

Incorporated in Bermuda with limited liability (Stock Code: 662)

## **ANNOUNCEMENT OF 2006 INTERIM RESULTS**

The directors of Asia Financial Holdings Limited (the "Company") announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2006 as follows:

# UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months end	led 30th June	
	Notes	2006 HK\$'000	2005 <i>HK</i> \$'000 (Restated)	Change %
CONTINUING OPERATIONS				
TURNOVER	3	395,854	426,367	(7.2)
Other revenue Other net income/(expenses) Other operating expenses	<i>3 3</i>	84,935 55,354 (420,588)	59,376 (41,625) (399,623)	
Share of profits and losses of: Jointly-controlled entities Associates		6,804 2,602	1,666 769	
PROFIT BEFORE TAX	4	124,961	46,930	
Tax	5	(9,205)	(3,841)	
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		115,756	43,089	168.6
Profit for the period from a discontinued operation	6	2,677,299	37,406	7,057.4
PROFIT FOR THE PERIOD		2,793,055	80,495	
ATTRIBUTABLE TO: EQUITY HOLDERS OF THE COMPANY MINORITY INTERESTS		2,792,328 727	80,462	3,370.4 2,103.0
INTERIM DIVIDEND SPECIAL DIVIDEND	7 7	2,793,055 52,901 1,269,626 1,322,527	23,276 23,276 23,276	3,369.8
		Six months end	led 30th June	
EARNINGS PER SHARE ATTRIBUTABLE TO	Notes	2006 HK cents	2005 HK cents	Change %
ORDINARY EQUITY HOLDERS OF THE COMPANY	8			
Basic, for profit for the period		263.9	7.6	3,372.4
Basic, for profit from continuing operations		10.9	4.1	165.9
Diluted, for profit for the period		N/A	N/A	
Diluted, for profit from continuing operations		N/A	N/A	
INTERIM DIVIDEND PER SHARE SPECIAL DIVIDEND PER SHARE	7 7	5.0 120.0	2.2	127.3
		125.0	2.2	

# UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	2006	2005
	HK\$'000	HK\$'000
ASSETS		
Cash and short term funds	4,536,778	2,447,352
Placements with banks and other financial institutions		
maturing between one and twelve months	76,599	423,679
Trade bills	_	34,969
Insurance receivables	128,961	129,172
Reinsurance assets	386,679	411,889
Securities measured at fair value through profit or loss	1,197,036	1,093,686
Derivative receivables	_	47,855
Loans and advances and other assets	215,421	9,309,201
Available-for-sale securities	549,941	557,559
Held-to-maturity securities	319,935	3,904,257
Loan to a jointly-controlled entity	31,000	30,000
Interests in jointly-controlled entities	72,942	68,688
Interests in associates	70,603	71,279
Due from associates	_	876
Intangible assets	_	599
Property, plant and equipment	140,026	349,072
Investment properties	10,730	25,220
Total assets	7,736,651	18,905,353
LIABILITIES		
Deposits and balances of banks and other financial institutions	_	966,379
Deposits from customers	_	11,174,942
Certificates of deposit issued	_	1 423 451

30th June

31st December

Deposits from customers	<del>-</del>	11,1/4,94
Certificates of deposit issued	_	1,423,45
Other liabilities	79,676	347,17
Due to associates	265	
Tax payable	16,377	10,10
Derivative payables	_	54,52
Insurance payables	152,853	150,54
Insurance contract liabilities	1,080,115	1,061,44
Deferred tax liabilities	11,255	28,33
Total liabilities	1,340,541	15,216,90

# Equity attributable to equity holders of the Company

1,030,021	1,050,021
3,986,263	2,519,330
1,322,527	82,527
6,366,811	3,659,878
29,299	28,572
6,396,110	3,688,450
	1,322,527 6,366,811 29,299

Total equity and liabilities

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard No.34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted are consistent with those adopted in the Company's financial statements for the year ended 31st December 2005 except for the adoption of the new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs"), which are effective for periods beginning on or after 1st January 2006. Such adoption did not result in material changes to the Group's accounting policies.

