亞洲金融集團(控股)有限公司

Asia Financial Holdings Ltd.

Incorporated in Bermuda with limited liability

(Stock Code: 662)

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

DIRECTORS	Robin Yau Hing Chan *(Executive Director & Chairman)* The Hon. Bernard Charnwut Chan *(Executive Director & President)* Stephen Tan *(Executive Director)* Kok Ho Wong *(Executive Director)* Ki Chit Lau Dr. The Hon. Leo Tung Hai Lee Choedchu Sophonpanich Song Hin Ng Dr. The Hon. Philip Yu Hong Wong Kenneth Chi Lam Siao Mamoru Miyazaki Yeow Toh Chan Andrew Chiu Cheung Ma* Anna Suk Han Chow* Wing Man Ko* * *independent non-executive director*
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The board of directors (the "Board") of Asia Financial Holdings Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2008 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

	Notes	Six months ended 30th June, 2008 HK$'000	2007 HK$'000
REVENUE	3	**450,873**	412,821
Gross premiums		**450,873**	412,821
Reinsurers' share of gross premiums		**(152,950)**	(145,428)
Change in unearned premiums reserve		**(7,758)**	(23,118)
Change in life fund		**(1,520)**	(822)
Net insurance contracts premiums revenue		**288,645**	243,453
Gross claims paid		**(161,405)**	(162,313)
Reinsurers' share of gross claims paid		**40,116**	52,839
Gross change in outstanding claims		**(37,451)**	(13,254)
Reinsurers' share of gross change in outstanding claims		**4,531**	(1,310)
Net claims incurred		**(154,209)**	(124,038)
Commission income		**21,712**	23,541
Commission expenses		**(97,035)**	(90,984)
Net commission expenses		**(75,323)**	(67,443)
Management expenses for underwriting business		**(18,897)**	(18,402)
Underwriting profit		**40,216**	33,570
Dividend income		**27,624**	23,659
Realised gains/(losses) on investments		**(60,831)**	83,183
Unrealised gains/(losses) on investments		**(179,275)**	151,575
Interest income		**39,035**	53,689
Other revenue		**2,312**	17,650
		(130,919)	363,326
Operating expenses		**(39,905)**	(38,164)
		(170,824)	325,162

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

For the six months ended 30th June, 2008

	Notes	Six months ended 30th June, 2008 HK$'000	2007 HK$'000
Share of profits and losses of jointly-controlled entities		**(34,624)**	23,323
Share of profits and losses of associates		**(961)**	3,344
PROFIT/(LOSS) BEFORE TAX	4	**(206,409)**	351,829
TAX	5	**20,121**	(22,265)
PROFIT/(LOSS) FOR THE PERIOD		**(186,288)**	329,564
Attributable to:			
Equity holders of the Company		**(185,922)**	328,676
Minority interests		**(366)**	888
		(186,288)	329,564
INTERIM DIVIDEND	6	**10,527**	98,958
INTERIM DIVIDEND PER SHARE	6	**HK1.0 cent**	HK9.4 cents
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic – For profit/(loss) for the period		**(HK 17.7 cents)**	HK31.2 cents
Diluted – For profit/(loss) for the period		**N/A**	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

30th June, 2008

	Notes	**30th June, 2008 HK$'000**	31st December, 2007 HK$'000
ASSETS			
Property, plant and equipment		**200,097**	202,728
Investment properties		**3,780**	3,780
Interests in jointly-controlled entities		**291,960**	306,027
Loans to jointly-controlled entities		**68,821**	70,964
Interests in associates		**69,919**	72,823
Due from an associate		**107,500**	107,510
Held-to-maturity securities	8	**367,465**	294,109
Available-for-sale securities	9	**921,459**	922,379
Loans and advances and other assets	10	**229,655**	292,596
Securities measured at fair value through profit or loss	11	**2,081,944**	2,011,928
Insurance receivables	12	**142,848**	149,389
Reinsurance assets		**366,378**	342,444
Deferred tax assets		**10,353**	–
Pledged deposits	13	**52,883**	34,831
Cash and cash equivalents	13	**2,137,127**	2,471,471
Total assets		**7,052,189**	7,282,979
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital		**1,052,739**	1,052,739
Reserves		**4,418,849**	4,622,819
Proposed dividend		**10,527**	98,958
		5,482,115	5,774,516
Minority interests		**16,848**	17,214
Total equity		**5,498,963**	5,791,730
LIABILITIES			
Insurance contract liabilities		**1,217,125**	1,148,154
Insurance payables		**168,206**	154,228
Due to associates		**265**	265
Other liabilities		**110,021**	121,074
Tax payable		**57,609**	56,242
Deferred tax liabilities		**–**	11,286
Total liabilities		**1,553,226**	1,491,249
Total equity and liabilities		**7,052,189**	7,282,979

