Press Release

The Hong Kong Mortgage Corporation Limited
Half-year Financial Results for 2006

The Hong Kong Mortgage Corporation Limited (HKMC) announced today (Friday) its half-year financial results for 2006.

The HKMC and its subsidiaries (the HKMC Group) reported an unaudited profit after tax (PAT) of HK$323.9 million for the six months ended 30 June 2006 (1H 2006), representing a slight decrease of HK$14.2 million or 4.2% from the first six months in 2005 (1H 2005). The shareholders' equity increased by HK$90.8 million to HK$4.8 billion and the annualised return on average shareholders' equity was 13.5% (1H 2005: 15.6%). The cost-to-income ratio was 13.3% (1H 2005: 13.2%). The capital-to-assets ratio remained strong at 13.2% at 30 June 2006. The financial results of the HKMC Group are at the Annex.

The HKMC purchased HK$400 million of mortgages in 1H 2006. While the banks do not have strong incentive to offload sizable mortgage portfolio given the abundant liquidity in the market, the market response to the HKMC's efforts to diversify its purchase opportunities has been positive. The Corporation expects asset acquisition to pick up in the second half of the year. Taking into account the repayment and run-off due to competitive refinancing in the mortgage market, the outstanding principal balance of the mortgage portfolio decreased by 10.4% from HK$33.6 billion at the end of 2005 to HK$30.1 billion as at 30 June 2006.

The HKMC raised HK$8.8 billion through 32 debt issues in the first six months of 2006 and remained the most active corporate issuer in the Hong Kong dollar debt market. As at 30 June 2006, the total value of outstanding debt securities was about HK$26.2 billion.

As for the Mortgage Insurance Programme (MIP), the HKMC received 5,778 applications during the period, involving a total mortgage loan amount of HK$12 billion. The penetration ratio of MIP mortgages was about 14.3% in the first five months of 2006. The slowdown was due to the state of the property market and the prolonged interest rate hike environment. Secondary market transactions accounted for 90% of the applications received in the period. This shows that the MIP has helped to enhance the liquidity of the secondary property market. The total outstanding principal balance of the

loans with mortgage insurance coverage amounted to HK$41 billion and the number of insured mortgage loans stood at 23,607 as at 30 June 2006.

Reflecting the prudent purchasing and insurance underwriting criteria adopted by the HKMC, the combined delinquency and rescheduled loans ratio of the mortgage portfolio was 0.37% (a provisional figure) at the end of May (cf. banking industry average at 0.53%).

For the rest of 2006, the HKMC will strive to meet its business targets and continue to meet the needs of the banking sector and the homeowners, and promote the development of the debt market.

The Hong Kong Mortgage Corporation Limited
28 July 2006

Annex

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED FINANCIAL RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Unaudited 6 months ended 30 June 2006	Unaudited 6 months ended 30 June 2005
	HK$'000	HK$'000 Restated
Interest income	**1,132,761**	736,569 *
Interest expense	**(802,600)**	(383,858) *
Net interest income	**330,161**	352,711
Other income, net	**86,636**	62,200 *
Operating income	**416,797**	414,911
Operating expenses	**(55,296)**	(54,718) *
Operating profit before impairment	**361,501**	360,193
Write-back of loan impairment allowances	**1,408**	27,081
Profit before taxation	**362,909**	387,274 *
Taxation	**(39,006)**	(49,163)
Net profit for the period	**323,903**	338,111 *

*Figures have been restated as a result of the adoption of the HKAS 27 (revised): Consolidated and Separate Financial Statements