#### 2. SEGMENT INFORMATION

# (a) Business segments

Insurance HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
11110 000	11110 000	11110 000	11110 000
	-	-	395,854
			84,935
3,306	868	(4,174)	
456,093	28,874	(4,178)	480,789
81,929	33,626	_	115,555
4,937	1,867	-	6,804
2,602	-	_	2,602
			124,961
(8,409)	(796)	_	(9,205
			115 55
			115,750 2,677,299
			2,793,055
Incurance	Corporate	Eliminations	Consolidated
			HK\$'000
			(Restated
(restated)	(restated)	(restated)	(Itestated
126 367			426,36
	7 538		59,37
		(3.201)	57,57
			485.74
		(3,201)	
40,679	3,816	_	44,49
	_	_	1,66
769	_	-	76
			46,93
(3,841)	_	_	(3,841
			43,089 37,400
	395,854 56,933 3,306 456,093 81,929	395,854	HKS'000

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

#### TURNOVER AND REVENUE

Turnover represents the aggregate of gross premiums net of discounts from direct and reinsurance business, underwritten from the Group's insurance business.

An analysis of the Group's turnover and revenue is as follows:		
	Six months en	ded 30th June
	2006 HK\$'000	2005 HK\$'000 (Restated)
Turnover:		
Gross premium written from insurance business	395,854	426,367
Reinsurance commission income	26,166	27,062
Interest income	34,678	17,508
Dividend income from:	4.5.00	
Listed investments	16,291	10,141
Unlisted investments	2,579	2,674
Others	5,221	1,991
Other revenue	84,935	59,376
	480,789	485,743
The other net income/(expenses) of the Group are analysed as follows:		

The other net income/(expenses) of the Group are analysed as follows:		
	Six months ended 30th June	
	2006 HK\$'000	2005 HK\$'000 (Restated)
Decrease/(increase) in unearned premiums	2,980	(39,326)
Increase in life and contingency reserves Gains on disposal of securities measured at fair value	(2,825)	(2,774)
through profit or loss, net Fair value gains/(losses) on securities measured at fair	34,797	10,250
value through profit or loss, net	24,186	(6,377)
Gains on disposal of available-for-sale securities	10	1,834
Impairment loss of available-for-sale securities	(3,539)	(7,054)
Gains/(losses) on disposal of held-to maturity securities	(255)	1,910
Losses on disposal of property, plant and equipment		(88)
	55,354	(41,625)

### PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):		
	Six months en	ded 30th June
	2006 HK\$'000	2005 HK\$'000
		(Restated)
Reinsurance premiums ceded	165,327	170,968
Commission expenses for insurance business	77,491	80,598
Net claims after deducting recoveries from reinsurers	124,873	108,982
Auditors' remuneration	831	568
Depreciation charges	2,604	2,003
Write-back of provision against a loan to		
a jointly-controlled entity	(1,000)	_
Written off of property, plant and equipment	159	_
Staff costs (including directors' remuneration)	30,427	25,961
Minimum lease payments under operating leases		
in respect of land and buildings	594	521
Impairment allowances on loans and advances and other assets	91	_
Release of impairment allowances on loans and advances		
and other assets		(190)

1.058.021

18,905,353

1 058 021

7,736,651

Hong Kong profits tax for the Group has been provided at the rate of 17.5% (2005: 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.

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
		(Restated)
rent tax charge for the period:		
long Kong	8,494	4,133
llsewhere	711	1,023
erprovision of current tax in prior periods	_	(1,315)
	9,205	3,841

#### DISCONTINUED OPERATION

On 14th February 2006, a share purchase agreement (the "Share Purchase Agreement") was entered into between the Company and Public Financial Holdings Limited ("PFH") (formerly "ICG Holdings Limited"), a company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited, and an independent third party to the Group, Pursuant to the Share Purchase Agreement, the Company disposed of and PFH acquired the entire 8,100,000 issued and fully paid ordinary shares of HKS100 each in the share capital of Asia Commercial Bank Limited ("ACB"), a then wholly-owned subsidiary of the Company, together with the subsidiaries of ACB (the "ACB Group") at a cash consideration of HKS4,499,550,000 (the "Preliminary Consideration"), subject to adjustment ("Consideration Adjustment") upon completion of the Share Purchase Agreement.