UNAUDITED CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2008

	Six months ended 30th June,	
	2008	2007
	HK$'000	HK$'000
Total equity at 1st January,	**5,791,730**	5,445,374
Changes in fair value of available-for-sale securities	**(10,587)**	81,288
Share of changes in the investment revaluation reserve	**50**	(42)
Exchange realignment	**3,016**	(352)
Total income and expense recognised directly in equity	**(7,521)**	80,894
Profit/(Loss) for the period attributable to:		
Equity holders of the Company	**(185,922)**	328,676
Minority interests	**(366)**	888
Dividends:		
Final 2006 dividend declared	**–**	(115,801)
Final 2007 dividend declared	**(98,958)**	–
Total equity at 30th June,	**5,498,963**	5,740,031

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2008

	Six months ended 30th June, 2008 HK$'000	2007 HK$'000
Net cash inflow from operating activities	**262**	283,016
Net cash outflow from investing activities	**(363,504)**	(208,136)
Net cash outflow from financing activities	**(98,958)**	(115,801)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(462,200)**	(40,921)
Cash and cash equivalents at beginning of period	**2,379,644**	1,732,687
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,917,444**	1,691,766
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**214,569**	298,110
Time deposits with original maturity of less than three months when acquired	**1,732,300**	1,406,267
Less: Pledged deposits (included in cash and bank balances and time deposits with maturity of less than three months when acquired)	**(29,425)**	(12,611)
	1,917,444	1,691,766

NOTES

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard No.34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted are consistent with those adopted in the Company's financial statements for the year ended 31st December, 2007 except for the adoption of the new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs"), which are effective for periods beginning on 1st January, 2008 and as disclosed below.

HK(IFRIC) Interpretation 11 "HKFRS 2 – Group and Treasury Share Transactions"

HK(IFRIC) Interpretation 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) Interpretation 11 also addresses the accounting for share based payment transactions involving two or more entities within the Group.

HK(IFRIC) Interpretation 12 "Service Concession Arrangements"

HK(IFRIC) Interpretation 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) Interpretation 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) Interpretation 14 "HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

HK(IFRIC) Interpretation 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.

Adoption of these new HKFRS interpretations did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

NOTES (continued)

2. SEGMENT INFORMATION

(a) Business segments

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

Group	**Insurance HK$'000**	**Corporate HK$'000**	**Eliminations HK$'000**	**Consolidated HK$'000**
For the six months ended 30th June, 2008				
Segment revenue:				
External customers	**450,873**	**–**	**–**	**450,873**
Other revenue, income, gain/(loss), net	**(74,520)**	**(96,615)**	**–**	**(171,135)**
Intersegment	**2**	**–**	**(2)**	**–**
Total	**376,355**	**(96,615)**	**(2)**	**279,738**
Segment results	**(52,305)**	**(118,519)**	**–**	**(170,824)**
Share of profits and losses of:				
Jointly-controlled entities	**(42,336)**	**7,712**	**–**	**(34,624)**
Associates	**(1,159)**	**198**	**–**	**(961)**
Loss before tax				**(206,409)**
Tax	**5,200**	**14,921**	**–**	**20,121**
Loss for the period				**(186,288)**

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

NOTES (continued)

2. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

3. REVENUE

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

4. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30th June,	
	2008	2007
	HK$'000	HK$'000
Auditors' remuneration	**(1,125)**	(1,016)
Depreciation	**(8,205)**	(5,229)
Employee benefits expense (including directors' remuneration)	**(34,452)**	(35,673)
Minimum lease payments under operating leases in respect of land and buildings	**(962)**	(1,201)
Gain on sale of properties held for sale	**–**	4,828
Dividend income from:		
Listed investments	**22,932**	20,859
Unlisted investments	**4,692**	2,800
Interest income	**39,035**	53,689
Realised gain/(loss) on investments:		
– securities measured at fair value through profit or loss	**(58,267)**	83,793
– available-for-sale securities	**(66)**	12
– redemption/call back of held-to-maturity securities	**(2,498)**	(622)
	(60,831)	83,183
Unrealised gain/(loss) on investments:		
– securities measured at fair value through profit or loss	**(179,275)**	151,771
– available-for-sale securities	**–**	(196)
	(179,275)	151,575

