



亞洲金融集團（控股）有限公司
ASIA FINANCIAL HOLDINGS LTD.
Incorporated in Bermuda with limited liability

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

DIRECTORS

Robin Yau Hing CHAN (*Executive Director & Chairman*)
The Hon. Bernard Charnwut CHAN (*Executive Director & President*)
Stephen TAN (*Executive Director*)
Kok Ho WONG (*Executive Director*)
Ki Chit LAU
Dr. The Hon. Leo Tung Hai LEE
Song Hin NG
Dr. The Hon. Philip Yu Hong WONG
Choedchu SOPHONPANICH
Kenneth Chi Lam SIAO
George Lap Wah LEE
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The board of directors (the “Board”) of Asia Financial Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2007 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2007

	Notes	Six months ended 30th June, 2007 HK\$'000	2006 HK\$'000 (Restated)
REVENUE	3	412,821	395,854
PROFIT FROM OPERATING ACTIVITIES			
Gross premiums		412,821	395,854
Reinsurers' share of gross premiums		(145,428)	(165,327)
Change in unearned premiums reserve		(23,118)	1,703
Change in life fund		(822)	(1,548)
Net insurance contract premiums revenue		243,453	230,682
Gross claims paid		(162,313)	(118,629)
Reinsurers' share of gross claims paid		52,839	24,641
Gross change in outstanding claims		(13,254)	(50,917)
Reinsurers' share of gross change in outstanding claims		(1,310)	20,032
Net claims incurred		(124,038)	(124,873)
Commission income		23,541	26,166
Commission expenses		(90,984)	(77,491)
Net commission expenses		(67,443)	(51,325)
Management expenses for underwriting business		(18,402)	(20,611)
Underwriting profit		33,570	33,873
Dividend income		23,659	18,870
Gain on investment activities		234,758	55,199
Interest income		53,689	34,678
Other revenue		17,650	5,221
Operating expenses		363,326	147,841
		(38,164)	(32,286)
		325,162	115,555



	Notes	Six months ended 30th June,	
		2007	2006
		HK\$'000	HK\$'000 (Restated)
Share of profits and losses of jointly-controlled entities		23,323	6,804
Share of profits and losses of associates		3,344	2,602
PROFIT BEFORE TAX	4	351,829	124,961
TAX	5	(22,265)	(9,205)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		329,564	115,756
DISCONTINUED OPERATION			
Net gain associated with the discontinued operation	6	–	2,677,299
PROFIT FOR THE PERIOD		329,564	2,793,055
Attributable to:			
Equity holders of the Company		328,676	2,792,328
Minority interests		888	727
		329,564	2,793,055
DIVIDENDS	7		
Interim		98,958	52,901
Special		–	1,269,626
		98,958	1,322,527
DIVIDEND PER SHARE	7		
Interim		HK9.4 cents	HK5.0 cents
Special		–	HK120.0 cents
		HK9.4 cents	HK125.0 cents
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic			
– For profit for the period		HK31.2 cents	HK263.9 cents
Basic			
– For profit from continuing operations		HK31.2 cents	HK10.9 cents
Diluted			
– For profit for the period		N/A	N/A
– For profit from continuing operations		N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

30th June, 2007

	Notes	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
ASSETS			
Property, plant and equipment		191,310	192,651
Investment properties		3,450	3,450
Interests in jointly-controlled entities		284,264	97,694
Loan to a jointly-controlled entity		31,000	31,000
Interests in associates		71,760	70,483
Due from associates		10,762	–
Held-to-maturity securities	9	296,340	370,638
Available-for-sale securities	10	930,705	749,898
Properties held for sale		–	14,457
Loans and advances and other assets	11	226,313	365,002
Securities measured at fair value through profit or loss	12	2,972,354	2,623,700
Insurance receivables	13	116,218	142,921
Reinsurance assets		355,140	371,238
Pledged deposits	14	34,831	32,793
Cash and cash equivalents	14	1,714,258	1,753,875
Total assets		<u>7,238,705</u>	<u>6,819,800</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital		1,052,739	1,052,739
Reserves		4,557,698	4,247,086
Proposed dividend		98,958	115,801
		<u>5,709,395</u>	<u>5,415,626</u>
Minority interests		30,636	29,748
Total equity		<u>5,740,031</u>	<u>5,445,374</u>
LIABILITIES			
Insurance contract liabilities		1,126,246	1,096,004
Insurance payables		132,029	135,688
Due to associates		265	265
Other liabilities		170,023	92,710
Tax payable		58,825	38,473
Deferred tax liabilities		11,286	11,286
Total liabilities		<u>1,498,674</u>	<u>1,374,426</u>
Total equity and liabilities		<u>7,238,705</u>	<u>6,819,800</u>



