

## Banking

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| Net profit attributable to shareholders: | HK\$104.9m                                     | +87.3% |
| Total operating income:                  | HK\$313.5m                                     | +10.3% |
| Net interest income:                     | HK\$245.9m                                     | +8.6%  |
| Other operating income:                  | HK\$67.6m                                      | +16.9% |
| Operating expenses:                      | HK\$171.9m                                     | -7.7%  |
| Charge for bad and doubtful debts:       | HK\$26.2m                                      | +22.0% |
| Loans and advances:                      | HK\$7,926m                                     | +8.0%  |
| Customer deposits:                       | HK\$10,777m                                    | +11.4% |
| Net interest margin:                     | 1.98% (10 basis points higher than 2003)       |        |
| Cost-to-income ratio:                    | 54.8% (10.7 percentage points lower than 2003) |        |
| Average liquidity ratio:                 | 45.4% (Average 2003: 47.1%)                    |        |
| Adjusted capital adequacy ratio:         | 17.92% (end-2004)                              |        |

Asia Commercial Bank saw net profit increase strongly by 87.3% to HK\$104.9 million in 2004. Although competition in the Hong Kong banking industry was extremely fierce, with interest rates at below prime being the norm for consumer loans, low local interest rates helped to keep funding costs down, enabling the Bank to take advantage of a healthy interest rate spread. Net interest income also benefited from some balance sheet restructuring when some funds were moved into portfolio investment. The Bank also enjoyed some non-recurrent income from several areas, including a property revaluation and reorganization of its credit card business.

Loan growth was largely driven by the continued improvement in Hong Kong's economic conditions. The recovery in the property market boosted property development and investment loans. We continued to move away from the fiercely competitive mortgage market and expanded into other consumer lending, such as tax loans. Loans to small and medium enterprises, especially for the manufacturing sector and trade finance, increased.

Our efforts to strengthen commercial business showed good results. The relocation of some branches, contributed to a 7.7% fall in operating costs. The Bank's cost-to-income ratio fell from 65.5% in 2003 to 54.8%. Mainland business, treasury operations and fee-based income all made satisfactory contributions to the year's result.

The level of provisions, which rose 22.0% or HK\$4.7 million year-on-year, reflects our prudent approach to provisioning and is in line with the growing loan book.

Looking forward, the Hong Kong banking industry is likely to experience some tightening in the interest rates and therefore in margins. However, prospects for loan growth look good, and management hopes to concentrate on expanding its portfolio of higher-yield loans.

We expect to further develop our commercial clientele base by strengthening our marketing and providing customers with more tailor-made services. We also plan to expand our retail clientele base through improved sales of fee-based products. We also see continuing opportunities to serve our local clients with operations in the Mainland and to expand our Renminbi business.

## Insurance

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| Net profit attributable to shareholders: | HK\$114.6m | -7.5%  |
| Underwriting profit:                     | HK\$66.9m  | +3.0%  |
| Investment/dividend income:              | HK\$48.0m  | -29.9% |
| Interest and other income:               | HK\$39.9m  | +5.5%  |
| Premium turnover:                        | HK\$749.1m | +1.7%  |
| Operating expenses:                      | HK\$70.2m  | +4.8%  |

Asia Insurance saw continued growth in its core underwriting business in 2004, despite stiff price competition in several areas of business, notably employees' compensation insurance. Investment returns from both long-term strategic holdings and trading portfolios were satisfactory, considering the performance of the markets in 2004 vis-à-vis 2003. The company followed the same broad approach as Asia Financial Holdings in shifting away from fixed-income holdings towards blue chip equities.

While Asia Insurance's increase in underwriting profit was more modest than in recent years, the company's operations remained healthy. The company benefited from continued expansion of its distribution network and its established reputation among good-quality clients for service and dependability. Standard and Poor's has given the company an "A-" rating since 1995. Prudent provision of claims reserves including the 'Incurred But Not Reported Claims Reserve' has also enhanced clients' long-term confidence in Asia Insurance. Asia Insurance has continued to develop its leading position in Hong Kong on professional liability insurance. Income from the company's associates and joint ventures have increased substantially. Most start-up costs relating to these ventures have now been absorbed.

With the Hong Kong economy expected to perform well again this coming year, the outlook for Asia Insurance in 2005 and beyond looks positive. Exposure to claims arising from the tragic Indian Ocean tsunami on 26th December, 2004 is expected to be minimal. One challenge for us is the continuing pressure on pricing for much of our insurance products. However, management is cautiously optimistic that this pressure will be less severe than in 2004.