Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Interest income	3	**1,021,874**	1,006,846
Interest expense	4	**(210,165)**	(385,427)
Net interest income		**811,709**	621,419
Other income, net	5	**159,801**	59,965
Operating income		**971,510**	681,384
Operating expenses	6	**(118,661)**	(120,304)
Operating profit before provisions		**852,849**	561,080
Provisions for bad and doubtful loans	7	**(89,437)**	(149,370)
Operating profit		**763,412**	411,710
Net gain on disposal of investment in debt securities	8	**–**	11,348
Profit before taxation		**763,412**	423,058
Taxation	9(a)	**(99,397)**	(43,922)
Net profit for the year	11	**664,015**	379,136
Proposed dividend	12, 28	**250,000**	–

Consolidated Balance Sheet

as at 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
ASSETS			
Cash and short-term funds	13, 21	**5,338,017**	2,219,346
Interest and remittance receivables	14	**331,776**	297,842
Prepayments, deposits and other assets	15	**198,024**	210,808
Deferred expense, net	16	**8,951**	26,646
Mortgage portfolio, net	17	**34,938,580**	34,581,747
Investment in debt securities	18, 21	**4,093,253**	3,535,525
Fixed assets	19	**23,452**	19,088
Deferred tax assets	9(b)	**8,629**	9,300
		44,940,682	40,900,302
LIABILITIES			
Interest payable		**228,534**	257,663
Accounts payable, accrued expenses and other liabilities	22	**4,831,301**	390,612
Tax payable	9(b)	**47,229**	17,778
Unearned premiums	10	**176,947**	106,043
Debt securities	21, 23	**35,494,740**	36,630,290
		40,778,751	37,402,386
SHAREHOLDERS' EQUITY			
Share capital	25	**2,000,000**	2,000,000
Retained profits	28	**1,870,261**	1,469,259
Contingency reserve	28	**41,670**	28,657
Proposed dividend	28	**250,000**	–
		4,161,931	3,497,916
		44,940,682	40,900,302

Yam Chi Kwong, Joseph
Deputy Chairman

Pang Sing Tong, Peter
Executive Director

Balance Sheet

as at 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
ASSETS			
Cash and short-term funds	13, 21	5,338,007	2,219,346
Interest and remittance receivables	14	331,609	297,842
Prepayments, deposits and other assets	15	198,024	210,808
Deferred expense, net	16	8,951	26,646
Mortgage portfolio, net	17	34,829,101	34,581,747
Investment in debt securities	18, 21	4,093,253	3,535,525
Investment in a subsidiary	20	109,447	33
Fixed assets	19	23,452	19,088
Deferred tax assets	9(b)	8,609	9,300
		44,940,453	40,900,335
LIABILITIES			
Interest payable		228,534	257,663
Accounts payable, accrued expenses and other liabilities	22	4,831,280	390,594
Tax payable	9(b)	47,167	17,778
Unearned premiums	10	176,947	106,043
Debt securities	21, 23	35,494,740	36,630,290
		40,778,668	37,402,368
SHAREHOLDERS' EQUITY			
Share capital	25	2,000,000	2,000,000
Retained profits	28	1,870,115	1,469,310
Contingency reserve	28	41,670	28,657
Proposed dividend	28	250,000	–
		4,161,785	3,497,967
		44,940,453	40,900,335

Yam Chi Kwong, Joseph
Deputy Chairman

Pang Sing Tong, Peter
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Total equity as at 1 January		**3,497,916**	3,118,780
Net profit for the year	28	**664,015**	379,136
Total equity as at 31 December	28	**4,161,931**	3,497,916

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Notes	2004 HK$'000	2003 HK$'000
Net cash inflow/(outflow) from operating activities	26	4,829,144	(5,697,395)
Investing activities			
Purchase of fixed assets		(20,588)	(5,660)
Purchase of investment in debt securities		(1,741,749)	(1,551,254)
Proceeds from redemption of investment in debt securities		1,178,170	1,261,197
Net cash outflow from investing activities		(584,167)	(295,717)
Net cash inflow/(outflow) before financing		4,244,977	(5,993,112)
Financing			
Proceeds from issue of debt securities		11,407,744	10,869,845
Redemption of debt securities		(12,534,050)	(2,870,250)
Net cash (outflow)/inflow from financing		(1,126,306)	7,999,595
Increase in cash and cash equivalents		3,118,671	2,006,483
Beginning cash and cash equivalents		2,219,346	212,863
Ending cash and cash equivalents		5,338,017	2,219,346
Analysis of the balance of cash and cash equivalents			
Cash and short-term funds	13	5,338,017	2,219,346

Notes to the Financial Statements

1. Basis of preparation

The financial statements of The Hong Kong Mortgage Corporation Limited (the "Company") and its subsidiary, HKMC Mortgage Management Limited, (together the "Group") have been prepared under the historical cost convention, and in accordance with the provisions of the Hong Kong Companies Ordinance, accounting principles generally accepted in Hong Kong and Statements of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants.

2. Principal accounting policies

a. Consolidation

The consolidated accounts include the financial statements of the Company and its subsidiary made up to 31 December. A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors. In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses. The results of the subsidiary are accounted for by the Company on the basis of dividends received and receivable.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

b. Income and expense recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the income and costs, if applicable, can be measured reliably, interest income, interest expense and others are recognised on the following bases:

Interest income and expense
Interest income and expense are accrued on a time-apportioned basis on the principal outstanding and at the rate applicable, except in case of bad and doubtful loans (Note 2(g)).

Fee income and expense
Fee income and expense are recognised when earned or incurred.

c. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of fixed assets, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated on a straight-line basis at annual rates estimated to write-off the cost of each asset over its expected useful life.

