Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcement today (Thursday):

Financial Results for 2003

The audited consolidated financial results of the HKMC for 2003 show that profit after tax (PAT) was HK$379.1 million, HK$111.8 million or 41.8% higher than that of 2002. Return on shareholder's equity was 11.5% (2002: 9.0%). The capital-to-assets ratio (CAR) remained strong at 7.7% (2002: 9.0%), which is equivalent to the capital adequacy ratio of 16.6% when computed in accordance with the Banking Ordinance. The cost-to-income ratio improved sharply to 17.4% (2002: 23.1%). The operating results and financial highlights of the HKMC are attached at Annex A.

Total assets of the HKMC increased substantially by 27%, from HK$32.2 billion in 2002 to HK$40.9 billion in 2003. Despite the difficult business environment, the HKMC was successful in purchasing a total of HK$15 billion of mortgage loans in 2003 (2002: HK$14.4 billion). As a result, the outstanding principal balance of the retained mortgage portfolio increased by HK$6.3 billion or 22.4% to HK$34.6 billion as at 31 December 2003. The growth in assets was facilitated considerably by the acquisition of HK$10.5 billion loans under various Government housing loan schemes. The purchase also assisted the Government in its programme to dispose of assets to improve its fiscal position.

Through continuous product innovation and effective marketing, the Mortgage Insurance Programme (MIP) achieved significant growth in 2003 both in terms of business volume (21% from HK$6.2 billion in 2002 to HK$7.5 billion in 2003) and market penetration ratio (from 8.5% for 2002 to 13.5% for 2003). Secondary market transactions accounted for 48% of the applications received. This reflects that the Programme has helped to enhance the liquidity of secondary property transactions. The Corporation intends to take further steps to promote the MIP through enhancing servicing support and product knowledge of participating banks' front line staff.

The HKMC raised over HK$13.9 billion in 2003 through 54 issues of debt securities and a largest-ever HK$3 billion issue under the Bauhinia MBS Programme, thereby further consolidating its status as the most active corporate issuer in the Hong Kong dollar debt capital market. The Corporation was also one of the most active corporate issuers of retail bonds with a total issued amount of HK$1.3 billion in 2003. The HKMC has issued a total of around HK$7.5 billion retail bonds through Placing Banks since October 2001 and up to December 2003, accounting for 19% of the total issuance of retail bonds and certificates of deposit in the same period. As at 31 December 2003, the HKMC had 116 issues of debt securities with a total amount of over HK$36.6 billion outstanding.

Appointment of Board of Directors

The HKMC held its 7th Annual General Meeting (AGM) today. Eleven Directors were re-appointed by the Financial Secretary for another term, including Mr Ronald Arculli, Professor Andrew Chan, Mr Bernard Chan, Mr Chan Kam Lam, Mr Cliff Forster, Mr Ambrose Lau, Dr David Li, Mr Frederick Ma, Mr Sin Chung-kai, Mr Michael Suen and Mr David Sun. Two new Directors were appointed by the Financial Secretary to replace the Directors who had not offered themselves for re-appointment. The new Directors are Ms Anita Fung Yuen Mei and Mr Andy Hon Hak Keung. The composition of the new Board of Directors is at Annex B.

Ms Anita Fung is the Treasurer, Co-Head of Global Markets, Asia-Pacific of HSBC. Mr Andy Hon is the General Manager, Mortgages and Auto, Consumer Banking of Standard Chartered Bank.

"On behalf of the Board, I would like to thank the outgoing Directors for their invaluable advice and contribution, without which the HKMC would not have been able to achieve the results it had accomplished," said Mr Henry Tang, Chairman of the HKMC. "I also want to welcome the new Directors and look forward to their support to further develop the business of the Corporation," added Mr Tang.

Directors of the HKMC are appointed by the Financial Secretary on a personal basis. According to the Articles of Association of the Company, at each Annual General Meeting, all those Directors who are not Executive Directors shall retire but shall be eligible for re-appointment. Hence, the term of appointment of the current Directors (other than the Executive Directors) will run until the next Annual General Meeting to be held around March/April 2005.

