亞洲金融
Asia Financial

A Focus on Coverage and Care

Annual Report 2007

Contents

Corporate Information

Directors

Robin Yau Hing Chan *(Chairman)*
The Hon. Bernard Charnwut Chan *(President)*
Stephen Tan *(Executive Director)*
Wong Kok Ho *(Executive Director)*
Lau Ki Chit
Dr. The Hon. Leo Tung Hai Lee
Choedchu Sophonpanich
Ng Song Hin
Dr. The Hon. Philip Yu Hong Wong
Kenneth Chi Lam Siao
Chan Yeow Toh
Michitoki Yokoi
Andrew Chiu Cheung Ma*
Anna Suk Han Chow*
Ko Wing Man*

* *independent non-executive director*

Audit Committee

Andrew Chiu Cheung Ma *(Chairman)*
Kenneth Chi Lam Siao
Anna Suk Han Chow
Ko Wing Man

Remuneration Committee

Ko Wing Man *(Chairman)*
Andrew Chiu Cheung Ma
Anna Suk Han Chow
The Hon. Bernard Charnwut Chan

Nomination Committee

Anna Suk Han Chow *(Chairman)*
Ko Wing Man
Andrew Chiu Cheung Ma
The Hon. Bernard Charnwut Chan

Auditors

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

Principal Bankers

Bangkok Bank Public Company Limited
Hang Seng Bank Limited
Public Bank (Hong Kong) Limited
Shanghai Commercial Bank Limited

Head Office and Principal Place of Business

16th Floor
Worldwide House
19 Des Voeux Road Central
Hong Kong
Tel: (852) 3606 9200
Fax: (852) 2545 3881
Website: www.afh.hk

Qualified Accountant

Eddie Lau

Company Secretary

Eileen Lam

Principal Registrars and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Branch Registrars and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Legal Advisers

Siao, Wen & Leung
Conyers Dill & Pearman
Skadden, Arps, Slate, Meagher & Flom
Mallesons Stephen Jaques

Asia Financial's net profit for 2007 of HK$520.6 million represents a 25.4% increase on the previous year after excluding the effect of the exceptional earnings arising from the sale of Asia Commercial Bank in the first half of 2006 (a 83.2% decrease if that exceptional element from 2006 is included). This satisfactory result reflects good performance by portfolio investments during a time of market strength, continued solid underwriting profits and rising returns from joint ventures and associated companies. At the same time, we continued to make new direct investments in developing businesses that we believe will yield healthy returns in the longer term. The rise in operating expenses in 2007 reflects one-off costs associated with the increase in charitable donations and the full-year staff costs against the partial 8-month amount resulting from internal management transfers after the disposal of Asia Commercial Bank in the first half of 2006.

Economic and Market Background

Despite a slowdown in the US, the world economy maintained healthy growth during 2007, partly because of the strong performance of emerging market economies, notably in Asia. The Chinese economy grew by 11.4% during the year – the fastest pace in 13 years – while Hong Kong saw 6.3% growth during the year, thanks particularly to private consumption growth.

The year will probably be remembered particularly for the US subprime mortgage crisis and uncertainty due to the weakening US dollar and rising commodities prices. After a volatile year, the US markets ended 2007 up (6% for the Dow) but in a pessimistic mood. Mainland markets performed very strongly, with the A shares indexes rising at double-digit rates per month at times during the year, giving rise to fears of a bubble and periods of volatility, including the end of the year. Overeager expectations of a 'through-train' to enable mainland investors to buy Hong Kong-listed shares pushed the Hang Seng Index above 31,000 resulted in a mini-bubble that burst in October. Even so, the Hang Seng Index ended the year 39.3% above its end-2006 level.

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 management of the cash and other elements of our portfolio investments 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 near-term outlook is uncertain for Hong Kong, China and the region, and indeed globally. We will remain alert to uncertainties concerning global markets and interest rates and the slowdown in the United States, and I hope to report reasonable performances by our investment portfolio and the insurance business for 2008 year as a whole.

Looking further ahead, we see major strategic opportunities for Asia Financial. In particular, we believe that future Asia-Pacific economic growth, along with the ageing population and related government policy trends, will produce 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.

Robin Y.H. Chan
Chairman

Hong Kong
1st April, 2008

Overview by Segments

Insurance

Wholly owned Asia Insurance Company, Limited ("Asia Insurance") maintained its very satisfactory performance in 2007, with net profit for the year of HK$381.7 million, a rise of 46.6% over 2006. Turnover gained 9.7% for the year. This was partly due to an expanding distribution network, with new agency agreement established during the year with The Prudential Assurance Co Ltd and Shanghai Commercial Bank in 2006. It also reflected organic growth of the existing portfolio due to strong economic growth in many sectors in Hong Kong and Macau. Asia Insurance's underwriting strategy of concentrating on quality business rather than pursuing market share in less profitable sectors continued to prove beneficial, and the company's underwriting profit rose 23.2% to HK$68.9 million. The company's higher solvency margin and retention limit during 2007 also contributed to this increased profit.

Favourable market conditions and a well-balanced investment approach enabled Asia Insurance to increase its investment income for the year by 36.2% to HK$250.7 million. Decisions to lock in some gains during the year accounted for the relatively minor increase in dividend income. The gain in net interest income reflects the full-year effect of the increase in capital in July 2006.

Associated companies and joint ventures continued to perform respectably. Profits from BC Reinsurance Ltd., People's Insurance Company of China (Hong Kong) Ltd. and Professional Liability Underwriting Services Ltd. rose healthily, while our returns from Hong Kong Life Insurance Ltd. increased by a very strongly 148.4% to HK$46.8 million. We anticipate future increases in returns from these companies as start-up costs are absorbed and their businesses continue to develop.

With its strong capitalization (recognized by a Standard & Poor's 'A with stable outlook' rating), Asia Insurance is in a good position to maintain profitability and participate in a wider range of large-scale co-insurance business than it could in the past. The management will also explore further opportunities to develop bancassurance and agency relationships. As one of the top six Hong Kong-registered general insurers, the company is expecting to build on its reputation for strength and service continue to attract and retain the loyalty of our high-quality client base. In the longer term, we see potential opportunities arising from proposed reforms to Hong Kong's health care financing system. We remain very confident about the company's prospects in the years to come.

In addition, PICC Life Insurance Co. Ltd., a joint venture between Asia Financial and The People's Insurance Company (Group) of China ("PICC") and others, is establishing 25 provincial and 98 city branches in China. It will continue to expand its distribution network in the coming years.

Overview by Segments (cont'd)

Securities Portfolio Investment

Market conditions in 2007 were beneficial to Asia Financial's other portfolio investments. Much of the increase in net profit (for the continuing business) was due to increases in trading and non-trading investment income on equities (largely blue chips listed in Hong Kong and New York), externally managed funds and fixed income investments. The increase also reflects our generally prudent but decisive approach to picking investments and to timing. Our currency exposure, such as certain long-term investment holdings denominated in Thai Baht, enhanced some unrealised gains.

The Group has no direct exposure to the parts of the credit market affected by the subprime 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.

The outlook for the markets in 2008 is uncertain, and although the fundamentals in Hong Kong and Mainland China look fairly good, management will continue to take a prudent approach, and if necessary a defensive one. In the long run, we aim at seeking and carefully selecting direct investment opportunities in sectors where we see potential and advantage.

Health Care

The Group's returns from its 3.5% holding in Bumrungrad Hospital PCL of Thailand was HK$5.5 million during 2007. In April 2007 we took a 19.5% stake in Bumrungrad International Limited ("BIL"). This hospital development and health care company operates a hospital in the Philippines and a regional renal dialysis centre in North-east and Southern Asian countries. The company is building a new hospital in the Middle East and is actively studying some other expanding opportunities 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 jointly-controlled company, Bank Consortium Holding Limited ("BCH"), contributed a healthy increase in profit in 2007 of 69.9%. This reflected the company's progression from a start-up to a profitable entity. Bank Consortium Trust Co. Ltd., wholly owned subsidiary of BCH, is one of the top five providers of Mandatory Provident Fund services in Hong Kong, and its outlook remains positive. Moreover, our investment in BBL Asset Management Co. Ltd. in Thailand continued to provide stable return during the year.

Property Development Projects

The Group's interests in real estate and other areas represent only a small percentage of our overall investments. The main projects – property developments in Shanghai and Suzhou 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 progresses were good over the period.

Corporate Social Responsibility

We believe that corporations, in the course of doing business, can have a significant impact on the people and society in which they work. With that comes the responsibility: to ensure that our activities and behaviour reflect the utmost integrity at all times and circumstances. As a pioneer in social responsibility, Asia Financial is building on uncompromised ethical business practices and values-based governance to reinforce our commitment to customers, employees, suppliers, partners and communities. In this way, we can continue to help others in shaping the impact of the corporation as a constructive force in an ever-changing world.

We take pride in obtaining recognition as a “Caring Company” for the fifth consecutive year and making contributions to community programmes where we can add value. As our business grows, we are determined to apply the concept of good corporate citizenship to our entire workforce.

In 2007, Asia Financial devoted a total of over HK$3.2 million (mainly through donations and sponsorships) to support the Community Chest, The University of Hong Kong, The Chinese University of Hong Kong, Oxfam HK and many other non-profit-making organizations.

We organized a series of programmes in 2007 to reflect the importance to us as individuals and subsidiaries of community life; these encompassed activities that extend beyond the provision of financial sponsorship to organizations. At the heart of these efforts is the voluntary work undertaken by individual members of staff within our local communities. With the cooperation of Evangelical Lutheran Church Social Service – Hong Kong, we arranged several activities including the “Adventure for Life” Day Camp and a tour to the “Water World”, giving the youths and children memorable experiences and valuable exchanges. We also coordinated with the Tung Wah Group of Hospitals and paid visits to senior citizens to bring them love and care.

To conclude: in 2007, Asia Financial continued to develop partnerships with social service organizations and provide a framework for staff to contribute caring and time to the community in contexts where they can make a real difference.

List of Donations and Sponsorships in 2007

The Community Chest of Hong Kong
Oxfam Hong Kong
The University of Hong Kong
The Chinese University of Hong Kong
The Asia Foundation
The Hong Kong Council of Social Service
Hong Kong Social Workers Association
End Child Sexual Abuse Foundation
World Wide Fund for Nature Hong Kong
Hong Kong Federation of Overseas Chinese Associations Charitable Foundation
Hong Kong Sinfonietta
Opera Hong Kong

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31st December, 2007.

Principal activities

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in detail in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31st December, 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 28 to 114.

An interim dividend of HK9.4 cents per ordinary share, totalling approximately HK$98,958,000 was paid on 25th October, 2007.

The directors recommend the payment of a final dividend of HK9.4 cents per ordinary share, totalling approximately HK$98,958,000 in respect of the year, which will be payable on or about 18th June, 2008 in cash to shareholders on the register of members of the Company on 29th May, 2008. This recommendation has been incorporated into the financial statements as an allocation of the retained profits within the equity section in the Group's and Company's balance sheets. Further details of this accounting treatment are set out in note 2.4 to the financial statements.

Property, plant and equipment and investment properties

Details of movements in the property, plant and equipment and investment properties of the Company and of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

Share capital

There were no movements in either the Company's authorised or issued share capital during the year.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 28 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

Distributable reserves

At 31st December, 2007, the Company's reserves available for cash distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981, amounted to HK$2,484,481,000, of which HK$98,958,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account and capital reserve, in the amount of HK$620,591,000 in aggregate, may be distributed in the form of fully paid bonus shares.

Five year financial summary

The results, assets, liabilities and minority interests of the Group for the last five years, as extracted from the published audited financial statements as appropriate, are summarised below:

Results

	Year ended 31st December,				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
CONTINUING OPERATIONS					
Revenue	**813,693**	740,338	792,503	747,033	734,501
Profit for the year from continuing operations	**520,939**	416,311	102,387	142,165	147,235
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	2,677,299	83,397	97,933	55,322
Profit for the year	**520,939**	3,093,610	185,784	240,098	202,557
Profit for the year attributable to:					
Equity holders of the Company	**520,584**	3,092,434	184,583	240,108	203,204
Minority interests	**355**	1,176	1,201	(10)	(647)
	520,939	3,093,610	185,784	240,098	202,557

Assets, liabilities and minority interests

	31st December,				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**7,282,979**	6,819,800	18,905,353	16,620,125	15,442,672
Total liabilities	**(1,491,249)**	(1,374,426)	(15,216,903)	(13,186,126)	(12,145,754)
Minority interests	**(17,214)**	(29,748)	(28,572)	(27,371)	(27,381)
	5,774,516	5,415,626	3,659,878	3,406,628	3,269,537

Major customers

During the year, the Group derived less than 30% of its total income from its five largest customers.

As far as the directors are aware, none of the directors of the Company, or any of their associates and shareholders, which, to the knowledge of the directors own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers.

Major suppliers

The Group's major subsidiary is an insurance company, which is exempted from disclosing the particulars of suppliers. Accordingly, no such information has been disclosed.

Directors

The directors of the Company during the year and upto the date of the report were:

Robin Y.H. Chan, G.B.S., LL.D., J.P.*	
The Hon. Bernard Charnwut Chan, G.B.S., J.P.*	
Stephen Tan*	
Wong Kok Ho*	(appointed on 2nd May, 2007)
Lau Ki Chit	(redesignated as non-executive director on 28th March, 2007)
Dr. The Hon. Leo Tung Hai Lee, G.B.M., G.B.S., LL.D., J.P.	
Choedchu Sophonpanich	
Ng Song Hin	
Dr. The Hon. Philip Yu Hong Wong, G.B.S.	
Kenneth Chi Lam Siao	
Chan Yeow Toh	(appointed as director on 28th June, 2007 and acted as alternate director to Tan Sri Frank Wen King Tsao until 28th June, 2007)
Michitoki Yokoi	(appointed on 1st July, 2007)
Andrew Chiu Cheung Ma**	
Anna Suk Han Chow**	
Ko Wing Man, J.P.**	
Tan Eng Heng, B.B.M.(L)	(retired on 28th May, 2007)
Na Wu Beng	(retired on 28th May, 2007)
Tan Sri Frank Wen King Tsao	(resigned on 28th June, 2007)
Daiji Goto	(resigned on 1st July, 2007)
George Lap Wah Lee	(appointed on 2nd May, 2007 and resigned on 26th March, 2008)

* *Executive directors*
** *Independent non-executive directors*

Directors (cont'd)

In accordance with Bye-law 87(2) of the Company's Bye-laws, Mr. Bernard Charnwut Chan, Mr. Ng Song Hin, Mr. Andrew Chiu Cheung Ma, Ms. Anna Suk Han Chow and Dr. Ko Wing Man will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Ms. Chan Yeow Toh will hold office until the forthcoming general meeting and, being eligible, will offer herself for re-election.

The Company has received independence confirmations from the independent non-executive directors, Mr. Andrew Chiu Cheung Ma, Ms. Anna Suk Han Chow and Dr. Ko Wing Man and still considers them to be independent.

Directors' service contracts

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' and chief executive's interests and short positions in shares and underlying shares

At 31st December, 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 (the "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:

	Number of ordinary shares held, capacity and nature of interest				
Name of director	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Robin Y.H. Chan	–	–	546,951,712[1]	546,951,712	51.96
Wong Kok Ho	700,000	380,000	–	1,080,000	0.10
Lau Ki Chit	21,080	–	–	21,080	0.00
Ng Song Hin	–	–	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) Out of the 546,951,712 shares, (i) 545,067,712 shares were held through Claremont Capital Holdings Ltd (formerly known as Givemore Investments Limited) and (ii) 1,884,000 shares were held through Robinson Enterprise Ltd. More than one third of the issued share capital of Claremont Capital Holdings Ltd 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 Y.H. 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.

Directors' and chief executive's interests and short positions in shares and underlying shares (cont'd)

In addition to the above, Mr. Robin Y.H. Chan and Mr. Wong Kok Ho have 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 31st December, 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.

Directors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

At 31st December, 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the Register of Interests in shares and short positions required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company:

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

Notes:

(a) These shares have been included in the interest disclosure of Mr. Robin Y.H. 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 Ltd (formerly known as Givemore Investments Limited) since Cosmos Investments Inc. holds more than one-third of the issued share capital of Claremont Capital Holdings Ltd.