The annual rates are as follows:

Leasehold improvements	over the unexpired period of the lease
Furniture and fixtures	over the unexpired period of the lease
Computer and related software	33-1/3%
Office equipment	33-1/3%
Motor vehicle	25%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that furniture and equipment and other fixed assets are impaired. If any such indication exists, the recoverable amount of the assets is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognised in the profit and loss account.

d. Foreign currencies

The books and records are maintained in Hong Kong dollars. Transactions in other currencies during the year are translated into Hong Kong dollars at exchange rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange prevailing at the balance sheet date. Exchange differences are dealt with in the profit and loss account.

e. Deferred taxation

Deferred taxation is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is recognised on temporary differences arising on investment in the subsidiary, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

f. Operating leases

Leases where substantially all the rewards and risks of ownership remain with the lessor are accounted for as operating leases. Rentals applicable under such operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight-line basis over the lease period.

g. Bad and doubtful loans

Provisions for bad and doubtful loans are charged to the profit and loss account on a monthly basis in accordance with the guidelines approved by the Board of Directors. General provision relates to exposures not separately identified but known from experience to exist in the mortgage portfolio. Specific provision for bad and doubtful loans generally applies to a mortgage loan that is overdue for more than 90 days, or in case of a mortgage loan which has been rescheduled under the relief plans, where extension of repayment holiday and/or reduction in repayment amount has been granted to the borrower. The specific provision is based on certain percentages of the difference between the current market value or the forced sale value of the underlying property and the outstanding principal balance (OPB) of the mortgage loan. The percentages are validated annually with reference to the delinquency migration pattern of the mortgage portfolio. When there is no longer any realistic prospect of recovery of the OPB of the mortgage loan, it will be written off at the discretion of the Credit Committee.

The accrual of interest on mortgage loans is discontinued when they become overdue for 90 days or more. Any previously accrued and uncollected interests on the loans are reversed against current period's interest income. Interest income on the overdue loans is only recognised when all arrears of principal and interest from the borrowers have been cleared and it is probable that the customer is capable of fully servicing his obligations under the terms of the loans for the foreseeable future.

h. Repossessed assets

Assets acquired by repossession of collateral for realisation are reclassified from "Mortgage portfolio, net" to "Other receivables, net" which are written down to forced sale value of the repossessed properties by setting off related specific provisions against the OPB of the mortgage loans.

i. Investment in debt securities

Held-to-maturity investments are investments which the Group has the expressed intention and ability to hold to maturity. They are carried at amortised cost less any provision for impairment in value.

The carrying amounts of held-to-maturity securities are reviewed at each balance sheet date to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when the carrying amounts are not expected to be recovered and are recognised as an expense in the profit and loss account.

Provision against the carrying value of held-to-maturity securities are reversed to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future.

Upon disposal or transfer of held-to-maturity securities, any gains and losses thereon is accounted for in the profit and loss account.

j. Notes issuance

The notes issued under the Note Issuance Programme (NIP), the notes and Transferable Loan Certificates (TLC) issued under the Debt Issuance Programme (DIP) and the notes offered to retail investors through the placing banks in standalone retail bond issue and under the Retail Bond Issuance Programme (RBIP) are stated at par value under debt securities in the balance sheet. Interest on the notes is accrued on a daily basis and charged to the profit and loss account. Discount on the notes is regarded as deferred expense whereas premium is accounted for as deferred income. Discount and premium are amortised over the entire life of the notes on an effective interest rate method and are accounted for as adjustment to the interest expense of the notes. The arranger and custodian fees paid under the NIP and DIP are amortised to the profit and loss account over the life of the notes issued. On redemption/repurchase of the notes, the resulting gains or losses, being the difference between the redemption/repurchase amount and the carrying amount, are recognised in the profit and loss account in the year in which the redemption/repurchase takes place.

k. Interest rate swap (IRS) contracts for hedging purposes

The IRS contracts are solely entered into as a hedge against interest rate risk on the assets and liabilities.

The net interest payable or receivable arising from the IRS contracts is recorded on an accrual basis and charged against interest income or interest expenses of the underlying assets and liabilities.

Gains and losses on early termination of the IRS contracts are immediately recognised in the profit and loss account when the underlying assets or liabilities are early disposed of or redeemed.

Gains and losses on early termination of the IRS contracts originally accounted for as a hedge to an asset or a liability are amortised over the remaining original life of the IRS contracts when the underlying asset and liability is not early disposed of or redeemed.

l. Mortgage insurance business

The mortgage insurance business of the Company is accounted for on the annual accounting basis. Under the annual accounting approach, the Company makes provisions based on credible estimates of future income and outgoings to determine the underwriting result for the current accounting period. The underwriting result includes any adjustments arising from the correction of the previous estimates.

Gross premiums represent direct business written through the Authorized Institutions during an accounting period. The gross premiums after deduction of discounts include the reinsurance premiums to be paid to the approved reinsurers for reinsurance cover. The net premiums received by the Company comprise the risk premiums and servicing fees earned by the Company. The net premiums are recognised as income on a time-apportioned basis when the insurance coverage has been effective.

Unearned premiums represent that portion of net premiums written which are estimated to relate to risks and services subsequent to the balance sheet date.

Provisions are made for outstanding claims, claims incurred but not reported and loss reserve at the end of each year. For risk sharing business, 50% of the net risk premiums earned is set aside as a Contingency Reserve for a reasonable period of time in accordance with relevant regulatory guidelines and considered by Board of Directors as appropriate.

m. Mortgage-backed securitisation programmes

Upon completion of the sale of a mortgage pool to a third party special purpose entity (SPE) under the Guaranteed Mortgage-Backed Pass-Through Securitisation Programme (MBS Pass-Through Programme) and the US$3 Billion Mortgage-Backed Securitisation Programme (Bauhinia MBS Programme), as the case may be, the Company derecognises the applicable mortgage pool from its balance sheet; recognises all assets obtained and liabilities incurred in consideration as proceeds of the sale, including cash and contingent liability in respect of the guarantee on timely payment of principal and interest on the mortgage-backed securities (MBS); and recognises in the profit and loss account any gain or loss on the sale.

