Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcement today (Friday 28 April 2006).

Financial Results for 2005

The HKMC and its subsidiaries (the HKMC Group) reported an audited profit after tax (PAT) of HK$600.6 million for 2005. This is the second highest PAT achieved by the Corporation, after the record PAT of HK$664 million in 2004. Return on shareholders' equity was 13.6% (2004: 17.1%). The capital-to-assets ratio was 12% (2004: 9.3%), equivalent to a capital adequacy ratio of 24% when computed in accordance with the Banking Ordinance. The cost-to-income ratio was 14.6% for 2005 (2004: 12.2%). The financial results of the HKMC Group are at Annex A.

The amount of mortgage loans purchased in 2005 was HK$2.9 billion (2004: HK$11.4 billion). Given the high mortgage prepayment rate in 2005, the outstanding principal balance of the retained mortgage portfolio was HK$29.5 billion at 31 December 2005 (2004: HK$34.9 billion).

The Board recommended and the Shareholders approved a final dividend of HK$250 million or HK$0.125 per share, representing a dividend payout ratio of 41.6% for the year. Payment of the dividend will be made in May 2006.

Business Performance

The Mortgage Insurance Programme (MIP) launched in March 1999 has gained increasing public acceptance. For 2005, the programme has achieved remarkable growth both in terms of business volume (increase in drawdown volume by 27% from HK$14.2 billion in 2004 to HK$18 billion in 2005) and market penetration ratio (increase from 16% for 2004 to 20% for 2005).

During the year the Corporation started the development of a credit scoring model to refine its risk-based pricing framework. The model allows the level of insurance premium to be adjusted downwards for MIP borrowers with better credit standing. The launch date of the risk-based premium pricing scheme is tentatively scheduled for 22 May 2006.

Initially, this model for premium reduction will only cover mortgage loans with LTV ratio of up to 85%. For eligible borrowers, the premium discount could range from 5% to as high as 20% of the gross premium amount. In addition, a loyalty discount of 15% will be offered to repeat MIP borrowers (i.e. those who have utilised mortgage insurance with the HKMC before) with good previous repayment record.

This model at present does not apply to loans above the 85% LTV threshold because the Corporation needs access to the credit data reports from TransUnion Information Services Limited for the calibration of the credit scoring model to apply to a wider range of borrowers.

For mortgage acquisition, the Corporation's purchase in 2005 was mainly from the Authorized Institutions and developers. The Corporation is keeping an eye out for broadening its purchase opportunities.

In terms of debt issuance, the HKMC issued a total of HK$5.1 billion corporate debts under its Debt Issuance Programme and Retail Bond Issuance Programme in 2005. It also securitised HK$1 billion mortgage loans into mortgage-backed securities (MBS). During October 2001 to December 2005, the HKMC issued eight retail bonds in 26 tranches, including its first ever US$ tranches issued in 2005, for a total amount around HK$11 billion through the offering mechanism by placing banks. As at 31 December 2005, the HKMC has 101 debt issues with a total amount of HK$28 billion outstanding. For the fifth consecutive year, the HKMC is the most active corporate issuer and MBS promoter in the Hong Kong dollar debt market.

Appointment of Board of Directors

The HKMC held its 9th Annual General Meeting (AGM) today. Ten Directors have been re-appointed by the Financial Secretary for another term, including Mr Ronald Arculli, Mr Chan Kam Lam, 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. Four new Directors have been appointed by the Financial Secretary to replace Professor Andrew Chan, Mr Cliff Forster, Mr David Lam and Mr Kenny Lam who had not offered themselves for re-appointment. The new Directors are Professor K. C. Chan, Mr Geoffrey

Mansfield, Mr Nick Sibley and Mr Eddie Tan. The composition of the new Board of Directors is at Annex B.

Professor K. C. Chan is the Chairman of the Consumer Council as well as Dean, School of Business and Management and Chair Professor of Finance of Hong Kong University of Science and Technology. Mr Geoffrey Mansfield is a Director of PrimeCredit Limited. Mr Nick Sibley is Head of Personal Financial Services Asia-Pacific of The Hongkong and Shanghai Banking Corporation Limited. Mr Eddie Tan is the Managing Director and Head of Emerging Markets Sales & Trading & Country Treasurer, Hong Kong of Citigroup.