Save as disclosed above, as at 31st December, 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.

Directors' interests in contracts

Save as disclosed in note 38(a) to the financial statements, no director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company or its subsidiaries were entered into or existed during the year.

No right to subscribe for equity or debt securities of the Company has been granted by the Company to, or have any such rights been exercised by, any person during the year ended 31st December, 2007.

Directors' interests in competing businesses

During the year and up to the date of this report, the following directors are considered to have interests in the following businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), as set out below:

Name of director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of the businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the director in the entity
Robin Y.H. Chan	The People's Insurance Company of China (Hong Kong), Limited	General insurance	Director
The Hon. Bernard Charnwut Chan	The People's Insurance Company of China (Hong Kong), Limited	General insurance	Director
Wong Kok Ho	UOB Insurance (H.K.) Limited	General insurance	Director
	William S.T. Lee Insurance Company Limited	General insurance	Director

Although the companies listed above operate in similar fields to certain operations of the Group, the board believes that the directors concerned are able to manage any potential conflicts of interest arising from their respective directorships and/or interests in such companies.

As the board of the Company is independent from the boards of directors of these companies, the Group is capable of carrying on its businesses independently of, and at an arm's length from, the businesses of these companies.

Brief biographical details in respect of directors and senior management staff

Executive directors:

Robin Yau Hing Chan, G.B.S., LL.D., J.P., aged 75, is the Chairman and an executive director of the Company. Mr. Chan has been working for the Group for 52 years. He is the Chairman of Asia Insurance Company, Limited ("Asia Insurance"), a wholly-owned subsidiary of the Company, and a director of certain subsidiaries of the Company. Mr. Chan is also a director of Claremont Capital Holdings Ltd (formerly known as Givemore Investments Limited), the controlling shareholder of the Company, and a director of PICC Life Insurance Company Limited, a company established in the People's Republic of China. Mr. Chan was awarded the Knight Commander (Second Class) of the Most Noble Order of the Crown of Thailand by His Majesty, the King of Thailand and the Gold Bauhinia Star of the Hong Kong Special Administrative Region Government of the People's Republic of China. He is the Ex-officio Life Honorary Chairman of The Chinese General Chamber of Commerce, Hong Kong and the Vice Chairman of All-China Federation of Returned Overseas Chinese. Mr. Chan had been a Deputy to the Chinese National People's Congress from March 1988 to February 2008. He is also a director of and an adviser to numerous other companies and has extensive experience in the banking industry. Mr. Chan is the father of Mr. Stephen Tan and The Hon. Bernard Charnwut Chan and is the brother of Mr. Choedchu Sophonpanich.

The Hon. Bernard Charnwut Chan, G.B.S., J.P., aged 43, is an executive director and the President of the Company and Asia Insurance. Mr. Chan has been working for the Group for 18 years. He is the son of Mr. Robin Y.H. Chan, the brother of Mr. Stephen Tan and the nephew of Mr. Choedchu Sophonpanich. He graduated from Pomona College in California, U.S.A. In addition to directorships in other subsidiaries of the Company, he also sits on the boards of City e-Solutions Limited, Yau Lee Holdings Limited, Chen Hsong Holdings Limited, New Heritage Holdings Ltd, Kingboard Laminates Holdings Limited, China Resources Enterprise, Limited and Wing Lung Bank Limited, which are all listed on the Stock Exchange. Mr. Chan is also a director of Claremont Capital Holdings Ltd (formerly known as Givemore Investments Limited), the controlling shareholder of the Company. Mr. Chan is an adviser to Bangkok Bank Public Company Limited, Hong Kong Branch. He has also been appointed as the Deputy Chairman of Lingnan University, a member of the Insurance Advisory Committee, the Antiquities Advisory Board and the Greater Pearl River Delta Business Council. In addition, he serves as the Chairperson of The Hong Kong Council of Social Service and the Chairman of the Hong Kong-Thailand Business Council, the Vice Chairman of the Oxfam Hong Kong, a member of both the Executive Council and the Legislative Council of the Hong Kong Special Administrative Region and a Deputy to the Chinese National People's Congress.

Stephen Tan, aged 54, was appointed as an executive director of the Company on 30th May, 2006. Mr. Tan has been working for the Group for 21 years. In addition to directorships in other subsidiaries of the Company, Mr. Tan also sits on the boards of Bank Consortium Trust Company Limited, Hong Kong Life Insurance Limited, The Chinese General Chamber of Commerce and Hong Kong Chiu Chow Chamber of Commerce. Mr. Tan is also an independent non-executive director of Pioneer Global Group Limited which is listed on the Stock Exchange. Mr. Tan serves as the Vice Chairman of Chinese Entrepreneurs Organization and the Past President of Rotary Club of The Peak. Mr. Tan is a voting member of Tung Wah Group of Hospitals Advisory Board, a founding member of Hong Kong-Thailand Business Council, a trustee of Outward Bound Trust of Hong Kong and the Board of Trustees of Hong Kong Jockey Club Music and Dance Fund. Mr. Tan has also been appointed as a committee member of Shenzhen Municipal Committee of The Chinese People's Political Consultative Conference, a member of Election Committee (Finance), a member of Sports Commission of the Hong Kong Special Administrative Region, an honorary advisor of both Hong Kong Baseball Association and the new Graduate School of Business of the Hong Kong Polytechnic University and the Board of Governor of Hong Kong Sinfonietta Limited. Mr. Tan received education in the U.S.A. and holds a bachelor's degree in Business Administration at Rutgers University, and a master degree in Business Administration at St. John's University. He is the son of Mr. Robin Y.H. Chan, the brother of The Hon. Bernard Charnwut Chan and the nephew of Mr. Choedchu Sophonpanich.

Brief biographical details in respect of directors and senior management staff (cont'd)

Executive directors: (cont'd)

Wong Kok Ho, aged 60, was appointed as an executive director of the Company on 2nd May, 2007. Mr. Wong is an executive director and the chief executive officer of Asia Insurance and a director of several other subsidiaries of the Company. Mr. Wong has extensive experience in the insurance industry and he has served the Group for over 30 years. Mr. Wong also sits on the boards of AR Consultant Service (HK) Limited, BC Reinsurance Limited, Hong Kong Life Insurance Limited, Professional Liability Underwriting Services Limited and UOB Insurance (H.K.) Limited. In addition, Mr. Wong is an independent non-executive director of William S.T. Lee Insurance Company Limited.

Mr. Wong received education in Hong Kong and Deakin University, Melbourne, Australia. Mr. Wong is a fellow member of The Chartered Insurance Institute, London. He is currently a councillor of the General Insurance Council of the Hong Kong Federation of Insurers, the chairman of the Motor Insurers' Bureau of Hong Kong, and a councillor of the Employees Compensation Insurer Insolvency Bureau. Mr. Wong had served as the chairman of the General Insurance Council and a member of the Governing Committee of the Hong Kong Federation of Insurers and the president of the Insurance Institute of Hong Kong.

Non-executive directors:

Lau Ki Chit, aged 77, had been an executive director of the Company and Asia Insurance until his redesignation as a non-executive director of the Company and Asia Insurance on 28th March, 2007. Mr. Lau has been with the Group for 49 years and was the Chairman of the board of executive directors of Asia Insurance, and a director of several other subsidiaries of the Company. He joined Asia Insurance in 1959 and has extensive experience in the insurance industry. Mr. Lau holds an engineering degree in aeronautics. Mr. Lau has been the Member of the Governing Board of the Hong Kong Federation of Insurers and the Vice Chairman of the General Insurance Council. He has served as a councillor of the Motor Insurance Council, as well as Committee Member of the Insurance Claims Complaints Bureau. As to community services, Mr. Lau sits on the board of directors of the HK Tuberculosis, Chest & Heart Diseases Association and is a member of the Hospital Governing Committee of Ruttonjee Hospital, Tang Shiu Kin Hospital and Grantham Hospital. He is the Permanent Honourable Chairman of Chiu Chow Association Building (Property Holdings) Limited, and is the Honourable Chairman of the Chiu Chow Chamber of Commerce. He has been a member of the Advisory Board of the Hong Kong Export Credit Insurance Corporation and a director of the Tung Wah Group of Hospitals. He has served as the President of the Rotary Club of Hong Kong Island West and also as a member in a number of social service organizations.

Brief biographical details in respect of directors and senior management staff (cont'd)

Non-executive directors: (cont'd)

Dr. The Hon. Leo Tung Hai Lee, G.B.M., G.B.S., LL.D., J.P., aged 86, had been an independent non-executive director of the Company from 18th November, 1994 until his redesignation as a non-executive director on 27th September, 2004. Dr. Lee is the Chairman of the Tung Tai Group of Companies and an independent non-executive director or non-executive director of several publicly listed companies in Hong Kong. He is a member of a number of public services committees and heads many social service organisations, including as Vice President of the China Overseas Friendship Association, Chairman of Friends of Hong Kong Association, Adviser of the Advisory Board of the Tung Wah Group of Hospitals and Chairman of the Association of Chairmen of the Tung Wah Group of Hospitals. Dr. Lee served as a Standing Committee Member of the eighth and ninth National Committees of the Chinese People's Political Consultative Conference; an Adviser on Hong Kong Affairs to the Hong Kong & Macau Affairs Office of the State Council and Xinhua News Agency, Hong Kong Branch; a member of the Preparatory Committee for the Hong Kong Special Administrative Region; and a member of the Selection Committee for the First Government of the HKSAR. He has been honoured with awards by different governments, which include Cavaliere di Gran Croce of Italy, O.B.E. of Great Britain, Chevalier Legion d'Honneur of France, Commandeur de l'Ordre de Leopold II of Belgium and the Gold Bauhinia Star of the Government of the HKSAR in 1999. Dr. Lee was awarded the highest honour of the Grand Bauhinia Medal in July 2006 by the Government of the HKSAR. In 2007, Dr. Lee has been honoured with the "Icebreaker Award" by The 48 Group Club as a recognition of his contribution to the promotion of Sino-UK trade relations. Dr. Lee has over 50 years of experience in business management.

Ng Song Hin, aged 74, is a non-executive director of the Company. Mr. Ng has been with the Group for 27 years. Mr. Ng was educated in Australia. He is also the Chairman of Ng Song Choon & Brothers Sdn. Bhd., Kinta Realty Sdn. Bhd., KIB Development Sdn. Bhd. and Ikatan Bina Sdn. Bhd. in Malaysia. He is also the Deputy Chairman of Shenzhen Xengzhong Building Material Co., Ltd., and a director of Pen Apparel Sdn. Bhd. and Imperial Garments Sdn. Bhd. in Malaysia. He was the President of the Malaysian Textiles Manufacturers Association from 1979 to 1981.

Dr. The Hon. Philip Yu Hong Wong, G.B.S., aged 69, has been an independent non-executive director of the Company from 19th October, 1990, until his redesignation as a non-executive director on 3rd September, 2004. He is also a non-executive director of Asia Insurance. He has been with the Group for 17 years. Dr. Wong attained his BSc., MSc., JD and PhD degrees in 1963, 1967, 1982 and 1987, respectively. He is the Chairman and Chief Executive of Winco Paper Products Co. Ltd. He is also a member of the Legislative Council of Hong Kong Special Administrative Region, the Life Hononary Chairman of the Chinese General Chamber of Commerce and a member of the Hong Kong Trade Development Council. He had been a Deputy to the Chinese National People's Congress. Dr. Wong is currently the non-executive Chairman of Qin Jia Yuan Media Services Company Limited and an independent non-executive director of Hop Hing Holdings Limited, both of which are listed on the Stock Exchange.

Choedchu Sophonpanich, aged 61, is a non-executive director of the Company and has been with the Group for 22 years. He is also an executive director of Asia Insurance. He is the brother of Mr. Robin Y.H. Chan. He is also a director of Claremont Capital Holdings Ltd (formerly known as Givemore Investments Limited), the controlling shareholder of the Company, and the Chairman of the Executive Board of Directors of Bangkok Life Assurance Company Limited. He graduated with a BSc (Econ) degree from the London School of Economics.

Brief biographical details in respect of directors and senior management staff (cont'd)

Non-executive directors: (cont'd)

Kenneth Chi Lam Siao, aged 60, had been an independent non-executive director of the Company from 28th June, 1999, until his redesignation as a non-executive director on 30th September, 2004. He is the founder and senior partner of Messrs. Siao, Wen and Leung, Solicitors and Notaries. He obtained his Bachelor of Commerce degree (B.Com) from McGill University and his Bachelor of Laws degree (LL.B) from King's College, University of London. He is a Notary Public in Hong Kong and a China-Appointed Attesting Officer. Mr. Siao has extensive experience in banking, commercial, corporate and property matters. He currently acts as legal adviser to a number of banking and financial institutions.

Michitoki Yokoi, aged 50, was appointed as a non-executive director of the Company on 1st July, 2007. Mr. Yokoi is currently the Staff General Manager of the Overseas Administration Department and the Group Leader of the Planning & Project Coordination Group of Aioi Insurance Company, Limited ("Aioi Insurance"). Mr. Yokoi obtained his Bachelor of Laws degree from Chuo University, Japan in 1981 and joined Aioi Insurance in the same year. He has extensive experience in the insurance business.

Chan Yeow Toh, aged 52, was appointed as a non-executive director of the Company and Asia Insurance on 28th June, 2007. From 1st November, 2004 to 28th June, 2007, Ms. Chan was an alternate director to Tan Sri Frank Wen King Tsao who was during the said period a non-executive director of the Company and Asia Insurance. Ms. Chan is currently a director of IMC Development & Management Limited and a director of a number of other companies in Hong Kong and overseas. She is a Fellow Member of The Institute of Chartered Secretaries & Administrators, the United Kingdom, and The Malaysian Association of Company Secretaries. She was the Company Secretary of IMC Holdings Limited from 1990 until 2002 when it was delisted from the Stock Exchange.

Andrew Chiu Cheung Ma, aged 66, has been an independent non-executive director of the Company since 3rd September, 2004. He is also an independent non-exeuctive director of Asia Insurance. Mr. Ma is a founder and former director of Andrew Ma DFK (CPA) Limited. He is presently a director of Mayee Management Limited. He has more than 30 years' experience in the field of accounting and finance. He received his bachelor's degree in economics from the London School of Economics and Political Science (University of London) in England. Mr. Ma is a fellow member of The Institute of Chartered Accountants in England & Wales, The Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong. He is currently also an independent non-executive director of several other listed companies in Hong Kong.

Brief biographical details in respect of directors and senior management staff (cont'd)

Non-executive directors: (cont'd)

Anna Suk Han Chow, aged 60, was appointed as an independent non-executive director of the Company on 27th September, 2004. Ms. Chow is a practicing solicitor and is currently a partner of Messrs. Peter C. Wong, Chow and Chow. She is also an independent non-executive director of Asia Insurance. Ms. Chow was admitted as a solicitor of the Supreme Court of England and of Hong Kong respectively in 1973. She has been in legal practice in Hong Kong since 1973. She was appointed as a Notary Public by the Faculty Office of Archbishop of Canterbury in 1984 and as a China-Appointed Attesting Officer by the Ministry of Justice, The People's Republic of China in 1991. Ms. Chow is a member of a number of public services committees. She is currently serving as a member of ICAC Complaints Committee, a chairman of the Appeal Tribunal under Building Ordinance (Cap.123) and a chairman of the Railway Objections Hearing Panel. She served on the Inland Revenue Review Board as a member from 1996 to 1998 and as a deputy chairman from 1998 to 2007. She was also a past member of the Solicitors Disciplinary Tribunal Panel of the Law Society, the Criminal Injuries Compensation Board, the Law Enforcement Injuries Compensation Board and the Administrative Appeals Board. She is also a director of Chi Lin Nunnery, Poh Yea Ching Shea Limited and Chi Hong Ching Yuen Limited and a trustee of The D.H. Chen Foundation. Ms. Chow is the honorary legal advisor to The Federation of Medical Societies of Hong Kong, and a director and the honorary secretary to the Association of China-Appointed Attesting Officers Limited.

