

For several years to 2003, the Asia Financial Group, like others, faced a challenging and at times difficult business environment. Management carried out a defensive and prudent strategy to weather out this recessed period and at the same time worked hard at improving cost and operational efficiencies to prepare the company to take advantage of new opportunities when better economic times returned. I am very pleased to report that this approach has been well-rewarded as the Asia Financial Group has achieved a net profit attributable to shareholders of HK\$203.2 million for the year ended 31st December 2003, which is a substantial increase of 363.9% on 2002.

## **A Year of Recovery**

The first half of 2003 was a difficult period for Hong Kong as the economy struggled with the aftermath of the war in Iraq and SARS. Fortunately, the economy recovered strongly in the second half, as Hong Kong began to enjoy some spillover from the buoyant economy in the Mainland. As economic conditions improved, business activities rebounded strongly, bringing confidence and buoyancy back to the stock and property markets. The economic turnaround has enabled many businesses in Hong Kong to become profitable again.

## **Investment and Operational Performance**

All business activities within the Group benefited from the economic upturn in 2003. The rebound in the stock markets pushed up significantly the market value of the investment portfolios within the Group. The improved market conditions in restoring the financial health of many of our banking customers enabled significant write backs to be made on existing loan provisions. These writebacks count towards the profits of our banking business. Our general insurance business, which had been doing well in the last few years, received further boost from the improved economic environment in 2003. This was reflected in the strong growth in premium turnover and underwriting profits.

The Group's investment portfolios, which performed well in 2002, continued its good run into 2003. We continued to keep good watch on ensuring that appropriately balanced portfolios are maintained that reflected market conditions and outlook. Looking at interest rate developments and the implications these could have on the values of debt instruments, we shifted the weighting of our investments around mid-2003 in favour of equities. Our holdings of equities comprise mainly local and some foreign blue-chip stocks, which included some carefully selected investments in local initial public offerings of Mainland companies. We also invested in a number of well-managed mutual funds to achieve better spread and diversification in our equities portfolios. The change of tack in our investment strategy proved to be fruitful for equity markets rose significantly in the second half of 2003.

2003 saw a welcome improvement in profit for Asia Commercial Bank despite a decline in our banking business turnover in the face of strong competition across many of our banking activities. On the back of the upturn in economic conditions, the Bank was able to make substantial writebacks on its provisions for bad and doubtful debts as borrowers' financial and collateral positions improved. The Bank achieved

considerable success in improving on its cost and operational efficiencies which resulted in HK\$19.6 million saving being made in total operating costs in 2003, a substantial reduction from the HK\$205.9 million incurred in 2002. Overall, the Bank achieved a net profit of HK\$56 million in 2003, which is 69.5% higher than the HK\$33 million in 2002.

Topping up on the success of recent years, Asia Insurance enjoyed substantially improved results in 2003. Reflecting the pick up in the general economy, premium turnover rose 30% and underwriting profit rose 68% from the previous year. Following closely the investment strategy adopted by Asia Financial Holdings, our insurance subsidiary, Asia Insurance, made substantial gains on its investments. The overall result was a net profit attributable to shareholders of HK\$124 million in 2003, an impressive 283% increase on 2002. Asia Insurance gained further market share in 2003 and continue to be a leading provider of professional indemnity insurance in Hong Kong.

The Group's liquidity and financial resources remained robust during 2003.

More details on the performance and prospects of the two subsidiaries appear below in "Management Discussion and Analysis".

## **Strategy Adopted Bringing Results**

During the past several years when the economic environment was weak and uncertain, the Group followed a cautious and defensive strategy aimed at "weathering the storm". During this period Management worked hard at protecting investments, maintaining liquidity and financial resources and improving operation and cost efficiencies. Though it took some waiting, the economic turnaround finally came through in the second half of 2003. The defensive measures and approach taken in recent years have played a big part in preparing the Asia Financial Group to take advantage of the eventual economic recovery. The reward was a substantial improvement in the profitability of the Asia Financial Group in 2003.

## **Outlook and Strategy for the Future**

Looking at the first quarter of 2004, we can see that buoyancy has returned to the local, regional and global markets. An emerging regional concern about "bird flu" had been quickly addressed. Hong Kong is a significantly more confident and robust place than it was twelve months ago. With the substantial improvement in market condition and investment climate, the local economy is likely to improve further to register a strong growth for 2004.

Although the Closer Economic Partnership Arrangement ("CEPA") signed between the Mainland and Hong Kong SAR in mid-2003 does not yet offer direct significant opportunities for the Group's banking and insurance business, we remain optimistic about our prospects in Mainland markets. CEPA in promoting an export driven economy in Hong Kong may produce indirect benefits for the Group through opening business opportunities for some of our clients.

Although the improved business outlook will open opportunities across the board, we will continue to concentrate on making investments and expanding our business in areas best suited to the Group's strengths and expertise. New ventures will be strictly evaluated. We will continue to build on alliances and partnerships if this is necessary and relevant to achieving economies of scale.

## **Acknowledgement**

I would like to thank my fellow Board members for their wise counsel and support through the year. I would also like to thank the Management and Staff for their hard work and dedication in making 2003 a profitable year. Last but not least, I wish to express my sincere appreciation for the strong support received from our customers, business associates and shareholders in the past year.

**Robin Y.H. Chan**

*Chairman & Managing Director*

23rd March, 2004