Where the Company guarantees the collectibility of the mortgage pool, it recognises a monthly guarantee fee income from the SPE in the profit and loss account on a time-apportioned basis. Since the Company assumes all credit risks arising from the mortgage loans under the MBS Pass-Through Programme and the Bauhinia MBS Programme, it adheres to the loan provisioning guidelines in Note 2(g) approved by the Board of Directors for making necessary provisions in the profit and loss account.

n. Employee benefits

Employee leave entitlements
Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are recognised when the absence occurs.

Bonus plans
Liabilities for bonus plans due wholly within twelve months after the balance sheet date are recognised when the Company has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Pension obligations
The Company offers a mandatory provident fund scheme and a defined contribution scheme, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the Company.

The Company's contributions to the mandatory provident fund scheme and defined contribution scheme are expensed as incurred and are reduced by the portion of employer contributions forfeited by those employees who leave the scheme prior to full vesting of the employer contributions.

o. Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

p. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit.

q. Dividend

Dividend proposed or declared after the balance sheet date are disclosed as a separate component of shareholders' fund.

3. Interest income

	The Group	
	2004 HK$'000	2003 HK$'000
Mortgage portfolio	**802,250**	826,459
Cash and short-term funds	**66,034**	33,851
Investment in debt securities – listed	**66,250**	51,982
Investment in debt securities – unlisted	**87,340**	94,554
	1,021,874	1,006,846

4. Interest expense

	The Group	
	2004 HK$'000	2003 HK$'000
Bank loans and debt securities wholly repayable within 5 years	**188,626**	375,121
Debt securities not wholly repayable within 5 years	**21,539**	10,306
	210,165	385,427

5. Other income, net

	The Group	
	2004	2003
	HK$'000	HK$'000
Early prepayment fees and late charges	**21,434**	2,499
Subletting income of office premises	**–**	230
Net insurance premiums earned (Note 10)	**52,580**	38,277
Guarantee fee income on MBS	**23,005**	10,635
Excess servicing receipts on MBS	**62,698**	20,352
Exchange difference	**(3,931)**	(13,256)
Issuance costs of debt securities and MBS	**(4,706)**	(4,477)
Others	**8,721**	5,705
	159,801	59,965

6. Operating expenses

	The Group	
	2004	2003
	HK$'000	HK$'000
Staff costs		
Salaries and benefits	**68,042**	64,584
Pension costs – defined contribution scheme	**3,753**	3,501
Premises		
Rental	**8,250**	11,008
Others	**3,986**	6,535
Directors' emoluments	**–**	–
Depreciation (Note 19)	**16,224**	14,895
Consultancy fees	**2,918**	3,945
Auditors' remuneration		
Audit service	**270**	220
Others	**604**	235
Other operating expenses	**14,614**	15,381
	118,661	120,304

7. Provisions for bad and doubtful loans

	The Group	
	2004	2003
	HK$'000	HK$'000
Provisions against mortgage portfolio (Note 17(b))		
– specific	**94,868**	131,164
– general	**(5,431)**	18,206
	89,437	149,370

8. Net gain on disposal of investment in debt securities

	The Group	
	2004 HK$'000	2003 HK$'000
Net gain on disposal of investment in debt securities	**–**	11,348

9. Taxation

(a) Taxation charge in the profit and loss account represents:-

	The Group	
	2004 HK$'000	2003 HK$'000
Hong Kong profits tax		
Provision for the year	**97,796**	49,637
Underprovision/(overprovision) in respect of prior years	**930**	(833)
	98,726	48,804
Deferred taxation	**671**	(4,882)
	99,397	43,922

Hong Kong profits tax has been provided at the rate of 17.5% (2003:17.5%) on the estimated assessable profit for the year. Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003:17.5%).

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	The Group	
	2004 HK$'000	2003 HK$'000
Profit before taxation	**763,412**	423,058
Calculated at a taxation rate of 17.5%	**133,597**	74,035
Income not subject to taxation	**(34,917)**	(29,036)
Expenses not deductible for taxation purposes	**(213)**	170
Increase in opening net deferred tax assets resulting from an increase in tax rates	**–**	(414)
Underprovision/(overprovision) in prior years	**930**	(833)
Taxation charge	**99,397**	43,922

(b) Provisions for taxation in the balance sheet represents:-

	The Group	
	2004 HK$'000	2003 HK$'000
Hong Kong profits tax	**47,229**	17,778
Deferred tax assets	**(8,629)**	(9,300)
	38,600	8,478

	The Company	
	2004 HK$'000	2003 HK$'000
Hong Kong profits tax	**47,167**	17,778
Deferred tax assets	**(8,609)**	(9,300)
	38,558	8,478

There is no significant unprovided deferred taxation as at and for the year ended 31 December 2004. The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet, and the movements in 2004 are as follows:

	The Group		
	Accelerated tax depreciation HK$'000	**Provisions HK$'000**	**Total HK$'000**
As at 1 January 2004	**3,687**	**(12,987)**	**(9,300)**
(Credited)/charge to profit and loss account	**(280)**	**951**	**671**
As at 31 December 2004	**3,407**	**(12,036)**	**(8,629)**

	The Company		
	Accelerated tax depreciation HK$'000	**Provisions HK$'000**	**Total HK$'000**
As at 1 January 2004	**3,687**	**(12,987)**	**(9,300)**
(Credited)/charge to profit and loss account	**(280)**	**971**	**691**
As at 31 December 2004	**3,407**	**(12,016)**	**(8,609)**

	The Group and the Company		
	Accelerated tax depreciation HK$'000	Provisions HK$'000	Total HK$'000
As at 1 January 2003	4,543	(8,961)	(4,418)
Credited to profit and loss account	(856)	(4,026)	(4,882)
As at 31 December 2003	3,687	(12,987)	(9,300)

The amounts shown in the consolidated balance sheet and balance sheet include deferred tax assets of HK$12,036,000 and HK$12,016,000 respectively (2003: HK$12,987,000) to be recovered after more than twelve months.