Ko Wing Man, J.P., aged 50, was appointed as an independent non-executive director of the Company on 1st January, 2005. He is also an independent non-executive director of Asia Insurance. Dr. Ko is currently a director and shareholder of Congruence Medical Services Limited and a director of Hong Kong Shanghai Medical Group Limited. Dr. Ko had been the Director (Professional Services and Human Resources) of the Hospital Authority. He obtained his Bachelor of Medicine and Bachelor of Surgery degree from the University of Hong Kong and Master of Health Administration degree from the University of New South Wales, Australia. Dr. Ko is a member of The Chinese People's Political Consultative Conference Chaozhou Committee and he also serves as a committee member, advisor and director of a number of public services organisations.

Employees and remuneration policy

The total number of employees of the Group was approximately 246 at the balance sheet date (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 benefits schemes are made available to all levels of personnel. There was no share option scheme in operation during the year. The Group also offers various training and induction programmes to its employees.

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Donations

During the year, the Group made charitable donations totalling HK$2,236,000 (2006: HK$4,081,000).

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company believes that the number of shares of the Company which were in the hands of the public was above the relevant prescribed minimum percentage as at the date of this report.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Corporate governance

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year.

Model Code for Securities Transactions

The Company had 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 to the Listing Rules.

All directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standards set out in the Code of Conduct and the Model Code during the year ended 31st December, 2007.

Audit Committee

The Audit Committee is responsible for reviewing the Group's financial controls, internal control and risk management systems, annual reports and accounts, and interim reports. All issues raised have been addressed by management. The work and findings of the Audit Committee have been reported to the board of directors (the "Board"). During the year, no issues brought to the attention of management and the Board were of sufficient importance to require disclosure in the annual report. The present members of the Audit Committee are Mr. Andrew Chiu Cheung Ma (Chairman of the Audit Committee), Mr. Kenneth Chi Lam Siao, Ms. Anna Suk Han Chow and Dr. Ko Wing Man. The majority of the members are independent non-executive directors. The Chairman of the Audit Committee has appropriate professional qualifications and experience in financial matters.

Auditors

Ernst & Young retire and a resolution of their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Robin Y. H. Chan
Chairman

Hong Kong
1st April, 2008

The Company is committed to maintaining high standards of corporate governance. The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31st December, 2007.

Directors' Securities Transactions

The Company has adopted a code of conduct for securities transactions by directors (the "Code of Conduct") on terms no less exacting than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Following specific enquiry made with all directors, all directors have confirmed that they have complied with the required standards set out in the Code of Conduct and the Model Code throughout the year ended 31st December, 2007.

Board of Directors

The Board is empowered to manage and conduct the businesses and affairs of the Company and its subsidiaries (the "Group") and is responsible for determining of the Group's overall corporate objectives, business strategies and operational policies. The Board is also required to ensure the Group's operations are conducted prudently and complied with specific corporate governance requirements and appropriate framework of laws and regulatory guidelines. The Board has delegated the day-to-day management of the Company's business to the Executive Committee of the Company (the "Executive Committee") which consists of four executive directors of the Company. The Executive Committee is responsible for formulating the policies of the Group on major strategic, financial, regulatory, risk management, commercial and operational issues for the Board's consideration; implementing policies as determined by the Board and monitoring the operational and financial performance of the Group.

The Board currently comprises fifteen members, consisting of four executive directors (including the Chairman and the President) and the remaining eleven non-executive directors, three of whom are independent non-executive directors. The individuals who make up the Board draw on diverse and professional backgrounds. The biographical details of the directors and the relationship among them are set out on pages 13 to 17 of this Annual Report.

Pursuant to specific enquiries made with all independent non-executive directors, all such directors confirmed that they have met the criteria of Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of independence.

All non-executive directors are engaged on a service contract for a specific term and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws. Directors who are appointed by the Board must retire at the following general meeting after their appointment. All directors are subject to retirement by rotation and re-election at least once every three years at the annual general meeting.

Each of the directors, on appointment to the Board, receives a package of orientation materials on key areas of business operations and practices of the Company, as well as a Directors' Handbook. The Directors' Handbook sets out, among other things, the general and specific duties of the Directors and the terms of reference of various Board Committees. The Directors' Handbook is updated from time to time to reflect developments and latest changes in the commercial and regulatory environment in which the Group conducts its businesses.

Board of Directors (cont'd)

The Board meets regularly, and at least four times a year, to review business development of the Group and additional meetings will be held as and when required. All directors have full access to information on the Group and may, in appropriate circumstances, take independent professional advice at the Company's expense. In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompany Board papers are sent to all directors at least 3 days before the intended date of a Board meeting. Minutes of every Board meeting are circulated to all directors for their perusal prior to confirmation of the minutes at the following Board meeting.

In year 2007, the Board held five meetings and the attendance record of each member of the Board is set out below:

Directors	**Attendance of Board meetings in 2007**	**Attendance rate**
Executive Directors:		
Robin Y.H. Chan *(Chairman)*	5/5	100%
The Hon. Bernard Charnwut Chan *(President)*	5/5	100%
Stephen Tan	5/5	100%
Wong Kok Ho[1]	3/3	100%
Non-executive Directors:		
Lau Ki Chit	5/5	100%
Choedchu Sophonpanich	3/5	60%
Ng Song Hin	3/5	60%
Dr. The Hon. Philip Yu Hong Wong	3/5	60%
Dr. The Hon. Leo Tung Hai Lee	4/5	80%
Kenneth Chi Lam Siao	3/5	60%
George Lap Wah Lee[2]	3/3	100%
Chan Yeow Toh[3]	3/3	100%
Michitoki Yokoi[4]	1/2	50%
Daiji Goto[5]	1/3	33%
Na Wu Beng[6]	0/2	0%
Tan Eng Heng[7]	0/2	0%
Tan Sri Frank Wen King Tsao[8]	2/2*	100%
* 2 meetings were attended by his alternate director		
Independent Non-executive Directors:		
Andrew Chiu Cheung Ma	5/5	100%
Anna Suk Han Chow	3/5	60%
Ko Wing Man	3/5	60%

Notes:

1. *Mr. Wong Kok Ho was appointed as Executive Director on 2nd May, 2007.*
2. *Mr. George Lap Wah Lee was appointed as Non-executive Director on 2nd May, 2007.*
3. *Ms. Chan Yeow Toh was appointed as Non-executive Director on 28th June, 2007 and on the same date, she ceased to be an alternate director to Tan Sri Frank Wen King Tsao.*
4. *Mr. Michitoki Yokoi was appointed as Non-executive Director on 1st July, 2007.*
5. *Mr. Daiji Goto resigned as Non-executive Director on 1st July, 2007.*
6. *Mr. Na Wu Beng retired as Non-executive Director on 28th May, 2007.*
7. *Mr. Tan Eng Heng retired as Non-executive Director on 28th May, 2007.*
8. *Tan Sri Frank Wen King Tsao resigned as Non-executive Director on 28th June, 2007.*

Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer had been segregated since 21st March, 2005. The Chairman is Mr. Robin Y.H. Chan who is also an executive director. The Chairman is responsible for the leadership and effective running of the Board. Mr. Bernard Charnwut Chan, an executive director, is the Chief Executive Officer (appointed as the President on 21st March, 2005) who is responsible for the day-to-day management of the Company's businesses.

Remuneration Committee

The Remuneration Committee was set up on 21st March, 2005 with specific terms of reference. The Remuneration Committee comprises four members, three of whom are independent non-executive directors. The members are Dr. Ko Wing Man (Chairman), Mr. Andrew Chiu Cheung Ma, Ms. Anna Suk Han Chow and Mr. Bernard Charnwut Chan. The Remuneration Committee meets at least once each year.

The Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy and for the formulation and review of the remuneration packages of all the directors and senior executives of the Group. The Remuneration Committee may seek advice from external professional advisors for market data of executive remuneration and other related rewarding issues if required.

In year 2007, the Remuneration Committee held one meeting. The attendance record of each Remuneration Committee member is set out below:

Directors	Attendance of Remuneration Committee meeting in 2007	Attendance rate
Ko Wing Man *(Chairman)*	1/1	100%
Anna Suk Han Chow	0/1	0%
Andrew Chiu Cheung Ma	1/1	100%
The Hon. Bernard Charnwut Chan	1/1	100%

Nomination Committee

The Nomination Committee was set up on 21st March, 2005 with specific terms of reference. The Nomination Committee comprises four members, three of whom are independent non-executive directors. The members are Ms. Anna Suk Han Chow (Chairman), Mr. Andrew Chiu Cheung Ma, Dr. Ko Wing Man and Mr. Bernard Charnwut Chan. The Nomination Committee meets at least once each year.

The Nomination Committee is responsible for recommending to the Board all new appointments of directors.

Nomination Committee (cont'd)

In year 2007, the Nomination Committee held two meetings. The attendance record of each Nomination Committee member is set out below:-

Directors	Attendance of Nomination Committee meetings in 2007	Attendance rate
Anna Suk Han Chow *(Chairman)*	2/2	100%
Andrew Chiu Cheung Ma	2/2	100%
Ko Wing Man	1/2	50%
The Hon. Bernard Charnwut Chan	2/2	100%

The Nomination Committee had considered the following proposed appointments and made recommendation to the Board:–

— appointment of Mr. Wong Kok Ho as Executive Director.

— appointment of Mr. George Lap Wah Lee as Non-executive Director.

— appointment of Ms. Chan Yeow Toh as Non-executive Director.

— appointment of Mr. Michitoki Yokoi as Non-executive Director.

Audit Committee

The Audit Committee consists of four non-executive directors, three of whom are independent non-executive directors. Members of the Audit Committee are Mr. Andrew Chiu Cheung Ma (Chairman), Mr. Kenneth Chi Lam Siao, Ms. Anna Suk Han Chow and Dr. Ko Wing Man. The Audit Committee normally meets four times a year and members of the Audit Committee may request a meeting if they think it necessary.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have been updated to comply with the CG Code. The Audit Committee is responsible for reviewing the financial controls, internal control and risk management systems, annual report and accounts, and half-year interim report.

The Audit Committee held four meetings in the year 2007. The attendance record of each Audit Committee member is set out below.

Directors	Attendance of Audit Committee meetings in 2007	Attendance rate
Andrew Chiu Cheung Ma *(Chairman)*	4/4	100%
Kenneth Chi Lam Siao	3/4	75%
Ng Song Hin[1]	0/3	0%
Anna Suk Han Chow	3/4	75%
Ko Wing Man	3/4	75%

Notes:

1. *Mr. Ng Song Hin resigned as a member of the Audit Committee with effect from 8th October, 2007.*

Audit Committee (cont'd)

During the year 2007, the Audit Committee had performed the following works:-

— reviewed the truth and fairness of the Group's annual and interim financial statements, and discuss with the external auditors the nature and scope of audit before the audit commences.

— reviewed the report and management letter from the external auditors together with the manner in which they had been addressed.

— reviewed the audit fees payable to external auditors for the year ended 31st December, 2007 for approval by the Board.

— reviewed its terms of reference.

— reviewed and approved the Group's internal audit plan for 2007 with areas of emphasis identified.

— reviewed the effectiveness of internal control systems.

— reviewed the findings and recommendations of the Group Internal Audit and Compliance Department on the operations and performance of the Group.

— reviewed the Group's compliance with regulatory and statutory requirements.

— reviewed the Group's risk management processes.

Auditors' Remuneration

During the year under review, the fees paid to the Company's external auditors, Ernst & Young, are set out as follows:-

Services rendered	**Fees paid/payable** *HK$*
Audit services	1,800,000
Non-audit services	609,000
	2,409,000

Accountability and Audit

The directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the statement of affairs of the Group and the results and cash flow for that period. In preparing the accounts for the year ended 31st December, 2007, the directors has selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and prepared the accounts on the going concern basis.

Internal Control

The Board and senior management are responsible for establishing, maintaining and operating an effective system of internal control. The internal control of the Group comprised a well-established organizational structure and comprehensive policies and standards. The Group Internal Audit plays an important role in the Group's internal control framework. It monitors the compliance with policies and standards and the effectiveness of internal control structures across the Group. All internal audit reports will be submitted to the Audit Committee for review. Significant issues in the management letters from external auditors and reports from regulatory authorities will be brought to the attention of the Audit Committee. All recommendations will be properly followed up to ensure they are implemented within a reasonable period of time. Using a risk-and-control based audit approach, the Group Internal Audit and Compliance Department plans its internal audit schedules annually with audit resources being focused on higher risk areas. The Internal Audit Plan is submitted to the Audit Committee for review and approval.

Communications with Shareholders

The Board recognizes the importance of good communications with all shareholders and is committed to maintaining a policy of open and timely disclosure of relevant information on its attributes to shareholders and other stakeholders through the publication of interim and annual reports.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. Shareholders are encouraged to attend the annual general meeting for which at least 21 days notice is given. The Chairman of the Board as well as chairmen of the Audit, Nomination, and Remuneration Committees, or in their absence, members of the Committees together with the external auditors are available to answer shareholders' questions at the meeting. Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report. The circular also includes relevant details of proposed resolutions, including biography of each candidate standing for election and re-election.

Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed amount of public float during the year 2007 and up to the date of this Annual Report as required by the Listing Rules.

ERNST & YOUNG
安永會計師事務所

To the shareholders of
Asia Financial Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Asia Financial Holdings Limited set out on pages 28 to 114, which comprise the consolidated and company balance sheets as at 31st December, 2007, and the consolidated income statement, the consolidated summary statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor,
Two International Finance Centre
8 Finance Street, Central
Hong Kong
1st April, 2008

Consolidated Income Statement

Year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**813,693**	740,338
Gross premiums	30(a)	**773,534**	740,082
Reinsurers' share of gross premiums	30(b)	**(257,783)**	(278,218)
Net insurance contracts premiums revenue		**515,751**	461,864
Gross claims paid	31(a)	**(341,320)**	(273,833)
Reinsurers' share of gross claims paid	31(b)	**123,979**	78,397
Gross change in outstanding claims	31(c)	**(11,991)**	(34,301)
Reinsurers' share of gross change in outstanding claims	31(d)	**(24,479)**	(25,661)
Net claims incurred		**(253,811)**	(255,398)
Commission income		**45,473**	50,495
Commission expense		**(192,791)**	(157,700)
Net commission expense		**(147,318)**	(107,205)
Management expenses for underwriting business		**(46,198)**	(43,581)
Underwriting profit		**68,424**	55,680
Dividend income		**38,061**	32,960
Gain on investment activities		**365,236**	282,713
Interest income		**109,668**	113,701
Other revenue		**24,705**	12,657
		606,094	497,711
Operating expenses		**(93,950)**	(85,053)
		512,144	412,658
Share of profits and losses of jointly-controlled entities		**66,087**	31,556
Share of profits and losses of associates		**4,432**	4,861
PROFIT BEFORE TAX	6	**582,663**	449,075
TAX	9	**(61,724)**	(32,764)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**520,939**	416,311

......continued

Year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
DISCONTINUED OPERATION			
Net gain associated with the discontinued operation	13	**–**	2,677,299
PROFIT FOR THE YEAR		**520,939**	3,093,610
Attributable to:			
Equity holders of the Company	10	**520,584**	3,092,434
Minority interests		**355**	1,176
		520,939	3,093,610
DIVIDENDS	11		
Interim		**98,958**	52,901
Special		**–**	1,269,626
Proposed final		**98,958**	115,801
		197,916	1,438,328
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic			
– For profit for the year		**HK49.5 cents**	HK292.5 cents
– For profit from continuing operations		**HK49.5 cents**	HK39.3 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, 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Property, plant and equipment	14	**202,728**	192,651
Investment properties	15	**3,780**	3,450
Interests in jointly-controlled entities	17	**306,027**	97,694
Loans to jointly-controlled entities	17	**70,964**	31,000
Interests in associates	18	**72,823**	70,483
Due from an associate	18	**107,510**	–
Held-to-maturity securities	19	**294,109**	370,638
Available-for-sale securities	20	**922,379**	749,898
Properties held for sale	21	**–**	14,457
Loans and advances and other assets	22	**292,596**	365,002
Securities measured at fair value through profit or loss	23	**2,011,928**	2,623,700
Insurance receivables	24	**149,389**	142,921
Reinsurance assets	25	**342,444**	371,238
Pledged deposits	26	**34,831**	32,793
Cash and cash equivalents	26	**2,471,471**	1,753,875
Total assets		**7,282,979**	6,819,800

