



ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

HIGHLIGHT

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

Profit attributable to equity holders of the Company:	HK\$3,092.4 m	+1,575.4%
Earnings per share:	HK292.5 cents	+1,581.0%
Final dividend per share:	HK11.0 cents	
Total dividend per share in 2006:	HK136.0 cents	

RESULTS

The Board of Directors of Asia Financial Holdings Limited (the "Company") announces the results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2006 as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31st December, 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
REVENUE	3	740,338	792,503
PROFIT FROM OPERATING ACTIVITIES			
Gross premiums	9(a)	737,839	744,390
Reinsurers' share of gross premiums	9(b)	(278,547)	(296,956)
Net insurance contract premiums revenue		459,292	447,434
Gross claims paid	10(a)	(273,833)	(247,351)
Reinsurers' share of gross claims paid	10(b)	78,397	49,349
Gross change in outstanding claims	10(c)	(32,058)	(94,092)
Reinsurers' share of gross change in outstanding claims	10(d)	(25,332)	35,706
Net claims incurred		(252,826)	(256,388)
Commission income		50,495	57,420
Commission expenses		(157,700)	(157,756)
Net commission expenses		(107,205)	(100,336)
Management expenses for underwriting business		(43,581)	(35,126)
Underwriting profit		55,680	55,584
Dividend income		32,960	25,304
Gain on investment activities		282,713	24,611
Interest income		113,701	35,708
Other revenue		12,657	4,270
Operating expenses		(85,053)	(43,260)
Share of profits and losses of jointly-controlled entities		31,556	4,489
Share of profits and losses of associates		4,861	3,969
PROFIT BEFORE TAX	4	449,075	110,675
TAX	5	(32,764)	(8,288)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		416,311	102,387
DISCONTINUED OPERATION			
Net gain associated with the discontinued operation	8	2,677,299	83,397
PROFIT FOR THE YEAR		3,093,610	185,784
Attributable to:			
Equity holders of the Company		3,092,434	184,583
Minority interests		1,176	1,201
		3,093,610	185,784
DIVIDENDS	6		
Interim		52,901	23,276
Special		1,269,626	–
Proposed final		115,801	82,527
		1,438,328	105,803
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic			
– For profit for the year		HK292.5 cents	HK17.4 cents
Basic			
– For profit from continuing operations		HK39.3 cents	HK9.6 cents
Diluted			
– For profit for the year		N/A	N/A
– For profit from continuing operations		N/A	N/A

CONSOLIDATED BALANCE SHEET

31st December, 2006

ASSETS

	2006 HK\$'000	2005 HK\$'000
Property, plant and equipment	192,651	349,072
Investment properties	3,450	25,220
Intangible assets	–	599
Interests in jointly-controlled entities	97,694	68,688
Loan to a jointly-controlled entity	31,000	30,000
Interests in associates	70,483	71,279
Due from associates	–	876
Held-to-maturity securities	370,638	3,904,257
Available-for-sale securities	749,898	557,559
Properties held for sale	14,457	–
Loans and advances and other assets	365,002	9,309,201
Securities measured at fair value through profit or loss	2,623,700	1,093,686
Derivative receivables	–	47,855
Insurance receivables	142,921	129,172
Reinsurance assets	371,238	411,889
Trade bills	–	34,969
Pledged deposits	32,793	29,006
Cash and cash equivalents	1,753,875	2,842,025
Total assets	6,819,800	18,905,353

EQUITY AND LIABILITIES

	2006 HK\$'000	2005 HK\$'000
Equity attributable to equity holders of the Company		
Issued capital	1,052,739	1,058,021
Reserves	4,247,086	2,519,330
Proposed final dividend	115,801	82,527
	5,415,626	3,659,878
Minority interests	29,748	28,572
Total equity	5,445,374	3,688,450
Liabilities		
Insurance contract liabilities	1,096,004	1,061,447
Insurance payables	135,688	150,546
Due to associates	265	–
Derivative payables	–	54,524
Other liabilities	92,710	347,179
Tax payable	38,473	10,101
Deferred tax liabilities	11,286	28,334
Certificates of deposit issued	–	1,423,451
Deposits from customers	–	11,174,942
Deposits and balances of banks and other financial institutions	–	966,379
Total liabilities	1,374,426	15,216,903
Total equity and liabilities	6,819,800	18,905,353

NOTES

1. BASIS OF PREPARATION AND IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the provisions of the Hong Kong Companies Ordinance applicable to insurance companies. They have been prepared under the historical cost convention, except for investment properties, derivative financial instruments, securities measured at fair value through profit or loss and available-for-sale securities, which have been measured at fair value and certain building, which were carried at 1990 valuation. Properties held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

• HKAS 21 Amendment	Net Investment in a Foreign Operation
• HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
• HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
• HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
• HKAS 39 Amendment	The Fair Value Option
• HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31st December, 2006 or 31st December, 2005.

