

The Board of Directors of Asia Financial Holdings Limited (the “Company”) are pleased to present the Interim Report and the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2004 as follows:

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30th June		Change %
		2004 HK\$'000	2003 HK\$'000	
<b>TURNOVER</b>	3	<b>559,928</b>	541,190	+3.5
Other revenue	3	<b>54,874</b>	47,602	
Other net expenses	3	<b>(23,402)</b>	(36,618)	
Other operating expenses		<b>(480,589)</b>	(472,367)	
<b>PROFIT FROM OPERATING ACTIVITIES</b>	4	<b>110,811</b>	79,807	+38.8
Share of results of:				
Jointly-controlled entities		<b>541</b>	51	
Associates		<b>915</b>	(318)	
<b>PROFIT BEFORE TAX</b>		<b>112,267</b>	79,540	
Tax	5	<b>(18,545)</b>	(12,108)	
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>93,722</b>	67,432	
Minority interests		<b>(99)</b>	909	
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>93,623</b>	68,341	+37.0
<b>INTERIM DIVIDEND</b>	6	<b>26,451</b>	19,044	
<b>EARNINGS PER SHARE</b>		<b>HK cents</b>	HK cents	
Basic	7	<b>8.8</b>	6.5	+35.4
Diluted		<b>N/A</b>	N/A	
<b>INTERIM DIVIDEND PER SHARE</b>	6	<b>2.5</b>	1.8	+38.9



## CONDENSED CONSOLIDATED BALANCE SHEET

30th June, 2004

		At 30th June, 2004 HK\$'000	At 31st December, 2003 HK\$'000
	Notes		
<b>ASSETS</b>			
Cash and short term funds	8	1,755,856	2,456,475
Placements with banks and other financial institutions maturing between one and twelve months	9	1,140,440	881,373
Amounts due from reinsurance companies		4,306	33,470
Premium receivables	10	144,879	137,195
Other investments	11	806,544	547,665
Bank deposits maturing over twelve months		11,362	11,362
Certificates of deposit held	12	703,870	718,372
Held-to-maturity securities	13	2,106,716	1,885,772
Advances and other assets	14	7,730,106	7,496,436
Investment securities	15	421,759	422,292
Interests in jointly-controlled entities		55,416	55,875
Loans to jointly-controlled entities		27,130	25,197
Interests in associates		68,223	67,373
Due from associates		674	528
Intangible assets		815	887
Fixed assets		392,259	390,539
		<u>15,370,355</u>	<u>15,130,811</u>
<b>SHAREHOLDERS' EQUITY</b>			
Issued capital		1,058,021	1,058,021
Reserves		2,204,419	2,137,247
Proposed dividend		26,451	76,178
		<u>3,288,891</u>	<u>3,271,446</u>
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions	16	541,226	307,077
Deposits from customers	17	9,334,998	9,422,536
Certificates of deposit issued	18	1,195,000	1,193,000
Accrued liabilities and other payables		261,474	244,301
Tax payable		40,626	26,110
Amounts due to reinsurance companies		139,428	158,138
Unearned premiums		225,592	197,721
Life and contingency reserves		15,952	14,489
Provisions for outstanding claims		280,635	249,180
Deferred tax liabilities		19,053	19,432
		<u>12,053,984</u>	<u>11,831,984</u>
<b>MINORITY INTERESTS</b>			
		<u>27,480</u>	<u>27,381</u>
		<u>15,370,355</u>	<u>15,130,811</u>



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## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Total equity at beginning of period	3,271,446	3,114,094
Deferred tax in respect of premises revaluation debited to equity during the period	–	(2,474)
Net profit for the period attributable to shareholders	93,623	68,341
Final 2002 dividend	–	(24,334)
Final 2003 dividend	(76,178)	–
<b>Total equity at end of period</b>	<b>3,288,891</b>	<b>3,155,627</b>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net cash outflow from operating activities	<b>(725,134)</b>	(1,382,016)
Net cash outflow from investing activities	<b>(105,035)</b>	(95,508)
Net cash outflow from financing activities	<b>(76,178)</b>	(24,334)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(906,347)</b>	(1,501,858)
Cash and cash equivalents at beginning of period	<b>2,105,266</b>	3,348,699
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>1,198,919</b>	1,846,841
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and balances with banks and other financial institutions	<b>203,154</b>	212,394
Money at call and short notice with original maturity within three months	<b>896,003</b>	1,274,081
Treasury bills including Exchange Fund Bills with original maturity within three months	–	29,953
Placements with banks and other financial institutions with original maturity within three months	<b>60,332</b>	277,800
Held-to-maturity securities with original maturity within three months	<b>46,792</b>	56,930
Less: Pledged bank deposits (included in the money at call and short notice and placements with banks and other financial institutions as presented above)	<b>(7,362)</b>	(4,317)
	<b>1,198,919</b>	1,846,841

## NOTES

### 1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No.25 “Interim Financial Reporting”. The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 31st December, 2003.

### 2. SEGMENT INFORMATION

#### (a) Business segments

The following tables present revenue and results for the Group’s business segments.

