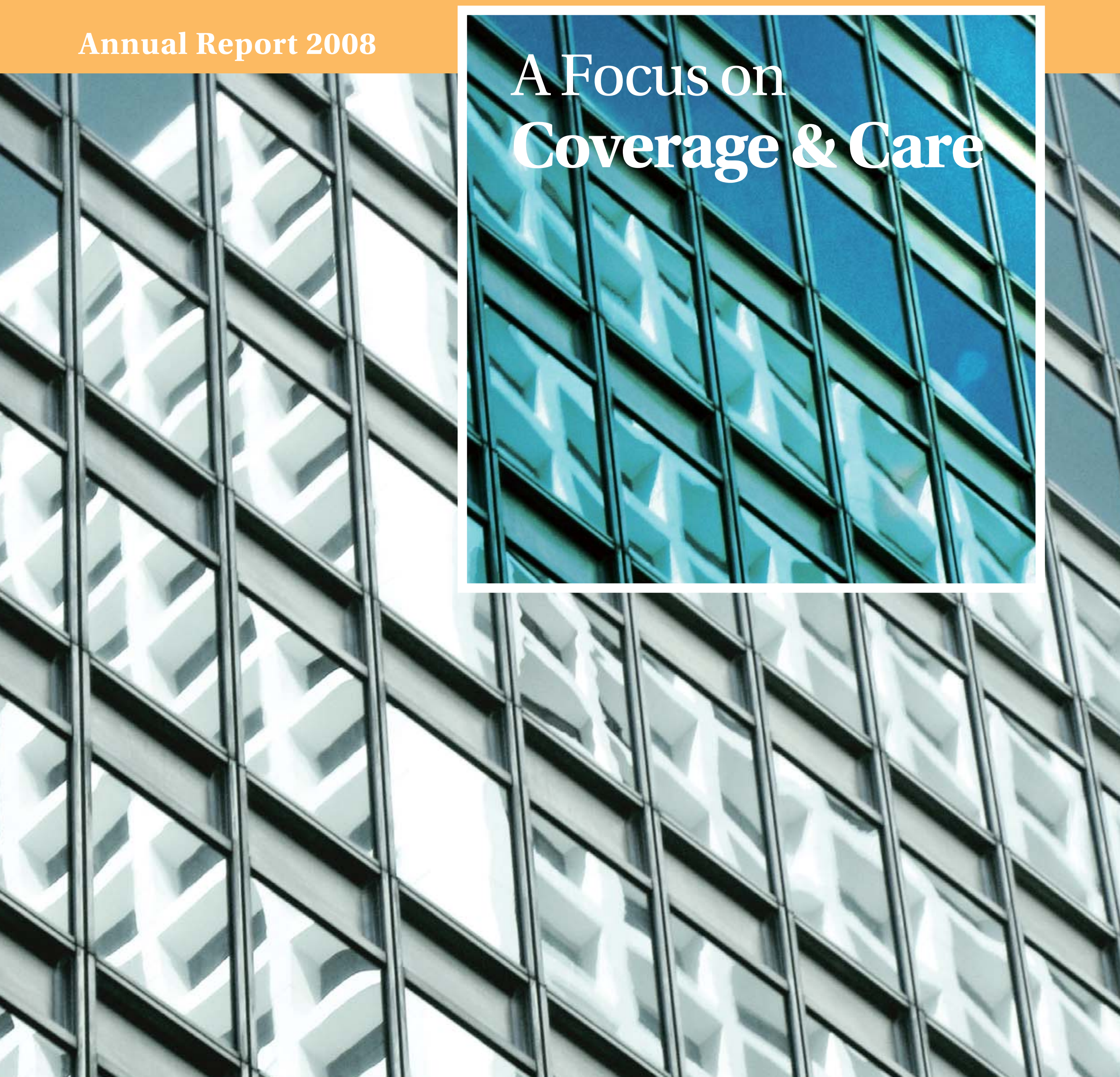
亞洲金融
Asia Financial

Serving Hong Kong 50 Years
服務香港50年

Annual Report 2008

A Focus on Coverage & Care



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Corporate Information

Directors

Robin Yau Hing Chan *(Chairman)*
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
Mamoru Miyazaki
Chan Yeow Toh
Anna Suk Han Chow*
Andrew Chiu Cheung Ma*
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
Bernard Charnwut Chan

Nomination Committee

Anna Suk Han Chow *(Chairman)*
Ko Wing Man
Andrew Chiu Cheung Ma
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

Company Secretary

Eileen Lam

Principal Registrar and Transfer Office

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

Branch Registrar 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

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

Robin Y.H. Chan
Chairman

Asia Financial Holdings suffered a net loss of HK$771.3 million in 2008, a 248.2% fall from the very satisfactory performance of 2007. This loss mostly represents realised and unrealised year-on-year declines in the market value of equity and fund investments, reflecting the sharp falls in global markets during the period. This negative result needs to be seen in the context of three factors: extraordinary financial and economic upheaval throughout the world; the accounting treatment of year-on-year unrealised losses; and the underlying quality of our business operations and of our portfolio and direct investments. While a net loss is unprecedented for our Group, shareholders should bear in mind that our insurance underwriting operation is increasingly profitable, the quality of our underlying portfolio investments is good, our cash holdings are at a satisfactory level and the long-term prospects for our direct investments remain attractive.

Economic Background

The events following the outbreak of the credit crisis in the United States in 2007 exposed deep flaws in leading economies' financial systems and serious imbalances in global trade and capital flows. By the time 2008 came to an end, many major Western financial institutions had partially or wholly failed under the weight of toxic debt, credit was drying up, and markets and consumer demand were plummeting in anticipation of recession. Governments were planning unprecedented levels of intervention and monetary easing. At the same time, Asian trading economies were experiencing sharp falls in orders and trade volumes. The situation revealed serious shortcomings in financial market players' approaches to risk and mismatches between developed and emerging economies in terms of savings versus debt and consumption versus production.

With so much bad news and uncertainty, markets experienced severe declines, especially towards the end of the year, verging at times on panic. The Hang Seng, Dow Jones, China A-Share and China H-Share Indexes fell 48%, 34%, 66% and 51% respectively during the year. For Asia Financial, as a company with extensive portfolio investments, this was an extremely negative environment. The timing accentuated the year-on-year impact of falling asset valuations on our bottom line.