(b) HKAS 27 Consolidated and Separate Financial Statements

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements.

(c) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has extended the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1st January, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue and profit for the Group's business segments.

Group	Continuing operations			Discontinued operation		Consolidated
	Insurance 2006 HK\$'000	Corporate 2006 HK\$'000	Eliminations 2006 HK\$'000	Total 2006 HK\$'000	Banking 2006 HK\$'000	
Segment revenue:						
External customers	740,338	–	–	740,338	115,167	855,505
Other revenue	236,013	206,018	–	442,031	–	442,031
Intersegment	2,511	872	(2,246)	1,137	(1,137)	–
Total	<u>978,862</u>	<u>206,890</u>	<u>(2,246)</u>	<u>1,183,506</u>	<u>114,030</u>	<u>1,297,536</u>
Segment results	<u>252,560</u>	<u>160,098</u>	<u>–</u>	<u>412,658</u>	<u>59,669</u>	<u>472,327</u>
Share of profits and losses of:						
Jointly-controlled entities	25,356	6,200	–	31,556	–	31,556
Associates	4,861	–	–	4,861	–	4,861
Profit before tax				449,075	59,669	508,744
Tax	(25,227)	(7,537)	–	(32,764)	(10,663)	(43,427)
Gain on disposal of the discontinued operation	–	–	–	–	2,628,293	2,628,293
Profit for the year				<u>416,311</u>	<u>2,677,299</u>	<u>3,093,610</u>

Group	Continuing operations			Discontinued operation		Consolidated
	Insurance 2005 HK\$'000	Corporate 2005 HK\$'000	Eliminations 2005 HK\$'000	Total 2005 HK\$'000	Banking 2005 HK\$'000	
Segment revenue:						
External customers	792,503	–	–	792,503	315,954	1,108,457
Other revenue	106,002	14,588	–	120,590	–	120,590
Intersegment	4,675	1,451	(5,167)	959	(959)	–
Total	<u>903,180</u>	<u>16,039</u>	<u>(5,167)</u>	<u>914,052</u>	<u>314,995</u>	<u>1,229,047</u>
Segment results	<u>87,466</u>	<u>14,751</u>	<u>–</u>	<u>102,217</u>	<u>101,237</u>	<u>203,454</u>
Share of profits and losses of:						
Jointly-controlled entities	4,489	–	–	4,489	1,900	6,389
Associates	3,969	–	–	3,969	–	3,969
Profit before tax				110,675	103,137	213,812
Tax	(8,288)	–	–	(8,288)	(19,740)	(28,028)
Gain on disposal of the discontinued operation	–	–	–	–	–	–
Profit for the year				<u>102,387</u>	<u>83,397</u>	<u>185,784</u>

(b) Geographical segments

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

3. REVENUE

Revenue, which is also the Group's turnover, represents gross premiums net of discounts, from the direct and reinsurance businesses underwritten during the year.

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Group	
	2006 HK\$'000	2005 HK\$'000
Depreciation	13,179	21,276
Employee benefits expense (including directors' remuneration):		
Wages and salaries	164,635	137,586
Pension scheme contributions	3,400	6,094
Less: Forfeited contributions	(79)	(207)
Net pension scheme contributions	<u>3,321</u>	<u>5,887</u>
Total employee benefits expense	<u>167,956</u>	<u>143,473</u>
Minimum lease payments under operating leases in respect of land and buildings	4,006	5,891
Gain on disposal of securities measured at fair value through profit or loss, net	(105,341)	(22,361)
Fair value gains on securities measured at fair value through profit or loss, net	(191,587)	(8,722)
Gain on disposal of available-for-sale securities	(96)	(1,843)
Loss/(gain) on disposal or retirement of held-to-maturity securities	266	(1,883)
Impairment loss of available-for-sale securities	7,693	10,198
Impairment allowances on loans and advances and other assets	91	58,112
Release of impairment allowances on trade bills	–	(431)
Loss on disposal of property, plant and equipment	991	–
Impairment loss of property, plant and equipment	413	–
Write-off of property, plant and equipment	–	20
Amortisation of intangible assets	19	56
Impairment loss of intangible assets	29	88
Changes in fair value of investment properties	(1,620)	(5,924)
Write-back of an impairment allowance against a loan to a jointly-controlled entity	(1,000)	(3,500)
Dividend income from:		
Listed investments	(28,993)	(20,607)
Unlisted investments	(3,967)	(4,697)
	<u>(32,960)</u>	<u>(25,304)</u>
Interest income, excluding that related to banking business	<u>(113,701)</u>	<u>(34,749)</u>

The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operation.