......continued

31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital	27	**1,052,739**	1,052,739
Reserves	28	**4,622,819**	4,247,086
Proposed final dividend	11	**98,958**	115,801
		5,774,516	5,415,626
Minority interests		**17,214**	29,748
Total equity		**5,791,730**	5,445,374
Liabilities			
Insurance contract liabilities	29	**1,148,154**	1,096,004
Insurance payables		**154,228**	135,688
Due to associates	18	**265**	265
Other liabilities	32	**121,074**	92,710
Tax payable		**56,242**	38,473
Deferred tax liabilities	33	**11,286**	11,286
Total liabilities		**1,491,249**	1,374,426
Total equity and liabilities		**7,282,979**	6,819,800

Robin Y.H. Chan
Chairman

Bernard Charnwut Chan
Executive Director & President

Consolidated Summary Statement of Changes in Equity

Year ended 31st December, 2007

	Notes	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	28	**53,438**	83,604
Share of changes in the investment revaluation reserve	28	**(67)**	339
Exchange realignment	28	**(306)**	150
Deferred tax credited to equity	28, 33	**–**	654
Total income and expense recognised directly in equity		**53,065**	84,747
Repurchase of the Company's shares charged to equity	27	**–**	(16,379)
Profit for the year attributable to:	28		
Equity holders of the Company		**520,584**	3,092,434
Minority interests		**355**	1,176
Acquisition of additional interest in a subsidiary from minority interests	28	**(7,667)**	–
Decrease in minority interests upon liquidation of a non-wholly owned subsidiary	28	**(5,222)**	–
Dividends:			
Final 2005 dividend declared		**–**	(82,527)
Interim 2006 dividend	11	**–**	(52,901)
Special dividend	11	**–**	(1,269,626)
Final 2006 dividend declared	11	**(115,801)**	–
Interim 2007 dividend	11	**(98,958)**	–
Total equity at 31st December		**5,791,730**	5,445,374

Year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**582,663**	449,075
From a discontinued operation	13	**–**	59,669
Adjustments for:			
Interest income, excluding that related to banking business	6	**(109,668)**	(113,701)
Dividend income from equity investments	6	**(38,061)**	(32,960)
Loss on redemption/call back of held-to-maturity securities	6	**1,009**	266
Gain on disposal of available-for-sale securities	6	**(873)**	(96)
Impairment loss of available-for-sale securities	6	**394**	7,693
Fair value gains on securities measured at fair value through profit or loss, net	6	**(365,766)**	(296,928)
Impairment allowances on loans and advances and other assets	6	**–**	91
Depreciation	6	**12,828**	13,179
Changes in fair value of investment properties	6	**(330)**	(1,620)
Excess over the cost of acquisition of minority interests	6	**(4,270)**	–
Write-back of an impairment allowance against a loan to a jointly-controlled entity	6	**–**	(1,000)
Loss on disposal/write off of property, plant and equipment	6	**92**	991
Impairment loss of property, plant and equipment	6	**–**	413
Gain on disposal of properties held for sale	6	**(4,909)**	–
Amortisation of intangible assets	6	**–**	19
Impairment loss of intangible assets	6	**–**	29
Share of profits and losses of jointly-controlled entities		**(66,087)**	(31,556)
Share of profits and losses of associates		**(4,432)**	(4,861)
		2,590	48,703

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Consolidated Cash Flow Statement (cont'd)

Year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
Decrease in amounts due from associates		–	876
Increase in held-to-maturity securities with original maturity over three months		–	(398,057)
Decrease/(increase) in loans and advances and other assets		72,406	(424,741)
Decrease in securities measured at fair value through profit or loss		–	40,281
Increase in derivative receivables		–	(8,546)
Increase in insurance receivables		(6,468)	(13,749)
Decrease in reinsurance assets		28,794	40,651
Increase in trade bills		–	(53)
Decrease/(increase) in time deposits with original maturity over three months		(70,639)	120,770
Decrease in treasury bills, including Exchange Fund Bills with original maturity over three months		–	377
Decrease in deposits and balances of banks and other financial institutions		–	(195,117)
Increase in deposits from customers		–	865,527
Decrease in derivative payables		–	(4,270)
Increase in insurance contract liabilities		52,150	34,557
Increase/(decrease) in insurance payables		18,540	(14,858)
Increase in amounts due to associates		–	265
Increase in other liabilities		28,058	117,509
Increase in certificates of deposits issued		–	240
Cash generated from operations		125,431	210,365
Hong Kong profits tax paid		(42,672)	(4,463)
Overseas taxes paid		(1,283)	(814)
Net cash inflow from operating activities		81,476	205,088

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Year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow from operating activities		**81,476**	205,088
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**109,668**	113,701
Dividends received from investments		**38,061**	32,960
Dividends received from jointly-controlled entities	17	**23,100**	1,050
Dividends received from associates	18	**2,025**	3,715
Purchases of held-to-maturity securities		**(16,239)**	(53,775)
Purchases of available-for-sale securities		**(129,555)**	(123,451)
Purchases of securities measured at fair value through profit or loss		**(4,530,116)**	(4,876,257)
Proceeds from disposal of investments		**5,610,404**	3,585,543
Purchases of items of property, plant and equipment	14	**(23,016)**	(124,582)
Proceeds from disposal of items of property, plant and equipment		**19**	3,554
Proceeds from disposal of properties held for sale		**19,366**	–
Acquisitions of minority interests		**(3,397)**	–
Decrease in minority interests upon liquidation of a non-wholly owned subsidiary		**(5,222)**	–
Capital contribution to a jointly-controlled entity		**(37,200)**	–
Acquisition of a jointly-controlled entity		**(128,146)**	–
Loans to jointly-controlled entities		**(65,697)**	–
Repayment of a loan to a jointly-controlled entity		**25,733**	–
Capital contribution to an associate		**–**	(683)
Increase in an amount due from an associate		**(107,510)**	–
Proceeds from liquidation of an associate		**–**	2,964
Proceeds from disposal of a discontinued operation	35	**–**	1,730,306
Increase in pledged deposits		**(2,038)**	(3,787)
Net cash inflow from investing activities		**780,240**	291,258
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(214,759)**	(1,405,054)
Repurchase of shares	27	**–**	(16,379)
Net cash outflow from financing activities		**(214,759)**	(1,421,433)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**646,957**	(925,087)
Cash and cash equivalents at beginning of year		**1,732,687**	2,657,774
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,379,644**	1,732,687

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Consolidated Cash Flow Statement (cont'd)

Year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**207,980**	353,770
Time deposits with original maturity of less than three months when acquired		**2,184,276**	1,391,529
Less: Pledged deposits (included in cash and bank balances and time deposits with maturity of less than three months when acquired)	26	**(12,612)**	(12,612)
		2,379,644	1,732,687

Balance Sheet

31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS			
Property, plant and equipment	14	**213**	384
Interests in subsidiaries	16	**1,695,747**	1,695,747
Due from subsidiaries	16	**1,937,745**	1,900,803
Loan to a jointly-controlled entity	17	**5,267**	31,000
Available-for-sale securities	20	**141,997**	96,087
Loans and advances and other assets	22	**58,518**	9,211
Cash and cash equivalents	26	**336,598**	521,748
Total assets		**4,176,085**	4,254,980
EQUITY AND LIABILITIES			
Issued capital	27	**1,052,739**	1,052,739
Reserves	28	**3,011,396**	3,074,113
Proposed final dividend	11	**98,958**	115,801
Total equity		**4,163,093**	4,242,653
Liabilities			
Other liabilities	32	**12,812**	12,232
Tax payable		**180**	95
Total liabilities		**12,992**	12,327
Total equity and liabilities		**4,176,085**	4,254,980

Robin Y.H. Chan
Chairman

Bernard Charnwut Chan
Executive Director & President

1. CORPORATE INFORMATION

Asia Financial Holdings Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at 16th Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong.

The principal activities of the Group comprise the provision of underwriting of general and life insurance. In 2006, following the disposal of Asia Commercial Bank Limited and its subsidiaries (the "ACB Group"), previously wholly-owned subsidiaries of the Company, the Group ceased its banking business. Details of this disposal are set out in note 13 to the financial statements. There were no other significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Claremont Capital Holdings Ltd (formerly known as Givemore Investments Limited) which was incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, securities measured at fair value through profit or loss and certain available-for-sale securities, which have been measured at fair value and certain buildings, 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 as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill or excess over the cost of business combination.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This standard 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 40 to the financial statements.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. The interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has not changed the terms of such contracts, the interpretation has had no effect on these financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1st January, 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these financial statements.

HKFRS 8	Operating Segments [1]
HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions [2]
HK(IFRIC)-Int 12	Service Concession Arrangements [2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [1]
HK(IFRIC)-Int 14	HKAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [2]

1 *Effective for annual period beginning on 1st January, 2009*
2 *Effective for annual period beginning on 1st January, 2008*

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1st January, 2009.

HKAS 1 has been revised to separate owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. The standard also introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement, or in two linked statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 may result in new or amended disclosures, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(ii) fees and commission income, when services are rendered;

(iii) premiums from direct underwriting and reinsurance businesses, based on insurance policy contracts incepted and advices received from the cedants during the financial year, respectively, and are recognised as income when risk coverage is provided to the insured or the cedants;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition (cont'd)

(iv) interest income on finance leases, on the basis as set out below under the heading of "Leases";

(v) rental income, on a time proportion basis over the lease terms; and

(vi) dividend income, when the shareholder's right to receive payment has been established.

Commission expenses and other acquisition costs

Commission expenses and other acquisition costs relating to the underwriting business are not deferred and are charged to the income statement as incurred.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill (cont'd)

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly-controlled entities, after reassessment, is recognised immediately in the income statement.

The excess for associates and jointly-controlled entities is included in the Group's share of the associates' and jointly-controlled entities' profits and losses in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, reinsurance assets, investment properties and properties held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of non-financial assets other than goodwill (cont'd)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. When an items of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale".

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Advantage has been taken of the transitional provision set out in paragraph 80A of HKAS 16 Property, Plant and Equipment, which grants an exemption from the requirement to continue making revaluations of the premises of the Group subsequent to 1995 and, accordingly, no revaluation of these premises has been carried out since then.

Buildings with residual lease periods of not more than 50 years are depreciated in equal annual instalments over the terms of leases excluding any renewal period. Buildings with residual lease periods of more than 50 years are depreciated on a straight-line basis at 2% per annum.

Furniture, fixtures, equipment, yacht and motor vehicles are depreciated to write off the cost of each asset over its estimated useful life of 3 to 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment and depreciation (cont'd)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset. On disposal or retirement, any attributable revaluation surplus realised in respect of previous valuations is transferred directly to retained profits as a reserve movement.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as movements in the asset revaluation reserve.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

The amounts due from the lessees under finance leases are recorded in the balance sheet as loans and advances and other assets. The amount comprises the gross investment in the finance leases less gross earnings allocated to future accounting periods.

The total gross earnings under finance leases are allocated to the accounting periods over the duration of the underlying agreements so as to produce an approximately constant periodic rate of return on the net cash investment for each accounting period.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets (cont'd)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" above.

Loans and receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gain and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement in accordance with the policies set out for "Revenue recognition" above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets (cont'd)

Available-for-sale financial assets (cont'd)

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets (cont'd)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale financial assets is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derecognition of financial assets (cont'd)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost

Financial liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expenses is recognised within "financial cost" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its holding company;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Related parties (cont'd)

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Product classification – Insurance contracts

Insurance contract is a contract which the Group (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance contract liabilities

General insurance contract liabilities

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities consist of outstanding claims which are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with handling costs. Delays can be experienced in the notification and settlement of certain types of general insurance claims, therefore the ultimate cost of which cannot be known with certainty at the balance sheet date.

Outstanding claims

Full provision has been made for outstanding claims, including those incurred but not reported and incurred but not enough reported until after the balance sheet date, and also for the related claims handling expenses estimated to be necessarily and directly incurred in the claims settlement process. This provision, although not a precise assessment, has been made in light of available information and after taking into account the direct claims handling expenses and possible recoveries from other parties. Claim provisions are not discounted for the time value of money and no estimate of inflationary adjustment is admitted until confirmed as necessary. The provisions are derecognised when they are discharged or settled.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Insurance contract liabilities (cont'd)

Outstanding claims (cont'd)

Incurred but not reported outstanding claims are in respect of losses incurred prior to the balance sheet date but reported only subsequent to the balance sheet date. Incurred but not enough reported outstanding claims are in respect of losses incurred and reported prior to the balance sheet date but claims revised with the development of evidence available only subsequent to the balance sheet date. These outstanding claims have been estimated by reference to the historical pattern of claim settlement in respect of each major class of insurance portfolio. Any differences between the original claim provisions made in previous years and subsequently revised or settled amounts are included in the insurance revenue accounts for the financial year in which the revision or settlement is made.

Unearned premiums

Unearned premiums represent that portion of premiums written which is estimated to relate to periods of risk subsequent to the balance sheet date. Generally, the reserve is released over the term of the contract and is recognised as premium income.

Life insurance contract liabilities

Life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. The provision for life insurance contracts consists of outstanding claims and the life reserve.

Life reserve

Life reserve represents a reserve to cover unexpired risk of life insurance policies and is computed by reference to an actuarial valuation carried out annually.

Liability adequacy test

At each reporting date, a liability adequacy test is performed as laid out under HKFRS. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the provision for outstanding claims. The provision for unexpired risk is increased to the extent that future claims in respect of current insurance contracts exceed future premiums plus the current unearned premium provision.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Insurance receivables

Insurance receivable are recognised when due and measured on initial recognition at the fair value of the consideration charged. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is the present value of estimated future cash flows discounted at the original effective interest rate. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in the paragraph "Derecognition of financial assets" above, have been met.

Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in accordance with the reinsurance contract.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for general insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies, which are estimated in accordance with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all material temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all material taxable temporary differences, except:

– where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax (cont'd)

Deferred tax assets are recognised for all material deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

– where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits and/or contributed surplus within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Other employee benefits

Staff retirement schemes

The Group operates a defined contribution provident fund (the "Fund") and a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees. Contributions to the Fund and the MPF Scheme are charged to the income statement as incurred. The amount of contributions by the Group is based on a specified percentage of the monthly relevant income of the eligible employees. Forfeited contributions of the Fund in respect of employees who leave before the contributions become fully vested are available to the Group to reduce its ongoing funding and retirement scheme costs. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully. The assets of the Fund and the MPF Scheme are held separately from those of the Group and placed in independently administered funds.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates, assumptions and judgements are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation of insurance contract liabilities

It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of ultimate claims is using the past claim settlement trends to predict the future claim settlement trends. At each reporting date, prior year estimates of claims are reassessed for adequacy and any changes from the previous assessment are made to the provision.

The carrying value at the balance sheet date for these general insurance contract liabilities was HK$681,715,000 (2006: HK$669,529,000) (note 29(b)).

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value unlisted assets declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. The carrying amount of unlisted available-for-sale assets was HK$254,240,000 (2006: HK$135,395,000) (note 20).

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenue are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue, assets and liabilities are derived from operations carried out in Hong Kong.

4. SEGMENT INFORMATION (cont'd)

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the insurance segment engages in the provision of underwriting of general and life insurance;

(b) the corporate segment engages in the business of securities trading and holding; and

(c) the banking segment engaged in the provision of banking, insurance and related services, which was disposed of in last year.

Intersegment transactions are conducted with reference to the terms used for transactions with third parties.

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December, 2007 and 2006.