The financial and economic crisis that broke out in 2008 has been compared with the Asian financial crisis of 10 years earlier and even the events leading up to the global depression of the 1930s. Such levels of volatility and uncertainty have convinced Asia Financial's management to reinforce our already prudent investment approach and adopt an exceptionally defensive stance.

Management Approach and Future Prospects

Management's reaction to the market crash of 2008 and the spreading economic crisis has been highly conservative. We strongly believe that the minimization of risk during a time of such uncertainty is overwhelmingly in the interests of shareholders, and we will remain cautious about easing this stance during the year ahead.

It is impossible to predict how leading economies and the global financial and trade systems will behave during 2009. The world faces major economic adjustments as companies and states tackle debt problems and imbalances in trade and capital flows and consumption and investment patterns. Although recession is likely to deepen in much of the world before recovery begins, it is possible that markets will be more stable compared with the extraordinary volatility seen in late 2008, and this raises the hope of a better result for Asia Financial in the year ahead.

Looking beyond economic and market cycles, we believe Asia Financial has a very sound long-term future of good returns for shareholders. The company is ideally placed to identify good-value portfolio and direct investments in due course and also to add capital, if and when necessary, to existing businesses with excellent long-term growth prospects in such segments as insurance and health care. Management is confident that these sectors are likely to do well in Greater China and Southeast Asia in the years ahead, despite structural changes we may see in the region's economies.

Robin Y.H. Chan
Chairman

Hong Kong
20th March, 2009

(All changes in % refer to the same period last year unless otherwise specified)		
Loss attributable to equity holders of the Company:	HK$771.3m	-248.2%
Loss per share:	HK73.6 cents	-248.7%
Final dividend per share:	HK1.0 cent	-89.4%
Total dividend per share:	HK2.0 cents	-89.4%

Asia Financial Holdings suffered a net loss of HK$771.3 million in 2008, a 248.2% fall from the very satisfactory performance of 2007. This loss mostly represents realised and unrealised year-on-year declines in the market value of equity and fund investments, reflecting the sharp falls in global markets during the period.

Overview by Investment Segments

Insurance

Wholly owned Asia Insurance Company, Limited ("Asia Insurance")'s turnover rose 4.8% during 2008, while underwriting profit increased 15.5%. This healthy result was largely due to organic growth in business and premiums, helped by the increase in retention ratio following a capital injection in 2006. It was also assisted by a deliberate shift in underwriting emphasis towards lower-risk business in selected segments. This operating result includes the impact of exposure to several major incidents, including snowstorms, earthquakes and floods in Mainland China, Hong Kong and other parts of Asia-Pacific, notably during the first half of the year. It therefore highlights the fundamental strengths of Asia Insurance as a top-quality, financially strong insurer and leader in Hong Kong's general insurance market.

As with Asia Financial as a whole, Asia Insurance's profit for 2008 was severely affected by the effects of the financial crisis on global equity markets. Of the HK$404.5 million net losses on investments, HK$297.6 million, or 73.6%, was unrealised. In view of the extraordinary volatility and uncertainty in the markets, management adopted a highly defensive investment strategy beyond our usual prudent stance, which helped to keep losses below benchmark levels and serves to ensure capital preservation. With the sharp declines in interest rates during the period, it is inevitable that interest income also declined. Asia Insurance has no significant direct exposure to US sub-prime mortgage and similar types of investment instrument. The fall in other income reflects some foreign exchange loss and an exceptional item in 2007.

Management has maintained a tight control on costs and will continue to do so. Although prospects for investment returns in 2009 are obviously unpredictable, we are confident that the core underwriting business should remain healthy. Our exposure to sectors such as cargo or restaurants that are being hit hard by the economic downturn is very limited compared with our more dependable, less cyclical lines of business. We are confident that as the downturn runs its course Asia Insurance will be in a position to optimize its beneficial market position.

Asia Insurance's associated and joint venture companies in the insurance segment also suffered from the effects of the sharp decline in equity markets during 2008, with BC Reinsurance Ltd., The People's Insurance Company of China (Hong Kong) Ltd. and Hong Kong Life Insurance Ltd. all reporting losses, while Professional Liability Underwriting Services Ltd. 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. The same applies to PICC Life Insurance Co. Ltd. in Mainland China, which is expanding satisfactorily.

Overview by Investment Segments (cont'd)

Other Portfolio Investment

Asia Financial's other portfolio investments were seriously affected by the year-on-year decline in global securities markets and produced a net loss of HK$418.3 million, HK$280.7 million of which, or 67.1%, was due to unrealised losses on equities and funds. By adopting an exceptionally defensive stance and re-weighting away from externally managed funds to high-quality fixed income investments or simply cash, we kept losses below benchmark levels. Extremely aggressive central bank interest rate cuts in the second half of the inevitably reduced net interest income significantly, falling 25.1% from 2007.

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 2009 is highly uncertain, and management will maintain a very cautious investment strategy aimed primarily at capital preservation. This should leave us well-positioned to re-balance the portfolio in favour of fixed income investments or equities at attractive prices at some stage. Our longstanding investment principles involve looking beyond market and economic cycles and focusing on the underlying long-term quality of the assets we hold, and we are confident that our portfolio will prove to be a source of healthy returns as the global economy adjusts and in time recovers.

Overview by Investment Segments (cont'd)

Health Care

The Group's 19.5% stake in Bumrungrad International Limited ("BIL") started to contribute income during 2008, mainly due to the development of hospital and health service operations in Manila and elsewhere in East Asia. Despite the possibility of long-term structural changes in the region's economies following the global economic crisis, continued growth in the market for health care services seems highly dependable, owing to demographic and policy trends. Future expansion of the business in Asia and the Middle East is therefore expected to make BIL a very productive investment in the years ahead.

Pension and Asset Management

The Group's holding in jointly-controlled company Bank Consortium Holding Limited ("BCH") remained profitable in 2008, although profit fell owing to a decrease in funds under management due to 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 Investments

The Group's interests in real estate and other areas represent a minor portion of our overall investment. The main projects – developments in Mainland China which represent 4.1% of our total assets at the end of 2008 – enable us to leverage partnerships and gain geographical diversification that may benefit us in our core areas of interest in due course. Although the Mainland property market showed volatility during 2008, these developments are of high quality and their performances were acceptable 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 sixth 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 2008, Asia Financial devoted a total of over HK$2.6 million (mainly through donations and sponsorships) to support the Community Chest, Tung Wah Group of Hospitals, Oxfam HK and many other non-profit-making organizations.