5. TAX

Hong Kong profits tax for the Group has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30th June, 2008 HK$'000	2007 HK$'000
Current tax charge for the period:		
Hong Kong	**459**	22,484
Elsewhere	**1,449**	596
Overprovision in prior periods	**(390)**	(815)
Deferred tax credit	**(21,639)**	–
Tax charge/(credit) for the period	**(20,121)**	22,265

6. DIVIDEND

	Six months ended 30th June, 2008 HK$'000	2007 HK$'000
Interim dividend:		
HK1.0 cent (2007: HK9.4 cents) per ordinary share based on 1,052,739,428 (2007:1,052,739,428) shares in issue	**10,527**	98,958

The Board has resolved to pay an interim dividend of HK1.0 cent per share (2007: HK9.4 cents), which will be paid in cash, for the six months ended 30th June, 2008 payable on 28th October, 2008 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 17th October, 2008.

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the loss for the period attributable to ordinary equity holders of the Company of HK$185,922,000 (2007: profit of HK$328,676,000) and on 1,052,739,428 (2007: 1,052,739,428) ordinary shares in issue during the period.

8. HELD-TO-MATURITY SECURITIES

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Listed debt securities in Hong Kong, at amortised cost	**10,623**	10,645
Listed debt securities outside Hong Kong, at amortised cost	**280,938**	155,467
Unlisted debt securities, at amortised cost	**75,904**	127,997
Total held-to-maturity securities	**367,465**	294,109
Fair value of listed and unlisted held-to-maturity securities	**363,689**	289,603

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

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Public sector entities	**44,648**	40,670
Banks and other financial institutions	**259,224**	197,312
Corporate entities	**63,593**	56,127
	367,465	294,109

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

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
With a residual maturity of:		
Three months or less	**–**	15,670
One year or less but over three months	**23,512**	23,662
Five years or less but over one year	**223,109**	91,964
Over five years	**120,844**	162,813
	367,465	294,109

NOTES (continued)

9. AVAILABLE-FOR-SALE SECURITIES

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Listed equity outside Hong Kong, at market value	**657,552**	668,139
Unlisted equity, at cost	**243,734**	251,524
Impairment	**(10,620)**	(18,184)
	233,114	233,340
Unlisted debt, at cost	**37,693**	27,800
Impairment	**(6,900)**	(6,900)
	30,793	20,900
Total available-for-sale securities	**921,459**	922,379

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

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Banks and other financial institutions	**669,595**	665,707
Corporate entities	**251,864**	256,672
	921,459	922,379

10. LOANS AND ADVANCES AND OTHER ASSETS

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Loans and advances	**105,627**	109,697
Accrued interest and other assets	**124,028**	182,899
Loans and advances and other assets	**229,655**	292,596

10. LOANS AND ADVANCES AND OTHER ASSETS (continued)

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

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Repayable on demand	**64**	56
With a residual maturity of:		
Three months or less	**1,050**	1,130
One year or less but over three months	**3,061**	3,251
Five years or less but over one year	**87,215**	88,276
Over five years	**14,237**	16,984
	105,627	109,697

11. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Debt securities:		
– listed outside Hong Kong, at market value	**40,576**	43,591
– unlisted, at quoted market price	**16,208**	74,922
– equity-linked notes, at quoted market price	**81,345**	–
	138,129	118,513
Equity securities, at market value:		
– listed in Hong Kong	**551,402**	355,312
– listed outside Hong Kong	**398,270**	472,392
	949,672	827,704
Investment funds:		
– listed outside Hong Kong, at market value	**9,559**	9,363
– unlisted, at quoted market price	**984,584**	1,056,348
	994,143	1,065,711
Total	**2,081,944**	2,011,928

11. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Public sector entities	**82,412**	52,400
Banks and other financial institutions	**141,808**	241,434
Corporate entities	**1,857,724**	1,718,094
	2,081,944	2,011,928

12. INSURANCE RECEIVABLES

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Amounts due in respect of:		
Direct underwriting	**113,082**	127,971
Reinsurance accepted	**29,766**	21,418
	142,848	149,389

The Group grants credit terms of 3 months to all its customers and cedents. The past settlement history of these receivables indicates that certain debtors settle in arrears subsequent to the credit period, which may also involve settlement subsequent to the 12 months from the balance sheet date.