	Banking HK\$’000	Insurance HK\$’000	Corporate HK\$’000	Eliminations HK\$’000	Consolidated HK\$’000
<b>For the six months ended</b>					
<b>30th June, 2004</b>					
<b>Segment revenue:</b>					
External customers	158,249	401,679	–	–	559,928
Other revenue	–	44,500	10,374	–	54,874
Inter-segment	1,414	1,398	97	(2,909)	–
<b>Total</b>	<b>159,663</b>	<b>447,577</b>	<b>10,471</b>	<b>(2,909)</b>	<b>614,802</b>
<b>Segment results</b>	<b>60,429</b>	<b>47,324</b>	<b>3,058</b>	<b>–</b>	<b>110,811</b>
<b>Share of results of:</b>					
Jointly-controlled entities	–	541	–	–	541
Associates	–	915	–	–	915
<b>Profit before tax</b>					<b>112,267</b>
Tax	(9,316)	(9,229)	–	–	(18,545)
<b>Profit before minority interests</b>					<b>93,722</b>
Minority interests					(99)
<b>Net profit from ordinary activities</b> <b>attributable to shareholders</b>					<b>93,623</b>

## NOTES (continued)

### 2. SEGMENT INFORMATION (continued)

#### (a) Business segments (continued)

	Banking HK\$'000	Insurance HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
For the six months ended 30th June, 2003					
Segment revenue:					
External customers	137,169	404,021	–	–	541,190
Other revenue	–	41,209	6,393	–	47,602
Inter-segment	548	1,203	707	(2,458)	–
	<u>137,717</u>	<u>446,433</u>	<u>7,100</u>	<u>(2,458)</u>	<u>588,792</u>
Total					
Segment results	<u>31,273</u>	<u>46,294</u>	<u>2,240</u>	<u>–</u>	79,807
Share of results of:					
Jointly-controlled entities	–	51	–	–	51
Associates	–	(320)	2	–	(318)
Profit before tax					79,540
Tax	(4,419)	(7,689)	–	–	(12,108)
Profit before minority interests					67,432
Minority interests					909
Net profit from ordinary activities attributable to shareholders					<u>68,341</u>

#### (b) Geographical segments

Over 90% of the Group's revenue and results are derived from operations carried out in Hong Kong.

## NOTES (continued)

### 3. TURNOVER AND REVENUE

Turnover represents the aggregate of gross premiums on fire, marine, general accident and life insurance; and net interest income, commissions, fees, investment income from investments and other revenue earned from the banking business.

An analysis of the Group's turnover and revenue is as follows:

	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Banking:		
Interest income	171,293	183,297
Interest expense	(44,902)	(71,182)
Net fees and commission income	22,683	18,830
Gains less losses arising from dealing in foreign currencies	4,513	3,388
Other operating income	4,662	2,836
	<u>158,249</u>	<u>137,169</u>
Insurance:		
Gross premium written	401,679	404,021
Turnover	<u>559,928</u>	<u>541,190</u>
Reinsurance commission income	23,859	21,434
Dividend income (excluding that relating to the banking business) from:		
Listed investments	5,741	4,616
Unlisted investments	2,497	1,620
Interest income, excluding that relating to the banking business	17,875	17,952
Others	4,902	1,980
Other revenue	<u>54,874</u>	<u>47,602</u>
	<u><u>614,802</u></u>	<u><u>588,792</u></u>



## NOTES (continued)

### 3. TURNOVER AND REVENUE (continued)

Other net income/(expenses) of the Group are analysed as follows:

	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Increase in unearned premiums	(27,881)	(51,516)
Increase in life and contingency reserves	(1,463)	(1,269)
Gains on disposal of other investments, net	12,028	5,144
Unrealised gains/(losses) on other investments, net	(10,516)	10,200
Impairment of held-to-maturity securities and investment securities	(408)	(1,717)
Gains on disposal of held-to maturity securities	1,776	2,540
Gains on disposal of fixed assets, net	72	–
Gains on disposal of a jointly-controlled entity	2,990	–
	<u>(23,402)</u>	<u>(36,618)</u>

### 4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Reinsurance premiums ceded	164,968	168,268
Commission expenses for insurance business	79,575	75,521
Net claims after deducting recoveries from reinsurers	94,624	77,530
Auditors' remuneration	1,279	1,182
Depreciation charges	10,844	11,962
Provision / (write back of provision) against loans to jointly-controlled entities	(1,933)	2,020
Fixed assets written off	265	24
Amortisation of intangible assets	72	72
Staff costs (including directors' remuneration)	68,478	74,700
Minimum lease payments under operating leases in respect of land and buildings	5,235	6,342
Provision for bad and doubtful debts, net	<u>17,748</u>	<u>9,972</u>



## NOTES (continued)

### 5. TAX

Hong Kong profits tax for the Group has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current tax charge for the period:		
Hong Kong	<b>17,978</b>	11,601
Elsewhere	<b>1,023</b>	942
Overprovision of current tax in prior periods	<b>(77)</b>	(667)
	<b>18,924</b>	11,876
Deferred tax charge/(credit)	<b>(379)</b>	232
	<b>18,545</b>	12,108

### 6. INTERIM DIVIDEND

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interim dividend:		
HK2.5 cents (2003: HK1.8 cents) per ordinary share	<b>26,451</b>	19,044

The directors have resolved to pay an interim dividend of HK2.5 cents per share, which will be paid in cash, for the six months ended 30th June, 2004 (2003: HK1.8 cents per share) payable on 15th October, 2004 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 8th October, 2004.

Total interim dividend will be HK\$26,450,536 on the basis of 1,058,021,428 shares in issue during the period (2003: HK\$19,044,386 for 1,058,021,428 shares).

### 7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$93,623,000 (2003: HK\$68,341,000) and on 1,058,021,428 (2003: 1,058,021,428) ordinary shares in issue during the period.

Diluted earnings per share for each of the six months ended 30th June, 2004 and 2003 has not been calculated as no diluting events existed during these periods.



