche C: 3.25% p.a. payable semi-annually<br>Tranche D: 4.25% p.a. payable semi-annually<br><br>Interest will be paid on the 8th day of each June and December between the Issue Date and Maturity Date of the relevant Notes |
| Annualised Yield | Tranche A: 1.76% p.a. (at price = 100.00%)<br>Tranche B: 2.52% p.a. (at price = 100.00%)<br>Tranche C: 3.28% p.a. (at price = 100.00%)<br>Tranche D: 4.30% p.a. (at price = 100.00%) |
| Spread | Tranche A: EFN 2511 yield fixing + 0.12 %<br>Tranche B: EFN 5612 yield fixing + 0.15 %<br>Tranche C: EFN 5809 yield fixing + 0.20 %<br>Tranche D: EFN 7011 yield fixing + 0.50 % |
| Denomination | HK$10,000 (minimum of HK$50,000 or a higher amount of integral multiples of HK$10,000) |
| Listing | No listing |

**Why has HKMC appointed a network of Placing Banks for the retail bonds?**

- HKMC appointed 12 Placing Banks, namely Bank of China (Hong Kong), Bank of Communications, The Bank of East Asia, Chiyu Bank, DBS Bank, HSBC, Hang Seng Bank, ICBC (Asia), International Bank of Asia, Nanyang Commercial Bank, Shanghai Commercial Bank and Wing Lung Bank to place the issue. Such an extensive retail banking network will make convenient to retail investors to subscribe the Notes.

**How can retail investors apply for the upcoming retail bonds?**

- Retail investors intending to subscribe for the HKMC retail notes must already have, or must open, a bank account and also an investment account with one of the Placing Banks. A retail investor may apply for the Notes through the following methods:

  (a) Application in person through a designated branch of a Placing Bank

  Investors can go to any designated branch of a Placing Bank and give instructions in person to apply for the Notes.

  (b) Application by Internet banking facilities

  Investors can make an on-line application if they already have set up arrangement with The Bank of East Asia, DBS Bank or HSBC to use its Internet banking facilities.

  (c) Application by phone banking facilities

  Investors can make a telephone application if they already have made an arrangement with Bank of China (Hong Kong), The Bank of East Asia, Chiyu Bank, DBS Bank, HSBC or Nanyang Commercial Bank to use their phone banking facilities.

**What price will retail investors pay for the HKMC retail bonds?**

- Upon application of the Notes, investors are required to pay the Application Price, plus a handling fee of 0.15% of the Application Price of the Notes. The actual price that investors are required to pay for the Notes allotted is the Subscription Price plus a handling fee of 0.15% of such Subscription Price.

- **Application Price:** An indicative cap price of 102% of the principal amount of each tranche of Notes applied for. The principal amount of Notes applied for must be a minimum of HK$50,000 or a higher amount of integral multiples of HK$10,000.

- **Subscription Price:** Subscription Price of each tranche of Notes will be the actual purchase price of the specific Notes determined at or around 11:30 a.m. on 4 December 2003. The annualised yield of each tranche of Notes will be fixed so as to equal to the annualised yield of the specified Exchange Fund Note ("EFN"), plus a spread, as follows:

  Annualised yield of Tranche A Note = EFN 2511 yield fixing + 0.12%
  Annualised yield of Tranche B Note = EFN 5612 yield fixing + 0.15%
  Annualised yield of Tranche C Note = EFN 5809 yield fixing + 0.20%

Annualised yield of Tranche D Note = EFN 7011 yield fixing + 0.50%

- Difference in Application Price and Subscription Price for each tranche of Notes:

  (a) refund the relevant part of the application monies if the Application Price is larger than the Subscription Price, or

  (b) additional payment is required from successful applicants if Subscription Price is larger than the Application Price.

**What is the allocation method?**

- If total valid applications for each tranche are more than the amount to be issued (as determined by the HKMC at its discretion), all accepted applicants will be allocated a minimum of HK$50,000 in principal amount of the Notes of that tranche. The remaining Notes of that tranche will be allocated on a pro rata basis according to the number of Notes validly applied for (rounded down to the nearest whole Note), and in the case of Notes remaining after rounding, by ballot.

- The ballot will be executed by the Paying Agent, Bank of China (Hong Kong).

**How can retail investors trade the retail bonds in the secondary market?**

- The Placing Banks have agreed with the HKMC to make a market for the Notes to quote a firm bid price so that investors can sell their holding if needed.

- The Placing Banks have also agreed to quote a firm offer price for the Notes so long as they may request the HKMC to issue additional Note (up to a maximum of 30% of initial issue amount), and thereafter the offer price will be quoted on best efforts basis.

**What will be the factors affecting the market price of the retail bonds and where can investors obtain information about the current yield level?**

- After the issue date, the price of the Notes will vary depending on many factors including, but not limited to, prevailing interest rates. Generally, the price of Notes will rise when there is a fall in interest rates, and vice versa.

- Retail investors can find out the current price and yield for Notes from the Placing Banks.

