

THE HONG KONG MORTGAGE CORPORATION LIMITED**CONSOLIDATED FINANCIAL RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

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

*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 HK\$'000	Audited as at 31 December 2005 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%.