

The Hong Kong Capital Markets Association 2005 Annual General Meeting Chairman's Report

Dear Members and guests,

Good afternoon. I'm pleased to report to you as the Chairman of the Association at this year's annual general meeting.

In accordance with the tradition of the report by the Association's previous chairmen, I'd like to begin with a quick overview of the activities in our home market last year. The Hong Kong dollar bond market had another active year in 2004. Total new issues volume (excluding Exchange Fund Bills and Notes) reached HK\$170.8bn. While the total was only marginally higher than the HK\$170.5bn recorded in 2003, the volume of fixed rate issues reached another record high of HK\$133.7bn last year, which was almost HK\$14bn higher than the previous year. Floating rate issues volume, on the other hand, recorded a drop of similar magnitude due to the flush liquidity position of most banks. In fact, it was not until Q4 of 2004 that we started seeing some pick up in the issuance of CD's by local banks.

The most noteworthy new issue last year was undoubtedly the simultaneous offering in the international and local markets of HK\$20bn equivalent of bonds by the Hong Kong SAR Government. The deal was offered to both institutional and retail investors and was a major success on all counts. Of particular significance was the fact that the retail tranches served to broaden the Hong Kong retail investor base for bonds in a major way. In this respect, the market also saw the launch of the first ever retail targeted mortgage backed securities later on in the year by The Hong Kong Mortgage Corporation Limited, the most active issuer of HKD debt, who is not only one of our Associate Members but also one of the co-convenors of our Education Subcommittee.

Like the market, the HKCMA as an Association also had a very busy year. Shortly after our AGM last year, the Association hosted a media seminar jointly with the ACI-HK in May. This was followed by a CPT training course for the Stock Brokers Association and a series of media interviews in connection with the HKSAR Government bond offering in June and July. In October, the Association participated in a seminar hosted by Reuters, yet another Associate Member, by making a presentation on "Retail Fixed Income and Structured Products". In November, we participated in the Forum on the Management of Insurance Funds organized by the Financial Services and Treasury Bureau ("FSTB") in Beijing by making a presentation on "Hong Kong Bond Market and Investment Opportunities for Mainland Insurance Companies." In December, we held a golf day which was very well attended by members and guests.

In January this year, we held the highly successful HKCMA Forum 2005 at the Convention and Exhibition Centre. In February, the Association hosted a presentation by the Airport Authority, another Associate Member, on the topic of privatization. In March, we held another media gathering to provide our media friends with an update of the latest bond market related regulatory changes and the various initiatives being undertaken by the Association. In April, we hosted the second annual luncheon featuring as guest speaker the Financial Secretary of the HKSAR Government in

conjunction with the Hong Kong Association of Corporate Treasurers and the Hong Kong Society of Financial Analysts.

Alongside the EXCO, the Subcommittees of the Association have kept themselves busy during the past term, with the Education Subcommittee continuing to be the most active one. One of the Subcommittee's biggest achievements last year was the acquiring of Continuous Professional Training ("CPT") Accreditation Authorized Institute status from the Securities and Futures Commission ("SFC"). This status allows the HKCMA to offer much sought after SFC-CPT hours to our members for the seminars that we organize. The first such hours were given for the HKCMA Forum in January 2005.

The Debt Market Promotion Subcommittee, on the other hand, spent a considerable amount of time examining the pros and cons of setting up an electronic bond trading platform in Hong Kong and is in the process of coming up with a feasibility study on this subject. The Subcommittee also conducted a survey among our members regarding the change in tariffs by the CMU in December and reflected our findings to the Hong Kong Monetary Authority ("HKMA"). The Subcommittee also managed to get some of the local television stations to start reporting EFN yields on a regular basis. Finally, at the suggestion of the FSTB, the Subcommittee has made some useful refinements to the retail bond reference page on our website.

The PRC Subcommittee participated in the seminar for Mainland senior officials organized by the Treasury Markets Forum ("TMF") in October last year. The Subcommittee contributed by lining up four presentations on topics ranging from the Hong Kong and international bond markets, structured debt products, and the importance of due diligence. The presentations were given at the University of Science & Technology and received very favourable feedback from the participants.

Last but not the least, The Securities Law Subcommittee provided our members with a detailed update and analysis of the Companies Amendment Ordinance that went into effect in December of last year. This analysis was also the backbone of the media gathering in March. The Subcommittee has also worked in conjunction with the Debt Market Promotion Subcommittee in trying to clarify the "Issued to the Public" criterion with the HKMA.

As always, the Association has continued to work closely with regulators and the government on bond market development issues. We have a regular dialogue with the FSTB, the HKMA, as well as the SFC. We are also represented at the HKMA-chaired TMF. Our close relationships with these entities were evidenced by the participation of them as guest speakers and panellists in the HKCMA Forum in January.

Taking this opportunity, I'd like to thank all the Executive Committee members and Subcommittee Convenors and members for their tireless efforts in promoting the work of the Association and the debt market in general. Considering how busy everybody is, I'm sure they have all sacrificed a lot of their private time that they could have spent playing golf to do what they managed to do for the Association and the market.

One of the priorities that the EXCO set for the Association at the beginning of the last term was to increase the relevance of the HKCMA to our members. In this respect, I'm pleased to report that while there's still a lot more that we can do, we have managed to add value to some of the activities that our members organized by supplying speakers

as well as helping to promote the events among our members. On the other hand, our members have participated more actively in the various activities organized by the Association such as the Golf Day, the Forum and the Financial Secretary Luncheon. Especially noteworthy is the fact that many of our members joined us as panellists of the plenary discussions during the HKCMA Forum. In case you have missed any parts of the Forum, I'd encourage you to visit our website or take a look at the HKEJ or The Asset special articles that recorded this event.

The HKCMA will be celebrating its twentieth anniversary in 2006. Preparations are already underway to commemorate this special occasion. As we recount the achievements of the Association in the past, we also need to look into the future. In this respect, the Association is currently in discussion about forming an alliance with The Bond Market Association and the soon to be set up International Capital Markets Association ("ICMA") that will be formed from the merger of IPMA and ISMA. It is expected that this tie up will allow the HKCMA to become more international in scope.

The market will continue to change and so will the HKCMA. However, I am optimistic that as long as the Association continues to add value to our members and the market at large, we will be able to count on the continued support of not just our members but also the various regulators, government bodies and our media friends with whom we have been working closely together to make the Hong Kong bond market a better place for all.

Thank you very much.

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Chairman
The Hong Kong Capital Markets Association
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