The Group completed the disposal of the ACB Group on 30th May 2006 and the Preliminary Consideration has been fully settled by PFH before the balance sheet date. The Consideration Adjustment, as determined and agreed by AFH and PFH in July 2006, was HK\$85,449,000. The Consideration Adjustment has been paid by PFH on 31st July 2006. Therefore, the aggregate consideration amounted to a total cash consideration of HK\$4,584,999,000 and a net gain on the disposal of the ACB Group of HK\$2,628,293,000 was

An analysis of the discontinued operation are presented below

An analysis of the discontinued operation are presented below:	Six months ended 30th June           2006         2005	
m.	HK\$'000	HK\$'000
Turnover Operating expenses	115,167 (55,498)	157,460 (112,733)
Profit before tax	59,669	44,727
Tax – current charge	(10,663)	(7,321)
Profit for the period from the discontinued operation	49,006	37,406
Gain on disposal of the discontinued operation	2,628,293	-
Net gain associated with the discontinued operation	2,677,299	37,406
The net cash flows attributable to the discontinued operation are as follows:		
		ided 30th June
	2006 HK\$'000	2005 HK\$'000
Cash inflow/(outflow) from	11110 000	11110 000
Operating	236,830	(636,373)
Investing	50,484	436
Financing	(31,995)	(38,070
Net cash inflow/(outflow)	255,319	(674,007
		2006 HK\$'000
Net assets disposed of:		
Cash and short-term funds Placements with banks and other financial institutions with		2,621,580
maturing between one and twelve months		360,472
Trade bills		35,022
Securities measured at fair value through profit or loss		25,739
Derivative receivables		56,401
Loans and advances and other assets		9,366,020
Available-for-sale securities Held-to-maturity securities		6,804 3,724,479
Interests in jointly-controlled entities		1,500
Intangible assets		551
Property, plant and equipment		256,799
Investment properties		15,000
Deposits and balances of banks and other financial institutions Deposits from customers		(771,262 (12,040,469
Certificates of deposit issued		(1,423,691
Other liabilities		(371,828
Tax payable		(6,519
Derivative payables		(50,254
Deferred tax liabilities		(16,824
Gain on disposal of the discontinued operation		1,789,520 2,628,293
Consideration		4,417,813
Satisfied by cash		4,417,813
An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the At	CB Group is as follows:	2006
		HK\$'000
Cash consideration received, net of expenses		4,417,813

Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary		1,730,306
Earnings per share from discontinued operation:		
	Six months ended 30th June	
	2006	2005
	HK cents	HK cents
Basic	253.0	3.5
Diluted	N/A	N/A

The calculation of basic earnings per share from discontinued operation is based on the gain associated with the discontinued opera HK\$2,677,299,000 (2005: HK\$37,406,000) and on 1,058,021,428 (2005: 1,058,021,428) ordinary shares in issue during the period Diluted earnings per share from discontinued operation for each of the six months ended 30th June 2006 and 2005 has not been calculated as no dilutive events existed during these periods.

### INTERIM AND SPECIAL DIVIDENDS

Cash and cash equivalents disposed of

	Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Interim dividend:		
HK5.0 cents (2005: HK2.2 cents) per ordinary share		
based on 1,058,021,428 (2005:1,058,021,428) shares in issue	52,901	23,276
Special dividend:		
HK\$1.2 (2005: Nil) per ordinary share based on 1,058,021,428 shares in issue	1,269,626	-
	1,322,527	23,276

The directors have resolved to pay an interim dividend of HK5.0 cents per share (2005: HK2.2 cents per share) and a special dividend (HK\$1.2 per share (2005: Nil), which will be paid in cash, for the six months ended 30th June 2006 payable on 19th October 2 shareholders whose names appear on the Register of Members of the Company as at the close of business on 13th October 2006.

### EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the period attributable to equity holders of the Company of HK\$2,792,328,000 (2005: HK\$80,462,000) and on 1,058,021,428 (2005: 1,058,021,428) ordinary shares in issue during the period.

The calculation of basic earnings per share from continuing operations is based on the profit for the period from the continuing operations attributable to equity holders of the Company of HK\$115,029,000 (2005: HK\$43,056,000) and on 1,058,021,428 (2005: 1,058,021,428) ordinary shares in issue during the period.

Diluted earnings per share for each of the six months ended 30th June 2006 and 2005 has not been calculated as no dilutive events existed during these periods.