UNAUDITED CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2007

	2007 HK\$'000	2006 HK\$'000
Total equity at 1st January,	5,445,374	3,688,450
Changes in fair value of available-for-sale securities	81,288	(3,127)
Share of changes in the available-for-sale securities reserve of an associate	(42)	–
Exchange realignment	(352)	259
Total income and expense recognised directly in equity	80,894	(2,868)
Profit for the period attributable to:		
Equity holders of the Company	328,676	2,792,328
Minority interests	888	727
Dividends:		
Final 2005 declared	–	(82,527)
Final 2006 declared	(115,801)	–
Total equity at 30th June,	<u>5,740,031</u>	<u>6,396,110</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2007

	Six months ended 30th June,	
	2007	2006
	HK\$'000	HK\$'000
Net cash inflow from operating activities	283,016	362,779
Net cash inflow/(outflow) from investing activities	(208,136)	1,622,416
Net cash outflow from financing activities	(115,801)	(82,527)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(40,921)	1,902,668
Cash and cash equivalents at beginning of period	1,732,687	2,657,774
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,691,766	4,560,442
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	298,110	125,841
Time deposits with original maturity of less than three months when acquired	1,406,267	4,450,610
Less: Pledged deposits (included in cash and bank balances and time deposits with maturity of less than three months when acquired)	(12,611)	(16,009)
	1,691,766	4,560,442



NOTES

1. ACCOUNTING POLICIES

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, 2006 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 1st January, 2007 and as disclosed below.

HKAS 1 Amendment Capital Disclosures:

The revised HKAS 1 will affect the disclosures of qualitative information about the Group’s objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 Financial Instruments: Disclosures

The HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates major disclosure requirements of HKAS 32.

Such adoption did not result in material changes to the Group’s accounting policies.

2. SEGMENT INFORMATION

(a) Business segments

The following tables present revenue and results for the Group’s business segments.

Group	Continuing operations			Discontinued operation		Consolidated
	Insurance HK\$’000	Corporate HK\$’000	Eliminations HK\$’000	Total HK\$’000	Banking HK\$’000	
For the six months ended 30th June, 2007						
Segment revenue:						
External customers	412,821	-	-	412,821	-	412,821
Other revenue	191,304	138,452	-	329,756	-	329,756
Intersegment	2,280	-	(2,280)	-	-	-
Total	606,405	138,452	(2,280)	742,577	-	742,577
Segment results	206,884	118,278	-	325,162	-	325,162
Share of profits and losses of:						
Jointly-controlled entities	18,045	5,278	-	23,323	-	23,323
Associates	3,296	48	-	3,344	-	3,344
Profit before tax				351,829	-	351,829
Tax	(11,592)	(10,673)	-	(22,265)	-	(22,265)
Gain on disposal of the discontinued operation	-	-	-	-	-	-
Profit for the period				329,564	-	329,564

NOTES (continued)

2. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Continuing operations			Total HK\$'000	Discontinued operation Banking HK\$'000	Consolidated HK\$'000
	Insurance HK\$'000	Corporate HK\$'000	Eliminations HK\$'000			
For the six months ended 30th June, 2006						
Segment revenue:						
External customers	395,854	–	–	395,854	115,167	511,021
Other revenue	64,050	49,918	–	113,968	–	113,968
Intersegment	1,832	872	(1,567)	1,137	(1,137)	–
Total	<u>461,736</u>	<u>50,790</u>	<u>(1,567)</u>	<u>510,959</u>	<u>114,030</u>	<u>624,989</u>
Segment results	<u>79,429</u>	<u>36,126</u>	<u>–</u>	115,555	59,669	175,224
Share of profits and losses of:						
Jointly-controlled entities	4,937	1,867	–	6,804	–	6,804
Associates	2,602	–	–	2,602	–	2,602
Profit before tax				124,961	59,669	184,630
Tax	(8,409)	(796)	–	(9,205)	(10,663)	(19,868)
Gain on disposal of the discontinued operation	–	–	–	–	2,628,293	2,628,293
Profit for the period				<u>115,756</u>	<u>2,677,299</u>	<u>2,793,055</u>

(b) Geographical segments

Over 90% of the Group's revenue and results 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 direct and reinsurance business underwritten during the period.