We organized a series of programmes in 2008 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 “Games Day in Po Tin Interim Housing (Tuen Mun)”, “Looking Around – Discovery Tour” and “Our Fields Between Shores I & II”, 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 2008, 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 2008

The Community Chest of Hong Kong
Oxfam HK
Tung Wah Group of Hospitals
HK Paralympic Committee & Sports Association
for the Physically Disabled
The Hong Kong Council of Social Service
The Hong Kong Academy for Performing Arts
Hong Kong Federation of Overseas Chinese
Associations Charitable Foundation
Hong Kong Sinfonietta
Opera Hong Kong
Hong Kong Baseball Association

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31st December, 2008.

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 15 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 loss for the year ended 31st December, 2008 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 30 to 112.

An interim dividend of HK1.0 cent per ordinary share, totalling approximately HK$10,527,000 was paid on 28th October, 2008.

The directors recommend the payment of a final dividend of HK1.0 cent per ordinary share, totalling approximately HK$10,241,000 in respect of the year, which will be payable on or about 18th June, 2009 in cash to shareholders on the register of members of the Company on 25th May, 2009. 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 13 and 14 to the financial statements, respectively.

Share capital

Details of movements in the Company's share capital during the year are set out in note 25 to the financial statements.

Purchase, redemption or sale of listed securities of the Company

During the year, the Company purchased certain of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company. The summary details of those transactions are as follows:

Month	Number of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Total price paid HK$'000
October 2008	19,374,000	2.19	1.80	37,226
November 2008	3,596,000	2.00	1.90	7,171
December 2008	1,120,000	1.98	1.97	2,218
	24,090,000			46,615

The purchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the purchase of the shares of HK$22,525,000 has been charged to the retained profits of the Company. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities 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 26 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

Distributable reserves

At 31st December, 2008, the Company's reserves available for cash distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981, amounted to HK$2,401,750,000, of which HK$10,241,000 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 and 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,				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
CONTINUING OPERATIONS					
Revenue	**852,781**	813,693	740,338	792,503	747,033
Profit/(loss) for the year from continuing operations	**(773,079)**	520,939	416,311	102,387	142,165
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	–	2,677,299	83,397	97,933
Profit/(loss) for the year	**(773,079)**	520,939	3,093,610	185,784	240,098
Profit/(loss) for the year attributable to:					
Equity holders of the Company	**(771,348)**	520,584	3,092,434	184,583	240,108
Minority interests	**(1,731)**	355	1,176	1,201	(10)
	(773,079)	520,939	3,093,610	185,784	240,098

Assets, liabilities and minority interests

	31st December,				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**6,074,685**	7,282,979	6,819,800	18,905,353	16,620,125
Total liabilities	**(1,525,572)**	(1,491,249)	(1,374,426)	(15,216,903)	(13,186,126)
Minority interests	**(15,483)**	(17,214)	(29,748)	(28,572)	(27,371)
	4,533,630	5,774,516	5,415,626	3,659,878	3,406,628

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 up to the date of the report were:

Robin Yau Hing Chan, *G.B.S., LL.D., J.P.**	
Bernard Charnwut Chan, *G.B.S., J.P.**	
Stephen Tan*	
Wong Kok Ho*	
Lau Ki Chit	
Choedchu Sophonpanich	
Dr. The Hon. Leo Tung Hai Lee, *G.B.M., G.B.S., LL.D., J.P.*	
Ng Song Hin	
Dr. The Hon. Philip Yu Hong Wong, *G.B.S.*	
Kenneth Chi Lam Siao	
Chan Yeow Toh	
Mamoru Miyazaki	(appointed on 18th April, 2008)
Andrew Chiu Cheung Ma**	
Anna Suk Han Chow**	
Ko Wing Man, *J.P.***	
Michitoki Yokoi	(resigned on 18th April, 2008)
George Lap Wah Lee	(resigned on 26th March, 2008)

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

In accordance with Bye-law 87(2) of the Company's Bye-laws, Mr. Robin Y.H. Chan, Mr. Lau Ki Chit, Mr. Choedchu Sophonpanich, Mr. Kenneth Chi Lam Siao and Dr. Leo Tung Hai Lee will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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, 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 (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 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	–	–	560,681,712[(1)]	560,681,712	54.51
Bernard Charnwut Chan	754,000	–	–	754,000	0.07
Wong Kok Ho	810,000	430,000	–	1,240,000	0.12
Lau Ki Chit	21,080	–	–	21,080	0.00
Ng Song Hin	–	–	11,571,827[(2)]	11,571,827	1.12
Choedchu Sophonpanich	791,496	–	–	791,496	0.08
Anna Suk Han Chow	41,559	–	–	41,559	0.00

Notes:

(1) *Out of the 560,681,712 shares, (i) 557,121,712 shares were held through Claremont Capital Holdings Ltd and (ii) 3,560,000 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 Y.H. Chan.*

(2) *Mr. Ng Song Hin was deemed to be interested in 11,571,827 shares that were held through Cosmic International Inc. which was 40% held by Mr. Ng Song Hin.*

In addition to the above, Mr. Robin 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, 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.

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 spouses 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, 2008, 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)	557,121,712	54.16
Claremont Capital Holdings Ltd	(a)	557,121,712	54.16
Bangkok Bank Public Company Limited		95,488,236	9.28
Sompo Japan Insurance Inc.		52,563,020	5.11
Aioi Insurance Company, Limited		52,550,175	5.11

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 557,121,712 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 31st December, 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.

Directors' interests in contracts

Save as disclosed in note 35(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, 2008.

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 Yau Hing Chan	The People's Insurance Company of China (Hong Kong), Limited	General insurance	Director
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
	Sompo Japan Insurance (Hong Kong) Company Limited (formerly known as 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 directors 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 76, is the Chairman and an executive director of the Company. Mr. Chan has been working for the Group for 53 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, 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 the All-China Federation of Returned Overseas Chinese. He is also the Founding Chairman & President of the Hong Kong Federation of Overseas Chinese Association Limited, the Chairman of the China Association of Overseas Chinese Businessmen and the Executive Vice Chairman of the China Overseas Chinese Entrepreneurs Association. Mr. Chan was a Deputy to the National People's Congress of the People's Republic of China from March 1988 to February 2008. He has extensive experience in the banking industry and acts as an adviser to numerous other companies. Mr. Chan is also an independent non-executive director of K. Wah International Holdings Limited, Chong Hing Bank Limited and Keck Seng Investments (Hong Kong) Limited, which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Chan is the father of Mr. Stephen Tan and Mr. Bernard Charnwut Chan and is the brother of Mr. Choedchu Sophonpanich.

