

Banking

Profit attributable to equity holders of the parent:	HK\$86.6m	-17.4%
Total operating income:	HK\$315.0m	+0.5%
Net interest income:	HK\$239.9m	-2.5%
Other operating income:	HK\$75.1m	+11.1%
Operating expenses:	HK\$159.2m	-7.4%
Impairment losses and allowances:	HK\$54.9m	+109.2%
Loans and advances:	HK\$9,076m	+15.3%
Customer deposits:	HK\$11,525m	+6.9%
Net interest margin:	1.71% (27 basis points lower than 2004)	
Cost-to-income ratio:	50.5% (4.3 percentage points lower than 2004)	
Average liquidity ratio:	47.1% (Average 2004: 45.4%)	
Adjusted capital adequacy ratio:	16.7% (end-2004: 17.9%)	

Asia Commercial Bank saw profit decrease by 17.4% to HK\$86.6 million in 2005. There are two main reasons for this result. The first is higher individual impairment allowances. Although collective impairment allowance fell, two particular bad loans, which also affected other banks in Hong Kong, were recorded during the year. The second was a decline in net interest income. Although interest income benefited from an increase in overall market interest rates during 2005, overall funding costs rose faster, reducing our net interest margin from 1.98% in 2004 to 1.71% in 2005.

The Hong Kong banking sector remained extremely competitive during 2005. Asia Commercial Bank felt competitive pressures especially in trade-related loans and other very price-sensitive markets. However, the Bank saw more positive performance in other retail loans products and benefited from a stronger focus on the sale of insurance and investment products.

Insurance

Profit attributable to equity holders		
of the parent:	HK\$87.9m	-23.3%
Underwriting profit:	HK\$54.8m	-18.2%
Investment/dividend income:	HK\$30.3m	-36.9%
Interest income:	HK\$29.4m	-0.2%
Other income:	HK\$5.3m	-52.2%
Premium turnover:	HK\$794.5m	+6.1%
Operating expenses:	HK\$63.5m	-8.5%
Impairment on insurance receivables:	HK\$3.0m	N/A

Asia Insurance saw modest performance in its core underwriting business in 2005. However, underwriting profit fell 18.2% to HK\$54.8 million, partly because of serious price competition in several areas of business, but also because of exceptional claims on our international reinsurance business arising in particular from the damage done by Hurricane Katrina in the USA. In despite of these factors, our market standing in the insurance industry remains relatively unchanged.

Investment returns from both long-term strategic holdings and trading portfolios showed a 36.9% decline. This reflects the same year-on-year factors that influenced the Group's results at the holding company level, such as relatively stagnant equities markets during the year owing to fears about rising interest rates and higher oil prices. Nonetheless, returns were satisfactory, especially dividends from strategic holdings which exceeded standard benchmarks.

The pressure on underwriting profit was largely the result of fierce price competition, especially in the employees' compensation segment of the market. This is not a new problem. Rather than increasing our market share at all costs, we prefer to maintain our solid reputation among good-quality clients, and this approach continued to serve us well last year. We continued to develop our leading position in Hong Kong in the area of professional liability insurance, and contributions from joint ventures remained healthy.

Asia Insurance essentially experienced a stable year in 2005. We see the continued endorsement of a "A-" rating by Standard and Poor's since 1995 as a badge of recognition of Asia Insurance as a leading provider of general insurance services in Hong Kong.