## NOTES (continued)

### 8. CASH AND SHORT TERM FUNDS

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
Cash in hand and balances with banks and other financial institutions	<b>203,154</b>	454,846
Money at call and short notice	<b>1,462,713</b>	1,911,744
Treasury bills, including Exchange Fund Bills #	<b>89,989</b>	89,885
	<b><u>1,755,856</u></b>	<b><u>2,456,475</u></b>

# The treasury bills (including Exchange Fund Bills) are all unlisted debt securities issued by central governments and central banks, the maturity profile of which as at the balance sheet date is as follows:

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
With a residual maturity of:		
Three months or less	<b>89,989</b>	59,962
One year or less but over three months	<b>–</b>	29,923
	<b><u>89,989</u></b>	<b><u>89,885</u></b>

### 9. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS MATURING BETWEEN ONE AND TWELVE MONTHS

The maturity profile of placements with banks and other financial institutions maturing between one and twelve months as at the balance sheet date is as follows:

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
With a residual maturity of:		
Three months or less	<b>654,776</b>	534,942
One year or less but over three months	<b>485,664</b>	346,431
	<b><u>1,140,440</u></b>	<b><u>881,373</u></b>

## NOTES (continued)

### 10. PREMIUM RECEIVABLES

An aged analysis of the Group's premium receivables as at the balance sheet date is as follows:

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
Three months or less	<b>129,324</b>	104,009
Six months or less but over three months	<b>15,309</b>	32,063
One year or less but over six months	–	3,076
Over one year	<b>4,689</b>	2,875
	<b>149,322</b>	142,023
Less: Provision for bad and doubtful debts	<b>(4,443)</b>	(4,828)
	<b>144,879</b>	137,195

### 11. OTHER INVESTMENTS

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
Listed equity, at market value		
– in Hong Kong	<b>286,385</b>	157,125
– outside Hong Kong	<b>71,778</b>	72,988
	<b>358,163</b>	230,113
Debt		
– listed outside Hong Kong, at market value	<b>68,369</b>	48,925
– unlisted, at quoted price	<b>94,418</b>	56,232
	<b>162,787</b>	105,157
Investment funds		
– listed outside Hong Kong, at market value	<b>31,369</b>	22,670
– unlisted, at quoted price	<b>178,897</b>	146,650
	<b>210,266</b>	169,320
Equity-linked notes, at amortised cost	<b>75,328</b>	43,075
	<b>806,544</b>	547,665



## NOTES (continued)

### 11. OTHER INVESTMENTS (continued)

The other investments analysed by the sector of the issuers as at the balance sheet date are as follows:

	<b>At 30th June, 2004</b>	At 31st December, 2003
	<b>HK\$'000</b>	HK\$'000
Public sector entities	<b>63,157</b>	103,564
Banks and other financial institutions	<b>234,621</b>	118,152
Corporate entities	<b>508,766</b>	325,949
	<b><u>806,544</u></b>	<u>547,665</u>

### 12. CERTIFICATES OF DEPOSIT HELD

Certificates of deposit held by the Group are all unlisted debt securities.

The maturity profile of certificates of deposit held as at the balance sheet date is as follows:

	<b>At 30th June, 2004</b>	At 31st December, 2003
	<b>HK\$'000</b>	HK\$'000
With a residual maturity of:		
Three months or less	–	153,009
One year or less but over three months	<b>264,777</b>	112,147
Five years or less but over one year	<b>439,093</b>	453,216
	<b><u>703,870</u></b>	<u>718,372</u>

### 13. HELD-TO-MATURITY SECURITIES

	<b>At 30th June, 2004</b>	At 31st December, 2003
	<b>HK\$'000</b>	HK\$'000
Listed debt		
– in Hong Kong	<b>17,266</b>	10,734
– outside Hong Kong	<b>304,245</b>	339,036
	<b><u>321,511</u></b>	<u>349,770</u>
Unlisted debt	<b><u>1,785,205</u></b>	<u>1,536,002</u>
	<b><u>2,106,716</u></b>	<u>1,885,772</u>
Market value of listed held-to-maturity securities	<b><u>314,940</u></b>	<u>349,309</u>

## NOTES (continued)

### 13. HELD-TO-MATURITY SECURITIES (continued)

The held-to-maturity securities analysed by the sector of the issuers as at the balance sheet date are as follows:

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
Public sector entities	<b>87,343</b>	45,123
Banks and other financial institutions	<b>1,736,120</b>	1,639,839
Corporate entities	<b>283,253</b>	200,810
	<b><u>2,106,716</u></b>	<u>1,885,772</u>

The maturity profile of held-to-maturity securities as at the balance sheet date is as follows:

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
With a residual maturity of:		
Three months or less	<b>323,478</b>	240,228
One year or less but over three months	<b>330,159</b>	398,786
Five years or less but over one year	<b>1,157,937</b>	853,954
Over five years	<b>295,142</b>	392,804
	<b><u>2,106,716</u></b>	<u>1,885,772</u>

### 14. ADVANCES AND OTHER ASSETS

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
Advances to customers	<b>7,619,027</b>	7,479,772
Provision for bad and doubtful debts	<b>(111,950)</b>	(181,728)
	<b><u>7,507,077</u></b>	<u>7,298,044</u>
Accrued interest and other assets	<b>223,898</b>	199,633
Provision for bad and doubtful debts	<b>(209)</b>	(581)
Provision for impairment	<b>(660)</b>	(660)
	<b><u>223,029</u></b>	<u>198,392</u>
Total	<b><u>7,730,106</u></b>	<u>7,496,436</u>



## NOTES (continued)

### 14. ADVANCES AND OTHER ASSETS (continued)

The maturity profile of advances to customers as at the balance sheet date is as follows:

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
Repayable on demand	<b>545,884</b>	587,881
With a residual maturity of:		
Three months or less	<b>1,108,856</b>	1,065,868
One year or less but over three months	<b>854,323</b>	862,893
Five years or less but over one year	<b>2,561,049</b>	2,353,667
Over five years	<b>2,372,312</b>	2,331,109
Undated	<b>176,603</b>	278,354
	<b><u>7,619,027</u></b>	<u>7,479,772</u>