Bernard Charnwut Chan, G.B.S., J.P., aged 44, is an executive director and the President of the Company and Asia Insurance. Mr. Chan has been working for the Group for 19 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 and China Resources Enterprise, Limited, which are all listed on the Stock Exchange. Mr. Chan since April 2007 has been an independent non-executive director of Wing Lung Bank Limited, which was delisted from the Stock Exchange on 16th January 2009. Mr. Chan is a director of Claremont Capital Holdings Ltd, the controlling shareholder of the Company and an adviser to Bangkok Bank Public Company Limited, Hong Kong Branch. Mr. Chan has been elected a Deputy to the National People's Congress of the People's Republic of China since January 2008. He is a former member of both the Executive Council and the Legislative Council of the Hong Kong Special Administrative Region. Mr. Chan is the Chairman of the Council for Sustainable Development, the Antiquities Advisory Board, the Advisory Committee on Revitalisation of Historic Buildings, the Council of Lingnan University and Hong Kong-Thailand Business Council. In addition, he serves as the Chairperson of The Hong Kong Council of Social Service and the Vice Chairman of the Oxfam Hong Kong. He is also a member of the Insurance Advisory Committee and the Greater Pearl River Delta Business Council.

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

Executive directors: (cont'd)

Stephen Tan, aged 55, was appointed as an executive director of the Company on 30th May, 2006. Mr. Tan has been working for the Group for 22 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 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 is also a committee member of Shenzhen Municipal Committee of The Chinese People's Political Consultative Conference, a member of the Election Committee (Finance), a member of the Sports Commission of the Hong Kong Special Administrative Region, an honorary advisor of both the Hong Kong Baseball Association and the new Graduate School of Business of the Hong Kong Polytechnic University and a member of the Board of Governors of Hong Kong Sinfonietta Limited. Mr. Tan was educated in the U.S.A. and holds a bachelor's degree in Business Administration from Rutgers University, and a master's degree in Business Administration from St. John's University. He is the son of Mr. Robin Y.H. Chan, the brother of Mr. Bernard Charnwut Chan and the nephew of Mr. Choedchu Sophonpanich.

Wong Kok Ho, aged 61, 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 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 Sompo Japan Insurance (Hong Kong) Company Limited (formerly known as William S.T. Lee Insurance Company Limited).

Mr. Wong was educated 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 Motor Insurers' Bureau of Hong Kong and the Employees Compensation Insurer Insolvency Bureau. Mr. Wong has served as the Chairman of the General Insurance Council and the Motor Insurers' Bureau of Hong Kong. He has also been a member of the Governing Committee of the Hong Kong Federation of Insurers and the President of the Insurance Institute of Hong Kong.

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

Non-executive directors:

Lau Ki Chit, aged 78, was an executive director of the Company and Asia Insurance, before 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 50 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 a 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 a committee member of the Insurance Claims Complaints Bureau. As to community service, 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 the 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 as a member in a number of social service organizations.

Dr. The Hon. Leo Tung Hai Lee, G.B.M., G.B.S., LL.D., J.P., aged 87, was an independent non-executive director of the Company from 18th November, 1994 before 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 of K. Wah International Holdings Limited and Liu Chong Hing Investment Limited, both of which are listed on the Stock Exchange. He is a member of a number of public service committees and heads many social service organisations, including as Vice President of the China Overseas Friendship Association, Founding Permanent Honorary President 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, including 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, in 1999, the Gold Bauhinia Star of the Government of the HKSAR. 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 was honoured with the "Icebreaker Award" by The 48 Group Club in 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 75, is a non-executive director of the Company. Mr. Ng has been with the Group for 28 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.

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

Non-executive directors: (cont'd)

Dr. The Hon. Philip Yu Hong Wong, G.B.S., aged 70, was an independent non-executive director of the Company from 19th October, 1990, before 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 18 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 has been a Deputy to the National People's Congress of the People's Republic of China. 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 Group Holdings Limited, both of which are listed on the Stock Exchange.

Choedchu Sophonpanich, aged 62, is a non-executive director of the Company and has been with the Group for 23 years. He is also an executive director of Asia Insurance, a director of Claremont Capital Holdings Ltd, 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. He is the brother of Mr. Robin Y.H. Chan.

Kenneth Chi Lam Siao, aged 61, was an independent non-executive director of the Company from 28th June, 1999, before his redesignation as a non-executive director on 30th September, 2004. Mr. Siao 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. He was elected as a Council Member of The Law Society of Hong Kong in 1994 and is currently a Honorary Fellow Member of the Hong Kong Institute of Real Estate Administrators. 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.

Chan Yeow Toh, aged 53, 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.

Mamoru Miyazaki, aged 47, was appointed as a non-executive director of the Company on 18th April, 2008. Mr. Miyazaki obtained his Degree of Commerce from Waseda University, Japan in 1985. He joined Aioi Insurance Company, Limited ("Aioi Insurance") in 2001 and is currently the Chief Representative of the Hong Kong Representative Office of Aioi Insurance.

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

Non-executive directors: (cont'd)

Andrew Chiu Cheung Ma, aged 67, has been an independent non-executive director of the Company since 3rd September, 2004. He is also an independent non-executive 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, auditing 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, including China Resources Power Holdings Company Limited, Chong Hing Bank Limited, C.P. Pokphand Co. Ltd., Peaktop International Holdings Limited and Tanrich Financial Holdings Limited.

Anna Suk Han Chow, aged 61, 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 a member of the 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 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 51, 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 was formerly 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 242 at the balance sheet date (2007: 246). Employees were remunerated on the basis of their performance, experience and prevailing industry practice. Remuneration of the employees include salary and discretionary bonus which is based on the Group's results and 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.

Donations

During the year, the Group made charitable donations totalling HK$1,924,000 (2007: HK$2,236,000).

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, 2008.

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
20th March, 2009

Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Company has applied the principles and 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, 2008.

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.

The Company, after having made specific enquiry with all directors, confirms that all directors have complied with the required standards as set out in the Code of Conduct and the Model Code throughout the year ended 31st December, 2008.

