Press Release

The Hong Kong Mortgage Corporation Limited

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

Financial Results for 2004

Based on the audited consolidated financial results of the HKMC for 2004, the profit after tax (PAT) of the Corporation was HK$664.0 million, which was HK$284.9 million or 75.2% higher than that of 2003. Return on shareholders' equity was 17.1% (2003: 11.5%). The capital-to-assets ratio (CAR) remained strong at 9.4% (2003: 7.7%), which is equivalent to a capital adequacy ratio of 20.8% when computed in accordance with the Banking Ordinance. The cost-to-income ratio improved significantly further to 12.2% (2003: 17.4%). The financial results of the HKMC are at Annex A.

The total assets of the HKMC increased by 10%, from HK$40.9 billion in 2003 to HK$44.9 billion in 2004. In spite of the difficult business environment, the HKMC was successful in purchasing a total of HK$11.4 billion mortgage loans in 2004 (2003: HK$15 billion). The purchase comprised the acquisition of loans under various Government housing loan schemes and from Authorized Institutions and property developers. The purchase of Government housing loans served the purpose of assisting the Government in its asset disposal programme to improve its fiscal position. The outstanding principal balance of the retained mortgage portfolio was HK$34.9 billion as at 31 December 2004 (2003: HK$34.6 billion).

The Board has recommended a final dividend of HK$250 million or HK$0.125 per share, representing a dividend payout ratio of 37.7% for the year. The dividend has been approved by the shareholders and will be paid out in April 2005.

Business Performance

Through a steady and prudent expansion in the eligibility criteria and the product range, the Mortgage Insurance Programme (MIP) achieved substantial growth in 2004 both in terms of business volume (88% increase in volume over 2003) and market penetration ratio (from 13.5% for 2003 to 16% for 2004). The launch of the 95% loan-to-value product in July 2004 has been particularly well received by the market. This strong momentum continues into 2005. For the first 3 months of 2005, the Corporation has received a total of 6,427 applications involving an aggregate mortgage loan amount of HK$13,650 million. This volume is 48% higher than the average volume of 1,445 applications per month in 2004 and 85% higher than the 3,470 cases for the corresponding period in 2004.

The HKMC raised over HK$13.8 billion in 2004 through 39 issues of debt securities and 2 MBS issues under the Bauhinia MBS Programme, further consolidating its status as the most active corporate issuer in the Hong Kong dollar debt capital market. The Corporation was also the most active corporate issuer of retail bonds with a total issued amount of HK$2.9 billion in 2004. The HKMC has issued a total of around HK$10.4 billion retail bonds through the issuing mechanism of Placing Banks since October 2001 up to December 2004. As at 31 December 2004, the HKMC had 107 outstanding issues of debt securities with a total amount of over HK$35.5 billion.

Appointment of Board of Directors

The HKMC held its 8th Annual General Meeting (AGM) today. Twelve Directors have been re-appointed by the Financial Secretary for another term, including Mr Ronald Arculli, Professor Andrew Chan, Mr Chan Kam Lam, Mr Cliff Forster, Mr Ambrose Lau, Mr Edward Lau, Dr David Li, Mr Frederick Ma, Mr Abraham Shek, Mr Sin Chung-kai, Mr Michael Suen and Mr David Sun. Two new Directors have been appointed by the Financial Secretary to replace Ms Anita Fung and Mr Andy Hon who had not offered themselves for re-appointment. The new Directors are Mr Kenny Lam Kin Sun and Mr David Lam Yim Nam. The composition of the new Board of Directors is at Annex B.

Mr Kenny Lam is Director, Originations and Structured Derivatives of Société Générale Asia Limited. Mr David Lam is Deputy Chief Executive, Bank of China (Hong Kong) Limited.

"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 would also like to welcome the new Directors and look forward to their support in further development of the business of the Corporation," added Mr Tang.

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 2006.