"On behalf of the Board, I would like to thank the outgoing Directors for their invaluable advice and contributions 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 2007.

The Hong Kong Mortgage Corporation Limited
28 April 2006

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED FINANCIAL RESULTS

	2005 **HK$'000**	2004 HK$'000
Interest income	**1,584,531**	1,021,874
Interest expense	**(963,898)**	(210,165)
Net interest income	**620,633**	811,709
Other income, net	**165,261**	159,801
Operating income	**785,894**	971,510
Operating expenses	**(114,632)**	(118,661)
Operating profit before impairment losses	**671,262**	852,849
Write-back of impairment losses on loans/ (provisions) for bad and doubtful loans	**18,639**	(89,437)
Profit before taxation	**689,901**	763,412
Taxation	**(89,270)**	(99,397)
Net profit for the year	**600,631**	664,015
Proposed dividend	**250,000**	250,000

	As at 31 December 2005 **HK$'000**	As at 31 December 2004 HK$'000
Mortgage portfolio, net	**29,475,662**	34,938,580
Cash and short-term funds	**2,476,532**	5,338,017
Investment securities		
- available-for-sale	**1,989,973**	-
- held-to-maturity	**4,524,894**	4,093,253
Total assets	**39,406,051**	45,266,481*
Debt securities	**27,995,867**	35,494,740
Shareholders' equity	**4,677,547**	4,161,931
Capital-to-assets ratio	**12.0%**	9.3%*
Return on shareholders' equity	**13.6%**	17.1%
Return on total assets	**1.5%**	1.3%
Cost-to-income ratio	**14.6%**	12.2%
Net interest margin	**1.6%**	1.6%

* Figures restated as a result of the adoption of the new Hong Kong Financial Reporting Standard 4: Insurance Contracts

Financial Review

The HKMC Group reported an audited PAT of HK$600.6 million, HK$63.4 million or 9.5% lower than 2004. Return on shareholders' equity was 13.6% (2004: 17.1%). The net interest margin of the average interest-earning assets was 1.6% (2004: 1.6%).

In 2005, the HKMC Group earned HK$1,584.5 million from interest income (increase of HK$562.7 million from 2004), while incurring interest expense of HK$963.9 million (increase of HK$753.7 million from 2004) on funding operations. The net interest income of HK$620.6 million in 2005 fell by HK$191.1 million from the previous year, mainly due to the contraction of mortgage portfolio and narrowing of Prime-HIBOR spread in 2005.

A total of HK$5.1 billion of corporate debt issues (HK$4.5 billion of debts issued under the Debt Issuance Programme and HK$0.6 billion of retail bonds under the Retail Bond Issuance Programme) was made to fund mortgage purchase and redeem debts matured in the year.

Other income rose by 3.4% to HK$165.3 million (2004: HK$159.8 million). Major items included HK$101.2 million (2004: HK$52.6 million) of net mortgage insurance premium earned, HK$39.4 million (2004: HK$85.7 million) of MBS guarantee and related fee income, and HK$27.2 million (2004: HK$21.4 million) of early prepayment fees.

The rise in net mortgage insurance premium earned was underpinned by the strong growth in the Mortgage Insurance Programme. The total outstanding principal balance of the loans with mortgage insurance coverage amounted to HK$40.6 billion (2004: HK$31.3 billion) and the number of insured mortgage loans stood at 23,405 as at 31 December 2005 (2004: 18,829).

The HKMC Group continued to exercise tight control over its operating expenses. Total operating expenses were HK$114.6 million for 2005 (2004: HK$118.7 million). The cost-to-income ratio was 14.6% for 2005 (2004:12.2%).

The capital-to-assets ratio (CAR) stood well above the minimum of 5% stipulated in the CAR guidelines issued by the Financial Secretary at a healthy level of 12% (2004: 9.3%), or equivalent to 24% (2004: 20.5%) when calculated in accordance with the capital adequacy framework under the Banking Ordinance.