	Continuing operations								Discontinued operation			
Group	Insurance		Corporate		Eliminations		Total		Banking		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:												
External customers	**813,693**	740,338	**–**	–	**–**	–	**813,693**	740,338	**–**	115,167	**813,693**	855,505
Other revenue	**334,076**	236,013	**203,594**	206,018	**–**	–	**537,670**	442,031	**–**	–	**537,670**	442,031
Intersegment	**2,304**	2,511	**–**	872	**(2,304)**	(2,246)	**–**	1,137	**–**	(1,137)	**–**	–
Total	**1,150,073**	978,862	**203,594**	206,890	**(2,304)**	(2,246)	**1,351,363**	1,183,506	**–**	114,030	**1,351,363**	1,297,536
Segment results	**360,727**	252,560	**151,417**	160,098	**–**	–	**512,144**	412,658	**–**	59,669	**512,144**	472,327
Share of profits and losses of:												
Jointly-controlled entities	**55,551**	25,356	**10,536**	6,200	**–**	–	**66,087**	31,556	**–**	–	**66,087**	31,556
Associates	**3,716**	4,861	**716**	–	**–**	–	**4,432**	4,861	**–**	–	**4,432**	4,861
Profit before tax							**582,663**	449,075	**–**	59,669	**582,663**	508,744
Tax	**(41,845)**	(25,227)	**(19,879)**	(7,537)	**–**	–	**(61,724)**	(32,764)	**–**	(10,663)	**(61,724)**	(43,427)
Gain on disposal of the discontinued operation	**–**	–	**–**	–	**–**	–	**–**	–	**–**	2,628,293	**–**	2,628,293
Profit for the year							**520,939**	416,311	**–**	2,677,299	**520,939**	3,093,610

4. SEGMENT INFORMATION (cont'd)

Business segments (cont'd)

Group	Continuing operations								Discontinued operation			
	Insurance		Corporate		Eliminations		Total		Banking		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**4,122,501**	3,814,241	**3,304,885**	3,050,082	**(523,257)**	(212,700)	**6,904,129**	6,651,623	**–**	–	**6,904,129**	6,651,623
Interests in jointly-controlled entities	**123,985**	91,535	**182,083**	6,200	**(41)**	(41)	**306,027**	97,694	**–**	–	**306,027**	97,694
Interests in associates	**72,107**	70,483	**716**	–	**–**	–	**72,823**	70,483	**–**	–	**72,823**	70,483
Total assets	**4,318,593**	3,976,259	**3,487,684**	3,056,282	**(523,298)**	(212,741)	**7,282,979**	6,819,800	**–**	–	**7,282,979**	6,819,800
Segment liabilities	**1,443,506**	1,363,034	**571,041**	224,133	**(523,298)**	(212,741)	**1,491,249**	1,374,426	**–**	–	**1,491,249**	1,374,426
Other segment information:												
Depreciation	**5,112**	5,845	**7,716**	2,252	**–**	–	**12,828**	8,097	**–**	5,082	**12,828**	13,179
Changes in fair value of investment properties	**(330)**	(1,620)	**–**	–	**–**	–	**(330)**	(1,620)	**–**	–	**(330)**	(1,620)
Write-back of an impairment allowance against a loan to a jointly-controlled entity	**–**	–	**–**	(1,000)	**–**	–	**–**	(1,000)	**–**	–	**–**	(1,000)
Excess over the cost of acquisition of minority interests	**(4,270)**	–	**–**	–	**–**	–	**(4,270)**	–	**–**	–	**(4,270)**	–
Loss on disposal/write-off of property, plant and equipment	**4**	991	**88**	–	**–**	–	**92**	991	**–**	–	**92**	991
Gain on disposal of properties held for sale	**(4,909)**	–	**–**	–	**–**	–	**(4,909)**	–	**–**	–	**(4,909)**	–
Impairment loss of property, plant and equipment	**–**	413	**–**	–	**–**	–	**–**	413	**–**	–	**–**	413
Amortisation of intangible assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	19	**–**	19
Impairment loss of intangible assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	29	**–**	29
Impairment allowances on loans and advances and other assets, net	**–**	91	**–**	–	**–**	–	**–**	91	**–**	–	**–**	91
Impairment allowances on insurance receivables	**220**	–	**–**	–	**–**	–	**220**	–	**–**	–	**220**	–
Impairment loss of available-for-sale securities	**297**	6,212	**97**	1,481	**–**	–	**394**	7,693	**–**	–	**394**	7,693
Capital expenditure	**342**	99,838	**22,674**	24,744	**–**	–	**23,016**	124,582	**–**	–	**23,016**	124,582

5. 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.

6. PROFIT BEFORE TAX

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

	Notes	**2007**	2006
		HK$'000	HK$'000
Auditors' remuneration		**1,800**	1,630
Depreciation	14	**12,828**	13,179
Employee benefits expense (including directors' remuneration, note 7):			
Wages and salaries		**85,452**	164,635
Pension scheme contributions		**2,907**	3,400
Less: Forfeited contributions		**(68)**	(79)
Net pension scheme contributions		**2,839**	3,321
Total employee benefits expense		**88,291**	167,956
Minimum lease payments under operating leases in respect of land and buildings		**2,380**	4,006
Fair value gains on securities measured at fair value through profit or loss, net		**(365,766)**	(296,928)
Gain on disposal of available-for-sale securities		**(873)**	(96)
Loss on redemption/call back of held-to-maturity securities		**1,009**	266
Impairment loss of available-for-sale securities		**394**	7,693
Impairment allowances on loans and advances and other assets		**–**	91
Impairment allowances on insurance receivables	24	**220**	–
Loss on disposal/write-off of property, plant and equipment		**92**	991
Impairment loss of property, plant and equipment	14	**–**	413
Gain on disposal of properties held for sale		**(4,909)**	–
Amortisation of intangible assets		**–**	19
Impairment loss of intangible assets		**–**	29
Changes in fair value of investment properties	15	**(330)**	(1,620)
Excess over the cost of acquisition of minority interests*		**(4,270)**	–

6. PROFIT BEFORE TAX (cont'd)

	Notes	**2007 HK$'000**	2006 HK$'000
Write-back of an impairment allowance against a loan to a jointly-controlled entity		**–**	(1,000)
Dividend income from:			
Listed investments		**(34,260)**	(28,993)
Unlisted investments		**(3,801)**	(3,967)
		(38,061)	(32,960)
Interest income, excluding that related to banking business		**(109,668)**	(113,701)

* *Excess over the cost of acquisition of minority interests is included in "Other revenue" on the face of the consolidated income statement.*

The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operation during the year ended 31st December, 2006.

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

Group

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000 (note)	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007					
Executive directors:					
Robin Yau Hing Chan	80	1,836	5,350	72	7,338
Bernard Charnwut Chan	120	2,252	2,784	108	5,264
Stephen Tan	60	1,615	1,480	81	3,236
Wong Kok Ho#	47	1,551	2,300	71	3,969
	307	7,254	11,914	332	19,807
Non-executive directors:					
Lau Ki Chit##	60	210	–	–	270
Tan Sri Frank W.K. Tsao*	30	–	–	–	30
Choedchu Sophonpanich	60	12	200	–	272
Ng Song Hin	55	–	–	–	55
Tan Eng Heng**	60	–	–	–	60
Philip Yu Hong Wong	60	–	–	–	60
Leo Tung Hai Lee	40	–	–	–	40
Kenneth Chi Lam Siao	60	–	–	–	60
George Lap Wah Lee#	27	–	–	–	27
Chan Yeow Toh#	31	–	–	–	31
Michitoki Yokoi#	20	–	–	–	20
Na Wu Beng**	17	–	–	–	17
Daiji Goto*	20	–	–	–	20
	540	222	200	–	962
Independent non-executive directors:					
Andrew Chiu Cheung Ma	150	–	–	–	150
Anna Suk Han Chow	160	–	–	–	160
Ko Wing Man	150	–	–	–	150
	460	–	–	–	460
	1,307	7,476	12,114	332	21,229

\# *appointed during the year*
\## *redesignated as non-executive director during the year*
* *resigned during the year*
** *retired during the year*

7. DIRECTORS' REMUNERATION (cont'd)

Group

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000 (note)	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Robin Yau Hing Chan	120	1,846	40,600	72	42,638
Lau Ki Chit	100	972	4,100	–	5,172
Bernard Charnwut Chan	160	2,175	14,600	154	17,089
Stephen Tan	83	1,570	6,000	123	7,776
	463	6,563	65,300	349	72,675
Non-executive directors:					
Tan Sri Frank W.K. Tsao	60	–	–	–	60
Choedchu Sophonpanich	100	12	200	–	312
Ng Song Hin	100	–	100	–	200
Tan Eng Heng	60	–	100	–	160
Philip Yu Hong Wong	60	–	–	–	60
Leo Tung Hai Lee	40	–	–	–	40
Kenneth Chi Lam Siao	60	–	–	–	60
Na Wu Beng	80	–	100	–	180
Yoshitaka Sawamura	20	–	–	–	20
Takashi Muraoka	70	–	100	–	170
Daiji Goto	20	–	–	–	20
	670	12	600	–	1,282
Independent non-executive directors:					
Andrew Chiu Cheung Ma	190	–	100	–	290
Anna Suk Han Chow	200	–	100	–	300
Ko Wing Man	190	–	100	–	290
	580	–	300	–	880
	1,713	6,575	66,200	349	74,837

Note: Discretionary bonuses included the year end performance bonus and the special bonus related to the disposal of the ACB Group.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2006: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2006: one) non-directors, highest paid employees the year is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,430**	1,285
Discretionary bonuses	**1,970**	3,670
Pension scheme contributions	**72**	90
	3,472	5,045

The number of the remaining one (2006: one) non-director(s), highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2007	2006
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	–
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**–**	1
	1	1

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

	2007 **HK$'000**	2006 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**66,478**	30,837
Overprovision in prior years	**(5,666)**	–
– Elsewhere	**912**	1,497
Deferred charge (note 33)	**–**	430
Total tax charge for the year	**61,724**	32,764

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and the majority of its subsidiaries, jointly-controlled entities and associates are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2007

	Hong Kong **HK$'000**	**Macau** **HK$'000**	**Total** **HK$'000**
Profit before tax	**574,697**	**7,966**	**582,663**
Tax at the statutory tax rate	**100,572**	**957**	**101,529**
Share of profits and losses attributable to jointly-controlled entities and associates	**(12,341)**	**–**	**(12,341)**
Adjustments in respect of current tax of previous periods	**(5,666)**	**–**	**(5,666)**
Income not subject to tax	**(31,938)**	**(45)**	**(31,983)**
Expenses not deductible for tax	**9,765**	**–**	**9,765**
Others	**420**	**–**	**420**
Tax charge at the Group's effective rate	**60,812**	**912**	**61,724**

9. TAX (cont'd)

Group – 2006

	Hong Kong HK$'000	Mainland China HK$'000	Macau HK$'000	Total HK$'000
Profit before tax (including profit from a discontinued operation)	493,215	3,063	12,466	508,744
Tax at the statutory tax rate	86,313	459	1,496	88,268
Share of profits and losses attributable to jointly-controlled entities and associates	(6,373)	–	–	(6,373)
Adjustments in respect of current tax of previous periods	430	–	–	430
Income not subject to tax	(41,668)	–	–	(41,668)
Expenses not deductible for tax	10,390	–	1	10,391
Tax losses from previous periods utilised	(6,984)	–	–	(6,984)
Others	(637)	–	–	(637)
Tax charge at the Group's effective rate	41,471	459	1,497	43,427
Represented by:				
Tax charge attributable to an operation classified as discontinued during 2006 (note 13)				10,663
Tax charge attributable to continuing operations reported in the consolidated income statement				32,764
				43,427

The share of tax attributable to associates and jointly-controlled entities amounting to HK$538,000 (2006: HK$959,000) and HK$4,329,000 (2006: HK$2,480,000), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31st December, 2007 includes a profit of HK$135,199,000 (2006: HK$3,413,843,000) which has been dealt with in the financial statements of the Company (note 28).

11. DIVIDENDS

	2007 HK$'000	2006 HK$'000
Interim – HK9.4 cents (2006: HK5.0 cents) per ordinary share	**98,958**	52,901
Special – Nil (2006: HK$1.2) per ordinary share	**–**	1,269,626
Proposed final – HK9.4 cents (2006: HK11.0 cents) per ordinary share	**98,958**	115,801
	197,916	1,438,328

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.

12. 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$520,584,000 (2006: HK$3,092,434,000) and the 1,052,739,428 ordinary shares in issue during the year (2006: weighted average of 1,057,128,146 ordinary shares).

Diluted earnings per share amounts for the years ended 31st December, 2007 and 2006 have not been disclosed as no dilutive events existed in current and last years.

13. 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 former 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, 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.

13. DISCONTINUED OPERATION (cont'd)

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

	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
	115,167
Expenses	(55,498)
Profit before tax from the discontinued operation	59,669
Tax – current charge (note 9)	(10,663)
Profit for the year from the discontinued operation	49,006
Gain on disposal of the discontinued operation	2,628,293
Net gain associated with the discontinued operation	2,677,299

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

	2006 HK$'000
Operating activities	236,830
Investing activities	50,484
Net cash inflow	287,314

Earnings per share from the discontinued operation:

	2006 HK cents
Basic	253.0
Diluted	N/A

13. DISCONTINUED OPERATION (cont'd)

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 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 2006 had not been calculated as no dilutive events existed during the year.

14. PROPERTY, PLANT AND EQUIPMENT

31st December, 2007

	Group			Company
	Buildings HK$'000	Furniture, fixtures, equipment, yacht and motor vehicles HK$'000	Total HK$'000	Furniture and fixtures HK$'000
Cost or valuation:				
At beginning of year	199,739	48,596	248,335	2,653
Additions	–	23,016	23,016	–
Disposals/write-off	–	(164)	(164)	(132)
At 31st December, 2007	199,739	71,448	271,187	2,521
Accumulated depreciation and impairment:				
At beginning of year	33,328	22,356	55,684	2,269
Charge for the year	3,009	9,819	12,828	83
Disposals/write-off	–	(53)	(53)	(44)
At 31st December, 2007	36,337	32,122	68,459	2,308
Net book value:				
At 31st December, 2007	163,402	39,326	202,728	213
At 31st December, 2006	166,411	26,240	192,651	384

14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

31st December, 2006

	Group			Company
	Buildings HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000	Furniture and fixtures HK$'000
Cost or valuation:				
At beginning of year	463,440	213,437	676,877	6,267
Additions	97,153	27,429	124,582	1,094
Disposals	(40)	(16,714)	(16,754)	(4,708)
Disposal of subsidiaries	(352,247)	(175,556)	(527,803)	–
Transfer to investment properties (note 15)	(3,636)	–	(3,636)	–
Transfer to properties held for sale (note 21)	(4,931)	–	(4,931)	–
At 31st December, 2006	199,739	48,596	248,335	2,653
Accumulated depreciation and impairment:				
At beginning of year	136,453	191,352	327,805	3,441
Charge for the year	3,025	10,154	13,179	321
Impairment loss	413	–	413	–
Disposals	(19)	(12,190)	(12,209)	(1,493)
Disposal of subsidiaries	(104,044)	(166,960)	(271,004)	–
Transfer to investment properties (note 15)	(920)	–	(920)	–
Transfer to properties held for sale (note 21)	(1,580)	–	(1,580)	–
At 31st December, 2006	33,328	22,356	55,684	2,269
Net book value:				
At 31st December, 2006	166,411	26,240	192,651	384
At 31st December, 2005	326,987	22,085	349,072	2,826

14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The cost or valuation of the buildings comprises:

	2007 HK$'000	2006 HK$'000
At 1990 valuation	**85,172**	85,172
At cost	**114,567**	114,567
	199,739	199,739

The net book values of the buildings of the Group comprise:

	2007 HK$'000	2006 HK$'000
Long term leases in Hong Kong	**155,864**	158,701
Long term leases outside Hong Kong	**7,032**	7,182
Medium term leases outside Hong Kong	**506**	528
	163,402	166,411

The furniture, fixtures, equipment, yacht and motor vehicles are stated at cost less accumulated depreciation.

Had the revalued buildings of the Group been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$15,698,000 (2006: HK$16,307,000).