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

NOTES (continued)

12. INSURANCE RECEIVABLES (continued)

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

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Three months or less	**102,146**	115,237
Six months or less but over three months	**40,501**	37,904
One year or less but over six months	**3,953**	–
Over one year	**246**	246
	146,846	153,387
Less: Impairment allowances	**(3,998)**	(3,998)
	142,848	149,389

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Cash and bank balances	**214,569**	207,980
Time deposits with original maturity of over three months	**219,683**	91,827
Time deposits with original maturity of less than three months	**1,702,875**	2,171,664
Cash and cash equivalents	**2,137,127**	2,471,471
Pledged deposits with original maturity of:		
– over three months	**23,458**	22,219
– less than three months	**29,425**	12,612
Pledged deposits	**52,883**	34,831
	2,190,010	2,506,302

NOTES (continued)

14. COMMITMENTS

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

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Contracted, but not provided for	**4,209**	4,438

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

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

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Within one year	**1,389**	1,515
In the second to fifth years, inclusive	**–**	631
	1,389	2,146

15. RELATED PARTY TRANSACTIONS

(a) Group

	30th June, 2008		31st December, 2007	
	Directors and key management personnel HK$'000	Enterprises and individuals related to directors and key management personnel HK$'000	Directors and key management personnel HK$'000	Enterprises and individuals related to directors and key management personnel HK$'000
Loans and advances granted:				
Aggregate balance at balance sheet date	**1,605**	**4,793**	1,794	4,793
Interbank activities:				
Deposits placed	**–**	**942,944**	–	1,148,017

NOTES (continued)

15. RELATED PARTY TRANSACTIONS (continued)

(a) Group (continued)

	Six months ended 30th June, 2008		Six months ended 30th June, 2007	
	Directors and key management personnel HK$'000	**Enterprises and individuals related to directors and key management personnel HK$'000**	Directors and key management personnel HK$'000	Enterprises and individuals related to directors and key management personnel HK$'000
Interbank activities:				
Interest income	**–**	**13,615**	–	19,815
Premium income:				
Gross premiums written	**130**	**549**	115	760
Commission expenses, net	**–**	**1,606**	–	4,279

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

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Loans and advances granted:		
Aggregate balance at balance sheet date	**68,821**	70,964

	Six months ended 30th June, 2008 HK$'000	2007 HK$'000
Interest income received	**1,118**	–
Reinsurance premiums ceded	**9**	9

15. RELATED PARTY TRANSACTIONS (continued)

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

	30th June, 2008 HK$'000	31st December, 2007 HK$'000
Loans and advances granted:		
Aggregate balance at balance sheet date	**107,500**	107,510

	Six months ended 30th June,	
	2008 HK$'000	2007 HK$'000
Reinsurance premiums ceded	**2,229**	–
Commission expense paid	**360**	3,662

SUPPLEMENTARY FINANCIAL INFORMATION

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(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.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 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 30th June, 2008, 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.

(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 Group currently does not have a foreign currency hedging policy. However, the management monitors the foreign exchange positions and will consider hedging those significant foreign currency exposures should the need arise.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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.

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.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(8) Operational risk management

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

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

(9) 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 and available-for-sale securities as at 30th June, 2008. 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 Group monitors market risk by establishing limits for transactions, open positions and stop-loss. These limits are reviewed and approved by the Investment Committee periodically and are monitored on a daily basis.

(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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Loss attributable to equity holders of the Company:	HK$185.9m	-156.6%
Loss per share:	HK17.7 cents	-156.7%
Interim dividend per share:	HK1.0 cent	-89.4%

Asia Financial Group suffered a net loss of HK$185.9 million in the first half of 2008. This represents a 156.6% fall from the very satisfactory result of the same period in 2007. The bulk of this loss represents unrealised year-on-year declines in the market values of equity and fund investments, reflecting the significant falls in global markets during the period. While a net loss is unprecedented for our Group, shareholders should bear in mind that our underlying operations are still profitable, the quality of our underlying portfolio investments is good and the long-term prospects for our direct investments remain highly attractive. However, owing to the accounting treatment of year-on-year unrealised losses – and given the likelihood of continued global market uncertainty and weakness – we cannot be hopeful for a positive profit result for the full year.