NOTES (continued)

4. PROFIT BEFORE TAX

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

	Six months ended 30th June,	
	2007	2006
	HK\$'000	HK\$'000
Auditors' remuneration	1,016	831
Depreciation	5,229	2,604
Employee benefits expense (including directors' remuneration):	35,673	30,427
Minimum lease payments under operating leases in respect of land and buildings	1,201	594
Gain on disposal of securities measured at fair value through profit or loss, net	(83,793)	(34,797)
Fair value gains on securities measured at fair value through profit or loss, net	(153,266)	(24,186)
Gain on disposal of available-for-sale securities	(12)	(10)
Loss on disposal or retirement of held-to-maturity securities	622	255
Impairment loss of available-for-sale securities	196	3,539
Impairment allowances on loans and advances and other assets	–	91
Write-off of property, plant and equipment	–	159
Gain on sale of properties held for sale	(4,828)	–
Write-back of an impairment allowance against a loan to a jointly-controlled entity	–	(1,000)
Dividend income from:		
Listed investments	(20,859)	(16,291)
Unlisted investments	(2,800)	(2,579)
Interest income	(53,689)	(34,678)

5. TAX

Hong Kong profits tax for the Group has been provided at the rate of 17.5% (2006: 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,	
	2007	2006
	HK\$'000	HK\$'000
Current tax charge for the period:		
Hong Kong	22,484	8,494
Elsewhere	596	711
Overprovision of current tax in prior periods	(815)	–
	22,265	9,205

NOTES (continued)

6. DISCONTINUED OPERATION

There was no discontinued operation for the six months ended 30th June, 2007. The details of the discontinued operation for the six months ended 30th June, 2006 are presented below.

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 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 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 (“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 prior period were presented below:

	Six months ended 30th June, 2006 HK\$'000
Interest income	258,799
Interest expense	(169,207)
Net fee and commission income from the banking business	13,876
Gains less losses arising from dealing in foreign currencies from the banking business	4,184
Other operating revenue	7,515
	<hr/>
	115,167
Expenses	(55,498)
	<hr/>
Profit before tax from the discontinued operation	59,669
Tax – current charge	(10,663)
	<hr/>
Profit for the period from the discontinued operation	49,006
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Gain on disposal of the discontinued operation	2,628,293
	<hr/>
Net gain associated with the discontinued operation	<u>2,677,299</u>



NOTES (continued)

6. DISCONTINUED OPERATION (continued)

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

	Six months ended 30th June, 2006 HK\$'000
Operating activities	236,830
Investing activities	50,484
Net cash inflow	<u>287,314</u>

Earnings per share from the discontinued operation:

	Six months ended 30th June, 2006 HK cents
Basic	<u>253.0</u>
Diluted	<u>N/A</u>

The calculation of basic earnings per share from the discontinued operation for the six months ended 2006 was based on the net gain associated with the discontinued operation of HK\$2,677,299,000 and on 1,058,021,428 ordinary shares in issue during the period up to the date of disposal of the ACB Group.

Diluted earnings per share amounts from the discontinued operation for the six months ended 30th June, 2006 had not been calculated as no dilutive events existed during the period.

7. DIVIDENDS

	Six months ended 30th June,	
	2007	2006
	HK\$'000	HK\$'000
Interim dividend:		
HK9.4 cents (2006: HK5.0 cents) per ordinary share based on 1,052,739,428 (2006: 1,058,021,428) shares in issue	98,958	52,901
Special dividend:		
Nil (2006: HK\$1.2 per ordinary share based on 1,058,021,428 shares in issue)	<u>–</u>	<u>1,269,626</u>
	<u>98,958</u>	<u>1,322,527</u>

The Board has resolved to pay an interim dividend of HK9.4 cents per share (2006: HK5.0 cents) and a special dividend of nil per share (2006: HK\$1.2), which will be paid in cash, for the six months ended 30th June, 2007 payable on 25th October, 2007 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 18th October, 2007.