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 all four executive directors of the Company. The Executive Committee meets regularly and 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 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 in pages 16 to 20 of this annual report.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board considered all such directors are independent.

Each non-executive directors of the Company has entered into a letter of appointment with the Company for a specific term and is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws. 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 2008, the Board held four meetings and the attendance record of each director is set out below:

Name of director	Number of meetings attended/held	Attendance rate
Executive Directors:		
Robin Yau Hing Chan *(Chairman)*	4/4	100%
Bernard Charnwut Chan *(President)*	4/4	100%
Stephen Tan	4/4	100%
Wong Kok Ho	4/4	100%
Non-executive Directors:		
Lau Ki Chit	4/4	100%
Choedchu Sophonpanich	2/4	50%
Ng Song Hin	3/4	75%
Dr. The Hon. Philip Yu Hong Wong	2/4	50%
Dr. The Hon. Leo Tung Hai Lee	2/4	50%
Kenneth Chi Lam Siao	3/4	75%
Chan Yeow Toh	4/4	100%
Mamoru Miyazaki[1]	3/3	100%
Michitoki Yokoi[2]	0/1	0%
George Lap Wah Lee[3]	N/A	N/A
Independent Non-executive Directors:		
Andrew Chiu Cheung Ma	4/4	100%
Anna Suk Han Chow	3/4	75%
Ko Wing Man	3/4	75%

Notes:

1. Mr. Mamoru Miyazaki was appointed as Non-executive Director on 18th April, 2008.
2. Mr. Michitoki Yokoi resigned as Non-executive Director on 18th April, 2008.
3. Mr. George Lap Wah Lee resigned as Non-executive Director on 26th March, 2008.

Chairman and Chief Executive Officer

The Company has appointed a President instead of a chief executive officer. The roles of the Chairman and the President are segregated. Mr. Robin Y.H. Chan, the Executive Chairman is responsible for the leadership and effective running of the Board. Mr. Bernard Charnwut Chan, also an executive director, is the President of the Company and he is responsible for the overall strategic planning and the day-to-day management of the Group.

Remuneration Committee

The Remuneration Committee was set up on 21st March, 2005 with specific terms of reference which are posted on the Company's website. 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 remuneration related issues if required.

In year 2008, the Remuneration Committee held one meeting. The attendance record of each member is set out below:

Name of member	Number of meetings attended/held	Attendance rate
Ko Wing Man *(Chairman)*	1/1	100%
Anna Suk Han Chow	1/1	100%
Andrew Chiu Cheung Ma	1/1	100%
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 making recommendations to the Board on nominations and appointments of directors. The Nomination Committee considers different criteria including appropriate professional knowledge and industry experience, reviews the size, structure and composition of the Board, and assesses the independence of independent non-executive directors.

In year 2008, the Nomination Committee held one meeting. The attendance record of each member is set out below:

Name of member	Number of meetings attended/held	Attendance rate
Anna Suk Han Chow *(Chairman)*	1/1	100%
Andrew Chiu Cheung Ma	1/1	100%
Ko Wing Man	1/1	100%
Bernard Charnwut Chan	1/1	100%

The Nomination Committee considered and recommended the appointment of Mr. Mamoru Miyazaki as non-executive director of the Company to the Board for approval in year 2008.

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 meets at least three times each year.

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 and are posted on the Company's website. 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 2008. The attendance record of each member is set out below:

Name of member	Number of meetings attended/held	Attendance rate
Andrew Chiu Cheung Ma *(Chairman)*	4/4	100%
Kenneth Chi Lam Siao	4/4	100%
Anna Suk Han Chow	3/4	75%
Ko Wing Man	4/4	100%

During the year 2008, the Audit Committee had performed the following works:

– reviewed the Group's annual and interim financial statements with respect to their truth and fairness and discussed with the external auditors.

– reviewed the report and management letter from the external auditors and the responses from the management.

– reviewed and recommended for approval by the Board the audit fees payable to external auditors.

– reviewed and approved the internal audit co-sourcing arrangement with external consultant and recommended for approval by the Board the professional fee payable to the external consultant.

– reviewed and approved the Group's internal audit plan.

– reviewed the effectiveness of the Group's internal control systems.

– reviewed the findings and recommendations of both the Internal Audit and Compliance Department and the external consultant on the operations and performance of the Group and the responses from the management.

– 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/payable to the Company's external auditors, Ernst & Young Hong Kong, are set out as follows:

Services rendered	**Fees paid/payable** *HK$'000*
Audit services	1,885
Non-audit services	684
Total:	2,569

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 state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31st December, 2008, the directors selected suitable accounting policies and 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 judgments 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 Internal Audit and Compliance Department ("IACD") plays an important role in the Group's internal control framework. IACD reviews and monitors the compliance with policies and standards and the effectiveness of internal control structures across the Group. To complement the in-house internal audit team, the Company has engaged an external consultant during the year to assist in performing periodic internal audits on certain departments and different business units across the Group. Internal auditors present the internal audit reports to the Audit Committee and would follow up on any action plans if required.

Using a risk-and-control based audit approach, IACD and the external consultant plan their respective internal audit schedules and activities annually with audit resources being focused on higher risk areas. Their internal audit plans are 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, public announcements and other public circulars, all of which are available on the Company's website. The Company conducts post-results press conferences, with directors and senior management present to answer questions. Meetings with institutional investors and financial analysts are also conducted upon such requests being received.

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 prior notice is given. The Chairman of the Board as well as Chairmen of the Audit, Nomination, and Remuneration Committees (or in their absence, other members of the Committees) together with the external auditors are available to answer shareholders' questions at the meeting. All resolutions at the annual general meeting of the Company, as required by the Listing Rules commenced from 1st January 2009, must be decided on a poll, which the Company's Branch Share Registrar in Hong Kong will conduct as scrutineer for the vote-taking and the results of the poll will be published on the websites of the Company and the HKExnews.