Economic Background

Since the outbreak of the credit crisis in the US last year, economic uncertainty has spread in some form to other economies. Falls in property prices and rising oil prices have made recession or sharp slowdowns highly likely in many countries, with obvious potential repercussions for trading economies like Hong Kong and China. Although the Hong Kong economy grew by an impressive 7.3% year-on-year in the first quarter, the second quarter saw economic contraction compared with the first – the first negative change since mid-2003. At the same time, underlying consumer inflation reached the 6% level. The Mainland economy continued to grow at more than 10%, but against a background of falling consumer demand overseas and falling asset prices at home. The Hang Seng, Shanghai A and Dow Jones indexes fell by 20.5%, 48.0% and 14.4% respectively for the six months ended 30th June, 2008.

The global volatility in asset and commodity prices suggests that monetary policy in many leading developed countries has been too lax for at least several years, which in turn implies a period of market adjustment with global effects still to come. Our Group's management strongly believes this is an environment that calls for a defensive and highly prudent investment approach for the remainder of the year and probably beyond.

Overview by Investment Segments

Insurance

Wholly owned Asia Insurance's turnover rose 9.3% in the first half of 2008, while underwriting profit increased 20.2%. This healthy result was largely due to organic growth in business and premiums, helped by the commensurate retention following a capital injection in 2006, rather than significant extension of the distribution or client bases. It is also after taking into account the impact of exposure to several major catastrophic incidents, including snowstorms, earthquakes and floods in Mainland China, Hong Kong and other parts of Asia-Pacific during the six-month period. This operating result therefore highlights the fundamental strengths of Asia Insurance as a top-quality insurer and leader in Hong Kong's general insurance market.

As with the Group as a whole, Asia Insurance's bottom line was severely affected by the drop in global equity markets and the effect of this on year-to-year unrealised losses. Of the HK$105.1 million net losses on investments, HK$93.3 million, or 88.7%, was unrealised. Management is taking a highly prudent investment stance and, monitoring the outlook for interest rates, minimizing exposure to more volatile equities in favour of fixed income investments. Asia Insurance has no significant direct exposure to US sub-prime mortgage and similar types of investment instrument. Costs remained under control. The fall in other income reflects an exceptional item in the same period in 2007. We expect continued stable growth in the core business in the second half.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Overview by Investment Segments (continued)

Insurance (continued)

Associated and joint venture companies in the insurance segment suffered similarly, with BC Reinsurance, People's Insurance Company of China (HK) and Hong Kong Life all reporting losses, while Professional Liability Underwriting Services produced a profit. However, the underlying businesses of these companies and their future growth prospects remain very sound and we look forward to benefiting in the longer term from their continued development.

Other Portfolio Investment

As would be expected, the remainder of our portfolio investments was affected by the year-on-year decline in global equity markets and produced a net loss of HK$107.4 million, HK$86.0 million of which, or 80.1%, was due to unrealised losses on equities and funds. Net interest income largely fell in line with deposits, some of which were diverted into capital injections for direct investments.

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

The outlook for the markets during the rest of 2008 and into 2009 is very uncertain, and management will maintain a very cautious investment strategy, with a shift in focus towards fixed income and away from equities. Our longstanding investment principles, and the underlying quality of the assets we hold, are very sound, and we are confident that the group's portfolio will return to profitability as adjustments in the global credit system help to restore business confidence in leading economies and thus prospects for equity markets.

Health Care

The Group's 19.5% stake in Bumrungrad International Limited ("BIL") started to contribute income during the first half of 2008, mainly due to hospital and health service development in Manila and elsewhere in East Asia. Future expansion of the business in Asia and the Middle East, combined with demographic and policy trends, are expected to make BIL a very productive investment in the years ahead.

Pension and Asset Management

Profit from the Group's holding in jointly-controlled company Bank Consortium Holding Limited ("BCH") fell 31.6% in the first half of 2008, owing to a decrease in assets under management following the drop in equity markets. 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 long-term outlook remains positive.