NOTES (continued)

8. 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 ordinary equity holders of the Company of HK\$328,676,000 (2006: HK\$2,792,328,000) and on 1,052,739,428 (2006: 1,058,021,428) ordinary shares in issue during the period.

9. HELD-TO-MATURITY SECURITIES

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Listed debt securities in Hong Kong, at amortised cost	22,482	10,672
Listed debt securities outside Hong Kong, at amortised cost	164,876	192,941
Unlisted debt securities, at amortised cost	108,982	167,025
Total held-to-maturity securities	<u>296,340</u>	<u>370,638</u>
Market value of listed held-to-maturity securities	<u>145,600</u>	<u>185,428</u>

The held-to-maturity securities analysed by the sector of issuers as at the balance sheet date are as follows:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Public sector entities	40,670	40,869
Banks and other financial institutions	175,809	253,532
Corporate entities	79,861	76,237
	<u>296,340</u>	<u>370,638</u>

The maturity profile of held-to-maturity securities as at the balance sheet date is as follows:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
With a residual maturity of:		
Three months or less	–	49,334
One year or less but over three months	51,132	23,185
Five years or less but over one year	91,965	133,322
Over five years	153,243	164,797
	<u>296,340</u>	<u>370,638</u>



NOTES (continued)

10. AVAILABLE-FOR-SALE SECURITIES

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Listed equity outside Hong Kong, at market value	<u>695,989</u>	<u>614,503</u>
Unlisted equity, at cost	226,999	137,989
Impairment	(14,208)	<u>(17,790)</u>
	<u>212,791</u>	<u>120,199</u>
Unlisted debt, at cost	28,825	22,096
Impairment	(6,900)	<u>(6,900)</u>
	<u>21,925</u>	<u>15,196</u>
Total available-for-sale securities	<u>930,705</u>	<u>749,898</u>

The available-for-sale securities as at the balance sheet date, analysed by the sector of the issuers, are as follows:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Banks and other financial institutions	662,921	571,806
Corporate entities	267,784	<u>178,092</u>
	<u>930,705</u>	<u>749,898</u>

NOTES (continued)

11. LOANS AND ADVANCES AND OTHER ASSETS

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Loans and advances	37,452	49,393
Accrued interest and other assets	188,924	315,672
	<hr/>	<hr/>
Gross loans and advances and other assets	226,376	365,065
	<hr/>	<hr/>
Less: Impairment allowances for accrued interest and other assets – Individually assessed	(63)	(63)
	<hr/>	<hr/>
Loans and advances and other assets	226,313	365,002
	<hr/> <hr/>	<hr/> <hr/>

The maturity profile of the loans and advances as at the balance sheet date is as follows:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Repayable on demand	50	40
With a residual maturity of:		
Three months or less	1,135	1,728
One year or less but over three months	3,330	4,765
Five years or less but over one year	13,529	16,952
Over five years	19,408	25,908
	<hr/>	<hr/>
	37,452	49,393
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NOTES (continued)

12. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Debt securities:		
– listed outside Hong Kong, at market value	55,121	37,447
– unlisted, at quoted market price	78,776	87,762
– equity-linked notes, at quoted market price	389,919	–
	<u>523,816</u>	<u>125,209</u>
Equity securities, at market value:		
– listed in Hong Kong	444,036	555,146
– listed outside Hong Kong	452,511	392,832
	<u>896,547</u>	<u>947,978</u>
Investment funds:		
– listed outside Hong Kong, at market value	19,743	32,080
– unlisted, at quoted market price	1,532,248	1,518,433
	<u>1,551,991</u>	<u>1,550,513</u>
Total	<u><u>2,972,354</u></u>	<u><u>2,623,700</u></u>

The securities measured at fair value through profit or loss as at the balance sheet date, analysed by the sector of the issuers, are as follows:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Public sector entities	114,952	144,638
Banks and other financial institutions	749,366	375,874
Corporate entities	2,108,036	2,103,188
	<u><u>2,972,354</u></u>	<u><u>2,623,700</u></u>

NOTES (continued)

13. INSURANCE RECEIVABLES

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Amounts due in respect of:		
Direct underwriting	106,453	125,678
Reinsurance accepted	9,765	17,243
	<u>116,218</u>	<u>142,921</u>

The Group grants credit terms of less than 12 months to all its customers and cedents. The past settlement history of these receivables indicates that certain debtors settle in arrears subsequent to the credit period, which may also involve settlement subsequent to the 12 months from the balance sheet date.