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

Profit attributable to equity holders of the Company:	HK\$2,792.3m +	3,370.4%
Earnings per share:	HK263.9 cents +	3,372.4%
Interim dividend per share:	HK5.0 cents	+127.3%
Special dividend per share:	HK\$1.2	

Asia Financial Group in the first half of 2006 showed a very large rise in profit attributable to equity holders of the Company of 3,370.4% compared with the same period in 2005. This extraordinary increase was the result of the sale of Asia Commercial Bank, which was completed in May 2006. The Group's continuing activities in general insurance and securities investment performed well, showing a profit of HK\$115.8 million, a 168.6% increase compared with the corresponding performance in the first half of 2005. This largely reflected our successful investment strategy during a time of rising equity markets and continuing solid performance by our insurance operations. The outlook for the second half of the year is generally positive.

In view of the significant profit made from the sale of the banking business, the directors recommend payment of a special dividend of HK\$1.2 per share.

### Economic background

The Hong Kong economy continued to perform well in the first half of 2006, with real GDP expanding by an annualised rate of over 5%. Domestic demand proved to be the most important driver of growth during the period, helped by continued falls in the unemployment rate, increases in wages and low inflation. Business confidence was also strong, as reflected in capital investment. All of these indicators were positive for our clients and therefore our core business operations. The main uncertainty was over interest rates, which led to some stock market volatility in second quarter. Despite this, market gains on a year-on-year basis contributed to our portfolio trading profit.

Asia Financial Group's investment portfolio showed very satisfactory returns. Our previous strategy of increasing exposure to equities increased dividend income and trading gains; the Hang Seng Index rose 9% from 14,876 to 16,268 during the period. Net interest income also performed strongly, thanks especially to the deposit interest generated from the sale proceeds of Asia Commercial Bank. The outlook for the investment markets during the rest of 2006 seems generally good.

#### Management approach

Management continues to adhere to its longstanding policy of prudence in the pursuit of long-term growth in shareholder value and the seeking of new opportunities where we can expand quality business. The sale of Asia Commercial Bank during the first half of 2006 reflects these principles, and management will maintain the same prudent and long-term approach in deciding on how best to use the proceeds from the sale in due course.

#### **Future prospects**

Hong Kong's economy is on course to grow at a rate of above 5% for the year as a whole. Consumer and business confidence look likely to remain positive for the remainder of the year, leading to healthy levels of private consumption and investment, even if trade growth is relatively less impressive. Although local equity market may not make very substantial gains in the near term, there are few reasons to believe that there is much serious downside risk. The main uncertainties are external. In particular, we cannot rule out the possibilities in the United States of unexpectedly high inflation or rises in interest rates, or a correction in property prices, which would potentially have negative knock-on effects for China and Hong Kong. Overall, I expect to report continued good performance by both our core insurance business operations and our prudently managed investment portfolio for the year as a whole.

Following the sale of the banking business for HK\$4.58 billion, the Group is cash-rich. Our aim is to use some of the proceeds from the sale to invest in the expansion of our existing insurance interests, and additional capital has been injected into the wholly-owned subsidiary Asia Insurance Company Limited (HK\$1.2 billion) in July 2006. We will also actively explore possible new investments in insurance and health care – complementary areas in which we have relevant experience and which offer possible synergies and very attractive long-term growth prospects in this region. Given the scale of the possible opportunities that lie ahead, we are prepared to exercise due care in considering and selecting new

#### BUSINESS REVIEW AND PROSPECTS

#### Banking (Performance up to 30th April 2006)

Profit attributable to equity holders of the Company:	HK\$49.0 m
Total operating income:	HK\$115.2 m
Net interest income:	HK\$89.6 m
Other operating income:	HK\$25.6 m
Operating expenses:	HK\$52.0 m
Impairment losses and allowances:	HK\$3.5 m
Net interest margin:	1.73%

Asia Commercial Bank contributed to the group for the first four months of the year. Its net profit for that period increased Asia Commercia Bank controlled to the group for the first four months of the year. Is not profit for that period increased by 31% compared with the first half in 2005. This was due to rising net interest margins, increased fee income, notably from securities-related business, and a year-on-year fall in provisions for bad loans.

