THE HONG KONG MORTGAGE CORPORATION LIMITED

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

24 November 2003

Good afternoon Ladies and Gentlemen,

I am pleased to welcome you all to this signing ceremony for the fifth 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 since the HKMC launched the new mechanism of offering bonds to retail investors through placing banks in October 2001. So far, 24 companies and banks have raised over HK$37 billion through retail bonds and retail certificate of deposits. This amount accounts for a significant 11% of the HK$340 billion of Hong Kong dollar debt

securities issued during the same period. For the HKMC, the amount of HK$6.1 billion raised under the retail bond programme accounts for 24% of the Corporation's debt securities issued in the same period, reflecting our commitment to developing this important source of financing.

I am confident that 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 demand for retail bonds is well supported by good prospects of yield enhancement for investors. 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 issue, the HKMC's retail bonds offer a significant yield pick-up over the prevailing savings and time deposits.

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$1.1 trillion. This is roughly 3.5 times of the HK$332 billion of Hong Kong dollar denominated fixed rate bonds outstanding. A transfer of a modest

10% of the time deposits to the bond market would significantly increase its size by HK$115 billion or 35%.

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 system. 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, and their commitment to make market for the placed issues, the subscription and trading of retail bonds are 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 59%, 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. There are clear signs of this gathering momentum as more and more blue chip companies and banks have come forward to tap this market. This has been facilitated by Government's 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 expensive.

I would like to take this opportunity to thank the Hong Kong Capital Market Association for developing with us a package of measures that aims to make the regulatory regime for the issuance of retail bonds more friendly for the issuers. We are also grateful to the Government for responding quickly in adopting the proposals. The key measures include a substantial simplification of the prospectus and disclosure requirements for regular issuers; the publication of clear guidelines 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.

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 four tranches of retail bonds to provide a wide range of choices to suit 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 HSBC to underwrite the 7-year tranche of this new issue. I would also like to thank the other placing banks: Bank of China (Hong Kong), Bank of Communications, Bank of East Asia, Chiyu Bank, DBS Bank (Hong

Kong), Hang Seng Bank, ICBC (Asia), International Bank of Asia, Nanyang Commercial Bank, Shanghai Commercial Bank and Wing Lung 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.