The Group's insurance receivables relate to a large number of diversified customers and therefore there is no significant concentration of credit risk. Insurance receivables are non-interest-bearing. The carrying amount of insurance receivables approximate to its fair value.

An aged analysis of the insurance receivables as at the balance sheet date is as follows:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Three months or less	94,234	95,712
Six months or less but over three months	23,410	48,540
One year or less but over six months	473	1,204
Over one year	2,015	1,379
	<u>120,132</u>	<u>146,835</u>
Less: Impairment allowances	(3,914)	(3,914)
	<u>116,218</u>	<u>142,921</u>



NOTES (continued)

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Cash and bank balances	298,110	353,770
Time deposits with original maturity of over three months	22,492	21,188
Time deposits with original maturity of less than three months	1,393,656	1,378,917
	1,714,258	1,753,875
Pledged deposits with original maturity of		
– over three months	22,220	20,181
– less than three months	12,611	12,612
	34,831	32,793
	1,749,089	1,786,668

NOTES (continued)

15. DISPOSAL OF SUBSIDIARIES

Six months ended
30th June, 2006
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)
	<hr/>
	1,789,520
Gain on disposal of subsidiaries	<hr/>
	2,628,293
Consideration	<hr/>
	4,417,813
Satisfied by cash	<hr/>
	4,417,813

* 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.

NOTES (continued)

15. DISPOSAL OF SUBSIDIARIES (continued)

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

	Six months ended 30th June, 2006 HK\$'000
Cash consideration received, net of expense	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><u>1,730,306</u></u>

16. OTHER COMMITMENTS

(a) At the balance sheet date, the Group had capital commitments as follows:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Contracted, but not provided for	<u>5,336</u>	<u>11,832</u>

The Company did not have any significant capital commitments as at the balance sheet date.

(b) The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Within one year	1,515	1,560
In the second to fifth years, inclusive	<u>1,389</u>	<u>2,146</u>
	<u>2,904</u>	<u>3,706</u>

NOTES (continued)

17. RELATED PARTY TRANSACTIONS

(a) Group

	30th June, 2007		31st December, 2006	
	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000
Loans and advances granted: Aggregate balance at balance sheet date	1,972	5,771	2,146	6,235
Interbank activities: Deposits placed	<u>–</u>	<u>604,185</u>	<u>–</u>	<u>257,168</u>
	Six months ended 30th June, 2007		Six months ended 30th June, 2006	
	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000
Interbank activities: Interest income	–	19,815	–	14,480
Premium income:				
Gross premiums written	115	760	128	1,022
Reinsurance premium ceded	–	18,589	–	24,089
Commission expenses, net	<u>–</u>	<u>4,279</u>	<u>–</u>	<u>6,154</u>



NOTES (continued)

17. RELATED PARTY TRANSACTIONS (continued)

(b) The Group had the following transactions with jointly-controlled entities during the period:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Loans and advances granted: Aggregate balance at balance sheet date	<u>31,000</u>	<u>31,000</u>
	Six months ended 30th June, 2007 HK\$'000	2006 HK\$'000
Reinsurance premiums ceded	<u>9</u>	<u>46</u>

(c) The Group had the following transactions with an associate during the period:

	30th June, 2007 HK\$'000	31st December, 2006 HK\$'000
Loans and advances granted: Aggregate balance at balance sheet date	<u>10,762</u>	<u>–</u>
	Six months ended 30th June, 2007 HK\$'000	2006 HK\$'000
Commission expense paid	<u>3,662</u>	<u>5,511</u>

18. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

SUPPLEMENTARY FINANCIAL INFORMATION

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has established policies and procedures for identifying, evaluating, monitoring and controlling the various types of risks pertaining to the Group's businesses. The key risks include credit risk, liquidity risk, capital management risk, interest rate risk, foreign exchange risk, insurance risk and operational risk.