### 15. INVESTMENT SECURITIES

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
Listed equity outside Hong Kong, at cost	<b>383,653</b>	383,653
Provision for impairment	<b>(25,073)</b>	(25,073)
	<b><u>358,580</u></b>	<u>358,580</u>
Unlisted		
– equity	<b>43,247</b>	43,772
– debt	<b>19,932</b>	19,940
	<b><u>63,179</u></b>	<u>63,712</u>
Total	<b><u>421,759</u></b>	<u>422,292</u>
Market value of listed investment securities	<b><u>429,582</u></b>	<u>516,608</u>

## NOTES (continued)

### 15. INVESTMENT SECURITIES (continued)

The investment securities analysed by the sector of the issuers as at the balance sheet date are as follows:

	<b>At 30th June, 2004</b>	At 31st December, 2003
	<b>HK\$'000</b>	HK\$'000
Banks and other financial institutions	<b>372,420</b>	358,580
Corporate entities	<b>49,339</b>	63,712
	<b><u>421,759</u></b>	<u>422,292</u>

The maturity profile of the debt securities included in investment securities as at the balance sheet date is as follows:

	<b>At 30th June, 2004</b>	At 31st December, 2003
	<b>HK\$'000</b>	HK\$'000
Undated	<b><u>19,932</u></b>	<u>19,940</u>

### 16. DEPOSITS AND BALANCES OF BANKS AND OTHER FINANCIAL INSTITUTIONS

The maturity profile of deposits and balances of banks and other financial institutions as at the balance sheet date is as follows:

	<b>At 30th June, 2004</b>	At 31st December, 2003
	<b>HK\$'000</b>	HK\$'000
Repayable on demand	<b>21,525</b>	14,391
With a residual maturity of:		
Three months or less	<b>515,837</b>	292,686
One year or less but over three months	<b>3,864</b>	–
	<b><u>541,226</u></b>	<u>307,077</u>

### 17. DEPOSITS FROM CUSTOMERS

The maturity profile of deposits from customers as at the balance sheet date is as follows:

	<b>At 30th June, 2004</b>	At 31st December, 2003
	<b>HK\$'000</b>	HK\$'000
Repayable on demand	<b>2,985,859</b>	2,861,146
With a residual maturity of:		
Three months or less	<b>5,526,573</b>	5,848,036
One year or less but over three months	<b>508,413</b>	499,657
Five years or less but over one year	<b>314,153</b>	213,697
	<b><u>9,334,998</u></b>	<u>9,422,536</u>



## NOTES (continued)

### 18. CERTIFICATES OF DEPOSIT ISSUED

The maturity profile of certificates of deposit issued as at the balance sheet date is as follows:

	<b>At 30th June, 2004</b>	At 31st December, 2003
	<b>HK\$'000</b>	HK\$'000
With a residual maturity of:		
Three months or less	<b>500,000</b>	–
One year or less but over three months	<b>605,000</b>	588,000
Five years or less but over one year	<b>90,000</b>	605,000
	<b><u>1,195,000</u></b>	<u>1,193,000</u>

### 19. OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

The following is a summary of the contractual amount of each significant class of contingent liabilities and commitments of the Group (which are attributable to its banking business) which remained outstanding at the balance sheet date:

	<b>At 30th June, 2004</b>	At 31st December, 2003
	<b>HK\$'000</b>	HK\$'000
Direct credit substitutes	<b>77,854</b>	110,699
Transaction-related contingencies	<b>1,273</b>	533
Trade-related contingencies	<b>197,388</b>	242,958
Forward forward deposit placed	<b>211,302</b>	43,190
Forward asset purchases	<b>254,806</b>	89,373
Other commitments with an original maturity of:		
Under one year or which are unconditionally cancellable	<b>3,386,319</b>	3,284,135
One year and over	<b>235,141</b>	284,690
	<b><u>4,364,083</u></b>	<u>4,055,578</u>



## NOTES (continued)

### 19. OFF-BALANCE SHEET EXPOSURES (continued)

(b) Derivatives

The following is a summary of the contractual amount of each significant class of derivatives entered into by the Group (which are attributable to its banking business) which remained outstanding at the balance sheet date:

	<b>At 30th June, 2004</b>	At 31st December, 2003
	<b>HK\$'000</b>	HK\$'000
Forward foreign exchange contracts – hedging:		
Swap	<b>3,070,082</b>	2,592,104
Others	<b>982,464</b>	203,435
	<b><u>4,052,546</u></b>	<u>2,795,539</u>

(c) The aggregate replacement costs and credit risk weighted amounts of the above off-balance sheet exposures, which do not take into account the effects of bilateral netting arrangements, are:

	<b>At 30th June, 2004</b>		At 31st December, 2003	
	<b>Replacement cost</b>	<b>Credit risk weighted amount</b>	Replacement cost	Credit risk weighted amount
	<b>HK\$'000</b>	<b>HK\$'000</b>	HK\$'000	HK\$'000
Direct credit substitutes	–	<b>49,894</b>	–	38,843
Transaction-related contingencies	–	<b>31</b>	–	267
Trade-related contingencies	–	<b>35,987</b>	–	39,961
Forward forward deposits placed	–	<b>42,260</b>	–	8,638
Forward asset purchases	–	<b>6,864</b>	–	9,768
Other commitments with an original maturity of one year and over	–	<b>117,571</b>	–	142,345
Exchange rate contracts	<b>6,357</b>	<b>8,335</b>	8,026	5,738
	<b><u>6,357</u></b>	<b><u>260,942</u></b>	<u>8,026</u>	<u>245,560</u>

## NOTES (continued)

### 20. OTHER COMMITMENTS

- (a) At the balance sheet date, the Group had capital commitments as follows:

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
Contracted, but not provided for	<b>2,654</b>	1,473
Authorised, but not contracted for	<b>855</b>	2,655
	<b><u>3,509</u></b>	<u>4,128</u>

The Company did not have any significant capital commitments as at the balance sheet date.