15. INVESTMENT PROPERTIES

		Group	
	Notes	2007 HK$'000	2006 HK$'000
Carrying amount at 1st January		**3,450**	25,220
Disposal of subsidiaries	35	**–**	(15,000)
Transfer from property, plant and equipment	14	**–**	2,716
Transfer to properties held for sale	21	**–**	(11,106)
Changes in fair value of investment properties	6	**330**	1,620
Carrying amount at 31st December		**3,780**	3,450

15. INVESTMENT PROPERTIES (cont'd)

The investment properties were revalued at 31st December, 2007 by AA Property Services Limited, a firm of professionally qualified valuers, at HK$3,780,000 on an open market value, based on their existing use. The investment properties are leased to third parties under operating leases.

The Group's investment properties are situated in Macau and are held under short term leases.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**1,714,547**	1,714,547
Impairment #	**(18,800)**	(18,800)
	1,695,747	1,695,747

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

\# An impairment was recognised for certain investments with a carrying amount of HK$18,800,000 (before deducting the impairment loss) (2006: HK$18,800,000). There was no change in the impairment account during the current and prior years.

As the balances with subsidiaries arose from advances to/from the subsidiaries for the purpose of operational financing, other than the circumstances when it is considered that the recipient of the financing has more than adequate working capital for financing its operation, the directors of the Company do not intend to demand settlement/proceed with repayment of the amounts involved within 12 months from the balance sheet date. The carrying amounts of the balances with subsidiaries approximate to their fair values.

16. INTERESTS IN SUBSIDIARIES (cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Nominal value of issued share capital	Principal activities
Asia Insurance Company, Limited	Hong Kong	100	–	HK$2,000,000,000	Insurance
Asia Investment Services Limited	British Virgin Islands	100	–	HK$10,000,000	Investment holding
AFH Investments (BVI) Limited	British Virgin Islands	100	–	US$1,000,000	Investment holding
Asia Insurance (Finance) Limited	Hong Kong	–	100	HK$25,000,000	Mortgage loan financing
Chamberlain Investment Limited	Republic of Liberia	–	100	US$100	Investment holding
Progressive Investment Company Limited	Hong Kong	–	100	HK$10,000,000	Property investment
Bedales Investment Limited	Republic of Liberia	–	100	Ordinary US$100 Preference US$3,000,000	Investment holding
Asia Investment Services (HK) Limited	Hong Kong	–	100	HK$10,000	Investment holding
Asia Insurance (Investments) Limited	Hong Kong	–	69.5	HK$53,000,000	Investment holding
Asia Financial (Nominees) Limited	Hong Kong	–	100	HK$2	Provision of nominee services
AFH Investment Company Limited	Hong Kong	–	100	HK$1	Investment holding
AFH Realty Investment Company Limited	Hong Kong	–	100	HK$1	Investment holding

16. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Nominal value of issued share capital	Principal activities
AFH International Company Limited	Hong Kong	–	100	HK$1	Investment holding
AFH Health Care Services Limited	Hong Kong	–	100	HK$1	Provision of health care services
Top Hover Limited	British Virgin Islands	–	100	US$1	Investment holding
Onsite Investment Limited*	British Virgin Islands	–	70	US$100	Investment holding

* *Acquired during the year*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The principal place of operations of the principal subsidiaries is mainly in Hong Kong.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Notes	Group 2007 HK$'000	Group 2006 HK$'000	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted investments, at cost		**–**	–	**–**	–
Share of net assets		**289,372**	97,694	**–**	–
Goodwill on acquisition	(a)	**16,655**	–	**–**	–
		306,027	97,694	**–**	–
Loans to jointly-controlled entities	(b)	**70,964**	31,000	**5,267**	31,000

Notes:

(a) *On 27th April, 2007, the Group acquired 19.5% equity interest in Bumrungrad International Limited ("BIL") at a cash consideration of approximately HK$128,146,000. On 29th May, 2007, the Group further subscribed the rights issue of BIL at a cash consideration of approximately HK$37,200,000. After this rights issue, the Group still holds 19.5% equity interest in BIL. BIL, a company incorporated in Thailand with limited liability, is principally engaged in the investment, operation and management of hospitals, diagnostics or laboratory operations and hospital facilities in Asia and Middle East.*

The goodwill arising on the acquisition of BIL amounted to HK$16,655,000.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (cont'd)

Notes: (cont'd)

(b) A loan to a jointly-controlled entity of the Group of HK$23,840,000 (2006: Nil) is secured by a property situated in Hong Kong, bears interest at 0.55% above the Hong Kong Interbank Offered Rate ("HIBOR") per annum and is repayable by four annual equal instalments of HK$1,667,000 each and the last instalment of HK$17,172,000. Before the maturity of the loan, at the request of the jointly-controlled entity, the Group may, at its own discretion, extend the loan for another five years.

A loan to a jointly-controlled entity of the Group of HK$41,857,000 (2006: Nil) is secured by a property situated in Hong Kong, bears interest at 0.55% above the HIBOR per annum and is repayable by nine semi-annual equal instalments of HK$2,143,000 each and the last instalment of HK$22,570,000. Before the maturity of the loan, at the request of the jointly-controlled entity, the Group may, at its own discretion, extend the loan for another five years.

The remaining loan to a jointly-controlled entity of the Group and the Company of HK$5,267,000 (2006: HK$31,000,000) is unsecured, interest-free and repayable by 29th December, 2008.

The loans to jointly-controlled entities of the Group and the Company were classified as loans and receivables. The carrying amounts of the loans approximate to their respective fair values.

Particulars of the jointly-controlled entities of the Group are as follows:

Name	Business structure	Place of incorporation	Percentage of ownership interest and profit sharing	Voting power	Principal activities
Bank Consortium Holding Limited*	Corporate	Hong Kong	13.3	1 out of 7#	Provision of mandatory provident fund scheme services
Hong Kong Life Insurance Limited*	Corporate	Hong Kong	16.7	2 out of 12#	Provision of writing of long term insurance business
BC Reinsurance Limited	Corporate	Hong Kong	21	2 out of 10#	Reinsurance underwriting
Bumrungrad International Limited*	Corporate	Thailand	19.5	1 out of 5#	Provision of health care services

* *Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.*

\# *Representing the number of votes on the board of directors attributable to the Group.*

The Group received dividend income amounted to HK$23,100,000 (2006: HK$1,050,000) from the jointly-controlled entities during the year.

17. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (cont'd)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2007 HK$'000	2006 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Assets	**755,299**	423,998
Liabilities	**(465,927)**	(326,304)
Net assets	**289,372**	97,694
Share of the jointly-controlled entities' results:		
Revenue	**73,184**	40,323
Other income	**14,751**	8,453
	87,935	48,776
Total expenses	**(17,519)**	(14,740)
Tax	**(4,329)**	(2,480)
Profit for the year	**66,087**	31,556

18. INTERESTS IN ASSOCIATES

	Group	
	2007 HK$'000	2006 HK$'000
Share of net assets	**67,094**	64,754
Goodwill on acquisition	**5,729**	5,729
	72,823	70,483

18. INTERESTS IN ASSOCIATES (cont'd)

Particulars of the associates of the Group as at 31st December, 2007, which are all corporate entities, are as follows:

Name	Place of incorporation/ establishment	Percentage of equity indirectly held by the Group	Nominal value of issued ordinary share capital	Principal activities
APIC Holdings, Inc. *	Philippines	50	Peso23,241,700	Investment holding
Asian Insurance International (Holding) Limited ("AIIHL")	Bermuda	25	US$5,740,000	Investment holding
Professional Liability Underwriting Services Limited	Hong Kong	27	HK$3,000,000	Insurance agent
The People's Insurance Company of China (Hong Kong), Ltd.	Hong Kong	17.375	HK$200,000,000	Insurance underwriting
Key Apex Limited *	British Virgin Islands	25	US$100	Investment holding
Excellent Star Development Limited *	Hong Kong	25	HK$1	Investment holding
上海盤谷房地產有限公司*	The People's Republic of China	25	RMB350,000,000	Investment holding

* *Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.*

The Group received dividend income amounted to HK$2,025,000 (2006: HK$3,715,000) from the associates during the year.

The amounts due from/(to) associates are classified as loans and receivables, are unsecured, interest-free and have no fixed terms of repayment.

The carrying amounts of the amounts due from/(to) associates approximate to their fair values.

18. INTERESTS IN ASSOCIATES (cont'd)

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2007 HK$'000	2006 HK$'000
Assets	**1,099,859**	520,805
Liabilities	**(816,194)**	(244,040)
Revenue	**43,285**	25,720
Profit	**14,648**	18,800

19. HELD-TO-MATURITY SECURITIES

	Group	
	2007 HK$'000	2006 HK$'000
Listed debt securities in Hong Kong, at amortised cost	**10,645**	10,672
Listed debt securities outside Hong Kong, at amortised cost	**155,467**	192,941
Unlisted debt securities, at amortised cost	**127,997**	167,025
Total held-to-maturity securities	**294,109**	370,638
Fair value of listed and unlisted held-to-maturity securities	**289,603**	352,453

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

	Group	
	2007 HK$'000	2006 HK$'000
Public sector entities	**40,670**	40,869
Banks and other financial institutions	**197,312**	253,532
Corporate entities	**56,127**	76,237
	294,109	370,638

19. HELD-TO-MATURITY SECURITIES (cont'd)

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

	Group	
	2007	2006
	HK$'000	HK$'000
With a residual maturity of:		
Three months or less	**15,670**	49,334
One year or less but over three months	**23,662**	23,185
Five years or less but over one year	**91,964**	133,322
Over five years	**162,813**	164,797
	294,109	370,638

20. AVAILABLE-FOR-SALE SECURITIES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity outside Hong Kong, at market value	**668,139**	614,503	**–**	–
Unlisted equity, at cost	**251,524**	137,989	**141,997**	96,087
Impairment	**(18,184)**	(17,790)	**–**	–
	233,340	120,199	**141,997**	96,087
Unlisted debt, at cost	**27,800**	22,096	**–**	–
Impairment	**(6,900)**	(6,900)	**–**	–
	20,900	15,196	**–**	–
Total available-for-sale securities	**922,379**	749,898	**141,997**	96,087

20. AVAILABLE-FOR-SALE SECURITIES (cont'd)

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Banks and other financial institutions	**665,707**	571,806	**139,922**	94,012
Corporate entities	**256,672**	178,092	**2,075**	2,075
	922,379	749,898	**141,997**	96,087

During the year, the gross gain of the Group's available-for-sale listed investments recognised directly in equity amounted to HK$53,438,000 (2006: HK$83,604,000) (note 28).

Included in the unlisted equity investments are certain companies in which the percentage of equity attributable to the Group exceeds 20%. These investments, however, are not equity accounted for in accordance with HKAS 28 Investments in Associates as the directors consider that the Group is not in a position to exercise significant influence over their operations. The results of these companies are dealt with in the consolidated income statement to the extent of dividends received from these companies.

The particulars of these companies are as follows:

Name	Place of incorporation	Class of shares held	Proportion held
Robina Manila Hotel Limited	British Virgin Islands	Ordinary	25%
Yangon Hotel Holdings Limited	Cook Islands	Ordinary	30%

The fair values of listed equity investments are based on quoted market prices. The unlisted available-for-sale equity investments of the Group and the Company with carrying amounts of HK$233,340,000 (2006: HK$120,199,000) and HK$141,997,000 (2006: HK$96,087,000), respectively, are measured at cost less impairment because the directors believe that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

21. PROPERTIES HELD FOR SALE

In prior year, the Group entered into certain sale and purchase agreements with independent third parties to sell an owner-occupied building and certain investment properties. Accordingly, the Group's owner-occupied building with a carrying amount of HK$3,351,000 (note 14) and certain investment properties with a carrying amount of HK$11,106,000 (note 15), were reclassified as properties held for sale in 2006. The disposal of these properties was completed during the year.

22. LOANS AND ADVANCES AND OTHER ASSETS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans and advances	**109,697**	49,393	**50,000**	–
Accrued interest and other assets	**182,899**	315,672	**8,518**	9,211
Gross loans and advances and other assets	**292,596**	365,065	**58,518**	9,211
Less: Impairment allowances for accrued interest and other assets – Individually assessed	**–**	(63)	**–**	–
Loans and advances and other assets	**292,596**	365,002	**58,518**	9,211

The Group's and the Company's accrued interest and other assets were current in nature as at 31st December, 2007 and 2006. None of the loans and advances and other assets are either past due or impaired. The financial assets included in the loans and advances and other assets relate to receivables for which there was no recent history of default.

The carrying amounts of loans and advance and other assets approximate to their fair values.

The loans and advances and other assets were classified as loans and receivables.

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

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Repayable on demand	**56**	40	**–**	–
With a residual maturity of:				
Three months or less	**1,130**	1,728	**–**	–
One year or less but over three months	**3,251**	4,765	**–**	–
Five years or less but over one year	**88,276**	16,952	**50,000**	–
Over five years	**16,984**	25,908	**–**	–
	109,697	49,393	**50,000**	–

23. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2007 HK$'000	2006 HK$'000
Debt securities:		
– listed outside Hong Kong, at market value	**43,591**	37,447
– unlisted, at quoted market price	**74,922**	87,762
	118,513	125,209
Equity securities at market value:		
– listed in Hong Kong	**355,312**	555,146
– listed outside Hong Kong	**472,392**	392,832
	827,704	947,978
Investment funds:		
– listed outside Hong Kong, at market value	**9,363**	32,080
– unlisted, at quoted market price	**1,056,348**	1,518,433
	1,065,711	1,550,513
Total	**2,011,928**	2,623,700

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

	Group 2007 HK$'000	2006 HK$'000
Public sector entities	**52,400**	144,638
Banks and other financial institutions	**241,434**	375,874
Corporate	**1,718,094**	2,103,188
	2,011,928	2,623,700

24. INSURANCE RECEIVABLES

	Group 2007 HK$'000	2006 HK$'000
Amounts due in respect of:		
Direct underwriting	**127,971**	125,678
Reinsurance accepted	**21,418**	17,243
	149,389	142,921

The Group grants credit terms of 3 months to all its customers and cedants. 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 approximates to its fair value.

An aged analysis of the insurance receivables based on the issuance date of policies, as at the balance sheet date, is as follows:

	Group 2007 HK$'000	2006 HK$'000
Three months or less	**115,237**	95,712
Six months or less but over three months	**37,904**	48,540
One year or less but over six months	**–**	1,204
Over one year	**246**	1,379
	153,387	146,835
Less: Impairment allowances	**(3,998)**	(3,914)
	149,389	142,921

24. INSURANCE RECEIVABLES (cont'd)

The movements in provision for impairment of insurance receivable are as follows:

	Group 2007 HK$'000	2006 HK$'000
At 1st January	**3,914**	7,943
Impairment losses recognised (note 6)	**220**	–
Amount written off as uncollectible	**(136)**	(4,029)
At 31st December	**3,998**	3,914

Included in the above provision for impairment of insurance receivables is a provision for individually impaired insurance receivables of HK$2,998,000 (2006: HK$2,914,000) with a carrying amount of HK$2,998,000 (2006: HK$2,914,000). The individually impaired insurance receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the insurance receivables that are not impaired is as follows:

	Group 2007 HK$'000	2006 HK$'000
Not past due	**136,651**	114,326
Less than one month past due	**5,972**	28,595
Over one month past due	**6,766**	–
	149,389	142,921

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no material provision for impairment is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

25. REINSURANCE ASSETS

	Group 2007 HK$'000	Group 2006 HK$'000
Reinsurers' share of insurance contract liabilities (note 29)	**342,444**	371,238

None of the reinsurance assets are either past due or impaired. The financial assets included in the reinsurance assets relate to receivables for which there was no recent history of default.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**207,980**	353,770	**6,997**	521,748
Time deposits with original maturity of over three months	**91,827**	21,188	**–**	–
Time deposits with original maturity of less than three months	**2,171,664**	1,378,917	**329,601**	–
	2,471,471	1,753,875	**336,598**	521,748
Pledged deposits with original maturity of:				
– over three months	**22,219**	20,181	**–**	–
– less than three months	**12,612**	12,612	**–**	–
	34,831	32,793	**–**	–
	2,506,302	1,786,668	**336,598**	521,748

The pledged deposits are pledged in favour of Autoridade Monetaria e Cambial de Macau as security for the outstanding claims provision and unearned premiums reserve of a subsidiary operates in Macau as required under the applicable laws of Macau.