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 2008 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 30 to 112, which comprise the consolidated and company balance sheets as at 31st December, 2008, 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, 2008 and of the Group's loss 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
20th March, 2009

Consolidated Income Statement

Year ended 31st December, 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**852,781**	813,693
Gross premiums	28(a)	**836,225**	773,534
Reinsurers' share of gross premiums	28(b)	**(257,540)**	(257,783)
Net insurance contracts premiums revenue		**578,685**	515,751
Gross claims paid	29(a)	**(353,042)**	(341,320)
Reinsurers' share of gross claims paid	29(b)	**76,144**	123,979
Gross change in outstanding claims	29(c)	**(53,771)**	(11,991)
Reinsurers' share of gross change in outstanding claims	29(d)	**16,374**	(24,479)
Net claims incurred		**(314,295)**	(253,811)
Commission income		**47,859**	45,473
Commission expense		**(191,936)**	(192,791)
Net commission expense		**(144,077)**	(147,318)
Management expenses for underwriting business		**(41,294)**	(46,198)
Underwriting profit		**79,019**	68,424
Dividend income		**45,550**	38,061
Realised gain/(loss) on investments		**(290,096)**	244,621
Unrealised gain/(loss) on investments		**(578,255)**	120,615
Interest income		**82,133**	109,668
Other income and gains, net		**(8,971)**	24,705
		(670,620)	606,094
Operating expenses		**(80,667)**	(93,950)
		(751,287)	512,144
Share of profits and losses of jointly-controlled entities		**(76,741)**	66,087
Share of profits and losses of associates		**(5,536)**	4,432
PROFIT/(LOSS) BEFORE TAX	6	**(833,564)**	582,663
TAX	9	**60,485**	(61,724)
PROFIT/(LOSS) FOR THE YEAR		**(773,079)**	520,939

......continued

	Notes	2008 HK$'000	2007 HK$'000
Attributable to:			
Equity holders of the Company	10	**(771,348)**	520,584
Minority interests		**(1,731)**	355
		(773,079)	520,939
DIVIDENDS	11		
Interim		**10,527**	98,958
Proposed final		**10,241**	98,958
		20,768	197,916
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic			
– For profit/(loss) for the year		**(HK73.6 cents)**	HK49.5 cents
Diluted			
– For profit/(loss) for the year		**N/A**	N/A

Consolidated Balance Sheet

31st December, 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS			
Property, plant and equipment	13	**192,713**	202,728
Investment properties	14	**3,150**	3,780
Interests in jointly-controlled entities	16	**266,482**	306,027
Loans to jointly-controlled entities	16	**59,743**	70,964
Interests in associates	17	**74,537**	72,823
Due from an associate	17	**107,498**	107,510
Deferred tax assets	31	**60,402**	–
Held-to-maturity securities	18	**434,755**	294,109
Available-for-sale securities	19	**653,994**	922,379
Loans and advances and other assets	20	**203,349**	292,596
Securities measured at fair value through profit or loss	21	**1,114,961**	2,011,928
Insurance receivables	22	**127,920**	149,389
Reinsurance assets	23	**362,651**	342,444
Pledged deposits	24	**52,883**	34,831
Cash and cash equivalents	24	**2,359,647**	2,471,471
Total assets		**6,074,685**	7,282,979

......continued

31st December, 2008

	Notes	2008 HK$'000	2007 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital	25	**1,028,649**	1,052,739
Reserves	26	**3,494,740**	4,622,819
Proposed final dividend	11	**10,241**	98,958
		4,533,630	5,774,516
Minority interests	26	**15,483**	17,214
Total equity		**4,549,113**	5,791,730
Liabilities			
Insurance contract liabilities	27	**1,218,481**	1,148,154
Insurance payables		**152,995**	154,228
Due to associates	17	**265**	265
Other liabilities	30	**93,538**	121,074
Tax payable		**60,231**	56,242
Deferred tax liabilities	31	**62**	11,286
Total liabilities		**1,525,572**	1,491,249
Total equity and liabilities		**6,074,685**	7,282,979

Robin Y.H. Chan
Chairman

Bernard Charnwut Chan
Executive Director & President

Consolidated Summary Statement of Changes in Equity

Year ended 31st December, 2008

	Notes	2008 HK$'000	2007 HK$'000
Total equity at 1st January		**5,791,730**	5,445,374
Changes in fair value of available-for-sale securities	26	**(307,559)**	53,438
Share of changes in available-for-sale investment reserve of jointly-controlled entities	26	**(5,119)**	–
Share of changes in available-for-sale investment reserve of an associate	26	**(175)**	(67)
Share of changes in exchange reserve of a jointly-controlled entity	26	**(10,254)**	–
Share of changes in exchange reserve of an associate	26	**9,448**	–
Exchange realignment	26	**221**	(306)
Total income and expense recognised directly in equity		**(313,438)**	53,065
Repurchase of the Company's shares charged to equity	25	**(46,615)**	–
Profit/(loss) for the year attributable to:	26		
Equity holders of the Company		**(771,348)**	520,584
Minority interests		**(1,731)**	355
Acquisition of additional interest in a subsidiary from minority interests	26	**–**	(7,667)
Decrease in minority interests upon liquidation of a non-wholly owned subsidiary	26	**–**	(5,222)
Dividends:			
Final 2006 dividend declared		**–**	(115,801)
Interim 2007 dividend	11	**–**	(98,958)
Final 2007 dividend declared	11	**(98,958)**	–
Interim 2008 dividend	11	**(10,527)**	–
Total equity at 31st December		**4,549,113**	5,791,730

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:		**(833,564)**	582,663
Adjustments for:			
Interest income	6	**(82,133)**	(109,668)
Dividend income from equity investments	6	**(45,550)**	(38,061)
Loss on redemption/call back of held-to-maturity securities	6	**2,111**	1,009
Loss/(gain) on disposal of available-for-sale securities	6	**24**	(873)
Impairment loss of available-for-sale securities	6	**26,879**	394
Realised loss/(gain) on disposal of securities measured at fair value through profit or loss, net	6	**287,961**	(244,757)
Unrealised loss/(gain) on securities measured at fair value through profit or loss, net	6	**551,376**	(121,009)
Depreciation	6	**17,045**	12,828
Changes in fair value of investment properties	6	**630**	(330)
Excess over the cost of acquisition of minority interests	6	**–**	(4,270)
Loss on disposal/write-off of items of property, plant and equipment	6	**1**	92
Gain on disposal of properties held for sale	6	**–**	(4,909)
Share of profits and losses of jointly-controlled entities		**76,741**	(66,087)
Share of profits and losses of associates		**5,536**	(4,432)
		7,057	2,590
Decrease in loans and advances and other assets		**89,247**	72,406
Decrease/(increase) in insurance receivables		**21,469**	(6,468)
Decrease/(increase) in reinsurance assets		**(20,207)**	28,794
Increase in time deposits with original maturity over three months		**(204,421)**	(70,639)
Increase in insurance contract liabilities		**70,327**	52,150
Increase/(decrease) in insurance payables		**(1,233)**	18,540
Increase/(decrease) in other liabilities		**(27,315)**	28,058
Cash generated from/(used in) operations		**(65,076)**	125,431
Hong Kong profits tax paid		**(6,623)**	(42,672)
Overseas taxes paid		**(529)**	(1,283)
Net cash inflow/(outflow) from operating activities		**(72,228)**	81,476