- (b) The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>At 30th June, 2004 HK\$'000</b>	At 31st December, 2003 HK\$'000
Within one year	<b>4,467</b>	7,280
In the second to fifth years, inclusive	<b>4,371</b>	4,794
	<b><u>8,838</u></b>	<u>12,074</u>

### 21. PENDING LITIGATION

- (a) A claim for approximately HK\$16 million was brought against a subsidiary of the Group in 1997 by a client alleging that the subsidiary is liable for compensation on a loss of profit suffered by the client. The Group's legal counsel is currently reviewing certain new evidence submitted by the plaintiff during the period. In this endeavour, a reliable estimate as to the outcome of the case or any legal compensation is unable to be made. Notwithstanding that, the directors believe that the Group has grounds to defend against the claim as they consider that the Group owed no duty to secure the completion of the transaction and there is no documentary evidence that the transaction was actually contracted and executed. The directors consider that adequate provision for legal fees has been provided.
- (b) A claim was also brought against another subsidiary by an overseas broker in 1999 alleging that the subsidiary did not settle a trade transaction which caused a loss of approximately MYR9 million (equivalent to approximately HK\$18.5 million) to the overseas broker. Having considered the legal counsel's advice, the directors believe that the Group has a very good case to defend the claim. The case has been processed intermittently due to the plaintiff's application for extension of time to serve the legal documents. Accordingly, the directors consider that a provision for the claim is not necessary at this stage.

## NOTES (continued)

### 21. PENDING LITIGATION (continued)

- (c) The Securities and Futures Commission (the “SFC”) has conducted an investigation against Asia Financial (Assets Management) Limited (“AFAM”), a subsidiary of the Company, in respect of a breach of the Code on Takeovers and Mergers. In 2002, the Takeovers and Mergers Panel (the “Panel”) publicly censured AFAM and imposed a “cold shoulder order” against the former chief executive and director of AFAM. In addition, the Panel has reported the case to the SFC and other relevant regulatory authorities for their further investigations. Up to the date of this report, there has not been any final conclusion or decision from the investigations of the SFC and the other authorities or any legal claims filed against AFAM.

### 22. RELATED PARTY TRANSACTIONS

	At 30th June, 2004		At 31st December, 2003	
	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000
Loans and advances granted:				
Aggregate balance at balance sheet date	9,560	21,895	14,667	48,606
Deposits received:				
Aggregate balance at balance sheet date	70,095	341,024	29,733	394,731
Interbank activities:				
Deposits placed	–	93,833	–	317,850
Deposits received	–	26,513	–	3,102
Standby credit facilities available to the Group	–	389,990	–	388,155



## NOTES (continued)

### 22. RELATED PARTY TRANSACTIONS (continued)

	Six months ended 30th June, 2004		Six months ended 30th June, 2003	
	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000
Loans and advances granted:				
Interest income received and receivable	83	88	190	268
Deposits received:				
Interest expenses paid and payable	123	873	173	2,225
Interbank activities:				
Interest income	–	988	–	2,230
Interest expenses	–	35	–	156
Premium income:				
Gross premiums written	133	773	123	1,542
Reinsurance premium ceded	–	28,125	–	17,260
Commission income, net	–	3,573	–	3,387
Rental expenses	–	390	–	–

In addition, the Group had the following transactions with jointly-controlled entities during the period:

	At 30th June, 2004 HK\$'000	At 31st December, 2003 HK\$'000
Loans and advances granted:		
Aggregate balance at balance sheet date	31,630	39,130
Deposits received:		
Aggregate balance at balance sheet date	309,390	234,461
	<b>Six months ended 30th June 2004 HK\$'000</b>	<b>2003 HK\$'000</b>
Deposits received:		
Interest expenses paid and payable	647	1,095
Reinsurance premiums ceded	5	4
Service fees paid	3,408	4,043

### 23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

## SUPPLEMENTARY FINANCIAL INFORMATION

### Gross advances to customers by industry sectors

	At 30th June, 2004 HK\$'000	At 31st December, 2003 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial:		
Property development	80,233	76,755
Property investment	1,067,711	854,666
Financial concerns	29,816	201,792
Stockbrokers	6,057	32,145
Wholesale and retail trade	19,245	10,605
Manufacturing	366,557	295,590
Transport and transport equipment	550,331	466,818
Others	995,480	945,218
Individuals:		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	392,569	430,486
Loans for the purchase of other residential properties	2,379,715	2,545,853
Credit Card advances	17,078	20,918
Others	326,477	333,068
Trade finance	1,004,252	979,581
Loans for use outside Hong Kong	383,506	286,277
	<b><u>7,619,027</u></b>	<b><u>7,479,772</u></b>



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## SUPPLEMENTARY FINANCIAL INFORMATION (continued)

### Risk management

The Group has established policies and procedures for identifying, evaluating, monitoring and controlling the various types of risks pertaining to the Group's business. The key risks include credit risk, liquidity risk, capital management risk, market risk, interest rate risk, foreign exchange risk and operational risk.

The overall internal control environment and the management policies for major types of risks are as follows:

(1) *Internal control environment*

The internal control framework of the Group comprises comprehensive control policies and standards. The area of responsibility of each business and operational unit are clearly defined. Internal control procedures have been established based on the risk inherent in the individual business unit.