10. Revenue account for mortgage insurance business

	The Group	
	2004 HK$'000	2003 HK$'000
Gross premiums written	**341,796**	194,339
Reinsurance premiums	**(217,081)**	(127,225)
Net premiums written	**124,715**	67,114
Add: unearned premiums brought forward	**106,043**	79,444
unearned premiums carried forward	**(176,947)**	(106,043)
Increase in unearned premiums	**(70,904)**	(26,599)
Net premiums earned before provisions	**53,811**	40,515
Provisions for outstanding claims and loss reserve (Note 24)	**(1,231)**	(2,238)
Net premiums earned (Note 5)	**52,580**	38,277
Management expenses	**(5,249)**	(3,494)
Underwriting gains	**47,331**	34,783

The management expenses formed part of the operating expenses in Note 6.

11. Net profit for the year

The net profit for the year is dealt with in the financial statements of the Company to the extent of HK$663,818,000 (2003: HK$379,157,000).

12. Dividend

	The Company	
	2004 HK$'000	2003 HK$'000
Proposed dividend: HK$0.125 per ordinary share (Note 28)	**250,000**	–

The directors proposed a final dividend of HK$0.125 per ordinary share on 12 April 2005. The proposed dividend is not reflected as a dividend payable as at 31 December 2004.

13. Cash and short-term funds

	The Group	
	2004 HK$'000	2003 HK$'000
Cash at banks	**11,600**	2,351
Time deposits with banks	**5,326,417**	2,216,995
	5,338,017	2,219,346

	The Company	
	2004 HK$'000	2003 HK$'000
Cash at banks	**11,590**	2,351
Time deposits with banks	**5,326,417**	2,216,995
	5,338,007	2,219,346

14. Interest and remittance receivables

	The Group	
	2004 HK$'000	2003 HK$'000
Interest receivable from mortgage portfolio	**49,675**	44,391
Interest receivable from interest rate swap contracts	**216,424**	254,024
Interest receivable from investment in debt securities	**43,886**	44,607
Interest receivable from time deposits with banks	**6,173**	102
Loan instalments, in transit	**15,618**	(45,282)
	331,776	297,842

	The Company	
	2004 HK$'000	2003 HK$'000
Interest receivable from mortgage portfolio	**49,508**	44,391
Interest receivable from interest rate swap contracts	**216,424**	254,024
Interest receivable from investment in debt securities	**43,886**	44,607
Interest receivable from time deposits with banks	**6,173**	102
Loan instalments, in transit	**15,618**	(45,282)
	331,609	297,842

15. Prepayments, deposits, and other assets

	The Group and the Company	
	2004	2003
	HK$'000	HK$'000
Office rental deposit	**–**	2,293
Corporate club debentures	**670**	670
Other receivables, net	**155,294**	159,732
Others	**42,060**	48,113
	198,024	210,808

The Group reclassified mortgage loans from "Mortgage portfolio, net" (Note 17(a)) to "Other receivables, net" when the mortgage loans were overdue for 180 days or more, or the collateral properties were repossessed, or the mortgagors became bankrupt. The net amount represented the forced sale value of the collateral properties after setting off specific provisions of HK$58,675,000 (2003: HK$107,707,000) and general provisions of HK$855,000 (2003: HK$236,000) against the outstanding principal balance of the mortgage loans of HK$214,824,000 (2003: HK$267,675,000).

As at 31 December 2004, the forced sale value of the repossessed properties under "Other receivables, net" amounted to HK$63,941,000 (2003: HK$54,079,000).

16. Deferred expense, net

	The Group and the Company	
	2004	2003
	HK$'000	HK$'000
Deferred expenses/(income) arising on issuance of debt securities		
As at 1 January	**26,646**	21,876
Additions for the year		
– deferred expenses	**6,102**	16,000
– deferred income	**(15,346)**	(305)
Less: amortisation	**(8,451)**	(10,925)
As at 31 December	**8,951**	26,646

17. Mortgage portfolio, net

(a) Mortgage portfolio less provisions

	The Group	
	2004 HK$'000	2003 HK$'000
Outstanding principal balance of mortgage portfolio (Note 21)	35,052,688	34,664,075
Provisions for bad and doubtful loans		
– specific	(56,150)	(13,863)
– general	(57,958)	(68,465)
	34,938,580	34,581,747

	The Company	
	2004 HK$'000	2003 HK$'000
Outstanding principal balance of mortgage portfolio (Note 21)	34,943,093	34,664,075
Provisions for bad and doubtful loans		
– specific	(56,150)	(13,863)
– general	(57,842)	(68,465)
	34,829,101	34,581,747

As at 31 December 2004, the mortgage portfolio for the Company had a weighted average remaining term of 11 years on a contractual basis, without taking into account any prepayment of the mortgage loans. Final maturity of the mortgage portfolio is in the year 2038.

