Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcement today (Friday 27 July 2007).

Half-Year Financial Results for 2007

The HKMC and its subsidiaries (the HKMC Group) are pleased to announce the half-year financial results for 2007. The unaudited profit after tax (PAT) for the six months ended 30 June 2007 (1H 2007) was HK$411.2 million, 27% over the first six months in 2006 (1H 2006). The annualised return on shareholders' equity was 15.4% (1H 2006: 13.5%). The capital-to-assets ratio remained strong at 11.5% at 30 June 2007. The cost-to-income ratio was 11.2% for first half of 2007 (1H 2006: 13.3%). The financial results of the HKMC Group are at Annex.

Business Performance

Despite keen competition in the mortgage market as a result of ample liquidity in the local banking system, the Corporation purchased HK$603 million loan portfolio comprising HK$369 million of residential mortgages and HK$234 million of taxi loans in first half of 2007 (1H 2006: total purchase was HK$385 million of residential mortgages). Taking into account repayments and run-off due to refinancing activities in the mortgage market, the outstanding principal balance of the loan portfolio decreased by 9.9% from HK$32.4 billion at the end of 2006 to HK$29.2 billion as at 30 June 2007.

The Mortgage Insurance Programme (MIP) continued to enjoy good public acceptance in view of the rebound of property market. For first half of 2007, the programme achieved a business volume of HK$5.8 billion and the market penetration ratio as of May 2007 was around 14%. As 90% of the loans drawdown in first half of 2007 were secured on properties in the secondary market, once again this demonstrated the importance of the MIP to help homebuyers in the secondary market. With the continuous recovery in the property market, the drawdown volume under the MIP is expected to increase further in second half of 2007.

In terms of debt issuance, the HKMC issued a total of HK$9.5 billion corporate debts under its Debt Issuance Programme and Retail Bond Issuance Programme in first half of 2007, and remained as one of the most active corporate debt issuers in the Hong Kong dollar market. In March 2007, the HKMC offered a total value of HK$925 million equivalent of retail bonds to the public. In June 2007, the HKMC had successfully established a US$3 Billion Medium Term Note Programme to broaden its investor base and funding sources in the international market. This also helps to further develop a quasi-sovereign benchmark for Hong Kong to further promote the development of the regional bond market. As at 30 June 2007, the total amount of outstanding debt securities and MBS were HK$30.5 billion and HK$5.1 billion respectively.

The solid performance of the HKMC and strong support from the Hong Kong SAR Government through the past ten years is regarded by international credit rating agencies to have contributed to the Corporation's strong credit ratings. The Corporation's long-term foreign and local currency debt ratings are Aaa (stable outlook) from Moody's and AA (positive outlook) from Standard & Poor's.

With the HKMC's top credit ratings in Hong Kong, solid financial performance and prudent risk management framework, the HKMC will strive to meet its business targets and contribute to market development in the region. In the second half of 2007, the Corporation will be seeking opportunities to improve the MIP to enhance its capacity to promote homeownership in Hong Kong. The HKMC will also continue to pursue a business diversification strategy as approved by the Board in 2006 covering both non-mortgage assets in Hong Kong and expansion into overseas markets. This will help to reinforce Hong Kong's status as an international financial centre, in particular in fulfilling the role of a financial intermediary for the Mainland.

The Hong Kong Mortgage Corporation Limited
27 July 2007

Annex

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Unaudited 6 months ended 30 June 2007	Unaudited 6 months ended 30 June 2006
	HK$'000	HK$'000
Interest income	**1,146,085**	1,132,761
Interest expense	**(805,797)**	(802,600)
Net interest income	**340,288**	330,161
Other income, net	**185,771**	86,636
Operating income	**526,059**	416,797
Operating expenses	**(58,904)**	(55,296)
Operating profit before impairment	**467,155**	361,501
Write-back of loan impairment allowances	**1,415**	1,408
Profit before taxation	**468,570**	362,909
Taxation	**(57,353)**	(39,006)
Profit for the period	**411,217**	323,903