The internal audit department plays an important role in the Group's internal control framework. It monitors the effectiveness of the internal control procedures and ensures compliance with the policies and standards across the whole Group. A direct reporting line to the audit committee under the board of directors safeguards its independence. The audit committee meets periodically to review and discuss financial performance, internal control and compliance issues and matters raised by the external auditors to ensure that all audit recommendations are implemented.

(2) *Credit risk management*

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending, trade finance, treasury and other activities undertaken by the Group.

The Group has a credit risk management process to measure, monitor and control credit risks. The Credit Policy Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and provisioning systems. The Group has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy; exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits); segregation of duties in key credit functions is in place to ensure separate credit control and monitoring; and management and recovery of problem credits are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and the Group's capital resources.

Credit and compliance audits are periodically performed to evaluate the effectiveness of the credit process and to test the compliance of the established credit policies and procedures.

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## SUPPLEMENTARY FINANCIAL INFORMATION (continued)

### Risk management (continued)

#### (3) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations as they fall due. To manage liquidity risk, the Group has established liquidity management policies that are pertinent to the operations of the major business units. The policies are reviewed by the Asset and Liability Management Committee (the “ALCO”) of the business unit and approved by its directors.

The Group measures and monitors its liquidity through the maintenance of prudent ratios and limits that are laid down in the liquidity policies. These include the liquidity structure of the Group’s assets, liabilities and commitments, statutory liquidity ratios, loan-to-deposit ratios, interest rate gaps, maturity mismatch positions and net asset positions.

The Group also maintains a prudent level of high quality liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business. In addition, standby facilities are established to provide contingency liquidity support.

#### (4) Capital management risk

The Group’s policy is to maintain a strong capital base to support the development of the Group’s business and to meet the statutory capital or solvency margin requirements. Capital is allocated to the various activities of the Group depending on the risk reward criteria and regulatory capital requirements.

The Group’s banking subsidiary is required to maintain minimum capital subject to the Hong Kong Monetary Authority’s capital requirements, regulations and supervision process. The securities and investment services subsidiaries are regulated by the Securities & Futures Commission (the “SFC”) and are required to comply with certain minimum capital requirements according to the rules of the SFC.

#### (5) Market risk management

Market risk is the risk to the Group’s earnings and capital due to changes in the market level of interest rates, foreign exchange rates, securities and equities as well as the volatilities of those prices. The Group’s market risk arises from customer-related business, structural positions and investment portfolios.

The Group monitors market risk principally by establishing limits for transactions and open positions. These limits are approved by the ALCO and the directors and are monitored on a daily basis. The daily risk monitoring process measures the actual risk exposures against approved limits and triggers specific actions to ensure that the overall market risk is managed within an acceptable level.

#### (6) Interest rate risk management

Interest rate risk is the risk that the Group’s position may be adversely affected by a change of market interest rates. The Group’s interest rate risk arises primarily from timing differences in the maturity and repricing of the Group’s interest-bearing assets, liabilities and off-balance sheet commitments.

The Group manages interest rate risk by limiting the potentially adverse effects of interest rate movements on net interest income by closely monitoring the net repricing gap of its assets and liabilities. Interest rate sensitive positions are managed by the Treasury Department of each business unit within the limits approved by the ALCO and the directors.



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## SUPPLEMENTARY FINANCIAL INFORMATION (continued)

### Risk management (continued)

#### (7) Foreign exchange risk management

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk primarily arises from foreign exchange dealing, commercial banking operations and structural foreign currency exposures.

Foreign exchange positions are managed by the Treasury Department of each business unit within the limits approved by the ALCO and directors. Limit excesses, if any, are reported to the ALCO for necessary actions.

#### (8) Operational risk management

Operational risk is the financial loss resulting from procedural errors, system failures, frauds and other event risks.

The Group manages operational risk by maintaining adequate documentation of its operating procedures to facilitate training and quality performance. A proper internal control system is incorporated in the operation workflow to minimise the risk of losses caused by human error. To reduce the interruptions to business activities caused by system failures or natural disasters, back-up systems and contingency business resumption plans are in place for critical business and back-office functions. Detailed recovery procedures are properly documented, with periodic drills conducted to ensure that the procedures are current and correct.



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## MANAGEMENT DISCUSSION AND ANALYSIS

(All changes in % refer to the same period last year unless otherwise specified)

Net profit attributable to shareholders:	HK\$93.6m	+37.0%
Earnings per share:	HK8.8cents	+35.4%
Interim dividend per share:	HK2.5cents	+38.9%

We are pleased to report a satisfactory performance by Asia Financial Group in the first half of 2004, with a welcome increase in net profit of 37 percent compared with the same period in 2003. Our portfolio investments performed better than the main market benchmarks; our banking activities produced a significant increase in profit; and our insurance operations continued to show steady growth. The Management maintained an active but prudent operational strategy against this broadly improving economic backdrop. Coming after a year of considerable volatility, 2004 should prove to be a year of steady growth for the Group.

### Economic background

The HKSAR Government recently announced that the Hong Kong economy recorded a strong 12.1 percent growth in the second quarter of 2004, with all round contribution from consumption, investment, government spending and especially trade. The official growth forecast for 2004 as a whole is expected to be 7.5 percent. This is a substantial improvement on the slightly over 3 percent growth recorded for 2003, a result which has been affected by the aftermath of the SARS outbreak and the Iraqi war in the first half of 2003.

Reflecting the improving economy, the first six months of 2004 saw unemployment continuing to decline and deflation coming to an end. However, growth in asset prices was erratic reflecting concerns about prospective interest rate rises. Similarly concerns about possible slowdown in the US and in the Mainland had a dampening effect on the improving stock markets.

