Press Release

The Hong Kong Mortgage Corporation Limited

Sixth 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 14 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, Liu Chong Hing Bank, Nanyang Commercial Bank, Shanghai Commercial Bank, Standard Chartered Bank and Wing Lung Bank at the signing ceremony held this afternoon. The HKMC also entered into an Underwriting Agreement with Bank of East Asia, HSBC and Standard Chartered Bank 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$7.4 billion of retail bonds to around 18,000 investors. Twenty-four banks and companies have raised over HK$38 billion through issuance of retail bonds and retail certificates of deposit in the same period. HKMC retail bonds provide investors an additional investment product for portfolio diversification and stable interest income in the current low interest rate environment in which Hong Kong dollar savings rate has been lowered to around 0.001% per annum.

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) Enlarged Placing Bank network: to reach out effectively to retail investors, the number of Placing Banks will be increased from 12 to 14 for this new issue. The Placing Banks have designated 609

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.

(b) Choices on tenor and return: the new issue will be divided into three tranches to give retail investors choices in bond products for portfolio diversification and return enhancement. The HKMC will launch fixed rate bonds of 3-year maturity, 7-year maturity and 3-year extendable for 2-year note (see Annex 2 for details).

(c) Established market making arrangement: the 14 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 three tranches are as follows.

Tenor	Coupon per annum (payable semi-annually)
3-year	2.25%
3-year extendable for 2-year note	3.10%
7-year	4.00%

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 10 February 2004 (Tuesday) and end at 2:00 p.m. on 18 February 2004 (Wednesday). 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 14 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. The Corporation's continuous efforts not only broaden its investor base, but also provide retail investors a relatively safe investment choice for portfolio diversification and yield enhancement in the current low interest rate environment."

The Hong Kong Mortgage Corporation Limited
9 February 2004

Annex 1

The Hong Kong Mortgage Corporation Limited

HKMC308 3-year 2.25% Notes due February 2007
HKMC309E 3-year 3.10% Extendable Notes due February 2007
HKMC702 7-year 4.00% Notes due February 2011

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 November 2003 as well as the retail bond and CD issues of other issuers.

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 (HK$50,000), low transaction costs (0.15% subscription fee) and different tenors (3 years to 7 years) to suit the needs of different investors.

- The HKMC Notes are convenient to subscribe through the 14 Placing Banks' 609 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") *Wholly-owned by the Hong Kong SAR Government through the Exchange Fund*
Issuer's Credit Ratings	Aa3 (Moody's) / AA- (S&P) Local-currency, long-term issuer ratings
Issue number	HKMC308 ("Tranche A") HKMC309E ("Tranche B") HKMC702 ("Tranche C")
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	10 February 2004, 9:00 a.m. to 18 February 2004, 2:00 p.m.
Issue Date	24 February 2004
Maturity Date	Tranche A: 26 February 2007 Tranche B: 26 February 2007 (extendable to 24 February 2009 at the option of the Issuer) Tranche C: 24 February 2011
Coupon	Tranche A: 2.25% p.a., payable semi-annually Tranche B: 3.10% p.a., payable semi-annually Tranche C: 4.00% p.a., payable semi-annually Interest will be paid on the 24th day of each February and August between the Issue Date and Maturity Date of the relevant Notes
Annualised Yield	Tranche A: 2.26% p.a. (at price = 100.00%) Tranche B: 3.12% p.a. (at price = 100.00%) Tranche C: 4.04% p.a. (at price = 100.00%)
Spread	Tranche A: EFN 5703 yield fixing + 0.15 % Tranche B: EFN 5812 yield fixing + 0.20 % Tranche C: EFN 7011 yield fixing + 0.50 %
Denomination	HK$50,000
Listing	No listing

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

- HKMC appointed 14 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, Liu Chong Hing Bank, Nanyang

Commercial Bank, Shanghai Commercial Bank, Standard Chartered 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 Standard Chartered Bank 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, Nanyang Commercial Bank or Standard Chartered 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 whole multiple of HK$50,000.

- **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 20 February 2004. 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 5703 yield fixing + 0.15%
  Annualised yield of Tranche B Note = EFN 5812 yield fixing + 0.20%
  Annualised yield of Tranche C 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, Liu Chong Hing Bank, Nanyang Commercial Bank, Shanghai Commercial Bank, Standard Chartered 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	2233-3722
Hang Seng Bank	2998-9898
ICBC (Asia)	2887-0349
International Bank of Asia	2566-8181
Liu Chong Hing Bank	2161-6888
Nanyang Commercial Bank	2622-2633
Shanghai Commercial Bank	2818-0282
Standard Chartered Bank	2886-8868
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 B)?

Issue Date:	24 February 2004
Original Maturity Date:	26 February 2007 (3 years)
Extended Maturity Date:	24 February 2009 (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 February 2009
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

HKMC308 3-year 2.25% Notes due February 2007
HKMC309E 3-year 3.10% Extendable Notes due February 2007
HKMC702 7-year 4.00% Notes due February 2011

Issuing Timetable

Commencement Date for application	:	10 February 2004 (Tuesday), 9:00 a.m.
Closing Date for application	:	18 February 2004 (Wednesday), 2:00 p.m.
Price-fixing Date	:	20 February 2004 (Friday) at or around 11:30 a.m.
Issue Date	:	24 February 2004 (Tuesday)

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
Hang Seng Bank	2998-9898
HSBC	2233-3722
ICBC (Asia)	2887-0349
International Bank of Asia	2566-8181
Liu Chong Hing Bank	2161-6888
Nanyang Commercial Bank	2622-2633
Shanghai Commercial Bank	2818-0282
Standard Chartered Bank	2886-8868
Wing Lung Bank	2526-5555