Effect of Adopting New Hong Kong Financial Reporting Standards (HKFRSs)

In 2005, the HKMC Group adopted the new and revised HKFRSs that are relevant to its operations. The 2004 comparatives have been amended, in accordance with the relevant requirements.

Other than Hong Kong Accounting Standard (HKAS) 32, HKAS 39 and HKFRS 4, there were no material effects for the current year and prior year due to the adoption of HKFRSs. All relevant changes in the accounting policies have been made in accordance with the provisions of the respective standards, which require retrospective application to prior year comparatives other than HKAS 39.

The adoption of HKAS 39 has resulted in a change in the accounting policy relating to the measurement of financial assets, the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. The adoption of HKAS 32 has affected the disclosure and presentation of financial instruments. HKFRS 4 has also affected the disclosures with respect to insurance contracts issued and reinsurance contracts held.

The HKMC Group adopted HKAS 39 as from 1 January 2005. The new accounting standards gave rise to a drop in the 2005 PAT by HK$36.7 million due to the new fair value accounting and loan impairment policies.

Estimated effect of changes in the accounting polices on consolidated balance sheet items

The HKMC Group	HKAS 32, HKAS 39 and HKAS 39 (Amendment)	HKFRS 4	Total
	HK$'000	HK$'000	HK$'000
Increase / (decrease) in assets as at 31 December 2005			
Mortgage portfolio, net	851,501	-	851,501
Non-trading securities	(1,989,973)	-	(1,989,973)
Available-for-sale securities	1,989,973	-	1,989,973
Derivative financial instruments	85,266	-	85,266
Prepayments, deposits and other assets	35,560	(2,175)	33,385
Reinsurance assets	-	429,178	429,178
	972,327	427,003	1,399,330
(Increase) / decrease in liabilities as at 31 December 2005			
Accounts payable, accrued expenses and other liabilities	(862,516)	2,743	(859,773)
Deferred tax liabilities	(4,295)	-	(4,295)
Tax payable	(3,000)	-	(3,000)
Debt securities	240,794	-	240,794
Derivative financial instruments	(308,915)	-	(308,915)
Insurance liabilities	-	(429,746)	(429,746)
	(937,932)	(427,003)	(1,364,935)
Increase in equity as at 31 December 2005			
Retained profits	34,395	-	34,395

Estimated effect of changes in the accounting polices on consolidated income statement for the year ended 31 December 2005

The HKMC Group	HKAS 32 and HKAS 39
Increase / (decrease) in profit for the year	HK$'000
Fair value of derivatives and debt securities	(14,461)
Impairment losses on loans	(29,744)
Taxation	7,554
	(36,651)

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 Peter PANG Sing-tong, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Mr CHOI Yiu-kwan, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
The Hon. Ronald Joseph ARCULLI, GBS, JP	Executive Councillor Partner Arculli Fong & Ng
Professor K. C. CHAN	Chairman, Consumer Council Dean, School of Business and Management Chair Professor of Finance Hong Kong University of Science and Technology
The Hon. CHAN Kam-lam, SBS, JP	Legislative Councillor
Mr Ambrose LAU Hon-chuen, GBS, JP	Senior Partner Chu & Lau Solicitors & Notaries
Mr Edward LAU Wan-kong	Executive Vice President & Deputy General Manager Asia Division Manulife Financial
Dr the Hon. David LI Kwok-po, GBS, LLD (Cantab), JP	Executive Councillor 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
Mr Geoffrey Jay MANSFIELD	Director PrimeCredit Limited
The Hon. Abraham SHEK Lai-him, JP	Legislative Councillor
Mr Nicholas John SIBLEY	Head of Personal Financial Services Asia-Pacific The Hongkong and Shanghai Banking Corporation Limited
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 and Country Managing Partner Ernst & Young
Mr Eddie TAN Cheng-soo	Managing Director Head of Emerging Markets Sales & Trading & Country Treasurer, Hong Kong, Citigroup