Cash and cash equivalents included cash at banks and short term time deposits and were classified as loans and receivables. Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. Time deposits with original maturity of more than three months when acquired earn interest at the respective time deposit rates with terms between three months and twelve months. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents, time deposits with original maturity of more than three months when acquired and the pledged deposits approximate to their fair values.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (cont'd)

The maturity profile of the cash and bank balances, time deposits and pledged deposits as at the balance sheet date was as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
With a residual maturity of:		
Three months or less	**2,477,453**	1,758,416
One year or less but over three months	**28,849**	28,252
	2,506,302	1,786,668

27. SHARE CAPITAL

	2007	2006
	HK$'000	HK$'000
Authorised:		
1,500,000,000 ordinary shares of HK$1 each	**1,500,000**	1,500,000
Issued and fully paid:		
1,052,739,428 ordinary shares (2006: 1,052,739,428) of HK$1 each	**1,052,739**	1,052,739

During the year ended 31st December, 2006, the Company repurchased and cancelled 5,282,000 of its ordinary shares of HK$1 each from the market at a total consideration of approximately HK$16,379,000.

The premium of approximately HK$11,097,000 paid on the repurchase of such shares was debited to the retained profits account and an amount of HK$5,282,000 was transferred from retained profits of the Company to the capital redemption reserve, as set out in note 28 to the financial statements.

28. RESERVES

Group

	Attributable to equity holders of the Company											
	Share premium account HK$'000	General reserve HK$'000	Available-for-sale investment reserve HK$'000	Asset revaluation reserve HK$'000	Exchange reserve HK$'000	Statutory reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total reserves HK$'000
At 1st January, 2006	560,531	159,883	129,012	131,606	379	2,427	513,240	–	1,022,252	2,519,330	28,572	2,547,902
Changes in fair value of available-for-sale securities (note 20)	–	–	83,604	–	–	–	–	–	–	83,604	–	83,604
Share of changes in the investment revaluation reserve of an associate	–	–	339	–	–	–	–	–	–	339	–	339
Deferred tax credited (note 33)	–	–	–	654	–	–	–	–	–	654	–	654
Exchange realignment	–	(316)	–	–	466	–	–	–	–	150	–	150
Total income and expense recognised directly in equity	–	(316)	83,943	654	466	–	–	–	–	84,747	–	84,747
Profit for the year	–	–	–	–	–	–	–	–	3,092,434	3,092,434	1,176	3,093,610
Interim 2006 dividend (note 11)	–	–	–	–	–	–	–	–	(52,901)	(52,901)	–	(52,901)
Special dividend (note 11)	–	–	–	–	–	–	–	–	(1,269,626)	(1,269,626)	–	(1,269,626)
Proposed final 2006 dividend (note 11)	–	–	–	–	–	–	–	–	(115,801)	(115,801)	–	(115,801)
Repurchase of shares (note 27)	–	–	–	–	–	–	–	–	(11,097)	(11,097)	–	(11,097)
Transfer to capital redemption reserve (note 27)	–	–	–	–	–	–	–	5,282	(5,282)	–	–	–
Transfer to retained profits upon disposal of subsidiaries	–	(159,567)	–	(83,179)	–	–	–	–	242,746	–	–	–
At 31st December, 2006	560,531	–	212,955	49,081	845	2,427	513,240	5,282	2,902,725	4,247,086	29,748	4,276,834

28. RESERVES (cont'd)

Group

	Attributable to equity holders of the Company											
	Share premium account HK$'000	Contingency reserve HK$'000	Available-for-sale investment reserve HK$'000	Asset revaluation reserve HK$'000	Exchange reserve HK$'000	Statutory reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total reserves HK$'000
At 1st January, 2007	560,531	-	212,955	49,081	845	2,427	513,240	5,282	2,902,725	4,247,086	29,748	4,276,834
Changes in fair value of available-for-sale securities (note 20)	-	-	53,438	-	-	-	-	-	-	53,438	-	53,438
Share of changes in the investment revaluation reserve of an associate	-	-	(67)	-	-	-	-	-	-	(67)	-	(67)
Exchange realignment	-	-	-	-	(306)	-	-	-	-	(306)	-	(306)
Total income and expense recognised directly in equity	-	-	53,371	-	(306)	-	-	-	-	53,065	-	53,065
Profit for the year	-	-	-	-	-	-	-	-	520,584	520,584	355	520,939
Interim 2007 dividend (note 11)	-	-	-	-	-	-	-	-	(98,958)	(98,958)	-	(98,958)
Proposed final 2007 dividend (note 11)	-	-	-	-	-	-	-	-	(98,958)	(98,958)	-	(98,958)
Transfer to contingency reserve	-	11,049	-	-	-	-	-	-	(11,049)	-	-	-
Transfer to retained profits upon disposal of a building	-	-	-	(3,010)	-	-	-	-	3,010	-	-	-
Additional acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	(7,667)	(7,667)
Liquidation of a subsidiary	-	-	-	-	-	-	-	-	-	-	(5,222)	(5,222)
At 31st December, 2007	560,531	11,049	266,326	46,071	539	2,427	513,240	5,282	3,217,354	4,622,819	17,214	4,640,033

In accordance with the Macau Commercial Codes, a branch (the "Branch") of Asia Insurance Company, Limited, a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to the statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund, which was achieved in prior years. The statutory reserve may be utilised by the Branch for certain restricted purposes including offsetting against the accumulated losses, if any, arising under certain specified circumstances.

Contingency reserve ("CR") represents a reserve established in accordance with Guidance Note on Reserving for Mortgage Guarantee Business ("GN6") issued by the Office of the Commissioner of Insurance. An amount equal to 50% of the net earned premiums income derived from mortgage business in each year shall be assigned to the CR and maintained for a period of seven years. In accordance to GN6, withdrawals may be made where the claims incurred in any year exceed 35% of the net earned premiums income in that year, and any such withdrawals shall only be made on a first-in-first-out basis and recognised directly in equity.

28. RESERVES (cont'd)

Group

At the end of the seventh year, the amount assigned to the CR in respect of a year may, to the extent that it has not already been depleted by prior withdrawals, be released. Changes in CR are recognised directly in equity.

No withdrawal was made to the CR during the year ended 31st December, 2007.

Company

	Notes	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2006		560,531	210,280	–	338,884	1,109,695
Profit for the year	10	–	–	–	3,413,843	3,413,843
Interim 2006 dividend	11	–	–	–	(52,901)	(52,901)
Proposed final 2006 dividend	11	–	–	–	(115,801)	(115,801)
Special dividend	11	–	–	–	(1,269,626)	(1,269,626)
Transfer to retained profits upon disposal of a subsidiary		–	(150,220)	–	150,220	–
Repurchase of shares	27	–	–	–	(11,097)	(11,097)
Transfer to capital redemption reserve	27	–	–	5,282	(5,282)	–
At 31st December, 2006 and 1st January, 2007		560,531	60,060	5,282	2,448,240	3,074,113
Profit for the year	10	–	–	–	135,199	135,199
Interim 2007 dividend	11	–	–	–	(98,958)	(98,958)
Proposed final 2007 dividend	11	–	–	–	(98,958)	(98,958)
At 31st December, 2007		**560,531**	**60,060**	**5,282**	**2,385,523**	**3,011,396**

29. INSURANCE CONTRACT LIABILITIES

Group

	Notes	2007 Insurance contract liabilities HK$'000	2007 Reinsurers' share of liabilities HK$'000	2007 Net HK$'000	2006 Insurance contract liabilities HK$'000	2006 Reinsurers' share of liabilities HK$'000	2006 Net HK$'000
Life insurance contracts	(a)	**17,607**	**–**	**17,607**	15,934	–	15,934
General insurance contracts	(b)	**1,130,547**	**(342,444)**	**788,103**	1,080,070	(371,238)	708,832
Total insurance contract liabilities		**1,148,154**	**(342,444)**	**805,710**	1,096,004	(371,238)	724,766
			(note 25)			(note 25)	

(a) Life insurance contract liabilities are analysed as follows:

	Notes	2007 Insurance contract liabilities HK$'000	2007 Reinsurers' share of liabilities HK$'000	2007 Net HK$'000	2006 Insurance contract liabilities HK$'000	2006 Reinsurers' share of liabilities HK$'000	2006 Net HK$'000
Life reserve	(1)	**17,607**	**–**	**17,607**	15,739	–	15,739
Provision for claims	(2)	**–**	**–**	**–**	195	–	195
		17,607	**–**	**17,607**	15,934	–	15,934

(1) Life reserve is analysed as follows:

	2007 HK$'000	2006 HK$'000
At 1st January	**15,739**	14,131
Increase in the year	**1,868**	1,608
At 31st December	**17,607**	15,739

29. INSURANCE CONTRACT LIABILITIES (cont'd)

(a) Life insurance contract liabilities are analysed as follows: (cont'd)

(2) The provision for claims of life insurance contracts is analysed as follows:

	2007			2006		
	Insurance contract liabilities HK$'000	**Reinsurers' share of liabilities HK$'000**	**Net HK$'000**	Insurance contract liabilities HK$'000	Reinsurers' share of liabilities HK$'000	Net HK$'000
At 1st January	**195**	**–**	**195**	390	–	390
Claims incurred during the year	**813**	**–**	**813**	510	–	510
Claims paid during the year	**(1,008)**	**–**	**(1,008)**	(705)	–	(705)
At 31st December	**–**	**–**	**–**	195	–	195

(b) General insurance contract liabilities are analysed as follows:

		2007			2006		
	Notes	**Insurance contract liabilities HK$'000**	**Reinsurers' share of liabilities HK$'000**	**Net HK$'000**	Insurance contract liabilities HK$'000	Reinsurers' share of liabilities HK$'000	Net HK$'000
Provision for claims reported by policyholders		**479,649**	**(174,252)**	**305,397**	448,833	(173,501)	275,332
Provision for claims incurred but not reported (IBNR)		**202,066**	**(21,500)**	**180,566**	220,696	(46,730)	173,966
Total claims reported and IBNR	(1)	**681,715**	**(195,752)**	**485,963**	669,529	(220,231)	449,298
Provision for unearned premiums	(2)	**448,832**	**(146,692)**	**302,140**	410,541	(151,007)	259,534
Total general insurance contracts liabilities		**1,130,547**	**(342,444)**	**788,103**	1,080,070	(371,238)	708,832

29. INSURANCE CONTRACT LIABILITIES (cont'd)

(b) General insurance contract liabilities are analysed as follows: (cont'd)

(1) The provision for claims reported by policyholders and IBNR is analysed as follows:

	2007 Insurance contract liabilities HK$'000	2007 Reinsurers' share of liabilities HK$'000	2007 Net HK$'000	2006 Insurance contract liabilities HK$'000	2006 Reinsurers' share of liabilities HK$'000	2006 Net HK$'000
At 1st January	**669,529**	**(220,231)**	**449,298**	635,033	(245,892)	389,141
Claims incurred during the year	**352,498**	**(99,500)**	**252,998**	307,624	(52,736)	254,888
Claims paid during the year	**(340,312)**	**123,979**	**(216,333)**	(273,128)	78,397	(194,731)
At 31st December	**681,715**	**(195,752)**	**485,963**	669,529	(220,231)	449,298

(2) The provision for unearned premiums is analysed as follows:

	2007 Insurance contract liabilities HK$'000	2007 Reinsurers' share of liabilities HK$'000	2007 Net HK$'000	2006 Insurance contract liabilities HK$'000	2006 Reinsurers' share of liabilities HK$'000	2006 Net HK$'000
At 1st January	**410,541**	**(151,007)**	**259,534**	411,893	(165,997)	245,896
Premiums written during the year	**810,902**	**(252,710)**	**558,192**	738,088	(262,573)	475,515
Premiums earned during the year	**(772,611)**	**257,025**	**(515,586)**	(739,440)	277,563	(461,877)
At 31st December	**448,832**	**(146,692)**	**302,140**	410,541	(151,007)	259,534

30. NET PREMIUMS

	Notes	Group 2007 HK$'000	2006 HK$'000
(a) Gross premiums on insurance contracts			
Gross general insurance premiums:			
Direct underwriting		**638,720**	595,459
Reinsurance accepted		**172,182**	142,629
Total gross general insurance premiums	29(b)(2)	**810,902**	738,088
Gross life insurance premiums		**2,791**	2,250
Change in unearned premiums		**(38,291)**	1,352
Change in life reserve	29(a)(1)	**(1,868)**	(1,608)
Total gross premiums		**773,534**	740,082
(b) Reinsurers' share of gross premiums on insurance contracts			
Gross general insurance premiums:			
Direct underwriting		**(218,269)**	(236,725)
Reinsurance accepted		**(34,441)**	(25,848)
Total gross general insurance premiums	29(b)(2)	**(252,710)**	(262,573)
Gross life insurance premiums		**(758)**	(655)
Change in unearned premiums		**(4,315)**	(14,990)
Total reinsurers' share of gross premiums		**(257,783)**	(278,218)

31. NET CLAIMS INCURRED

	Notes	Group 2007 HK$'000	2006 HK$'000
(a) Gross claims paid			
Life insurance contracts claims paid	29(a)(2)	**(1,008)**	(705)
General insurance contracts claims paid	29(b)(1)	**(340,312)**	(273,128)
Total gross claims paid		**(341,320)**	(273,833)
(b) Reinsurers' share of gross claims paid			
Life insurance contracts claims paid		**–**	–
General insurance contracts claims paid	29(b)(1)	**123,979**	78,397
Total reinsurers' share of gross claims paid		**123,979**	78,397
(c) Gross change in outstanding claims			
Change in life insurance outstanding claims		**195**	195
Change in general insurance outstanding claims		**(12,186)**	(34,496)
Total gross change in outstanding claims		**(11,991)**	(34,301)
(d) Reinsurers' share of gross change in outstanding claims			
Life insurance outstanding claims		**–**	–
General insurance outstanding claims		**(24,479)**	(25,661)
Total reinsurers' share of gross change in outstanding claims		**(24,479)**	(25,661)

32. OTHER LIABILITIES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals and other payables	**121,074**	92,710	**12,812**	12,232

The Group's and Company's other liabilities were classified as financial liabilities at amortised cost and were current in nature as at 31st December, 2007 and 2006.

The carrying amounts of other liabilities approximate to their fair values.

33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Group

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of buildings HK$'000	Revaluation of investment properties HK$'000	Total HK$'000
At 1st January, 2006	**2,893**	**27,916**	**1,037**	**31,846**
Deferred tax debited to the income statement during the year (note 9)	**430**	**–**	**–**	**430**
Deferred tax credited to the asset revaluation reserve (note 28)	**–**	**(654)**	**–**	**(654)**
Disposal of subsidiaries	**(1,871)**	**(17,428)**	**(1,037)**	**(20,336)**
Gross deferred tax liabilities at 31st December, 2006 and at 31st December, 2007	**1,452**	**9,834**	**–**	**11,286**

33. DEFERRED TAX (cont'd)

Deferred tax assets

	Collective impairment allowance HK$'000
At 1st January, 2006	3,512
Disposal of subsidiaries	(3,512)
Gross deferred tax assets at 31st December, 2006 and at 31st December, 2007	–

The Group has tax losses arising in Hong Kong of HK$7,165,000 (2006: HK$7,163,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

34. LOANS TO DIRECTORS AND OFFICERS

The loans to directors and officers of the Company and its subsidiaries disclosed pursuant to Section 161B(10) of the Hong Kong Companies Ordinance, are as follows:

Name of borrower	Office held	Balance at 31st December, 2007 HK$'000	Balance at 1st January, 2007 HK$'000	Maximum amount outstanding during the year HK$'000
Wong Kok Ho	Executive director	1,794	2,146	2,146

The loan is secured by a property owned by the director, bears interest at the Hong Kong dollar prime rate less 2.5% per annum, capped at 4% per annum, and is repayable by monthly instalments. During the year, the interest income from the director amounted to HK$79,000 (2006: HK$93,000).