5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006 HK\$'000	2005 HK\$'000 (Restated)
Group:		
Current – Hong Kong		
Charge for the year	30,837	7,716
Overprovision in prior years	–	(430)
– Elsewhere	1,497	1,019
Deferred charge/(credit)	<u>430</u>	<u>(17)</u>
Total tax charge for the year	<u>32,764</u>	<u>8,288</u>

6. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim – HK5.0 cents (2005: HK2.2 cents) per ordinary share	52,901	23,276
Special – HK\$1.2 (2005: Nil) per ordinary share	1,269,626	–
Proposed final – HK11.0 cents (2005: HK7.8 cents) per ordinary share	115,801	82,527
	<u>1,438,328</u>	<u>105,803</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Accordingly, the proposed final dividend has been included in the proposed final dividend reserve account within the equity attributable to the equity holders of the Company of the balance sheet.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$3,092,434,000 (2005: HK\$184,583,000) and the weighted average number of 1,057,128,146 ordinary shares in issue during the year (2005: 1,058,021,428 ordinary shares).

8. 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 "JCG Holdings Limited"), a company incorporated in Bermuda and listed on the Stock Exchange, 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 HK\$100 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 HK\$4,499,550,000 (the "Preliminary Consideration"), subject to adjustment (the "Consideration Adjustment") upon completion of the Share Purchase Agreement.

The Consideration Adjustment, as determined and agreed by the Company and PFH in July 2006, was HK\$85,449,000.

The results in respect of the ACB Group for the year are presented below:

	2006 HK\$'000	2005 HK\$'000
Interest income	258,799	614,912
Interest expense	(169,207)	(370,967)
Net fee and commission income from the banking business	13,876	42,744
Gains less losses arising from dealing in foreign currencies from the banking business	4,184	11,365
Other operating revenue	7,515	16,000
Share of profits and losses of jointly-controlled entities	–	1,900
	<u>115,167</u>	<u>315,954</u>
Expenses	(55,498)	(212,817)
Profit before tax from the discontinued operation	59,669	103,137
Tax – current charge	(10,663)	(19,740)
Profit for the year from the discontinued operation	<u>49,006</u>	<u>83,397</u>
Gain on disposal of the discontinued operation	<u>2,628,293</u>	<u>–</u>
Net gain associated with the discontinued operation	<u>2,677,299</u>	<u>83,397</u>

The net cash flows incurred by the ACB Group are as follows:

	2006 HK\$'000	2005 HK\$'000
Operating activities	236,830	763,512
Investing activities	50,484	(2,887)
Net cash inflow/(outflow)	<u>287,314</u>	<u>760,625</u>

Earnings per share from the discontinued operation:

	2006 HK cents	2005 HK cents
Basic	<u>253.0</u>	<u>7.9</u>
Diluted	<u>N/A</u>	<u>N/A</u>

The calculation of basic earnings per share from the discontinued operation is based on the net gain associated with the discontinued operation of HK\$2,677,299,000 (2005: HK\$83,397,000) and on 1,058,021,428 ordinary shares in issue during the period up to the date of disposal of the ACB Group (year ended 31st December, 2005: 1,058,021,428).

Diluted earnings per share amounts from the discontinued operation for each of the years ended 2006 and 2005 have not been calculated as no dilutive events existed during these two years.