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Consolidated Cash Flow Statement (cont'd)

Year ended 31st December, 2008

	Notes	2008 HK$'000	2007 HK$'000
Net cash inflow/(outflow) from operating activities		**(72,228)**	81,476
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**82,133**	109,668
Dividends received from equity investments		**45,550**	38,061
Dividends received from jointly-controlled entities	16	**3,150**	23,100
Dividends received from associates	17	**2,025**	2,025
Purchases of held-to-maturity securities		**(256,206)**	(16,239)
Purchases of available-for-sale securities		**(24,143)**	(129,555)
Purchases of securities measured at fair value through profit or loss		**(4,323,154)**	(4,530,116)
Proceeds from disposal of investments		**4,452,299**	5,610,404
Purchases of items of property, plant and equipment	13	**(7,041)**	(23,016)
Proceeds from disposal of items of property, plant and equipment		**10**	19
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 jointly-controlled entities		**(55,719)**	(37,200)
Capital contribution to an associate		**(2)**	–
Acquisition of jointly-controlled entities		**–**	(128,146)
Loans to jointly-controlled entities		**–**	(65,697)
Repayment of loans to jointly-controlled entities		**11,221**	25,733
Decrease/(increase) in an amount due from an associate		**12**	(107,510)
Increase in pledged deposits		**(18,052)**	(2,038)
Net cash inflow/(outflow) from investing activities		**(87,917)**	780,240
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(109,485)**	(214,759)
Repurchase of shares	25	**(46,615)**	–
Net cash outflow from financing activities		**(156,100)**	(214,759)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(316,245)**	646,957
Cash and cash equivalents at beginning of year		**2,379,644**	1,732,687
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,063,399**	2,379,644
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**260,232**	207,980
Time deposits with original maturity of less than three months when acquired		**1,830,408**	2,184,276
Less: Pledged deposits (included in cash and bank balances and time deposits with maturity of less than three months when acquired)	24	**(27,241)**	(12,612)
		2,063,399	2,379,644

Balance Sheet

31st December, 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS			
Property, plant and equipment	13	**140**	213
Interests in subsidiaries	15	**1,695,747**	1,695,747
Due from subsidiaries	15	**1,859,777**	1,937,745
Loan to a jointly-controlled entity	16	**–**	5,267
Available-for-sale securities	19	**141,997**	141,997
Loans and advances and other assets	20	**60,272**	58,518
Cash and cash equivalents	24	**327,207**	336,598
Total assets		**4,085,140**	4,176,085
EQUITY AND LIABILITIES			
Equity			
Issued capital	25	**1,028,649**	1,052,739
Reserves	26	**3,041,472**	3,011,396
Proposed final dividend	11	**10,241**	98,958
Total equity		**4,080,362**	4,163,093
Liabilities			
Other liabilities	30	**4,269**	12,812
Tax payable		**509**	180
Total liabilities		**4,778**	12,992
Total equity and liabilities		**4,085,140**	4,176,085

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. There were no 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 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. 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, 2008. 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. Income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group 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 interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for HKAS 39 and HKFRS 7 Amendments giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 – *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of adopting HKAS 39 and HKFRS 7 Amendments are as follows:

The amendments to HKAS 39 (the "Amendments") permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1st July, 2008.

During the year, the Group changed its intention to hold a listed equity security for the foreseeable future instead of holding them for the purpose of trading in the near term. At the date of change, the financial instruments had a fair value of HK$48,583,000. Accordingly, the Group adopted the Amendments and reclassified these financial instruments from the held for trading category to the available-for-sale category at the same date. In accordance with the transitional provisions of the Amendments, no restatement was made for the comparative amounts. Prior to the reclassification, the Group recognised a fair value loss of HK$5,392,000 on this equity security for the year (2007: gain of HK$2,557,000). Had the reclassification not taken place, the Group would have recognised a fair value loss of HK$22,553,000 in the income statement for the year.

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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 1 (Revised)	*First-time Adoption of HKFRSs* [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* [5]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1st July, 2009, other amendments are effective for annual periods beginning on or after 1st January, 2009 although there are separate transitional provisions for each standard.

[1] *Effective for annual periods beginning on or after 1st January, 2009*
[2] *Effective for annual periods beginning on or after 1st July, 2009*
[3] *Effective for annual periods beginning on or after 1st July, 2008*
[4] *Effective for annual periods beginning on or after 1st October, 2008*
[5] *Effective for transfers of assets from customers received on or after 1st July, 2009*
* *Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.*

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 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a 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;

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

(v) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Joint ventures (cont'd)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Associates (cont'd)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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, goodwill and investment properties), 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.

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 an 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 an 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".

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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.

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 least 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment properties (cont'd)

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.

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.

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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets (cont'd)

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. Gains 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets (cont'd)

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.

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 available-for-sale investment reserve 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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);

(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 are known as the outstanding claims provision, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Insurance contract liabilities (cont'd)

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.

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. 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

The provision for unearned premiums represents premium received for risks that have not yet expired. Generally, the provision 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, the Group reviews its unexpired risk and a liability adequacy test is performed as laid out under HKFRS to determine whether there is any overall excess of expected claims over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the income statement by setting up a provision for liability adequacy.

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 receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. 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. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax (cont'd)

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.

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 dates 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies (cont'd)

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.

Employee benefits

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (cont'd)

Estimation uncertainty (cont'd)

Estimation of insurance contract liabilities (cont'd)

The carrying value at the balance sheet date for these general insurance contract liabilities was HK$735,319,000 (2007: HK$681,715,000) (note 27(b)).

Deferred tax assets

Deferred tax assets are recognised for the unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31st December, 2008 was HK$71,626,000 (2007: Nil). The amount of unrecognised tax losses at 31st December, 2008 was HK$143,340,000 (2007: HK$7,165,000). Further details are contained in note 31 to the financial statements.

