THE HONG KONG MORTGAGE CORPORATION LIMTED

HK$ 20 Billion Retail Bond Issuance Programme

Opening Remarks by Mr. Norman Chan, Executive Director at the Signing Ceremony for the Appointment of Placing Agents

24 May 2004

Good afternoon ladies and gentlemen,

I am pleased to welcome you all to this signing ceremony which marks another major milestone in the development of the retail bond market in Hong Kong.

The HK$20 billion Retail Bond Issuance Programme that we are signing with the Placing Bank Group today is the product of the cumulative efforts made by the HKMC in the past five years in developing an effective platform for marketing bonds to retail investors. Our enthusiasm in pioneering this important initiative is based on a firm belief in the immense potential of the retail bond market. The HK$1.8 trillion of time deposits in the banking system, which gives some indication on the amount of funds investors are prepared to invest in fixed rate products, is about six times of the aggregate amount of Hong Kong dollar bonds outstanding.

Our market survey has suggested time depositors are the largest group of potential investors of retail bonds. The HKMC therefore decided in 2001 to move the distribution and trading platform for retail bonds to the commercial banks where the majority of time depositors conduct their fund management transactions. In addition to primary distribution, the placing banks also perform

the critical role of market makers to facilitate the trading of retail bonds in the secondary market.

The distribution mechanism has proven to be a huge success. Since 2001, 25 issuers have raised over HK$43 billion through some 195 issues of retail bonds and certificate of deposits. For the HKMC, we have raised over HK$8.6 billion through 6 retail bond issues, accounting for 24% of the HKMC's total debt issuance in that period.

Our effort to improve the subscription mechanism for retail bonds does not stop here. With the launch of the Retail Bond Issuance Programme, we have achieved another major breakthrough by making the prospectus a user-friendly document for retail investors and an effective marketing tool for the issuer.

There are good reasons to do something about the prospectus. The conventional prospectus is very bulky and is typically written in highly legalistic language. Its preparation is time consuming and expensive. Some may argue that this is necessary in order to provide sufficient disclosure on the issuer for the benefit of the investors. But, the actual effect is quite the contrary. It often requires a lot of effort on the part of the investors to plow through the contents to identify even basic information such as the yield and tenor of the notes on offer. Many investors would simply ignore the prospectus and just rely on information contained in the advertisements placed by the issuer to make their investment decision.

With the blessing of the regulators, we have made some revolutionary changes to the prospectus to address these issues.

First and foremost, the prospectus is divided into two parts. The Programme Prospectus, which contains keys facts of the issuer, only requires updating on an annual basis after the initial publication. For every issue drawn under the Programme, there will be an Issue Prospectus that contains the key features of the issue. So, for investors who are familiar with the HKMC's credit, they only need to review a six-page Issue Prospectus instead of a full-blown prospectus of over a hundred pages for a coming issue.

Deliberate efforts have also been made to draft the Prospectuses in plain and easy-to-understand language. As a result, we have considerably simplified and shortened the documents without reducing the level of disclosure to the investors. The compact size of the documents also helps to significantly reduce the time and expenses for their preparation.

For the issuer, the prospectus has been transformed into a useful marketing tool. Instead of the previous dull design, the covers of the Prospectuses have been colourfully designed to co-ordinate with other marketing materials to establish a distinctive branding for the HKMC. We are also the first issuer to take advantage of the more flexible guidelines issued by the SFC to extract from the prospectus a one-page fact sheet which provides a handy reference guide for retail investors.

With these improvements, we hope that the prospectuses for the Retail Bond Issuance Programme will set a new standard and useful benchmark for other issuers of retail bonds.

Lastly, I would like to thank Bank of China (Hong Kong), Bank of East Asia and HSBC for underwriting the 4-year tranche of the inaugural issue to be drawn under the Programme. I would also like to thank the other Placing

Banks: Bank of America (Asia), Bank of Communications, Chiyu Bank, Citibank, CITIC Ka Wa Bank, Dah Sing Bank, DBS Bank, Hang Seng Bank, ICBC (Asia), International Bank of Asia, Liu Chong Hing Bank, Nanyang Commercial Bank, Shanghai Commercial Bank, Standard Chartered Bank, Wing Hang Bank and Wing Lung Bank, for their participation in placing this new retail bond issue. With the extensive branch networks of the Placing Banks, coupled with their sophisticated telephone banking system and the Internet banking facilities, I am confident that this retail bond issue will be successful and well received by the investing public.

Thank you.