Press Release

The Hong Kong Mortgage Corporation Limited
Half-Year Financial Results for 2004

The Hong Kong Mortgage Corporation Limited (HKMC) announced today (Wednesday) its half-year financial results for 2004.

The unaudited interim results show that the profit after tax (PAT) for the six months ended 30 June 2004 was HK$355.3 million, an increase of HK$204.4 million or 135.5% over the PAT for the corresponding period of 2003 (1H 2003). The shareholders' equity increased by HK$355.3 million to HK$3.9 billion. The annualized return on average shareholders' equity increased to 19.1% (1H 2003: 9.4%). The cost-to-income ratio improved to 11% (1H 2003: 18.5%). The capital-to-assets ratio remained strong at 8.2% at 30 June 2004 (or 18.8% when computed in accordance with the provisions in the Banking Ordinance). The operating results and financial highlights of the HKMC are at the Annex.

Total assets increased by 26.9% to HK$51.9 billion from HK$40.9 billion at the end of 2003. Despite the very competitive market conditions, the HKMC purchased an aggregate of HK$10.7 billion of mortgage loans in the first six months. As a result, the outstanding principal balance of the retained mortgage portfolio increased from HK$34.6 billion at the end of 2003 by 17.6% to HK$40.7 billion as at 30 June 2004.

On the funding side, the HKMC raised over HK$11 billion through 37 issues of debt securities and 1 issue of mortgage-backed securities in the first half of 2004. This has further consolidated the position of the HKMC as the most active corporate issuer in the Hong Kong dollar debt market. As at 30 June 2004, the HKMC had 131 issues of debt securities with a total outstanding amount of about HK$42 billion.

The Mortgage Insurance Programme (MIP) maintained steady business volume in the first six months of 2004. Up to the end of June, the Corporation received 6,562 applications, involving a total mortgage loan amount of HK$12.2 billion. Total insured loan amount drawn down is HK$5.3 billion. The penetration ratio of MIP mortgages was about 13% in the first quarter of 2004. Secondary market transactions accounted for 72% of the applications received in the period. This shows that the MIP has helped enhance the liquidity of secondary property market.

Reflecting the prudent purchasing and insurance underwriting criteria adopted by the HKMC, the delinquency ratios of loans overdue for more than 90 days in the retained mortgage portfolio and MIP portfolio were 0.52% (a provisional figure) and 0.27% respectively at the end of May, lower than the banking industry average of 0.63%.

The Hong Kong Mortgage Corporation Limited
28 July 2004

Annex

THE HONG KONG MORTGAGE CORPORATION LIMITED
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

CONSOLIDATED FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2004

The Hong Kong Mortgage Corporation Limited (HKMC) is pleased to announce its unaudited consolidated half-year financial results for the six months ended 30 June 2004 as follows:

	Unaudited 6 months ended 30 June 2004	Unaudited 6 months ended 30 June 2003
	HK$'000	HK$'000
Interest income	**477,045**	505,192
Interest expense	**(56,464)**	(234,109)
Net interest income	**420,581**	271,083
Other income, net	**105,339**	26,633
Operating income	**525,920**	297,716
Operating expenses	**(57,634)**	(55,068)
Operating profit before provisions	**468,286**	242,648
Provisions for bad and doubtful loans	**(56,481)**	(78,522)
Profit before taxation	**411,805**	164,126
Taxation	**(56,524)**	(13,180)
Net profit for the period	**355,281**	150,946

	Unaudited at 30 June 2004	Audited at 31 December 2003
	HK$'000	HK$'000
Mortgage portfolio, net	40,666,850	34,581,747
Cash and short-term funds	6,710,286	2,219,346
Investment in debt securities	3,946,991	3,535,525
Total assets	51,861,027	40,900,302
Debt securities	42,046,890	36,630,290
Shareholders' equity	3,853,197	3,497,916
Capital-to-assets ratio	8.2%	7.7%

	Unaudited at 30 June 2004	Unaudited at 30 June 2003
Return on shareholders' equity (annualized)	19.1%	9.4%
Return on total assets (annualized)	1.4%	0.8%
Cost-to-income ratio	11.0%	18.5%

Financial Review

The unaudited consolidated profit after tax (PAT) was HK$355.3 million for the six months ended 30 June 2004, an increase of HK$204.4 million or 135.5% over the PAT of HK$150.9 million for the first six months of 2003 (1H 2003). The annualized return on shareholders' equity improved substantially to 19.1% (1H 2003: 9.4%). The net interest margin of the average interest-earning assets improved to 1.7% (1H 2003: 1.6%). The increase in PAT mainly reflected an increase of HK$149.5 million in net interest income from an enlarged retained mortgage portfolio and the wide Prime-HIBOR spread. General provision of HK$0.5 million (1H 2003: HK$10.5 million) and specific provision of HK$56 million (1H 2003: HK$68 million) were charged to the profit and loss account for the first half of 2004. Total loan provisions decreased by HK$22 million or 28% as compared to 1H 2003 as a result of improvement in the local property market.

The HKMC incurred interest expense of HK$56.5 million (1H 2003: HK$234.1 million) from debt issuing, transferable loan certificates and from short-term money market borrowing. During the period, the HKMC issued debts for a total amount of over HK$10.6 billion and successfully achieved low funding cost to purchase mortgage loans and redeem matured notes.

The HKMC earned a net interest income of HK$420.6 million, an increase of 55.1% over 1H 2003.

Other income was HK$105.3 million (1H 2003: HK$26.6 million). Major items include HK$48.5 million of MBS guarantee fee and related fee income, HK$27.7 million of net mortgage insurance premium and HK$10.3 million of early prepayment fees and late charges.

The Mortgage Insurance Programme (MIP) continued to be well received by the homebuyers. The total outstanding principal balance of the loans with mortgage insurance coverage amounted to HK$26.2 billion and the number of insured mortgage loans stood at 15,982 as at 30 June 2004. The net mortgage insurance premium earned was HK$27.7 million in the first half of 2004 (1H 2003: HK$19.3 million).

The HKMC continues to exercise tight control over its operating expenses. Total operating expenses were HK$57.6 million for the first half of 2004 (1H 2003: HK$55.1 million). The cost-to-income ratio improved further to 11.0% (1H 2003: 18.5%).

The capital-to-assets ratio (CAR) of the HKMC stood at 8.2% as at 30 June 2004 (31 December 2003: 7.7%). This is comfortably above the minimum CAR of 5% stipulated in the guidelines issued by the Financial Secretary. Computing in accordance with the provisions in the Banking Ordinance, the CAR of the HKMC was 18.8% (31 December 2003: 16.6%).