The overall internal control environment and the management policies for the major types of risks are as follows:

(1) *Internal control environment*

The internal control framework of the Group comprises comprehensive control policies and standards. The areas of responsibilities of each business and operational unit are clearly defined. Internal control procedures have been established based on the risk inherent in the individual business unit.

The internal audit department plays an important role in the Group's internal control framework. It monitors the effectiveness of the internal control procedures and ensures compliance with the policies and standards across the whole Group. A direct reporting line to the audit committee under the board of directors safeguards its independence. The audit committee meets periodically to review and discuss financial performance, internal control and compliance issues and matters raised by the external auditors to ensure that all audit recommendations are implemented.

(2) *Credit risk management*

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the credit terms which extend to clients, intermediates, reinsurers and other activities undertaken by the Group. To manage credit risk, the Group has considered the underlying security and the long-established business relationship with the counterparty.

(3) *Liquidity risk management*

Liquidity risk is the risk that the Group cannot meet its current obligations as they fall due. To manage liquidity risk, the Group has established liquidity management policies that are pertinent to the operations of business units.

(4) *Capital management risk*

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital or solvency margin requirements.

(5) *Interest rate risk management*

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from timing differences in the maturity and repricing of the Group's interest-bearing assets and liabilities.



SUPPLEMENTARY FINANCIAL INFORMATION (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(6) Foreign exchange risk management

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk primarily arises from its overseas operations, reinsurance and investment activities.

(7) Insurance risk management

The business of the Group comprises both life and general insurance contracts, and general insurance contracts represent more than 95% of its total gross premiums written.

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, actual benefits paid which are greater than originally estimated and subsequent development of long tail claims.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcome.

The variability of risks is also improved by careful selection and implementation of underwriting strategies, arrangements of reinsurance, strict claim review policies to assess all new and ongoing claims as well as the investigation of possible fraudulent claims. The Group also enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

The majority of reinsurance business ceded is placed on both the proportional and excess of loss bases with retention limits varying by product line. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets.

Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract. The Group also considers the underlying security and long-established business relationship with the reinsurers.

The Group also has limited its exposure to a certain level by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, such as hurricanes, earthquakes and flood damages. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Group's risk appetite as decided by management. For a single realistic catastrophic event, this maximum amount is less than 5% of the shareholders' equity on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 5% of the shareholders' equity.

SUPPLEMENTARY FINANCIAL INFORMATION (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(8) *Operational risk management*

Operational risk is the risk of financial loss resulting from procedural errors, system failures, frauds and other events.

The Group manages operational risk by maintaining adequate documentation of its operating procedures to facilitate training and quality performance. A proper internal control system is incorporated in the operation workflow to minimise the risk of losses caused by human errors. To reduce the interruptions to business activities caused by system failures or natural disasters, back-up systems and contingency business resumption plans are in place for critical business and back-office functions. Detailed recovery procedures are properly documented, with periodic drills conducted to ensure that the procedures are current and correct.

(9) *Fair value measurement principles*

The fair values of financial instruments are based on their quoted market prices at the balance sheet date, or the date close to the balance sheet date, without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices unless the position is immaterial. In such case, mid rate will be applied for both long and short positions.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including the use of recent arm's length market transactions, with reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates, and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.



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 <from continuing business> (-88.2% for including the gain associated with the sale of Asia Commercial Bank in 2006)	HK\$328.7 m	+185.7%
Earnings per share<from continuing business>:	HK31.2 cents	+186.2%
Interim dividend per share:	HK9.4 cents	+88.0%

Asia Financial Group achieved a net profit of HK\$328.7 million in the first half of 2007. This represents a 185.7% increase on the figure for the continuing businesses in the first half of 2006 (that is, after excluding contribution from the operations and gain from the sale of Asia Commercial Bank during that period). This very satisfactory result reflects strength in global securities markets, continued solid underwriting profits and rising returns from joint ventures and associated companies. Despite some global securities market volatility since mid-2007, we hope our prudent investment approach to deliver a good result for the full year.