(b) Provisions for bad and doubtful loans

	The Group			
	Specific HK$'000	General HK$'000	Total HK$'000	Suspended Interest HK$'000
As at 1 January 2004	15,320	73,973	89,293	3,599
Amounts written off	(53,345)	(618)	(53,963)	(3,962)
Charge to profit and loss account (Note 7)	94,868	(5,431)	89,437	–
Interest suspended during the year	–	–	–	7,734
Suspended interest recovered	–	–	–	(3,747)
As at 31 December 2004	56,843	67,924	124,767	3,624

	The Company			
	Specific HK$'000	General HK$'000	Total HK$'000	Suspended Interest HK$'000
As at 1 January 2004	15,320	73,973	89,293	3,599
Amounts written off	(53,345)	(618)	(53,963)	(3,962)
Charge to profit and loss account	94,868	(5,547)	89,321	–
Interest suspended during the year	–	–	–	7,734
Suspended interest recovered	–	–	–	(3,747)
As at 31 December 2004	56,843	67,808	124,651	3,624

	The Group and the Company			
	Specific HK$'000	General HK$'000	Total HK$'000	Suspended Interest HK$'000
As at 1 January 2003	9,335	55,944	65,279	3,563
Amounts written off	(125,179)	(177)	(125,356)	(6,792)
Charge to profit and loss account (Note 7)	131,164	18,206	149,370	–
Interest suspended during the year	–	–	–	8,191
Suspended interest recovered	–	–	–	(1,363)
As at 31 December 2003	15,320	73,973	89,293	3,599

As regards the loan provisioning on the guaranteed mortgage loans under the two MBS programmes, a sum of HK$693,000 specific provision (2003: HK$1,457,000) and HK$9,966,000 general provision (2003: HK$5,508,000) of the Group and the Company was grouped under "Other provisions" (Note 22).

(c) The total mortgage loans on which interest has been placed in suspense or has ceased to accrue are as follows:-

	The Group and the Company	
	2004 HK$'000	2003 HK$'000
Gross mortgage loans	**56,668**	40,038
Specific provisions	**(9,120)**	(7,350)
	47,548	32,688

Specific provisions were made after taking into account the current market value of the collateral of the delinquent loans.

18. Investment in debt securities

	The Group and the Company	
	2004 HK$'000	2003 HK$'000
Held-to-maturity debt securities (Note 21)		
Listed in Hong Kong	**223,906**	76,835
Listed outside Hong Kong	**1,423,712**	1,047,297
	1,647,618	1,124,132
Unlisted	**2,445,635**	2,411,393
	4,093,253	3,535,525
Market value of listed securities	**1,672,408**	1,147,555

The investment in debt securities included above are issued by:

	The Group and the Company	
	2004 HK$'000	2003 HK$'000
Banks and other financial institutions	**1,956,669**	1,969,454
Corporate entities	**993,878**	977,982
Central governments	**263,232**	–
Public sector entities	**875,770**	573,548
Others	**3,704**	14,541
	4,093,253	3,535,525

19. Fixed assets

	The Group and the Company				
	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Computers & related software HK$'000	Motor vehicle HK$'000	Total HK$'000
Cost					
As at 1 January 2004	11,428	4,284	74,965	539	91,216
Additions	7,026	3,901	9,661	–	20,588
Disposal/write-offs	(11,399)	(2,134)	(781)	–	(14,314)
As at 31 December 2004	**7,055**	**6,051**	**83,845**	**539**	**97,490**
Accumulated depreciation					
As at 1 January 2004	9,904	3,735	57,950	539	72,128
Charge for the year (Note 6)	2,060	894	13,270	–	16,224
Disposal/write-offs	(11,399)	(2,134)	(781)	–	(14,314)
As at 31 December 2004	**565**	**2,495**	**70,439**	**539**	**74,038**
Net book value					
Ending balance as at 31 December 2004	**6,490**	**3,556**	**13,406**	**–**	**23,452**
31 December 2003	1,524	549	17,015	–	19,088

20. Investment in subsidiary

	The Company	
	2004 HK$'000	2003 HK$'000
Unlisted shares, at cost	**1,000**	1,000
Due from/(to) a subsidiary	**108,447**	(967)
	109,447	33

The amount due from a subsidiary is unsecured, interest-bearing and has no fixed term of repayment.

The details of the subsidiary at 31 December 2004 are:

Name	Place of Incorporation	Principal activities	Nominal value of issued capital	Class of shares held	% of ordinary shares directly held
HKMC Mortgage Management Limited	Hong Kong	Mortgage purchases and servicing	HK$1,000,000 of HK$1 each	Ordinary	100%

21. Maturity profile

	The Group 2004						
	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000	Total HK$'000
Assets							
– Cash and short-term funds	11,600	5,326,417	–	–	–	–	5,338,017
– Mortgage portfolio (Note 17(a))	19,423	839,299	2,601,582	12,419,692	19,168,338	4,354	35,052,688
– Investment in debt securities (Note 18)	–	1,416,709	710,679	1,054,105	911,760	–	4,093,253
	31,023	7,582,425	3,312,261	13,473,797	20,080,098	4,354	44,483,958
Liabilities							
– Debt securities (Note 23)	–	5,026,600	5,041,200	21,333,990	4,092,950	–	35,494,740

	The Company 2004						
	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000	Total HK$'000
Assets							
– Cash and short-term funds	11,590	5,326,417	–	–	–	–	5,338,007
– Mortgage portfolio (Note 17(a))	19,409	837,649	2,597,835	12,398,892	19,084,954	4,354	34,943,093
– Investment in debt securities (Note 18)	–	1,416,709	710,679	1,054,105	911,760	–	4,093,253
	30,999	7,580,775	3,308,514	13,452,997	19,996,714	4,354	44,374,353
Liabilities							
– Debt securities (Note 23)	–	5,026,600	5,041,200	21,333,990	4,092,950	–	35,494,740

	The Group and the Company 2003						
	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Undated HK$'000	Total HK$'000
Assets							
– Cash and short-term funds	2,351	2,216,995	–	–	–	–	2,219,346
– Mortgage portfolio (Note 17(a))	16,998	1,013,684	2,614,389	12,649,959	18,361,232	7,813	34,664,075
– Investment in debt securities (Note 18)	–	269,000	850,000	1,650,718	765,807	–	3,535,525
	19,349	3,499,679	3,464,389	14,300,677	19,127,039	7,813	40,418,946
Liabilities							
– Debt securities (Note 23)	–	3,855,400	5,678,650	24,634,640	2,461,600	–	36,630,290

