

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2006.

Principal Activities

The principal activities of the Company are:

- (1) to purchase portfolios of mortgages or loans whether unsecured or secured on properties or other collateral situated in Hong Kong or elsewhere, interests and benefits under hire purchase or leasing arrangements made in respect of motor vehicles and other assets, or other debentures, receivables, financial assets and choses in action of all kinds from their originators, issuers, owners or vendors;
- (2) to acquire by purchase or otherwise any assets from government bodies and agencies and related organisations, statutory bodies and public bodies and to hold, sell, transfer, dispose of and deal in any such assets so purchased or acquired;
- (3) to securitise mortgage portfolios through special purpose entities by way of issuing mortgage-backed securities to investors; and
- (4) to provide mortgage insurance cover to Authorized Institutions in respect of mortgage loans originated by such Authorized Institutions and secured by residential properties.

The corporate information and principal activities of the subsidiary and the special purpose entities are shown in Note 21 and Note 30 respectively to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 41 together with particulars of proposed dividend.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 44.

Fixed Assets

Details of the movements in fixed assets of the Group and of the Company during the year are set out in Note 20 to the financial statements.

Debt Securities Issued

The Company issued notes to banks and institutional investors under its HK\$40 Billion Debt Issuance Programme and also offered notes to retail investors through various placing banks under its Retail Bond Issuance Programme during the year ended 31 December 2006, totalling HK\$13,343,663,000 for the purposes of providing general working capital and refinancing, at the total consideration of HK\$13,222,900,000. A summary of the debt securities issuance and redemption activities is set out in Note 24 to the financial statements.

Mortgage-backed Securities Issued

The Company securitised HK\$2 billion of mortgage portfolios through Bauhinia MBS Limited, a special purpose entity established for US\$3 Billion Bauhinia Mortgage-backed Securitisation Programme. A summary of the mortgage-backed securities issuance and redemption activities is set out in Note 25.

Directors

The Directors of the Company who served during the year were as follows:

The Honourable Henry TANG Ying Yen, GBS, JP
Chairman and Executive Director

Mr. Joseph YAM Chi Kwong, GBS, JP
Deputy Chairman and Executive Director

Mr. Peter PANG Sing Tong, JP
Executive Director

Mr. CHOI Yiu Kwan, JP
Executive Director

The Honourable Ronald Joseph ARCULLI, GBS, JP
Director

Professor Andrew CHAN Chi Fai, Ph.D, JP
Director (retired on 28 April 2006)

Professor Ceajer CHAN Ka Keung, Ph.D, JP

Director (appointed on 28 April 2006)

The Honourable CHAN Kam Lam, SBS, JP

Director

Mr. Clifford Rowland FORSTER

Director (retired on 28 April 2006)

Mr. Kenny LAM Kin Sun

Director (retired on 28 April 2006)

Mr. David LAM Yim Nam

Director (retired on 28 April 2006)

Mr. Ambrose LAU Hon Chuen, GBS, JP

Director

Mr. Edward LAU Wan Kong

Director

Dr. the Honourable David LI Kwok Po

GBS, LLD (Cantab), JP

Director

The Honourable Frederick MA Si Hang, JP

Director

Mr. Geoffrey Jay MANSFIELD

Director (appointed on 28 April 2006)

The Honourable Abraham SHEK Lai Him, JP

Director

Mr. Nicholas John SIBLEY

Director (appointed on 28 April 2006)

The Honourable SIN Chung Kai, JP

Director

The Honourable Michael SUEN Ming Yeung, GBS, JP

Director

Mr. David SUN Tak Kei, BBS

Director

Mr. Eddie TAN Cheng Soo

Director (appointed on 28 April 2006)

In accordance with Article 109 of the Company's Articles of Association, all those Directors who are not Executive Directors shall retire but shall be eligible for re-election at the next annual general meeting.

Directors' Interests in Transactions and Contracts

Note 29 to the financial statements of the Company sets out details of material related party transactions entered into by the Company during the year. Save as disclosed in Note 29, there was no contract of significance, to which the Company or its subsidiary was a party and in which a Director could be deemed to have a material interest, either directly or indirectly, which subsisted at the end of the year or at any time during the year.

At no time during the year was the Company a party to any arrangement to enable any of its Directors or members of its Management to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any body corporate.

Amendments to the Memorandum of Association

On the Directors' recommendation, three written shareholders' special resolutions were passed on 6 July 2006, 16 August 2006 and 12 December 2006 respectively amending the Memorandum of Association of the Company by expanding its objects clause to enable the Company to acquire (i) mortgages or other loans, whether unsecured or secured on properties or other collateral situated in Hong Kong or elsewhere, (ii) rights, interests and benefits under hire purchase or leasing arrangements made in respect of motor vehicles and other assets (together referred to as "Hire Purchase Arrangements"), and (iii) debentures, receivables, financial assets and choses in action of all kinds (together referred to as "Other Financial Assets"), including the benefit of other arrangements entered into in connection therewith (including, without limitation, insurance contracts and endowment policies) from the originators, issuers, owners or vendors of those mortgages, loans, Hire Purchase Arrangements or Other Financial Assets.

Additional Disclosures in Compliance with the Provisions of the Insurance Companies Ordinance (“ICO”)

The Controllers of the Company as defined in the ICO are the Hon. Henry Tang and Mr. James H. Lau Jr. Mr. Tang is the Chairman of the Company. Mr. Lau is the Chief Executive Officer of the Company, and he did not have any interests in the transactions or the contracts which the Company had entered into during the year ended 31 December 2006.

The Company has not carried on insurance business relating to liabilities or risks in respect of which persons are required by any Ordinance to be insured.

The Company operates its mortgage insurance business on a risk-sharing basis, and retains up to 50% of the risk exposure under its mortgage insurance covers with the remaining risk exposure being ceded to its approved reinsurers. The Company has entered into reinsurance arrangements with the following approved reinsurers: Asia Insurance Company, Limited, Hang Seng Insurance Company Limited, HSBC Insurance (Asia) Limited, PMI Mortgage Insurance Asia Limited and United Guaranty Mortgage Indemnity Company.

HKMC Mortgage Management Limited is a wholly-owned subsidiary of the Company as set out in Note 21 to the financial statements.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board of Directors



Henry Tang
Chairman

Hong Kong,
26 April 2007.