35. DISPOSAL OF SUBSIDIARIES

	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 deposits issued	(1,423,691)
Deposits from customers	(12,040,469)
Deposits and balances of banks and other financial institutions	(771,262)
	1,789,520
Gain on disposal of subsidiaries	2,628,293
Consideration	4,417,813
Satisfied by cash	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.*

35. DISPOSAL OF SUBSIDIARIES (cont'd)

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	(2,687,507)
Net inflow of cash and cash equivalents in respect of the disposal of the ACB Group	1,730,306

36. OPERATING LEASE COMMITMENTS

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings are negotiated for terms ranging from one to three years. The terms of the leases generally require the Group to pay security deposits.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Within one year	**1,515**	1,560	**–**	45
In the second to fifth years, inclusive	**631**	2,146	**–**	–
	2,146	3,706	**–**	45

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had capital commitments as follows at the balance sheet date:

	Group	
	2007 HK$'000	2006 HK$'000
Contracted, but not provided for acquisition of computer software	**4,438**	11,832

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

38. RELATED PARTY TRANSACTIONS

(a) Group

	2007		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 the balance sheet date	**1,794**	**4,793**	2,146	6,235
Interest income received and receivables	**79**	**–**	93	–
Interbank activities:				
Deposits placed	**–**	**1,148,017**	–	257,168
Interest income	**–**	**39,320**	–	10,214
Premium income:				
Gross premiums written	**136**	**736**	173	1,095
Commission expense, net	**–**	**1,120**	–	534

(b) The Group had the following transactions with certain of its jointly-controlled entities during the year:

	2007 HK$'000	2006 HK$'000
Loans and advances granted:		
Aggregate balance at the balance sheet date	**70,964**	31,000
Interest income received and receivables	**319**	–
Reinsurance premium ceded	**9**	9

38. RELATED PARTY TRANSACTIONS (cont'd)

(c) The Group had the following transaction with certain of its associates during the year:

	2007 HK$'000	2006 HK$'000
Loan and advance granted:		
Aggregate balance at the balance sheet date	**107,510**	–
Commission expense paid	**11,961**	15,243

(d) Details of the Group's advances to its jointly-controlled entities and associates as at the balance sheet date are included in notes 17 and 18 to the financial statements, respectively.

(e) Details of compensation for key management personnel, who are the directors of the Company, and post-employment benefits of the Group, are included in notes 7 and 8 to the financial statements.

39. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

General insurance contracts

(1) Terms and conditions

The major classes of general insurance written by the Group include property damage, ships, goods in transit, pecuniary loss, accident and health, general liability, employees' compensation and motor insurances. Risks under these policies usually cover a 12-month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the balance sheet date.

The provisions are refined regularly as part of an ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The measurement process primarily includes projection of future claims costs through a combination of actuarial and statistical projection techniques like the Chain Ladder and Bornheutter Ferguson Method calculated by an external actuary. In certain cases, where there is a lack of reliable historical data to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analysed by class of business. In addition, larger claims are usually separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide the best estimate of the most likely or expected outcome.

39. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (cont'd)

General insurance contracts (cont'd)

(2) Assumptions

The principal assumption underlying the estimates is the Group's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs and claim numbers for each accident year. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislations affect the estimates.

(3) Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions such as legislative change and uncertainty in the estimation process, etc., is not possible to quantify. Furthermore, because of the delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claims provision is not known with certainty at the balance sheet date.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognised in subsequent financial statements.

(4) Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive accident year at each balance sheet date, together with cumulative claims as at the current balance sheet date.

39. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (cont'd)

General insurance contracts (cont'd)

(4) Loss development triangle (cont'd)

Gross general insurance claims

	2001 and before HK$'000	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	Total HK$'000
Accident year	460,141	193,696	271,111	343,231	397,590	350,726	382,549	2,399,044
One year later	478,931	213,745	265,153	317,189	360,933	342,124	–	1,978,075
Two years later	479,239	199,937	233,142	290,479	364,956	–	–	1,567,753
Three years later	505,216	202,457	241,905	303,588	–	–	–	1,253,166
Four years later	503,132	200,877	235,102	–	–	–	–	939,111
Five years later	513,974	191,030	–	–	–	–	–	705,004
Six years later	492,044	–	–	–	–	–	–	492,044
Current estimate of cumulative gross claims	492,044	191,030	235,102	303,588	364,956	342,124	382,549	2,311,393
Cumulative gross payments to date	(480,930)	(186,587)	(203,759)	(224,558)	(241,065)	(179,417)	(113,362)	(1,629,678)
Total gross general insurance claim liabilities as per the balance sheet	11,114	4,443	31,343	79,030	123,891	162,707	269,187	681,715
								(Note 29(b))

Net general insurance claims

	2001 and before HK$'000	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	Total HK$'000
Accident year	225,033	67,518	151,658	217,908	246,522	220,375	243,904	1,372,918
One year later	287,712	127,175	168,110	225,626	267,267	229,650	–	1,305,540
Two years later	300,779	129,964	168,962	230,275	287,131	–	–	1,117,111
Three years later	308,626	131,195	173,745	236,448	–	–	–	850,014
Four years later	307,659	128,821	169,537	–	–	–	–	606,017
Five years later	314,369	122,160	–	–	–	–	–	436,529
Six years later	299,665	–	–	–	–	–	–	299,665
Current estimate of cumulative net claims	299,665	122,160	169,537	236,448	287,131	229,650	243,904	1,588,495
Cumulative net payments to date	(292,884)	(119,001)	(152,087)	(174,119)	(194,431)	(110,175)	(59,835)	(1,102,532)
Total net general insurance claim liabilities as per the balance sheet	6,781	3,159	17,450	62,329	92,700	119,475	184,069	485,963
								(Note 29(b))

40. 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, operational risk and equity price 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, 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.

There are no significant concentrations of credit risk within the Group as the customer bases of the Group's insurance receivables are widely dispersed in different intermediates and direct customers from different sectors and industries.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, held-to-maturity securities, available-for-sale securities, loans and advances and other assets, amounts due from associates and jointly-controlled entities and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from loans and advances and other assets, insurance receivables and reinsurance assets are disclosed in notes 22, 24 and 25 to the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(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.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. insurance receivables) and the projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group			**2007**			
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Provision for claims reported by policyholders	**479,649**	**–**	**–**	**–**	**–**	**479,649**
Insurance payables	**–**	**89,989**	**64,239**	**–**	**–**	**154,228**
Due to associates	**265**	**–**	**–**	**–**	**–**	**265**
Other liabilities	**42,190**	**42,733**	**15,019**	**21,132**	**–**	**121,074**
	522,104	**132,722**	**79,258**	**21,132**	**–**	**755,216**

			2006			
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Provision for claims reported by policyholders	448,833	–	–	–	–	448,833
Insurance payables	–	77,123	58,565	–	–	135,688
Due to associates	265	–	–	–	–	265
Other liabilities	19,721	45,004	6,853	21,132	–	92,710
	468,819	122,127	65,418	21,132	–	677,496

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(3) Liquidity risk management (cont'd)

Company

	2007					
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Other liabilities	**3,630**	**200**	**8,982**	**–**	**–**	**12,812**

	2006					
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Other liabilities	3,143	7,408	1,681	–	–	12,232

The tables below summarise the expected recovery or settlement of assets of the Group and the Company.

Group

31st December, 2007	**Current* HK$'000**	**Non-current HK$'000**	**Total HK$'000**
Property, plant and equipment	**–**	**202,728**	**202,728**
Investment properties	**–**	**3,780**	**3,780**
Interests in jointly-controlled entities	**–**	**306,027**	**306,027**
Loans to jointly-controlled entities	**5,953**	**65,011**	**70,964**
Interests in associates	**–**	**72,823**	**72,823**
Due from an associate	**10**	**107,500**	**107,510**
Held-to-maturity securities	**39,332**	**254,777**	**294,109**
Available-for-sale securities	**–**	**922,379**	**922,379**
Loans and advances and other assets	**187,336**	**105,260**	**292,596**
Securities measured at fair value through profit or loss	**2,011,928**	**–**	**2,011,928**
Insurance receivables	**149,389**	**–**	**149,389**
Reinsurance assets	**342,444**	**–**	**342,444**
Pledged deposits	**34,831**	**–**	**34,831**
Cash and cash equivalents	**2,471,471**	**–**	**2,471,471**
Total assets	**5,242,694**	**2,040,285**	**7,282,979**

* *Expected recovery or settlement within 12 months from the balance sheet date*

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(3) Liquidity risk management (cont'd)

Group

31st December, 2006	Current* HK$'000	Non-current HK$'000	Total HK$'000
Property, plant and equipment	–	192,651	192,651
Investment properties	–	3,450	3,450
Interests in jointly-controlled entities	–	97,694	97,694
Loans to jointly-controlled entities	–	31,000	31,000
Interests in associates	–	70,483	70,483
Held-to-maturity securities	72,519	298,119	370,638
Available-for-sale securities	–	749,898	749,898
Properties held for sale	14,457	–	14,457
Loans and advances and other assets	322,142	42,860	365,002
Securities measured at fair value through profit or loss	2,623,700	–	2,623,700
Insurance receivables	142,921	–	142,921
Reinsurance assets	371,238	–	371,238
Pledged deposits	32,793	–	32,793
Cash and cash equivalents	1,753,875	–	1,753,875
Total assets	5,333,645	1,486,155	6,819,800

Company

31st December, 2007	**Current* HK$'000**	**Non-current HK$'000**	**Total HK$'000**
Property, plant and equipment	**–**	**213**	**213**
Interests in subsidiaries	**–**	**1,695,747**	**1,695,747**
Due from subsidiaries	**–**	**1,937,745**	**1,937,745**
Loan to a jointly-controlled entity	**5,267**	**–**	**5,267**
Available-for-sale securities	**–**	**141,997**	**141,997**
Loans and advances and other assets	**8,518**	**50,000**	**58,518**
Cash and cash equivalents	**336,598**	**–**	**336,598**
Total assets	**350,383**	**3,825,702**	**4,176,085**

* *Expected recovery or settlement within 12 months from the balance sheet date*

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(3) Liquidity risk management (cont'd)

Company

31st December, 2006	Current* HK$'000	Non-current HK$'000	Total HK$'000
Property, plant and equipment	–	384	384
Interests in subsidiaries	–	1,695,747	1,695,747
Due from subsidiaries	–	1,900,803	1,900,803
Loans to jointly-controlled entities	25,733	5,267	31,000
Available-for-sale securities	–	96,087	96,087
Loans and advances and other assets	9,211	–	9,211
Cash and cash equivalents	521,748	–	521,748
Total assets	556,692	3,698,288	4,254,980

* *Expected recovery or settlement within 12 months from the balance sheet date*

(4) Capital management risk management

Externally imposed capital requirements are mainly set and regulated by the Hong Kong Insurance Authority. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders value.

The Group manage its capital requirements by assessing any shortfalls between reported and required Relevant Amount, as defined in section 10 of the Hong Kong Insurance Companies Ordinance, on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid or return capital to ordinary shareholders.

The Group fully complied with the externally imposed Relevant Amount requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous year.

The table below summarises the required Relevant Amount across the Group.

	Life insurance HK$'000	**Non-life insurance HK$'000**
2007 Required Relevant Amount	**2,000**	**75,863**
2006 Required Relevant Amount	2,000	67,716

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(4) Capital management risk management (cont'd)

The required Relevant Amount is determined by the application of a formula that contains variables for premiums and claims, expenses and reserve items. It also takes into account distribution of assets and investment returns.

In addition, the Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes insurance contract liabilities, insurance payables, due to associates and other liabilities, less cash and cash equivalents, and excludes discontinued operations. Capital includes equity attributable to equity holders of the Company. As at 31st December, 2007, the Group has no net debt.

(5) Interest rate risk management

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets. Interests on floating rate instruments are repriced at intervals of less than one year. Interests on fixed interest rate instruments are priced at inception of the financial instruments and are fixed until maturity.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, for securities measured at fair value through profit or loss, time deposits, loans and advances and other assets and loans to jointly-controlled entities showing the pre-tax impact on profit and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

		31st December, 2007 Increase/(decrease)		31st December, 2006 Increase/(decrease)	
	Decrease in interest rate	**in profit HK$'000**	**in equity HK$'000**	in profit HK$'000	in equity HK$'000
Securities measured at fair value through profit or loss	50 basis points	**126**	**126**	252	252
Time deposits	50 basis points	**(12,380)**	**(12,380)**	(8,804)	(8,804)
Loans and advances and other assets	50 basis points	**(174)**	**(174)**	(247)	(247)
Loans to jointly-controlled entities	50 basis points	**(328)**	**(328)**	–	–

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(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.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of Thai Baht and Japanese Yen, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of monetary assets and liabilities and available-for-sale securities).

	Change in exchange rate %	Decrease in profit before tax HK$'000	Decrease in equity HK$'000
2007			
If Thai Baht weakens against Hong Kong dollar	**-5%**	**(6,322)**	**(48,100)**
If Japanese Yen weakens against Hong Kong dollar	**-8%**	**(11,533)**	**(11,533)**
2006			
If Thai Baht weakens against Hong Kong dollar	-5%	(9,706)	(40,535)
If Japanese Yen weakens against Hong Kong dollar	-8%	(8,858)	(8,858)

(7) Insurance risk management

The business of the Group comprises both life and general insurance contracts, and general insurance contracts represent more than 99% 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, severity 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 outcomes.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(7) Insurance risk management (cont'd)

The variability of risks is also improved by careful selection and implementation of underwriting strategies, arrangements of reinsurance and 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 basis 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 the reinsurers are unable to meet their 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.

(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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(9) Equity price risk management

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as securities measured at fair value through profit or loss (note 23) and available-for-sale securities (note 20) as at 31st December 2007. The Group's listed investments are mainly listed on the Hong Kong, United States, Thailand stock exchanges and are valued at quoted market prices at the balance sheet date.

The following table demonstrates the sensitivity to every-15%,-10%,-5% and-10% change in the fair values of the securities listed in Hong Kong, United States, Thailand and all other areas, respectively with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date. For the purpose of this analysis, for the available-for-sale equity investments the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact on the income statement.

	Carrying amount of securities HK$'000	Decrease in profit before tax HK$'000	Decrease in equity HK$'000
2007			
Investments in:			
Hong Kong (-15%)			
– Listed securities measured at fair value through profit or loss	**355,312**	**(53,297)**	**(53,297)**
United Stated (-10%)			
– Listed securities measured at fair value through profit or loss	**299,373**	**(29,937)**	**(29,937)**
Thailand (-5%)			
– Available-for-sale securities	**668,139**	**–**	**(33,407)**
– Listed securities measured at fair value through profit or loss	**126,377**	**(6,319)**	**(6,319)**
All other areas (-10%)			
– Listed and unlisted debts securities, equity securities and investment funds	**1,230,866**	**(123,087)**	**(123,087)**

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(9) Equity price risk management (cont'd)

	Carrying amount of securities HK$'000	Decrease in profit before tax HK$'000	Decrease in equity HK$'000
2006			
Investments in:			
Hong Kong (-15%)			
– Listed securities measured at fair value through profit or loss	555,146	(83,272)	(83,272)
United Stated (-10%)			
– Listed securities measured at fair value through profit or loss	668,508	(66,851)	(66,851)
Thailand (-5%)			
– Available-for-sale securities	614,503	–	(30,725)
– Listed securities measured at fair value through profit or loss	178,881	(8,944)	(8,944)
All other areas (-10%)			
– Listed and unlisted debts securities, equity securities and investment funds	1,221,165	(122,117)	(122,117)

(10) 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 a non-exchange-traded financial instrument, 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.

41. LITIGATION

A claim for approximately HK$16 million was brought against a then subsidiary in 1997 by its former client alleging that the subsidiary was liable for compensation of loss of profit suffered by that client. In last year, the Group achieved an out-of-court settlement with the plaintiff and the loss attributable to the Group's result for the year ended 31st December, 2006 amounted to approximately HK$6.8 million.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 1st April, 2008.