22. Accounts payable, accrued expenses and other liabilities

	The Group	
	2004 HK$'000	2003 HK$'000
Accounts payable and accrued expenses	**270,696**	169,040
Other liabilities	**4,533,637**	200,000
Other provisions (Note 29)	**26,968**	21,572
	4,831,301	390,612

	The Company	
	2004 HK$'000	2003 HK$'000
Accounts payable and accrued expenses	**270,696**	169,040
Other liabilities	**4,533,637**	200,000
Other provisions (Note 29)	**26,947**	21,554
	4,831,280	390,594

Other liabilities represented the deferred consideration used for credit enhancement on the mortgage loans purchased from the Government of the Hong Kong Special Administrative Region (HKSAR) in December 2003 and January 2004.

23. Debt securities

	The Group and the Company	
	2004 HK$'000	2003 HK$'000
NIP notes	**1,000,000**	4,000,000
DIP		
(i) notes	**24,301,000**	22,441,000
(ii) TLC	**3,000,000**	3,500,000
RBIP and other notes	**7,193,740**	6,689,290
	35,494,740	36,630,290
As at 1 January	**36,630,290**	28,615,000
Issuance for the year	**11,398,500**	10,885,540
Less: Redemption for the year	**(12,534,050)**	(2,870,250)
As at 31 December (Note 21)	**35,494,740**	36,630,290

Notes and TLC issued during the year comprise:

	The Group and the Company		
	DIP		
	Notes HK$'000	TLC HK$'000	RBIP and other notes HK$'000
Amount issued	5,996,000	2,500,000	2,902,500
Consideration received	5,995,894	2,500,000	2,911,850

All the debt securities issued are unsecured obligations of the Company, and are issued for the purposes of providing general working capital and refinancing.

24. Provisions for mortgage insurance business

Provisions for outstanding claims under the MIP are recorded net of recoveries from the approved reinsurers. For the year ended 31 December 2004, provisions for loss reserve written back amounting to HK$44,000 (2003: charge of HK$888,000) for risk sharing business was included in the profit and loss account of the Group and the gross claim was HK$6,034,000 (2003: HK$8,176,000), of which HK$4,759,000 (2003: HK$6,826,000) was recovered from the approved reinsurers.

25. Share capital

	2004 & 2003 HK$'000
Authorised	
3 billion ordinary shares of HK$1 each	**3,000,000**
Issued and fully paid	
2 billion ordinary shares of HK$1 each	**2,000,000**

26. Note to the consolidated cash flow statement

Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities:

	The Group	
	2004 HK$'000	2003 HK$'000
Profit before taxation	**763,412**	423,058
Depreciation	**16,224**	14,895
Amortisation of deferred expenses	**8,451**	10,925
Provisions for bad and doubtful loans	**89,437**	149,370
Mortgage portfolio written off net of recoveries	**(53,963)**	(125,356)
Amortisation of investment in debt securities	**7,617**	5,319
Net gain on disposal of investment in debt securities	**–**	(11,348)
Operating cash inflow before changes in operating assets and liabilities	**831,178**	466,863
(Increase)/decrease in interest and remittance receivables	**(33,934)**	12,709
Decrease/(increase) in prepayments, deposits and other assets	**12,784**	(100,053)
Increase in mortgage portfolio	**(388,613)**	(6,345,382)
(Decrease)/increase in interest payable	**(29,129)**	34,541
Increase in accounts payable, accrued expenses and other liabilities	**4,436,995**	251,881
Increase in unearned premiums	**70,904**	26,599
Exchange differences	**(1,766)**	5,081
Net cash inflow/(outflow) from operating activities before taxation	**4,898,419**	(5,647,761)
Hong Kong profits tax paid	**(69,275)**	(60,935)
Hong Kong profits tax refunded	**–**	11,301
Net cash inflow/(outflow) from operating activities	**4,829,144**	(5,697,395)

27. Material related party transactions

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or other entities.

During the year, the Company entered into various transactions with related parties on an arm's length and commercial basis. The nature of the relationship is set out in the following table:

Name	Interests	Nature of related transaction – see the notes below
The Honourable Henry TANG Ying Yen, GBS, JP	Financial Secretary Controller of the Exchange Fund	(1) (3) (6)
Joseph YAM Chi Kwong, GBS, JP	Chief Executive of the Hong Kong Monetary Authority	(2) (3) (6)
Norman CHAN Tak Lam, SBS, JP	Deputy Chief Executive of the Hong Kong Monetary Authority	(2) (3) (6)
Peter PANG Sing Tong, JP (appointed on 6 July 2004)	Deputy Chief Executive of the Hong Kong Monetary Authority	(2) (3) (6)
Anita FUNG Yuen Mei (appointed on 1 April 2004)	Treasurer, Head of Global Markets, Asia-Pacific of The Hongkong and Shanghai Banking Corporation Limited	(4) (5)
Andy HON Hak Keung (appointed on 1 April 2004)	General Manager, Mortgages & Auto, Consumer Banking of Standard Chartered Bank (Hong Kong) Limited	(4) (5)
Dr. the Honourable David LI Kwok Po, GBS, LLD (CANTAB), JP	Chairman and Chief Executive of The Bank of East Asia, Limited	(4) (5)
The Honourable Frederick MA Si Hang, JP	Secretary for Financial Services and the Treasury	(1)
David SUN Tak Kei	Chairman, Assurance & Advisory Business Services of Ernst & Young	(7)
The Honourable Bernard Charnwut CHAN, JP (resigned on 26 October 2004)	President of Asia Insurance Company, Limited Director of Asia Commercial Bank Limited	(4)
Paul THURSTON (retired on 1 April 2004)	Assistant General Manager, Head of Personal Financial Services of The Hongkong and Shanghai Banking Corporation Limited	(4) (5)
Brian YIU Chi Pang (retired on 1 April 2004)	Head, Debt Capital Markets, Asian Fixed Income of Standard Chartered Bank (Hong Kong) Limited	(4) (5)

(1) In 2004, the HKMC purchased about HK$10 billion of mortgage loans from the Government of HKSAR (2003: HK$10.5 billion).