9. NET PREMIUMS

	2006 HK\$'000	2005 HK\$'000
(a) Gross premiums on insurance contracts		
Gross general insurance premiums:		
Direct underwriting	595,459	644,802
Reinsurance accepted	142,629	145,452
Total general insurance premiums	<u>738,088</u>	<u>790,254</u>
Gross life insurance premiums	2,250	2,249
Change in unearned premiums	1,352	(42,673)
Change in contingency reserve	(2,243)	(4,567)
Change in life reserve	(1,608)	(873)
Total gross premiums	<u>737,839</u>	<u>744,390</u>
(b) Reinsurers' share of gross premiums on insurance contracts		
Gross general insurance premiums:		
Direct underwriting	(236,725)	(261,517)
Reinsurance accepted	(25,848)	(37,942)
	<u>(262,573)</u>	<u>(299,459)</u>
Gross life insurance premiums	(655)	(744)
Change in unearned premiums	(14,990)	1,192
Change in contingency reserve	(329)	2,055
Total reinsurers' share of gross premiums	<u>(278,547)</u>	<u>(296,956)</u>

10. NET CLAIMS INCURRED

	2006 HK\$'000	2005 HK\$'000
(a) Gross claims paid		
Life insurance contract claims paid	(705)	(806)
General insurance contract claims paid	(273,128)	(246,545)
Total gross claims paid	<u>(273,833)</u>	<u>(247,351)</u>
(b) Reinsurers' share of gross claims paid		
Life insurance contract claims paid	-	-
General insurance contract claims paid	78,397	49,349
Total reinsurers' share of gross claims paid	<u>78,397</u>	<u>49,349</u>
(c) Gross change in outstanding claims		
Change in life insurance outstanding claims	195	(290)
Change in general insurance outstanding claims	(32,253)	(93,802)
Total gross change in outstanding claims	<u>(32,058)</u>	<u>(94,092)</u>
(d) Reinsurers' share of gross change in outstanding claims		
Life insurance outstanding claims	-	-
General insurance outstanding claims	(25,332)	35,706
Total reinsurers' share of gross change in outstanding claims	<u>(25,332)</u>	<u>35,706</u>

11. DISPOSAL OF SUBSIDIARIES

	2006 HK\$'000	2005 HK\$'000
Net assets disposed of:		
Property, plant and equipment	256,799	-
Investment properties	15,000	-
Intangible assets	551	-
Interest in a jointly-controlled entity	1,500	-
Held-to-maturity securities	3,724,479	-
Available-for-sale securities	6,804	-
Loans and advances and other assets	9,366,020	-
Securities measured at fair value through profit or loss	25,739	-
Derivative receivables	56,401	-
Trade bills	35,022	-
Placements with banks and other financial institutions maturing between one and twelve months*	360,472	-
Cash and cash equivalents*	2,621,580	-
Derivative payables	(50,254)	-
Other liabilities	(371,828)	-
Tax payable	(6,519)	-
Deferred tax liabilities	(16,824)	-
Certificates of deposit issued	(1,423,691)	-
Deposits from customers	(12,040,469)	-
Deposits and balances of banks and other financial institutions	(771,262)	-
	<u>1,789,520</u>	<u>-</u>
Gain on disposal of subsidiaries	2,628,293	-
Consideration	<u>4,417,813</u>	<u>-</u>
Satisfied by cash	<u>4,417,813</u>	<u>-</u>

* Included in the above balances represented placements with banks and other financial institutions and cash and cash equivalents of HK\$215,452,000 and HK\$79,093,000, respectively, with original maturity of more than three months.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the ACB Group is as follows:

	2006 HK\$'000
Cash consideration received, net of expenses	4,417,813
Cash and cash equivalents disposed of	<u>(2,687,507)</u>
Net inflow of cash and cash equivalents in respect of the disposal of the ACB Group	<u>1,730,306</u>

12. COMPARATIVE AMOUNTS

Following the disposal of the Group's banking business during the year, the principal businesses of the Group now mainly comprise of insurance underwriting and investment trading and holding, and the presentation of the financial statements have been revised accordingly.

FINAL DIVIDEND

The Directors propose to recommend at the forthcoming annual general meeting to be held on 28th May, 2007, the payment of a final dividend of HK11.0 cents (2005: HK7.8 cents) per share which, together with the interim dividend of HK5.0 cents (2005: HK2.2 cents) per share and the special dividend of HK\$1.2 (2005: Nil) per share, will make a total dividend of HK\$1.36 (2005: HK10.0 cents) per share for the year ended 31st December, 2006. The proposed final dividend will be paid in cash to those shareholders whose names are on the Register of Members of the Company on 28th May, 2007 and the dividend warrants will be despatched to shareholders on or about 14th June, 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 22nd May, 2007 to 28th May, 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 21st May, 2007.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31st December, 2006, the Company repurchased 5,282,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") through its wholly-owned subsidiary, Asia Investment Services (HK) Limited, at an aggregate consideration, including transaction costs, of HK\$16,379,424.97. All the repurchased shares were subsequently cancelled. The nominal value of the cancelled shares of HK\$5,282,000.00 was credited to capital redemption reserve and the aggregate consideration was paid out from the Company's retained profits. Details of the repurchases are as follows:-