Property and Other Investment

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Management Approach and Future Prospects

Management maintains its longstanding policy of prudence in the pursuit of long-term growth in shareholder value. During a period of market weakness as the one we are witnessing during 2008, we will exercise particular caution. However, we will also look beyond the structural and cyclical problems currently affecting the global economy and the impact they have on our bottom line via unrealised losses on fundamentally good quality assets. The Group's future mission is increasingly based on acquiring holdings in businesses with solid but very attractive development prospects. We are clear about the business and geographic sectors we are most interested in, and this is at least as important a focus for us as year-on-year fluctuations in the nominal value of the portfolio investments.

Aside from the obvious uncertainty affecting the markets in major developed economies, we face the possibility of slower economic growth in Hong Kong, the Mainland and elsewhere in Asia. We are confident that the core operations of Asia Insurance and our associates and jointly-controlled entities will weather this reasonably well, thanks in particular to the fundamental dynamism of the Chinese economy at this stage in the country's development. With inflation picking up in Hong Kong, we will continue to monitor our cost base, though we are currently satisfied that our costs are comfortably under control.

To conclude, we see major strategic opportunities for Asia Financial Group. 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. This is a long-term strategy, but, under the surface of the current market turmoil, it is one that is already starting to produce real returns for our shareholders.

Contingent Liabilities

As at 30th June, 2008, the Group had no material contingent liabilities.

Employees and Remuneration Policy

The total number of employees of the Group as at 30th June, 2008 was 245 (December, 2007: 246). Annual remuneration increments and promotions are determined through a performance-oriented appraisal system, with the basic pay structure being reviewed from time to time to reflect market trends. In addition to the basic salary, employees also receive an annual bonus based on both the Group's and their individual performance. Medical and retirement benefit schemes are made available to all level of personnel. There was no share option scheme in operation during the six months ended 30th June, 2008. The Group also offers various training and induction programmes to its employees.

DIVIDEND

The Board has resolved to declare an interim cash dividend of HK1.0 cent per ordinary share (2007: HK9.4 cents) for the six months ended 30th June, 2008 payable on or about Tuesday, 28th October, 2008 to shareholders whose names appear on the Register of Members of the Company on Friday, 17th October, 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 14th October, 2008 to Friday, 17th October, 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Monday, 13th October, 2008.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30th June, 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

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

As at 30th June, 2008, the interests of the directors and chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

	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 Yau Hing Chan	–	–	547,627,712[1]	547,627,712	52.02
Kok Ho Wong	750,000	430,000	–	1,180,000	0.11
Ki Chit Lau	21,080	–	–	21,080	0.00
Song Hin Ng	–	–	7,139,827[2]	7,139,827	0.68
Choedchu Sophonpanich	791,496	–	–	791,496	0.08
Anna Suk Han Chow	41,559	–	–	41,559	0.00

Notes:

(1) Out of the 547,627,712 shares, (i) 546,067,712 shares were held through Claremont Capital Holdings Ltd and (ii) 1,560,000 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 Yau Hing Chan.

(2) Mr. Ng Song Hin was deemed to be interested in 7,139,827 shares that were held through Cosmic International Inc. which was 40% held by Mr. Ng Song Hin.

In addition to the above, Mr. Robin Yau Hing Chan 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 30th June, 2008, none of the directors and chief executive had registered an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30th June, 2008, the following corporations had interests in 5% or more of the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	Number of ordinary shares held	Percentage of the Company's issued share capital
Bangkok Bank Public Company Limited	95,488,236	9.07
Cosmos Investments Inc.	546,067,712 (a), (b)	51.87
Claremont Capital Holdings Ltd	546,067,712 (a)	51.87

Notes:

(a) These shares have been included in the interests disclosure of Mr. Robin Yau Hing Chan as set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above.

(b) Cosmos Investments Inc. was deemed to be interested in 546,067,712 shares that were held by Claremont Capital Holdings Ltd 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 30th June, 2008, no other persons had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30th June, 2008.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

All directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard set out in the Code of Conduct and the Model Code throughout the six months ended 30th June, 2008.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30th June, 2008.

By Order of the Board
ROBIN YAU HING CHAN
Chairman

Hong Kong, 19th September, 2008