(2) The HKMC is a member of the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority(HKMA) which provides custodian and clearing agent services for the debt securities issued by the HKMC. In 2004, the HKMC paid HK$1.2 million (2003: HK$1 million) by way of fees to the HKMA for such services.

(3) The Exchange Fund through HKMA has provided the HKMC with a HK$10 billion revolving credit facility. As at 31 December 2004, there was no outstanding balance (2003: nil).

(4) Being an executive director or senior officer of a financial institution or organisation as specified under the column headed "Interests" in the above table which has entered into an agreement with the HKMC in respect of:

(i) the purchase of mortgage loans by the HKMC from time to time under the Mortgage Purchase Programme; and/or

(ii) the application for mortgage insurance cover from time to time under the Mortgage Insurance Programme.

(5) Being an executive director or senior officer of a financial institution as specified under the column headed "Interests" in the above table which has entered into an agreement with the HKMC, as placing bank, underwriter or arranger/dealer or co-lead manager/lead manager in one or more of the HKMC's debt securities and MBS issues, including the HK$40 Billion Debt Issuance Programme, the standalone retail bond issuances of the HKMC, the Guaranteed Mortgage-Backed Pass-Through Securitisation Programme, the US$3,000,000,000 Bauhinia Mortgage-Backed Securitisation Programme and the HK$20 Billion Retail Bond Issuance Programme.

(6) On 21 April 2004, the HKMC entered into a lease for a period of 6 years commencing on 1 January 2005 with The Financial Secretary Incorporated (FSI) by which the FSI let to the HKMC Suite 7902 on 79th Floor and the whole of the 80th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. At the direction of the FSI, the HKMC pays the rental to the HKMA.

(7) Ernst & Young were appointed by the HKMC to conduct a network security analysis on the HKMC's computer systems at a consultancy fee of HK$0.2 million (2003: HK$0.1 million).

28. Reserves

	The Group			
	Share capital HK$'000	Contingency reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance as at 1 January 2003	2,000,000	15,977	1,102,803	3,118,780
Net profit for the year	–	–	379,136	379,136
Transfer of 50% of net risk premium earned from retained profits to contingency reserve	–	12,680	(12,680)	–
Balance as at 31 December 2003	2,000,000	28,657	1,469,259	3,497,916
Net profit for the year	**–**	**–**	**664,015**	**664,015**
Transfer of 50% of net risk premium earned from retained profits to contingency reserve	**–**	**13,013**	**(13,013)**	**–**

	The Group			
	Share capital HK$'000	Contingency reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance as at 31 December 2004	**2,000,000**	**41,670**	**2,120,261**	**4,161,931**
Representing:				
Retained profits at 31 December 2004			**1,870,261**	
2004 proposed dividend (Note 12)			**250,000**	
Balance as at 31 December 2004			**2,120,261**	

	The Company			
	Share capital HK$'000	Contingency reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance as at 1 January 2003	2,000,000	15,977	1,102,833	3,118,810
Net profit for the year	–	–	379,157	379,157
Transfer of 50% of net risk premium earned from retained profits to contingency reserve	–	12,680	(12,680)	–
Balance as at 31 December 2003	2,000,000	28,657	1,469,310	3,497,967
Net profit for the year	**–**	**–**	**663,818**	**663,818**
Transfer of 50% of net risk premium earned from retained profits to contingency reserve	**–**	**13,013**	**(13,013)**	**–**
Balance as at 31 December 2004	**2,000,000**	**41,670**	**2,120,115**	**4,161,785**
Representing:				
Retained profits at 31 December 2004			**1,870,115**	
2004 proposed dividend (Note 12)			**250,000**	
Balance as at 31 December 2004			**2,120,115**	

29. Effects on the consolidated financial statements of special purpose entities

In October 1999, the Company launched the MBS Pass-Through Programme under which the Company, in return for a guarantee fee, guarantees the timely payment of principal and interest in respect of the MBS issued by HKMC Funding Corporation (1) Limited, a special purpose entity (SPE) incorporated in Hong Kong for the purpose of this programme.

In December 2001, the Company also launched the Bauhinia MBS Programme, under which Bauhinia MBS Limited, an SPE incorporated in the Cayman Islands for the purposes of this programme, will from time to time issue mortgage-backed securities. MBS may be issued by Bauhinia MBS Limited in different currencies under different tranches.

The above two SPEs are considered to be bankruptcy remote "orphan" companies. In the context of section 2(4) of the Hong Kong Companies Ordinance, the two SPEs are not construed as the Group's subsidiaries. In accordance with the provisions of paragraph 27 of SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries", the financial statements of these two SPEs have therefore not been consolidated into the Group's financial statements for the year ended 31 December 2004. With regard to the mortgage loans sold by the Company to the two SPEs, this would be effected by way of a "clean sale" of such mortgage loans to the SPEs. All the mortgage loans sold to the SPEs will no longer be recognised as an asset in the balance sheet of the Group.