Economic background

The Hong Kong economy continued to perform very well in the first half of 2007, with real GDP growth of 6.9% on a year-on-year basis. Nearly all indicators were positive, with exports of goods and services, consumption and capital investment all showing particular strength. Unemployment fell to the lowest level since mid-1998, while inflation remained moderate. The global economy generally displayed continued strength, with both China and the United States, among others, enjoying firm growth. Hong Kong and other world financial markets reflected this very benign environment.

Overview by investment segments

Insurance

Wholly owned Asia Insurance's turnover rose 4.0% for the first six months of 2007, while underwriting profit remained in line with that of the same period in the previous year, reflecting a highly competitive operating environment in the Hong Kong general insurance sector. Asia Insurance's net profit of HK\$218.9 million, 172.2% rise for the period therefore resulted mainly from increased investment and dividend income. This was due to the good performance of the Hang Seng Index, which rose over 9% from 19,964 to 21,772 during the period and of the United States and mainland Chinese stock markets.

Asia Insurance's underwriting strategy of concentrating on quality business rather than pursuing market share in less profitable sectors like employees' compensation continued during the period. This is expected to bring longer-term benefits over the coming two or three years. Agency agreements with The Prudential Assurance Co. Ltd and Sime Managing Agency Ltd, a member company of the vehicle distributor, Sime Darby Group during the period will further strengthen our distribution network for the long term. Looking further ahead, Asia Insurance's ranking as one of the top quality Hong Kong-registered general insurers will enable us to continue focusing on the better quality types of business. We therefore remain very confident about the company's prospects in the years to come.

Associated and jointly-controlled companies in the insurance segment all delivered satisfactory performances during the period. Our profits from BC Reinsurance rose 14.3%, from People's Insurance Company of China (HK) rose 47.4% and from Professional Liability Underwriting Services rose 5.0%, while our returns from Hong Kong Life Insurance increased by a very healthy 710.6%. We anticipate future increases in returns from all these companies as start-up costs are absorbed and their businesses develop.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Other Portfolio Investment

The remainder of our portfolio investments produced very satisfactory gains and dividend income, in line with those of Asia Insurance. The impact was magnified by the addition of funds to the portfolio following the sale of Asia Commercial Bank. Our currency exposure, such as holdings denominated in Thai Baht, boosted some unrealized gains. Interest income increased largely as a result of a larger deposit base.

The Group has no direct exposure to the parts of the credit market affected by the sub-prime loans problems arising in the United States. Secondary exposure via equity and fund investments is limited by our policy of diversification and focus on quality, while our holdings in derivative instruments are relatively minor.

At the time of writing, the outlook for the markets during the rest of 2007 is difficult to judge. While we cannot rule out further volatility of the sort that hit global securities markets in the beginning of the second half, the fundamentals in Hong Kong and mainland China look reasonably good. We believe that, by maintaining a careful investment strategy, including the locking in of some profits, the Group's portfolio investments will show acceptable returns for the year as a whole.

Health Care

The Group's return from its 3.5% holding in Bumrungrad Hospital PCL of Thailand was HK\$14.0 million in the first half of this year.

In April we took a 19.5% stake in Bumrungrad International Limited ("BIL"). This hospital development and health care company is currently operating in the Philippines, Middle East and is expanding elsewhere in Asia. Demographic and related government policy trends will produce growing demand for health-related services in the Asia-Pacific region in the years ahead, and we expect BIL and other possible investments in this sector to represent sound long-term sources of profit.

Pension and Asset Management

The Group's main current presence in this sector, its holding in the jointly-controlled company Bank Consortium Trust ("BCT"), yielded a healthy increase in profit in the first half of 2007 of 182.7% compared with the same period last year. This reflected the company's progression from a start-up to a profitable entity. BCT is one of the top five providers of Mandatory Provident Fund services in Hong Kong, and its outlook remains positive.

Property and Other Investment

The Group's interests in real estate and other areas represent only a small percentage of our overall investments. The main projects – developments in Mainland China – enable us to leverage partnerships and gain geographical diversification that may benefit us in our core areas of interest in due course. Their performances were good over the period.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Management approach and future prospects

Management continues with its longstanding policy of prudence in the pursuit of long-term growth in shareholder value and the seeking of new investment opportunities in our favoured business and geographic sectors. Our use of the proceeds from the sale of Asia Commercial Bank in 2006 reflects, and will continue to reflect, these principles. With a possibility of rising inflation in Hong Kong, we will also remain conscious of the need to manage costs carefully. The rise in operating expenses in the first half of 2007 reflects some office rental expenses following the disposal of Asia Commercial Bank and some increases resulting from internal management transfers at that time.

