

# Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiary, HKMC Mortgage Management Limited, (together the "Group") for the year ended 31 December 2004.

## Principal Activities

The principal activities of the Company are:

- (1) to purchase portfolios of mortgage loans, secured by residential properties situated in Hong Kong from approved sellers, including authorized institutions authorised under the *Banking Ordinance* of Hong Kong (Authorized Institutions), subsidiaries or affiliated companies of Authorized Institutions, government bodies and agencies and related organisations, statutory bodies, public bodies, property developers, and any financing entity affiliated to such property developer;
- (2) to raise financing for its purchase of mortgage loans through the issuance of debt securities to banks, institutional and retail investors;
- (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 are shown in Note 20 to the financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 December 2004 are set out in the consolidated profit and loss account on page 47 together with particulars of proposed dividend.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in Note 28 to the financial statements.

## Fixed Assets

Details of the movements in fixed assets of the Group and of the Company during the year are set out in Note 19 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 on a standalone basis and under its Retail Bond Issuance Programme during the year ended 31 December 2004, totalling HK\$11,398,500,000 for the purposes of providing general working capital and refinancing, at the total consideration of HK\$11,407,744,000. A summary of the debt securities issuance and redemption activities are set out in Note 23 to the financial statements.

## REPORT OF THE DIRECTORS

**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. Norman CHAN Tak Lam, SBS, JP**  
*Executive Director*

**Mr. Peter PANG Sing Tong, JP**  
*Executive Director (appointed on 6 July 2004)*

**Mr. Ronald Joseph ARCULLI, GBS, JP**  
*Director*

**Professor Andrew CHAN Chi Fai, Ph.D.**  
*Director*

**The Honourable CHAN Kam Lam, JP**  
*Director*

**Mr. Clifford Rowland FORSTER**  
*Director*

**Ms. Anita FUNG Yuen Mei**  
*Director (appointed on 1 April 2004)*

**Mr. Andy HON Hak Keung**  
*Director (appointed on 1 April 2004)*

**Mr. Ambrose LAU Hon Chuen, GBS, JP**  
*Director*

**Mr. Edward LAU Wan Kong**  
*Director (appointed on 7 December 2004)*

**Dr. the Honourable David LI Kwok Po,**  
GBS, LL.D. (CANTAB), JP  
*Director*

**The Honourable Frederick MA Si Hang, JP**  
*Director*

**The Honourable Abraham SHEK Lai Him, JP**  
*Director (appointed on 7 December 2004)*

**The Honourable SIN Chung Kai, JP**  
*Director*

**The Honourable Michael SUEN Ming Yeung,**  
GBS, JP  
*Director*

**Mr. David SUN Tak Kei**  
*Director*

**The Honourable Bernard Charnwut CHAN, JP**  
*Director (resigned on 26 October 2004)*

**Mr. Paul THURSTON**  
*Director (retired on 1 April 2004)*

**Mr. Brian YIU Chi Pang**  
*Director (retired on 1 April 2004)*

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 27 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 27, 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, a written shareholders' special resolution was passed on 16 February 2005 amending the Memorandum of Association of the Company thereby expanding its objects clause to enable the Company to acquire housing-related rental receipts and receivables, and assets other than mortgage loans from government bodies and public bodies.

### **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 2004.

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 Co. and United Guaranty Mortgage Indemnity Company.

HKMC Mortgage Management Limited is a wholly-owned subsidiary of the Company as set out in Note 20 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,  
12 April 2005.