The sale of Asia Commercial Bank to Public Financial Holdings Limited was completed on 30th May 2006 and the sale consideration, HK\$4.49 billion, has been fully settled on that date. Besides a consideration adjustment of HK\$85.44 million, representing the first four months profit of 2006 and other changes in the net assets value of the Bank, has been determined and settled by Public Financial Holdings Limited on 3 lst July 2006. Therefore, the aggregate sale proceeds amounted to a cash consideration of HK\$4.58 billion and a net gain on the disposal of HK\$2.63 billion was recorded after deducting the retained profits of previous years and the direct expenses incurred in relation to the disposal.

#### Insurance

(2.687.507)

Profit attributable to equity holders of the Company:	HK\$80.4 m	+110.4%
Underwriting profit:	HK\$33.9 m	+1.7%
Investment and dividend income:	HK\$46.5 m	+1,285.5%
Interest and other income:	HK\$19.0 m	+5.6%
Premium turnover:	HK\$397.3 m	-7.1%
Operating expenses:	HK\$38.4 m	+18.3%

Asia Insurance produced a 2% rise in underwriting profit for the first six months of 2006, despite a 7% decline in turnover. This reflects management strategy of concentrating on quality business rather than pursuing market share in less profitable sectors like employees' compensation, where we tightened underwriting policy. Most of Asia Insurance's 110% rise in net profit for the period therefore arose from investment and dividend income. This reflected year-on-year realized and unrealized trading gains following an increase in exposure towards equities last year. Contribution from associated companies and joint ventures showed a healthy increase and were equivalent to nearly a tenth of the company's total net

The general insurance market in Hong Kong was steady during the period, with no major natural or other events causing significant surges of claims. Some additional operating costs were incurred during the period in connection with the establishment of a new business centre in the Western District of Hong Kong Island. The new premises, which opened in August, will contribute to the quality of customer service and accommodate future expansion of the business. An agency agreement with Shanghai Commercial Bank, one of the most prominent banks in Hong Kong, in August will further strengthen the company's distribution force.

Following a HK\$1.2 billion injection of capital into the company in July, Asia Insurance ranks near or at the top among Hong Kong-incorporated general insurers with substantial shareholders' funds. We are confident that the company is well-positioned to build on its past success in the years to come. In the nearer term, the outlook for the remainder of 2006 is expected to be broadly in line with its performance in the first half.

## **Employees and remuneration policy**

The total number of employees of the Group as at 30th June 2006 was 232 after the sale of Asia Commercial Bank (December 2005: 566). 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 all level of personnel. There was no share option scheme in operation during the six months ended 30th June 2006. 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 HK5.0 cents per ordinary share (2005: HK2.2 cents per ordinary share) and a special dividend of HK\$1.2 per ordinary share (2005: Nil) payable on 19th October 2006 to shareholders whose names appear on the Register of Members of the Company on 13th October 2006.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 12th October 2006 to 13th October 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend and the special 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 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:00 p.m. on 11th October 2006.

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

During the six months ended 30th June 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

# COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance and has fully complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30th June 2006.

## REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30th June 2006.

By Order of the Board ROBIN YAU HING CHAN Chairman

### Hong Kong, 27th September 2006

As at the date of this announcement, the Executive Directors of the Company are Mr. Robin Yau Hing Chan (Chairman), As at the date of this atmostrement, the Executive Directors of the Company are with Robin than (Chair Mann), The Hon. Bernard Charnwut Chan (President), Mr. Lau Ki Chit, Mr. Stephen Tan; the Non-Executive Directors are Tan Sri Frank Wen King Tsao (Ms. Chan Yeow Toh as his alternate director), Mr. Choedchu Sophonpanich, Mr. Ng Song Hin, Mr. Tan Eng Heng, Mr. Na Wu Beng, Mr. Daiji Goto, Dr. The Hon. Philip Yu Hong Wong, Mr. Takashi Muraoka (Mr. Kosuke Furukawa as his alternate director), Mr. Kenneth Chi Lam Siao, Dr. The Hon. Leo Tung Hai Lee and the Independent Non-Executive Directors are Mr. Andrew Chiu Cheung Ma, Ms. Anna Suk Han Chow and Dr. Ko Wing Man.

\* For identification nurnoses only