	Unaudited As at 30 June 2007	Audited As at 31 December 2006
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**5,623,698**	1,914,806
Derivative financial instruments	**137,259**	262,760
Loan portfolio, net	**29,202,583**	32,394,092
Investment securities:		
- available-for-sale	**5,447,971**	4,614,519
- held-to-maturity	**5,259,098**	4,673,090
Reinsurance assets	**367,995**	373,901
Other assets	**565,430**	588,834
	46,604,034	44,822,002
LIABILITIES		
Derivative financial instruments	**480,722**	162,952
Tax payable	**51,742**	16,511
Insurance liabilities	**633,315**	624,856
Debt securities issued	**30,464,041**	28,935,470
Mortgage-backed securities issued	**5,098,674**	5,361,260
Other liabilities	**4,552,887**	4,582,374
	41,281,381	39,683,423
SHAREHOLDERS' EQUITY		
Share capital	**2,000,000**	2,000,000
Retained profits	**3,079,505**	2,678,722
Contingency reserve	**95,112**	84,678
Fair value reserve	**148,036**	125,179
Proposed dividend	**-**	250,000
	5,322,653	5,138,579
	46,604,034	44,822,002
Capital-to-assets ratio	**11.5%**	11.2%

	Unaudited 6 months ended 30 June 2007	Unaudited 6 months ended 30 June 2006
Return on shareholders' equity (annualised)	**15.4%**	13.5%
Return on total assets (annualised)	**1.8%**	1.5%
Cost-to-income ratio	**11.2%**	13.3%
Net interest margin	**1.6%**	1.6%

Financial Review

The unaudited consolidated profit after tax (PAT) was HK$411.2 million for the six months ended 30 June 2007, HK$87.3 million or 27% more than the same period in 2006 (1H 2006). The annualised return on shareholders' equity was 15.4% (1H 2006: 13.5%). The net interest margin of the average interest-earning assets maintained at 1.6% (1H 2006: 1.6%).

The HKMC Group earned HK$1,146.1 million from interest income (increase of HK$13.3 million from 1H 2006), while incurring interest expense of HK$805.8 million (increase of HK$3.2 million from 1H 2006) on funding operations. The net interest income was HK$340.3 million in first half of 2007, HK$10.1 million over the same period of 2006.

Other income rose by 114.5% to HK$185.8 million (1H 2006: HK$86.6 million) mainly due to the effective asset-liability management and hedging operations to counter the tightening trend of the Prime-HIBOR spread (tightening from 403 bp in 2006 to 376 bp in 1H 2007). Major items included HK$52.4 million (1H 2006: HK$50.6 million) of net mortgage insurance premium earned, HK$40.6 million of exchange gain (1H 2006: HK$13.5 million), HK$10.6 million (1H 2006: HK$9.9 million) of early prepayment fees arising from refinancing activities and HK$2.8 million of dividend income (1H 2006: HK$0.6 million) on investment securities, and the marked-to-market gain on change in fair value of financial instruments of HK$80.1 million (1H 2006: HK$12.9 million).

With the improvement in property market and pick-up in new loan underwritten, risk-in-force borne by HKMC increased from HK$2.9 billion at the end of 2006 to HK$3.2 billion as at 30 June 2007 or an increase of 10.3%. The net mortgage insurance premium earned showed a slight improvement by 3.6% to HK$52.4 million.

The HKMC Group continued to exercise tight control over its operating expenses. Total operating expenses were HK$58.9 million for first half of 2007 (1H 2006: HK$55.3 million). The cost-to-income ratio was 11.2% for first half of 2007 (1H 2006: 13.3%).

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 first half of 2007 (1H 2006: HK$1.4 million).

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 11.5% as at 30 June 2007(31 December 2006: 11.2%).