**What are the transaction costs to subscribe for and hold the retail bonds?**

- Investors will pay a handling fee of 0.15% of Subscription Price of the Notes allotted to them.

- As the Notes are scripless and the allotted Notes will be credited to the investment account of the investor's chosen Placing Bank, the Placing Banks will charge a fee for opening and operation of an investment account. Investors should consult the Placing Banks for the relevant fee level.

**How can investors get more information about the HKMC retail bonds?**

- The Prospectus for the Notes are available for collection at the following places:

  - The Hong Kong Mortgage Corporation Limited
  - HKMC website: www.hkmc.com.hk
  - The designated branches of Bank of China (Hong Kong), Bank of Communications, The Bank of East Asia, Chiyu Bank, DBS Bank, HSBC, Hang Seng Bank, ICBC (Asia), International Bank of Asia, Nanyang Commercial Bank, Shanghai Commercial Bank and Wing Lung Bank.

- For further information:

**Enquiry Hotlines**

| | |
|---|---|
| Bank of China (Hong Kong) | 2291-8000 |
| Bank of Communications | 2269-9699 |
| The Bank of East Asia | 2211-1311 |
| Chiyu Bank | 2232-3633 |
| DBS Bank | 2290-8888 |
| HSBC | 2269-2121 |
| Hang Seng Bank | 2998-9898 |
| ICBC (Asia) | 2887-0349 |
| International Bank of Asia | 2566-8181 |
| Nanyang Commercial Bank | 2202-8500 |
| Shanghai Commercial Bank | 2818-0282 |
| Wing Lung Bank | 2526-5555 |

**Annex 2**

## Features of the 3-Year Extendable Notes

### What are the key terms of the 3-year Extendable Notes (Tranche C)?

| | |
|---|---|
| Issue Date: | 8 December 2003 |
| Original Maturity Date: | 8 December 2006 (3 years) |
| Extended Maturity Date: | 8 December 2008 (5 years) |
| Issuer's right, not obligation, to extend the Maturity: | Issuer (HKMC) has one time right (not obligation) on the Original Maturity Date of the Extendable Notes to extend the whole amount of notes of maturity for another 2 years to December 2008 |
| Notice for Extension: | Issuer will give notice of extension (if so decided) to the Placing Banks at least 7 business days before the Original Maturity Date of the Extendable Notes |

### Under what circumstances will the Notes not be extended?

- The HKMC, like any issuer, will consider several factors when deciding whether or not to extend an Extendable Note. The HKMC may decide not to extend the maturity in certain circumstances, for example:

  (a) the prevailing yield of HKMC's 2-year Notes at the end of the third year is lower than the yield of the Extendable Notes;
  (b) the HKMC has surplus funds;
  (c) the HKMC needs funds of maturities other than 2 years.

### What are the benefits of the Extendable?

- The Extendable Notes offer retail investors an additional choice of an investment product that is available mainly to private banking and institutional investors.

- Priced at the yield of the HKMC's 5-year Notes, the Extendable Notes offer an immediate yield pick up which will be realized if the HKMC decides not to extend the maturity at the end of the third year.

- If the bond is extended, the investor will still enjoy the same yield as a plain vanilla 5-year HKMC Notes i.e. no sacrifice of yield for the potential enhancement in return.

- For the Issuer, the Extendable Notes will help the HKMC to better manage its funding and the prepayment of its retained mortgage portfolio. In addition, the HKMC can diversify its investor base as well as broadening the retail bond market.

**Annex 3**

**THE HONG KONG MORTGAGE CORPORATION LIMITED**

**HKMC204 2-year 1.75% Notes due December 2005**
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**HKC307E 3-year 3.25% Extendable Notes due December 2006**
**HKMC701 7-year 4.25% Notes due December 2010**

## Issuing Timetable

| | | |
|---|---|---|
| Commencement Date for application | : | 25 November 2003 (Tuesday), 9:00 a.m. |
| Closing Date for application | : | 2 December 2003 (Tuesday), 2:00 p.m. |
| Price-fixing Date | : | 4 December 2003 (Thursday) at or around 11:30 a.m. |
| Issue Date | : | 8 December 2003 (Monday) |

**Annex 4**

## THE HONG KONG MORTGAGE CORPORATION LIMITED

### Designated Branches of the Placing Banks for Handling the Applications for HKMC's Retail Notes

The list of designated branches of Placing Banks can be obtained through their enquiry hotlines.

| Enquiry Hotlines | |
|---|---|
| Bank of China (Hong Kong) | 2291-8000 |
| Bank of Communications | 2269-9699 |
| The Bank of East Asia | 2211-1311 |
| Chiyu Bank | 2232-3633 |
| DBS Bank | 2290-8888 |
| HSBC | 2269-2121 |
| Hang Seng Bank | 2998-9898 |
| ICBC (Asia) | 2887-0349 |
| International Bank of Asia | 2566-8181 |
| Nanyang Commercial Bank | 2202-8500 |
| Shanghai Commercial Bank | 2818-0282 |
| Wing Lung Bank | 2526-5555 |