

I am pleased to report to shareholders that the Asia Financial Group enjoyed another successful year in 2004. The prudent strategy taken by Management in the challenging business environment in the years leading up to 2003 has helped to put us in a position to take full advantage of the economic recovery in Hong Kong. All parts of the Group contributed to our profitable results, a net profit of HK\$240.1 million, which represented a healthy increase of 18.2% over 2003.

Continued Recovery

The global economy was on the up beat during 2004, underpinned by continued strong growth in the United States and China. The Hong Kong economy grew at an impressive rate of 8.1%, powered by firmer trade, consumption and investment. Global demand for Mainland exports remained strong, while Hong Kong's domestic economy benefited from growing consumer confidence, declining unemployment and booming tourist arrivals. Deflation appeared to have receded by the end 2004. Property transactions increased by 40% during the year and property prices at end 2004 were some 40% higher than the trough in mid-2003. The Hong Kong stock market index ended the year at a 45-month high of 14,230.

Satisfactory Investment Returns and Operational Performance

All parts of the Group enjoyed continued good performance in 2004. Our investment portfolios continued to deliver good returns. Asia Commercial Bank benefited from a strengthening economy and Asia Insurance showed a steady increase in underwriting profit.

At the holding company level, Asia Financial Holdings recorded a 3% fall in net profit in 2004. Otherwise, both long-term strategic holdings and the trading portfolio performed well, even though the year-on-year change in market values was less significant than in 2003. During the course of the year, notably in the second half, in anticipation of a rising interest rate outlook, we lowered our holdings of fixed income investments in favour of blue chip shares. With our trading portfolio well stocked in good quality local and foreign stocks, we were well-positioned to take advantage of the growing strength in the equity market during the year.

Asia Commercial Bank saw a very strong 87.3% increase in net profit to HK\$104.9 million in 2004. The Hong Kong banking sector remained extremely competitive, with below-prime interest rates being the norm for consumer loans. However, low funding costs supported a healthy interest rate spread, and the Bank benefited from our shift away from the intensely competitive mortgage market towards other business, including commercial loans. The Bank also benefited from closer attention to the management of operational and cost efficiency.

Asia Insurance saw a decline in net profit of 7.5% to HK\$114.6 million in 2004. This was largely the relative result of comparing with the significant gains recorded in 2003, especially with regard to strategic investments. Otherwise investment performance was satisfactory and in line with that of the rest of the Group. Underwriting profits rose 3.0% to HK\$66.9 million in 2004, despite stiff price competition during the year. Asia Insurance's joint ventures also performed well. The company has very little exposure to claims resulting from the tragic tsunami that hit several countries along the Indian Ocean on 26th December last year.

Both Asia Commercial Bank and Asia Insurance have strong levels of reserves and provisions.

More details of the performance and prospects of the two subsidiaries appear in the management discussion and analysis.

Management Strategy During the Year

The results for 2004 built upon the economic recovery in 2003 which followed several years of weakness in the markets and the Hong Kong economy. At all times during these difficult years, management focused on staying trim through avoiding unnecessary risk, protecting investments and operational profits as much as possible and taking active measures to contain costs. The improvement in our economic environment will open new opportunities for the Group in Hong Kong as well as the Mainland. In exploring these new opportunities, however, we will continue to give cognizance to the need to protect shareholders' long-term interests.

Staff

The Group had a total of 556 employees at the end of 2004, an increase of 1.8% compared with the end of 2003. While remaining conscious of the need to manage costs carefully, we also sought to ensure that our salaries and conditions remained in line with the market and with the need to be able to attract and retain good quality people. We also continued to ensure that adequate resources were made available for training. The directors and I wish to take the opportunity to thank all our staff within the group for their dedication and hard work during 2004.

Outlook and Strategy for the Future

The outlook is that major economies, including the United States and China, are generally expected to grow slower in 2005. Expectations of rising commodity prices, inflation, interest rate hikes and a weaker US Dollar have contributed to this expectation. However, no serious weaknesses are expected to emerge in the markets. The outlook for Hong Kong is generally encouraging with many economists expecting a 4% broadly based growth in GDP.

A weaker US Dollar could have a positive impact on asset prices in Hong Kong but could also dampen export growth from our region. While the Mainland economy may be moderate in 2005, it will remain substantially robust. Mainland markets will open up further to foreign investors under the WTO and more Mainland companies will seek opportunities overseas. Both these trends will be positive for Hong Kong and many of our banking and insurance clients, as well as our portfolio investments, may stand to benefit.

We will continue to focus on investments and business expansion in areas where we can best take advantage of our core strengths. In doing so, we will also continue to seek appropriate alliances and partnerships if this is needed to benefit from economies of scale.

Looking ahead, I believe Asia Financial Group will enjoy another successful year in 2005 and I hope to report good interim results in six months' time.

Robin Y.H. Chan

Chairman

Hong Kong
21st March, 2005