	Unaudited as at 30 June 2006	Audited as at 31 December 2005	
	HK$'000	HK$'000 Restated	
ASSETS			
Cash and short-term funds	**1,711,780**	2,495,327	*
Derivative financial instruments	**55,489**	87,890	*
Mortgage portfolio, net	**30,099,432**	33,551,931	*
Investment securities:			
- available-for-sale	**4,035,432**	1,989,973	
- held-to-maturity	**4,644,009**	4,524,894	
Reinsurance assets	**401,343**	429,178	
Other assets	**539,746**	468,256	*
	41,487,231	43,547,449	
LIABILITIES			
Other liabilities	**4,530,920**	4,680,525	*
Derivative financial instruments	**632,776**	344,730	*
Tax payable	**34,328**	-	
Insurance liabilities	**651,465**	684,212	
Debt securities	**26,150,297**	27,995,867	
Mortgage-backed securities	**4,718,886**	5,164,376	*
	36,718,672	38,869,710	
SHAREHOLDERS' EQUITY			
Share capital	**2,000,000**	2,000,000	
Retained profits	**2,583,579**	2,272,075	*
Contingency reserve	**74,124**	61,725	
Other reserve	**110,856**	93,939	
Proposed dividend	**-**	250,000	
	4,768,559	4,677,739	
	41,487,231	43,547,449	
Capital-to-assets ratio	**13.2%**	12.0%	*
	Unaudited 6 months ended 30 June 2006	Unaudited 6 months ended 30 June 2005	
Return on shareholders' equity (annualised)	**13.5%**	15.6%	*
Return on total assets (annualised)	**1.5%**	1.4%	*
Cost-to-income ratio	**13.3%**	13.2%	*

* Figures have been restated as a result of the adoption of the HKAS 27 (revised): Consolidated and Separate Financial Statements

Basis of Preparation

Under the Companies (Amendment) Ordinance 2005, which is effective for the period beginning 1 January 2006, the two special purpose entities (SPEs) for mortgage securitisation, are deemed subsidiaries of the HKMC for the purposes of preparing the consolidated financial statements. For reporting of the half-year results, the unaudited financial statements of the SPEs are included in the consolidated financial statements of the HKMC. In accordance with paragraph 43B of Hong Kong Accounting Standard 27, companies that have adopted the legal definition of subsidiary in annual period beginning before 1 January 2006 are required to restate the comparative amounts in the prior periods presented in the financial statements. Accordingly, the HKMC has restated the comparative figures in the half-year financial results.

Financial Review

The unaudited consolidated profit after tax (PAT) was HK$323.9 million for the six months ended 30 June 2006 (1H 2006), a decrease of HK$14.2 million or 4.2% from the first half of 2005 (1H 2005). The annualised return on shareholders' equity was 13.5% (1H 2005: 15.6%). The net interest margin of the average interest-earning assets improved to 1.6% (1H 2005: 1.5%).

The HKMC earned a net interest income of HK$330.2 million, a decrease of 6.4% over 1H 2005, mainly due to the reduction of interest income from the contraction of the mortgage portfolio, which was partly offset by the widening of the Prime-HIBOR spread.

Other income was HK$86.6 million (1H 2005: HK$62.2 million). Major items include HK$50.6 million of net mortgage insurance premium earned, HK$13.5 million of exchange difference, HK$12.9 million of change in fair value of derivatives and debt securities and HK$9.9 million of early prepayment fees.

As a result of the continuing improvement in unemployment rate and the borrowers' credit quality, a write-back of loan impairment allowance of HK$1.4 million was made in the first half of 2006 (1H 2005: HK$27.1 million).

The HKMC continues to exercise tight control over its operating expenses. Total operating expenses were HK$55.3 million for the first half of 2006 (1H 2005: HK$54.7 million). The cost-to-income ratio was 13.3% (1H 2005: 13.2%).

Taking into account of the outstanding balance of mortgage portfolio securitised through the two SPEs, the total outstanding principal balance of the mortgage portfolio decreased by 10.4% from HK$33.6 billion at the end of 2005

to HK$30.1 billion as at 30 June 2006. Total assets decreased by 4.6% from HK$43.5 billion to HK$41.5 billion.

The net redemption and change in fair value of the debt securities issued by the HKMC and the mortgage-backed securities issued by the SPEs were HK$1.8 billion and HK$0.4 billion respectively during the period. As at 30 June 2006, the outstanding debt securities and mortgage-backed securities were HK$26.2 billion and HK$4.7 billion respectively.

The capital-to-assets ratio (CAR) of the HKMC stood at 13.2% as at 30 June 2006 (31 December 2005: 12.0%). This is comfortably above the minimum CAR of 5% stipulated in the guidelines issued by the Financial Secretary. When computing in accordance with the provisions in the Banking Ordinance, the CAR of the HKMC was 25.6%.