### Investments

On the investment side, Asia Financial Group's portfolio showed a better return than main market benchmarks. The Hang Seng Index ended the six-month period slightly lower, after a strong showing in the second half of 2003, while bond markets offered less trading opportunities than were available last year. Our investment strategy during this first half was to shift to blue-chip equities to take advantage of rising dividend income and capture opportunities for trading gains in the bond market. Until clear positive directions emerge in the markets, we will continue to pursue a prudent trading strategy.

### Management approach

Following the significant volatility, especially in the first half, of the previous year, the Management was deliberately watchful during the first half of 2004, seeking primarily to consolidate on successes made in the second half of the previous year, while taking special care to keep costs down. We continued to face stiff competition across many of our activities. The Management remained dedicated to pursuing growth in shareholder value rather than chasing market share. At the same time, the Management continued to seek new opportunities to expand quality business. We expect that our investment performance for the full 2004 year will be affected by global market sentiment. With the period ahead difficult to read, we will be adopting a cautious approach by seeking to achieve expected returns within a lower risk band and continuing to maintain a well-balanced portfolio of quality investments.



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## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Future prospects

The general prospects for the Hong Kong economy for the remainder of the year and into 2005 look good. Consumer confidence should continue to strengthen and unemployment should fall some more, while exports could be expected to improve further. A continuing economic upturn will benefit our clients and in that way offer us further opportunities to build on the recent successes in our insurance and banking activities. While the general prospects look good, there are some lurking uncertainties, in particular there are concerns about the pace of economic growth in the US, possible interest rate rises and slowing down of the Mainland economy. Domestically, with five long years of deflation coming to an end, any re-emergence of inflation will bring challenges of its own. The Management is optimistic, however, that the overall outlook would be generally favourable and looks forward to improved results for the whole year.

### BUSINESS REVIEW AND PROSPECTS

#### Banking

Net profit attributable to shareholders:	HK\$51.1m	+90.3%
Total operating income:	HK\$159.7m	+15.9%
Net interest income:	HK\$126.2m	+13.5%
Other operating income:	HK\$33.5m	+26.3%
Operating expenses:	HK\$86.4m	-10.7%
Charge for bad and doubtful debts:	HK\$17.7m	+130.8%
Loans and advances (30th June, 2004):	HK\$7,503m	+2.2%(*)
Customer deposits (30th June, 2004):	HK\$9,564m	-1.1%(*)

(\*) Compared with outstanding balances at 31st December, 2003

Net interest margin:	2.09% (25 basis points higher than first half of 2003)
Cost-to-income ratio:	54.1% (First half of 2003: 70.2%)
Average liquidity ratio:	44.7% (Average for first half of 2004)
Adjusted capital adequacy ratio:	19.09% (30th June, 2004)

Asia Commercial Bank performed strongly in the first half of 2004. Net interest income improved, reflecting improved margins and better management of deposit levels. Fee income grew, assisted by branch restructuring which facilitated the growth of fee-based business and in addition our treasury operations and share trading benefited from the improved economic environment. The need for specific debt provisioning declined and operating expenses were further reduced. Total loans grew by 2.2 percent in the first half of 2004.

In the period ahead, we will strengthen our effort to build our loan business to take advantage of the growing economy. However, we will need to guard against prospects of rising interest rates, narrowing interest spreads and increasing competition. This would suggest the need to further develop our fee income. Fortunately, rising business profitability in Hong Kong should lead to a reduced need for specific provisioning in the period ahead. All in all, we are confident that the Bank will deliver satisfactory results for 2004 as a whole.

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## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Insurance

Net profit attributable to shareholders:	HK\$39.5m	+2.9%
Underwriting profit:	HK\$39.0m	+12.2%
Investment/dividend income:	HK\$6.5m	-44.1%
Interest and other income:	HK\$17.4m	+2.4%
Premium turnover:	HK\$402.9m	-0.5%
Operating expenses:	HK\$33.5m	-0.1%

After a good run of several half-years of impressive profit growth, Asia Insurance produced a relatively modest increase in profit for the first half of 2004.

On the investment side, the bond and stock markets, which had performed well in the second half of 2003, were more subdued in the first half of 2004, which impinged on our investment income. The lower investment returns largely reflected flatter bond and stock markets. Notwithstanding, our portfolio investments still performed better than the main market benchmarks.

On the operational side, Asia Insurance continued to deliver healthy increases in underwriting profit, which provided a welcoming set-off to the investment side. Although there was improved scope for the general insurance industry to obtain better pricing in some sectors, the general insurance business is still a crowded and highly competitive market which means that demand for many insurance services and products was generally flat during the first half of 2004.

The general insurance industry came under some pressure early in the year as certain Hong Kong employers faced difficulties in obtaining employee compensation coverage in workplaces potentially exposed to infectious diseases like SARS. Asia Insurance demonstrated social and corporate responsibility in accepting a limited amount of such business. The Management is satisfied that proper and prudent reinsurance arrangements have left our risk exposure to such business at a manageable and acceptable level.

In addition to the increase in our marketing capacity, Asia Insurance's improved underwriting results have been greatly assisted by the "A-" rating given by Standard and Poor's and our well established high standards of service. Shareholders should be able to see that despite a lower investment performance in the first half of 2004, Asia Insurance's core business has yielded impressive gains over the years. Management is confident that the Company will continue to perform well as we continue to take a steady and prudent approach to underwriting which is focused on attracting and keeping a growing base of good quality clients.

### Contingent liabilities

As at 30th June, 2004, the Group had no material contingent liabilities.

### Employees and remuneration policy

The total number of employees of the Group was 544 (December 2003: 546). Annual remuneration increments and promotions are determined through a performance-oriented appraisal system, with the basic pay structure being reviewed from time to time to reflect market trends. In addition to the basic salary, employees also receive an annual bonus based on both the Group's and their individual performance. Housing loans, and medical and retirement benefit schemes are made available to staff. There was no share option scheme in operation during the six months ended 30th June, 2004. The Group also offers various training and induction programmes to its employees.