Month of repurchase	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration paid (including transaction costs)
				HK\$
October 2006	2,420,000	3.10	2.96	7,469,112.24
November 2006	2,862,000	3.12	2.98	8,910,312.73
	<u>5,282,000</u>			<u>16,379,424.97</u>

The purchases were made for the benefit of the shareholders with a view to enhancing the earnings per share of the Company. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Review

Despite earlier fears of a sharp decline in the US Dollar and rising protectionism, the global economy proved resilient in 2006, even in the face of rising oil prices and interest rates. Global growth became less dependent on the US economy as other economies strengthened. In Europe and Japan, past restructuring began to yield benefits, while emerging economies, notably China and India, continued their impressive expansion and their growing global significance as economic engines. This very positive environment fed into regional and international equities markets.

The Chinese economy grew by 10.5% during the year – the fastest pace in a decade – especially because of continued strong export performance and construction and investment. To give an example of how this affects the country as a market, per capita disposable income among residents in both urban and rural areas increased during 2006 at double-digit rates. The current growth rate is considered to be at the top end, and policymakers have taken action to cool the economy down somewhat.

Hong Kong enjoyed its third consecutive year of strong growth, with GDP increasing by a very impressive 6.5%. Much of Hong Kong's strength was due to domestic demand as confidence continued to grow among consumers and investors. Unemployment declined to a six-year low of 4.4%, further encouraging consumption. At the same time, Hong Kong remained a generally low-inflation environment, with consumer prices rising by a relatively modest 2%. It is useful to put Hong Kong's recent trends into perspective. Average annual growth for the last three years has been 7.6%. The combination of positive external and internal factors fed into the local markets, which in turn encouraged particular growth in the financial services sector and the consolidation of Hong Kong as an international centre.

Results Announcement

Including the exceptional earnings arising from the gain on disposal of Asia Commercial Bank ("ACB") in the first half of the year, Asia Financial Group's profit attributable to equity holders of the Company for 2006 was HK\$3,092.4 million, 1,575.4% above that of 2005. The sale of ACB naturally has a very significant impact on the Group's bottom line, accounting for HK\$2,628.3 million, or 85.0% of the total net profit. Although outweighed by this exceptional item, the Group's continuing investments and insurance operations performed very well, with their profit attributable to equity holders of the Company of HK\$415.1 million representing a 310.3% rise on 2005.

Good Investment Returns, and a Steady Operating Environment

Apart from exceptional earnings, the driver for both Asia Financial Holdings' ("Holding Company") and Asia Insurance's ("AI") profit growth last year was the strong performance of the stock markets in which we invested, particularly Hong Kong and the United States. The Hang Seng Index climbed 34.2%, while the Dow rose 16.3%.

Our corporate investment recorded a net profit rise 1,060.9% in 2006 to HK\$154.7 million. The majority of this increase was due to both the realized and unrealized year-on-year gains in the value of our investments, which were mainly in blue chip stocks on the Hong Kong and New York markets. This reflects the overall strength of the markets last year and our generally prudent but decisive approach to picking investments. A significant minority of the increase came from interest income from the funds arising from the proceeds from the sale of Asia Commercial Bank in the first half of the year. Much of the rise in operating expenses was related to the sale, including fees and the transfer of some bank personnel to AFH.

On the operational level, Asia Insurance maintained its stable performance and its reputation and status as one of the leaders in the Hong Kong general insurance market. Its 196.4% rise in net profit to HK\$260.4 million was mainly due to gains in blue chip investments, along with the interest income generated after an injection of additional capital into the company from the proceeds of the sale of ACB. The relatively minor year-on-year changes in turnover and underwriting profit reflect management's decision to limit exposure to extremely competitive parts of the Hong Kong general insurance market during the year. The company ended the year with strong levels of reserves and provisions. More details of the performance and prospects of Asia Insurance appear in the management discussion and analysis.

Asia Commercial Bank contributed to the group for the first four months of the year up to the completion of its sale. Its net profit for that period was HK\$49.0 million.

Staff

The Group had a total of 239 employees at the end of 2006, a decrease of 58% compared with the end of 2005. 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.