Up to 31 December 2004, HKMC Funding Corporation (1) Limited had issued 8 series of MBS totalling HK$2,837 million and the Company had guaranteed the timely payment of principal and interest of the MBS. At 31 December 2004, the aggregate security principal balance of MBS guaranteed by the Company under the MBS Pass-Through Programme was HK$630 million. As regards the Company's loan provisioning on the guaranteed mortgage loans under the MBS Pass-Through Programme, a sum of HK$1,781,000 (2003: HK$1,800,000) was grouped under "Other provisions" (Note 22). The loan provision written back amounting to HK$19,000 (2003: charge of HK$302,000) was included in the profit and loss account of the Group.

Up to 31 December 2004, Bauhinia MBS Limited had issued 4 series of MBS totalling HK$7,400 million and the Company had guaranteed the timely payment of principal and interest of the MBS. At 31 December 2004, the aggregate security principal balance of MBS guaranteed by the Company under the Bauhinia MBS Programme was HK$5,240 million. As regards the Company's loan provisioning on the guaranteed mortgage loans under the Bauhinia MBS Programme, a sum of HK$8,878,000 (2003: HK$5,165,000) was grouped under "Other provisions" (Note 22). The loan provision of HK$3,713,000 (2003: HK$2,350,000) was charged to the profit and loss account of the Group.

The operating profit after tax and the major assets and liabilities of HKMC Funding Corporation (1) Limited and Bauhinia MBS Limited are set out below:

	HKMC Funding Corporation (1) Limited HK$'000	Bauhinia MBS Limited HK$'000
For the year ended 31 December 2004		
Operating profit after tax	**24**	**11**
As at 31 December 2004		
Mortgage portfolio, net	**605,592**	**4,985,922**
Total Assets	**630,753**	**5,249,905**
Debt securities	**629,555**	**5,239,593**
Total Liabilities	**630,642**	**5,249,859**
Total Shareholders' Equity	**111**	**46**

In accordance with paragraph 46 of SSAP 32, the Group has set out below the significant items of the pro-forma consolidated profit and loss account and balance sheet of the Group, HKMC Funding Corporation (1) Limited and Bauhinia MBS Limited for the years ended 31 December 2004 and 2003:

	2004 HK$'000	2003 HK$'000
Net interest income for the year	**900,660**	652,955
Net profit for the year	**664,050**	379,183
Mortgage portfolio, net	**40,519,435**	39,686,290
Cash and short-term funds	**5,372,876**	2,224,181
Interest and remittance receivables	**447,095**	367,134
Total Assets	**50,676,880**	46,081,334
Debt securities	**41,363,888**	41,887,273
Total Liabilities	**46,514,792**	42,583,297
Total Shareholders' Equity	**4,162,088**	3,498,037
Capital-to-Assets ratio	**8.7%**	7.3%

30. Commitments

	The Group and the Company	
	2004 HK$'000	2003 HK$'000
(a) Capital		
Contracted but not provided for	**–**	–
Authorised but not contracted for	**10,999**	25,185
	10,999	25,185

(b) Operating lease

The Group leases the office premises under operating leases. The leases of the office premises run for an initial period of six years and include an option to renew at the then current open market rent. Total future minimum lease payments under non-cancellable operating leases at the balance sheet date are analysed as follows:

	The Group and the Company	
	2004 HK$'000	2003 HK$'000
Office premises		
not later than one year	**6,368**	11,001
later than one year and not later than five years	**25,471**	–
later than five years	**6,368**	–
	38,207	11,001

31. Mortgage insurance business

The Company offers mortgage insurance which provides cover to the Approved Seller/Servicer for credit loss of up to 25% of the property value of a mortgage loan when the loan amount has exceeded 70% of the property value at origination.

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.

As at 31 December 2004, the total risk-in-force was approximately HK$5.93 billion (2003: HK$4.14 billion) of which HK$4.16 billion (2003: HK$3.05 billion) was ceded to the approved reinsurers and the balance of HK$1.77 billion (2003: HK$1.09 billion) was assumed by the Company.

32. Off-balance-sheet exposures

(a) Contingent liabilities

	The Group and the Company	
	2004 HK$'000	2003 HK$'000
Guarantees under MBS programmes	**5,869,148**	5,256,983

(b) Financial contracts

Interest rate swap contracts are entered into for hedging the interest rate risk of the assets and liabilities.

(i) The outstanding contracted notional amount of the interest rate swap contracts is as follows:

	The Group and the Company	
	2004 HK$'000	2003 HK$'000
Interest rate swap contracts	**73,869,330**	77,749,150

(ii) The replacement costs and potential future credit exposure amounts of the interest rate swap contracts are as follows. These amounts do not take into account the effects of bilateral netting arrangements with the counterparties.

	The Group and the Company			
	2004		2003	
	Replacement cost HK$'000	**Potential future credit exposure HK$'000**	Replacement cost HK$'000	Potential future credit exposure HK$'000
Interest rate swap contracts	**1,114,718**	**147,007**	1,344,668	140,320

The replacement costs represent the cost of replacing all interest rate swap contracts that have a positive value when marked to market. The potential future credit exposure amounts refer to the amount as computed in accordance with the Capital-to-Assets ratio guidelines (Note 33). The Group has not experienced any non-performance by its counterparties.

33. Capital-to-Assets ratio

To ensure that the Company is managed in a prudent manner, the Financial Secretary of the Government of the Hong Kong Special Administrative Region approved the revised guidelines in 2003 in respect of the minimum Capital-to-Asset Ratio (CAR) to be maintained by the Company. The minimum CAR stipulated in the guidelines is still at 5%.

	2004	2003
Capital-to-Assets ratio	**9.4%**	7.7%

The Capital-to-Assets ratio is calculated as a ratio, expressed as a percentage, of the Company's total capital base to the sum of its total on-balance sheet assets and total off-balance sheet exposures.

34. Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

35. Approval of financial statements

The financial statements were approved by the Board of Directors on 12 April 2005.