The Hong Kong Mortgage Corporation Limited
1 April 2004

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED

Financial Highlights

	2003 HK$'000	2002 HK$'000
Interest income from mortgage portfolio	826,459	771,720
Net interest income	621,419	430,956
Operating income	681,384	488,873
Operating expenses	120,304	113,330
Operating profit before loans provisions	561,080	375,543
Provisions for bad and doubtful loans	149,370	86,054
Profit before taxation	423,058	292,069
Taxation	43,922	24,722
Net profit for the year	379,136	267,347

	At 31 December 2003	At 31 December 2002
	HK$'000	HK$'000
Mortgage portfolio, net	34,581,747	28,257,727
Cash and short-term funds	2,219,346	212,863
Investment in debt securities	3,535,525	3,244,520
Total assets	40,900,302	32,191,033
Debt securities	36,630,290	28,615,000
Shareholder's equity	3,497,916	3,118,780
Capital-to-assets ratio	7.7%	9.0%
Cost-to-income ratio	17.4%	23.1%
Net interest margin	1.7%	1.5%
Return on total assets	1.0%	0.9%
Return on shareholder's equity	11.5%	9.0%

Financial Review

The audited consolidated financial results of the HKMC for 2003 show that profit after tax (PAT) was HK$379.1 million, HK$111.8 million or 41.8% higher than the previous year. Return on shareholder's equity was 11.5% (2002: 9.0%). The net interest margin of the average interest-earning assets improved from 1.5% in 2002 to 1.7% in 2003.

In 2003 the HKMC purchased a record amount of HK$15 billion of mortgages (2002: HK$14.4 billion). As a result, the size of the retained mortgage portfolio increased from HK$28.3 billion in 2002 to HK$34.6 billion in 2003. Interest income earned from the retained mortgage portfolio increased by HK$54.7 million to HK$826.5 million.

Interest income earned from bank deposits and debt securities increased by HK$43.6 million from HK$136.8 million to HK$180.4 million in 2003, reflecting the increase in bank deposits and investment in debt securities.

The HKMC incurred interest expense of HK$385.4 million (2002: HK$477.5 million), made up of HK$384.3 million from note issuance and HK$1.1 million from utilization of bank lines. A total of HK$10.9 billion of notes (HK$9.6 billion of notes issued under the Debt Issuance Programme and HK$1.3 billion of retail bonds) was issued to fund the mortgage purchase during the year.

For 2003, the HKMC earned a net interest income of HK$621.4 million, an increase of HK$190.5 million or 44.2% over that of 2002.

Other income was HK$60.0 million (2002: HK$57.9 million). Major items include HK$31.0 million of MBS guarantee and related fee income and HK$38.3 million of net mortgage insurance premium earned.

The HKMC continued to exercise tight control over its operating expenses. Total operating expenses were HK$120.3 million for 2003 (2002: HK$113.3 million). The cost-to-income ratio was 17.4% for 2003, showing a marked improvement over the previous year's 23.1%.

As at 31 December 2003, the 90-day delinquency ratio of the retained mortgage portfolio was 0.27%, which was well below the banking industry's 0.86%. General provision of HK$18.2 million (2002: HK$22.1 million) and specific provision of HK$131.2 million (2002: HK$63.9 million) were charged to the consolidated profit and loss account in 2003, reflecting the increase in the size of the retained mortgage portfolio from HK$28.3 billion to HK$34.6 billion at year end.

Annex B

THE HONG KONG MORTGAGE CORPORATION LIMITED

Board of Directors

The Hon. Henry TANG Ying-yen, GBS, JP (Chairman)	Financial Secretary
Mr Joseph YAM Chi-kwong, GBS, JP (Deputy Chairman)	Chief Executive Hong Kong Monetary Authority
Mr Norman CHAN Tak-lam, SBS, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Mr Ronald Joseph ARCULLI, GBS, JP	Managing Partner Arculli and Associates
Professor Andrew CHAN Chi-fai, Ph.D.	Chairman, Consumer Council Professor, Department of Marketing and Director, Executive MBA Programme, The Chinese University of Hong Kong
The Hon. Bernard Charnwut CHAN	Legislative Councillor President, Asia Insurance Company, Limited
The Hon. CHAN Kam-lam, JP	Legislative Councillor
Mr Clifford Rowland FORSTER	Regional Director Lloyds TSB Bank plc.
Ms Anita FUNG Yuen-mei	Treasurer, Co-Head of Global Markets, Asia-Pacific The Hongkong and Shanghai Banking Corporation Limited
Mr Andy HON Hak-keung	General Manager, Mortgages and Auto, Consumer Banking Standard Chartered Bank

The Hon. Ambrose LAU Hon-chuen, GBS, JP	Legislative Councillor Senior Partner, Chu & Lau Solicitors & Notaries
Dr The Hon. David LI Kwok-po, GBS, LLD (Cantab), JP	Legislative Councillor Chairman and Chief Executive The Bank of East Asia, Limited
The Hon. Frederick MA Si-hang, JP	Secretary for Financial Services and the Treasury
The Hon. SIN Chung-kai	Legislative Councillor
The Hon. Michael SUEN Ming-yeung, GBS, JP	Secretary for Housing, Planning and Lands
Mr David SUN Tak-kei	Chairman, Assurance & Advisory Business Services, Ernst & Young