The Hong Kong Mortgage Corporation Limited
12 April 2005

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED

FINANCIAL RESULTS

	2004	2003
	HK$'000	HK$'000
Interest income	**1,021,874**	1,006,846
Interest expense	**(210,165)**	(385,427)
Net interest income	**811,709**	621,419
Other income, net	**159,801**	59,965
Operating income	**971,510**	681,384
Operating expenses	**(118,661)**	(120,304)
Operating profit before provisions	**852,849**	561,080
Provisions for bad and doubtful loans	**(89,437)**	(149,370)
Operating profit	**763,412**	411,710
Net gain on disposal of investment in debt securities	**-**	11,348
Profit before taxation	**763,412**	423,058
Taxation	**(99,397)**	(43,922)
Net profit for the year	**664,015**	379,136
Proposed dividend	**250,000**	-

	At	At
	31 December 2004	31 December 2003
	HK$'000	HK$'000
Mortgage portfolio, net	**34,938,580**	34,581,747
Cash and short-term funds	**5,338,017**	2,219,346
Investment in debt securities	**4,093,253**	3,535,525
Total assets	**44,940,682**	40,900,302
Debt securities	**35,494,740**	36,630,290
Shareholders' equity	**4,161,931**	3,497,916
Capital-to-assets ratio	**9.4%**	7.7%
Return on shareholders' equity	**17.1%**	11.5%
Return on total assets	**1.3%**	1.0%
Cost-to-income ratio	**12.2%**	17.4%
Net interest margin	**1.6%**	1.7%

Financial Review

The audited consolidated financial results of the HKMC for 2004 show that profit after tax ("PAT") was HK$664 million, HK$284.9 million or 75.2% higher than the previous year. Return on shareholders' equity was 17.1% (2003: 11.5%). The net interest margin of the average interest-earning assets was 1.6% (2003: 1.7%). The increase in PAT mainly reflected an increase of HK$190.3 million in net interest income from the wide Prime-HIBOR spread, an increase of HK$99.8 million in other income and a reduction of HK$60 million in provisions for bad and doubtful loans. General provision written back amounting to HK$5.4 million (2003: charge of HK$18.2 million) was included in the consolidated profit and loss account in 2004. Specific provision charged to the consolidated profit and loss account decreased from HK$131.2 million to HK$94.8 million in 2004, as a result of improvement in the local property market and the recovering economy.

The HKMC incurred interest expense of HK$210.2 million (2003: HK$385.4 million), made up of HK$209.1 million from note issuance and HK$1.1 million from utilization of bank lines. A total of HK$11.4 billion of notes (HK$8.5 billion of notes issued under the Debt Issuance Programme and HK$2.9 billion of retail bonds) was issued to partly fund the mortgage purchase during the year.

For 2004, the HKMC earned a net interest income of HK$811.7 million, an increase of HK$190.3 million or 30.6% over that of 2003.

Other income was HK$159.8 million (2003: HK$60.0 million). Major items include HK$85.7 million of MBS guarantee and related fee income and HK$52.6 million of net mortgage insurance premium earned.

The Mortgage Insurance Programme continued to be well received by the homebuyers. The total outstanding principal balance of the loans with mortgage insurance coverage amounted to HK$31.3 billion and the number of insured mortgage loans stood at 18,829 as at 31 December 2004. The net mortgage insurance premium earned was HK$52.6 million (2003: HK$38.3 million).

The HKMC continued to exercise tight control over its operating expenses. Total operating expenses were HK$118.7 million for 2004 (2003: HK$120.3 million). The cost-to-income ratio was 12.2% for 2004, showing a marked improvement over the previous year's 17.4%.

The capital-to-assets ratio (CAR) remained strong at 9.4% (2003: 7.7%). This is comfortably above the minimum CAR of 5% stipulated in the guidelines issued by the Financial Secretary. When computed in accordance with the Banking Ordinance, the CAR of the HKMC was 20.8% (2003: 16.6%)

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 Peter PANG Sing-tong, 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. CHAN Kam-lam, JP	Legislative Councillor
Mr Clifford Rowland FORSTER	Regional Director Lloyds TSB Bank plc
Mr Kenny LAM Kin-sun	Director Originations and Structured Derivatives Société Générale Asia Limited
Mr David LAM Yim-nam	Deputy Chief Executive Bank of China (Hong Kong) Limited
Mr Ambrose LAU Hon-chuen, GBS, JP	Senior Partner Chu & Lau Solicitors & Notaries

Mr Edward LAU Wan-kong	Executive Vice President Asia Regional Operations Manulife Financial
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. Abraham SHEK Lai-him, JP	Legislative Councillor
The Hon. SIN Chung-kai, JP	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