The near-term outlook seems reasonable for Hong Kong, China and the region. We are confident that our management approach will be able to handle uncertainties concerning global securities markets and interest rates and the possibility of a slowdown in the United States, and we expect to report satisfactory performances by our investment portfolio and the insurance business for the year as a whole.

Looking further ahead, we see major strategic opportunities for Asia Financial Group. In particular, we believe there will be a growing demand for insurance and health care in the Asia-Pacific region. Our aim is to augment our direct investment and joint venture activity in the insurance and health care areas where we can identify value and possible opportunities to leverage our traditional expertise, networks and client bases. Given the scale of the possible opportunities that lie ahead, we are prepared to exercise patience in considering and selecting new investments.

Contingent liabilities

As at 30th June, 2007, the Group had no material contingent liabilities.

Employees and remuneration policy

The total number of employees of the Group as at 30th June, 2007 was 239 (December, 2006: 239). 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. 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, 2007. The Group also offers various training and induction programmes to its employees.

DIVIDEND

The Board has resolved to declare an interim cash dividend of HK9.4 cents per ordinary share (2006: HK5.0 cents) for the six months ended 30th June, 2007 payable on or about Thursday, 25th October, 2007 to shareholders whose names appear on the Register of Members of the Company on Thursday, 18th October, 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 15th October, 2007 to Thursday, 18th October, 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Registrars, 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 Friday, 12th October, 2007.



PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30th June, 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th June, 2007, the interests of the directors and chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Name of director	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Robin Yau Hing CHAN	–	–	545,067,712 ⁽¹⁾	545,067,712	51.78
Kok Ho WONG	650,000	380,000	–	1,030,000	0.10
Ki Chit LAU	21,080	–	–	21,080	0.00
Song Hin NG	–	–	7,139,827 ⁽²⁾	7,139,827	0.68
Choedchu SOPHONPANICH	791,496	–	–	791,496	0.08
Anna Suk Han CHOW	41,559	–	–	41,559	0.00

Notes:

- (1) Mr. Robin Yau Hing CHAN was deemed to be interested in 545,067,712 shares that were held by Claremont Capital Holdings Limited (formerly known as Givemore Investments Limited). More than one-third of the issued share capital of Claremont Capital Holdings Limited is held by Cosmos Investments Inc. These corporations or their directors are accustomed to act in accordance with the directions or instructions of Mr. Robin Yau Hing CHAN.
- (2) Mr. NG Song Hin was deemed to be interested in 7,139,827 shares that were held through Cosmic International Inc. which was 40% held by Mr. NG Song Hin.

In addition to the above, Mr. Robin Yau Hing CHAN has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30th June, 2007, none of the directors and chief executive had registered an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th June, 2007, the following corporations had interests in five per cent or more of the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Number of ordinary shares held	Percentage of the Company's issued share capital
Bangkok Bank Public Company Limited	95,488,236	9.07
Cosmos Investments Inc.	545,067,712 ^{(a), (b)}	51.78
Claremont Capital Holdings Limited	545,067,712 ^(a)	51.78

Notes:

- (a) These shares have been included in the interests disclosure of Mr. Robin Yau Hing CHAN as set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above.
- (b) Cosmos Investments Inc. was deemed to be interested in 545,067,712 shares that were held by Claremont Capital Holdings Limited (formerly known as Givemore Investments Limited) since Cosmos Investments Inc. holds more than one-third of the issued share capital of Claremont Capital Holdings Limited

Save as disclosed above, as at 30th June, 2007, no other persons had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

The Company has 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 (the "Listing Rules") throughout the six months ended 30th June, 2007.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions (the "Code of Conduct") on terms no less exacting than the required standard in the Model Code as set out in Appendix 10 of the Listing Rules.

All directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard set out in the Code of Conduct and the Model Code throughout the six months ended 30th June, 2007.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30th June, 2007.

By Order of the Board
ROBIN YAU HING CHAN
Chairman

Hong Kong, 25th September, 2007