## DIVIDEND

The Board of Directors has resolved to declare an interim dividend of HK2.5 cents per ordinary share (2003: HK1.8 cents per ordinary share) payable on 15th October, 2004 to shareholders whose names appear on the Register of Members on 8th October, 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 4th October, 2004 to 8th October, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Registrars, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 30th September, 2004. The interim dividend will be payable on 15th October, 2004 to shareholders whose name appear on the Register of Members of the Company on 8th October, 2004.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30th June, 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th June, 2004, the interests of the directors in the shares capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO were as follows:

Name of director	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Robin Y.H. CHAN	12,505,264	991,883	336,493,441#	349,990,588	33.08
LAU Ki Chit	21,080	–	–	21,080	–
The Hon. Bernard Charnwut CHAN	2,585,089	1,038,432	–	3,623,521	0.34
Chatri SOPHONPANICH	6,464,775	–	–	6,464,775	0.61
Tan Sri Frank W.K. TSAO	–	–	25,301,619#	25,301,619	2.39
NG Song Hin	–	–	15,139,827#	15,139,827	1.43
TAN Eng Heng	346,360	–	–	346,360	0.03
Choedchu SOPHONPANICH	791,496	–	–	791,496	0.07

# The shareholdings through controlled corporations in which the directors concerned were taken to be interested, as stated above, were the interests of corporations where these directors were respectively either entitled to exercise (or taken under the SFO to be able to exercise) or control the exercise of one-third or more of the voting power in general meetings of such corporations.

In addition to the above, Mr. Robin Y.H. CHAN has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30th June, 2004, none of the directors and chief executive of the Company had registered an interest or short position in the share or underlying shares of any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th June, 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the Register of Interests in Shares and Short Positions required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company:

Name of shareholder	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
Asia General Holdings Ltd.	(a)	90,769,455	8.58
Bangkok Bank Public Company Limited		95,488,236	9.03
UFJ Holdings, Inc.	(b)	84,125,264	7.95
Man Tong Company Ltd.	(c), (d)	65,989,175	6.24
Cosmos Investments Inc.	(d), (e)	266,620,398	25.20

Notes :

- (a) Asia General Holdings Ltd. was beneficially interested in 16,029,375 shares of the Company. The interests held by Asia General Holdings Ltd. also comprised 13,803,957 shares held by its wholly-owned subsidiary, The Asia Insurance Co. Ltd. (Singapore), 23,978,935 shares held by its 74.58% owned subsidiary, The Asia Life Assurance Society Ltd. and 36,957,188 shares held by its wholly-owned subsidiary, Univest Securities Ltd.
- (b) The ordinary shares are held by UFJ Bank Limited, which is wholly owned by UFJ Holdings, Inc.
- (c) The ordinary shares are held by Man Tong Company Ltd., which is 60.5% owned by Cosmos Investments Inc.
- (d) These shares have been included in the interests disclosure of Mr. Robin Y.H. CHAN as set out in the section "Directors' interests and short positions in shares and underlying shares" above.
- (e) Cosmos Investments Inc. was beneficially interested in 124,132,600 shares of the Company. The interests held by Cosmos Investments Inc. also comprised 65,989,175 shares held by its 60.5% owned subsidiary, Man Tong Company Ltd., 27,335,986 shares held by its wholly-owned subsidiary, Treasure Investments Inc., 24,520,105 shares held by its wholly-owned subsidiary, Bonham Strand Ltd. and 24,642,532 shares held by its 53.5% owned subsidiary, Asia Panich Investment Co. (HK) Ltd.

Save as disclosed above, as at 30th June, 2004, no persons, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.



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## CORPORATE GOVERNANCE

### Compliance with the Code of Best Practice

None of the directors of the Company is aware of any information that would reasonably indicate that the Group is not, or was not, in compliance with the Code of Best Practice (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) at any time during the six months ended 30th June, 2004, except that the non-executive directors of the Company are not appointed for any specific terms of office as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company’s bye-laws.

### Code for Securities Transactions by Directors

The Company has adopted a code of conduct (“Code of Conduct”) regarding directors’ securities transactions on terms no less exacting than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules.

All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and the Code of Conduct throughout the period from 1st January, 2004 to 30th June, 2004.

### Audit Committee

The Company has an audit committee in accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The present members of the audit committee are Mr. Andrew Chiu Cheung MA, Mr. Kenneth Chi Lam SIAO and Mr. NG Song Hin. The majority of the members are independent non-executive directors, with the Chairman having appropriate professional qualification and experience in financial matters.

### Review of Interim Results

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30th June, 2004.

By Order of the Board  
**ROBIN Y.H. CHAN**  
*Chairman & Managing Director*

Hong Kong, 3rd September, 2004

**DIRECTORS**

Robin Y.H. CHAN  
*Chairman and Managing Director*  
LAU Ki Chit  
*Executive Director*  
The Hon. Bernard Charnwut CHAN  
*Executive Director & Deputy Managing Director*  
Chatri SOPHONPANICH  
Tan Sri Frank W.K. TSAO  
Dr. Leo Tung Hai LEE\*  
NG Song Hin  
Dr. The Hon. Philip Y.H. WONG  
TAN Eng Heng  
Choedchu SOPHONPANICH  
Kenneth Chi Lam SIAO\*  
NA Wu Beng  
Yoshitaka SAWAMURA  
Takashi MURAOKA  
Andrew Chiu Cheung MA\*

\* *independent non-executive director*

**REGISTERED OFFICE**

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