Management Strategy During the Year

The positive results of our investment and underwriting activities during the year reflect our longstanding management strategy to preserve shareholder value during bad times and capture additional value during good times, through a consistently prudent approach to risk. Examples of this approach in 2006 include the overweighting of investments in blue chips and the minimization of exposure to certain insurance market segments. These basic principles also guided management thinking on the subject of ACB. Management decided during 2005 that the time was right to renew the Group's strategic direction by reallocating resources into activities where it has its greatest strengths and prospects for growth. Following the sale of the bank for HK\$4.58 billion, part of the proceeds were injected as additional capital into insurance activities, part was placed in the Holding Company's direct investment projects and trading portfolio, while the remainder was declared as special dividends and put on deposit to await future investment opportunities.

Outlook and Strategy for the Future

The outlook for the Group in 2007 is generally good. The only possible clouds on the horizon in the year ahead are a serious slowdown in the US economy and volatility in the markets. Either of these possibilities would have at least some effect on the Group, and we will manage our investment portfolios with due caution.

Following the sale of ACB, we will use some of the proceeds to invest in the expansion of our existing insurance interests, and additional capital has been injected into Asia Insurance in Hong Kong (HK\$1.2 billion). We are also exploring 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 patience in considering and selecting new investments. Our intention is to use this money to put the Group on the path to higher long-term returns.

Insurance

Profit attributable to equity holders of the Company:	HK\$260.4m	+196.4%
Underwriting profit:	HK\$55.9m	+2.1%
Investment and dividend income:	HK\$184.0m	+507.7%
Interest and other income:	HK\$54.9m	+58.4%
Premium turnover:	HK742.0m	-6.6%
Operating expenses:	HK\$82.6m	+24.0%

Asia Insurance enjoyed another good year, with net profit rising by 196.4% to HK\$260.4 million. AI particularly benefited from significant unrealized year-on-year gains in the value of its blue-chip investments in the Hong Kong and New York stock markets. It also experienced a significant increase in interest income following the injection of new capital from the proceeds of the sale of ACB.

Insurance operations' performance was satisfactory. Turnover declined by 6.6% as part of a management decision to minimize exposure to market segments, notably employees' compensation, in which cutthroat pricing continued if not worsens. This prudent approach enabled AI to increase underwriting profit by 2.1%. AI also enjoyed an increase in income from associated companies' and JVs' profits as investments such as Hong Kong Life Insurance Limited performed well.

The 24.0% increase in operating expenses is partly related to staff incentives and partly to costs involved in the consolidation of AI's branch network and the establishment of new premises. The new premises deliver greater administrative efficiency and are more economic.

The injection of capital raises AI's tolerance of risk and its solvency margin and enables it to increase its retention limit. As well as offering the company the opportunity to increase its profits by way of co-insurance, it also enables it to participate in a wider range of large-scale business. AI also plans to expand its reinsurance business, especially in Japan and Southeast Asia. Using such routes, management expects to keep AI growing, even though it is already one of the top general insurers in a crowded and mature domestic market. We also expect AI to build on its reputation for strength and service. In recognition of AI's very high capitalization and liquidity, Standard & Poor's now rates the company 'A-' with 'positive' outlook, and we are confident that this will help us continue to attract and retain the loyalty of our high-quality client base.

Financial Resources

The Group's liquidity and financial resources remained in a healthy state during the year. There were no significant developments affecting either the financial resources or the capital structure of the Group.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. Throughout the year ended 31st December, 2006, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31st December, 2006.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed 2006 results announcement of the Company containing all the information required by the Listing Rules will be published on the Stock Exchange's website (www.hkex.com.hk) in due course.

DIRECTORS

As at the date hereof, the executive directors of the Company are Mr. Robin Y.H. Chan (Chairman), The Hon. Bernard Charnwut Chan (President), Mr. Lau Ki Chit, Mr. Stephen Tan; the non-executive directors are Tan Sri Frank W.K. Tsao (Ms. Chan Yeow Toh as his alternate director), Mr. Choedchu Soponpanich, Mr. Ng Song Hin, Mr. Tan Eng Heng, Mr. Na Wu Beng, Mr. Daiji Goto, Dr. The Hon. Philip Y.H. Wong, Dr. The Hon. Leo Tung Hai Lee, Mr. Kenneth Chi Lam Siao and the independent non-executive directors are Mr. Andrew Chiu Cheung Ma, Ms. Anna Suk Han Chow and Dr. Ko Wing Man.

By Order of the Board
ROBIN Y.H. CHAN
Chairman

Hong Kong, 27th March, 2007