



HONG KONG MONETARY AUTHORITY

香港金融管理局

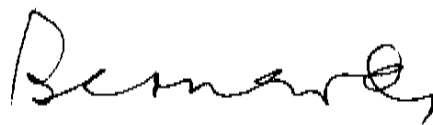
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Joseph C. K. Yam GBS, JP
Chief Executive

任志剛 GBS, JP
總裁

The Hon. Bernard Chan, JP
Chairman
Legislative Council Panel on Financial Affairs
Legislative Council
8 Jackson Road, Central
Hong Kong

19 April 2005

Dear 

I have pleasure in enclosing an advance copy of the Hong Kong Monetary Authority's *Annual Report* for 2004, together with a booklet *An Introduction to the HKMA*, 2005 Edition for your information.

I am pleased to report that the exchange rate of the Hong Kong dollar remained stable despite large inflows of funds into Hong Kong. The Hong Kong dollar stayed closed to its official Linked Rate of 7.8 to the US dollar throughout the year. Despite a continuing squeeze on interest margins, largely as a result of the ample liquidity in the banking system, Hong Kong's banking sector saw an average 20% increase in profitability in 2004. All other main indicators showed improvement, reflecting better economic conditions and increased economic activity.

In contrast to the largely stable growth in the economy in general, financial markets in 2004 were unsettled. Despite the roller-coaster markets, and the constraints imposed by the investment objectives to provide the backing for the Monetary Base and to safeguard the exchange value of the Hong Kong dollar, the Exchange Fund earned an investment income of \$56.7 billion in 2004, which was a rate of return meeting that of the investment benchmark.

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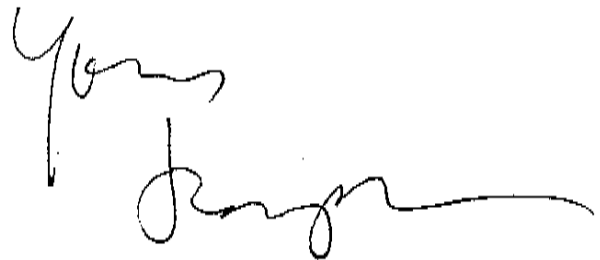
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During 2004 the governance arrangements of the HKMA were strengthened with an expansion of the Exchange Fund Advisory Committee (EFAC) sub-committee system. A new Governance Sub-Committee was created, replacing the old Remuneration and Finance Sub-Committee. Two new sub-committees – one on investment, the other on financial infrastructure – were formed at the end of 2004 to enable Members to focus more on the technical details of these important policy areas of the HKMA.

You may wish to note that at the request of the Financial Secretary, the GSC has reviewed the question of disclosure of the HKMA's 2005 budget in the context of the HKMA's 2004 Annual Report. The review has taken into account best practices among other central banks. The Financial Secretary, on the advice of EFAC and GSC, has approved the proposal to disclose information on the HKMA's administrative budget for the current financial year in the Annual Report starting from the 2004 Annual Report. You can read page 132 of the Annual Report for details. There are also further breakdowns of operating expenses in the notes on the accounts of the Exchange Fund on page 104.

I hope you will find the Annual Report informative. Copies of the Report will be released to the public on 19 April (Tuesday) and presented to the Legislative Council on 6 May (Friday).

With best regards,

A handwritten signature in black ink, appearing to read 'Yours' followed by a stylized name, possibly 'Dennis', written in a cursive script.

c.c. Ms. Salumi Chan (Clerk to Panel on Financial Affairs)