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 value of 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$244,821,000 (2007: HK$254,240,000) (note 19).

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.

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; and

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

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

4. SEGMENT INFORMATION (cont'd)

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December, 2008 and 2007.

Group	Insurance		Corporate		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
External customers	**852,781**	813,693	**–**	–	**–**	–	**852,781**	813,693
Other revenue, income, gains/(losses), net	**(344,696)**	334,076	**(404,943)**	203,594	**–**	–	**(749,639)**	537,670
Intersegment	**2**	2,304	**–**	–	**(2)**	(2,304)	**–**	–
Total	**508,087**	1,150,073	**(404,943)**	203,594	**(2)**	(2,304)	**103,142**	1,351,363
Segment results	**(301,470)**	360,727	**(449,817)**	151,417	**–**	–	**(751,287)**	512,144
Share of profits and losses of:								
Jointly-controlled entities	**(91,880)**	55,551	**15,139**	10,536	**–**	–	**(76,741)**	66,087
Associates	**(4,754)**	3,716	**(782)**	716	**–**	–	**(5,536)**	4,432
Profit/(loss) before tax							**(833,564)**	582,663
Tax	**37,257**	(41,845)	**23,228**	(19,879)	**–**	–	**60,485**	(61,724)
Profit/(loss) for the year							**(773,079)**	520,939

4. SEGMENT INFORMATION (cont'd)

Business segments (cont'd)

Group	Insurance 2008 HK$'000	Insurance 2007 HK$'000	Corporate 2008 HK$'000	Corporate 2007 HK$'000	Eliminations 2008 HK$'000	Eliminations 2007 HK$'000	Consolidated 2008 HK$'000	Consolidated 2007 HK$'000
Segment assets	**3,577,231**	4,122,501	**2,714,833**	3,304,885	**(558,398)**	(523,257)	**5,733,666**	6,904,129
Interests in jointly-controlled entities	**58,952**	123,985	**207,571**	182,083	**(41)**	(41)	**266,482**	306,027
Interests in associates	**65,153**	72,107	**9,384**	716	**–**	–	**74,537**	72,823
Total assets	**3,701,336**	4,318,593	**2,931,788**	3,487,684	**(558,439)**	(523,298)	**6,074,685**	7,282,979
Segment liabilities	**1,476,441**	1,443,506	**607,570**	571,041	**(558,439)**	(523,298)	**1,525,572**	1,491,249
Other segment information:								
Depreciation	**7,144**	5,112	**9,901**	7,716	**–**	–	**17,045**	12,828
Excess over the cost of acquisition of minority interests	**–**	(4,270)	**–**	–	**–**	–	**–**	(4,270)
Loss on disposal/write-off of items of property, plant and equipment	**1**	4	**–**	88	**–**	–	**1**	92
Changes in fair value of investment properties	**630**	(330)	**–**	–	**–**	–	**630**	(330)
Gain on disposal of properties held for sale	**–**	(4,909)	**–**	–	**–**	–	**–**	(4,909)
Impairment loss of available-for-sale securities	**14,123**	297	**12,756**	97	**–**	–	**26,879**	394
Impairment allowances on insurance receivables	**45**	220	**–**	–	**–**	–	**45**	220
Capital expenditure	**5,635**	342	**1,406**	22,674	**–**	–	**7,041**	23,016

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/(LOSS) BEFORE TAX

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

	Notes	**2008 HK$'000**	2007 HK$'000
Auditors' remuneration		**(1,885)**	(1,800)
Depreciation	13	**(17,045)**	(12,828)
Employee benefits expense (including directors' remuneration, note 7):			
Wages and salaries		**(66,760)**	(85,452)
Pension scheme contributions		**(3,756)**	(2,907)
Less: Forfeited contributions		**6**	68
Net pension scheme contributions		**(3,750)**	(2,839)
Total employee benefits expense		**(70,510)**	(88,291)
Minimum lease payments under operating leases in respect of land and buildings		**(2,158)**	(2,380)
Realised gain/(loss) on:			
– disposal of securities measured at fair value through profit or loss, net		**(287,961)**	244,757
– disposal of available-for-sale securities		**(24)**	873
– redemption/call back of held-to-maturity securities		**(2,111)**	(1,009)
		(290,096)	244,621
Unrealised gain/(loss) on securities measured at fair value through profit or loss, net #		**(551,376)**	121,009
Impairment loss of available-for-sale securities #		**(26,879)**	(394)
Excess over the cost of acquisition of minority interests*		**–**	4,270
Loss on disposal/write-off of items of property, plant and equipment		**(1)**	(92)
Changes in fair value of investment properties	14	**(630)**	330
Gain on disposal of properties held for sale		**–**	4,909
Impairment allowances on insurance receivables	22	**(45)**	(220)
Dividend income from:			
Listed investments		**39,488**	34,260
Unlisted investments		**6,062**	3,801
		45,550	38,061
Interest income		**82,133**	109,668

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

Unrealised gain/(loss) on securities measured at fair value through profit or loss, net and impairment loss of available-for-sale securities are included in "Unrealised gain/(loss) on investments" on the face of the consolidated income statement.

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$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2008					
Executive directors:					
Robin Yau Hing Chan	80	1,940	–	72	2,092
Bernard Charnwut Chan	120	3,568	–	164	3,852
Stephen Tan	60	1,679	–	78	1,817
Wong Kok Ho	60	2,790	–	128	2,978
	320	9,977	–	442	10,739
Non-executive directors:					
Lau Ki Chit	60	–	–	–	60
Choedchu Sophonpanich	60	112	–	–	172
Ng Song Hin	40	–	–	–	40
Philip Yu Hong Wong	60	–	–	–	60
Leo Tung Hai Lee	40	–	–	–	40
Kenneth Chi Lam Siao	60	–	–	–	60
George Lap Wah Lee*	9	–	–	–	9
Chan Yeow Toh	60	–	–	–	60
Michitoki Yokoi*	10**	–	–	–	10
Mamoru Miyazaki#	30**	–	–	–	30
	429	112	–	–	541
Independent non-executive directors:					
Andrew Chiu Cheung Ma	150	–	–	–	150
Anna Suk Han Chow	160	–	–	–	160
Ko Wing Man	150	–	–	–	150
	460	–	–	–	460
	1,209	10,089	–	442	11,740

appointed during the year

* *resigned during the year*

** *Mr. Yokoi's and Mr. Miyazaki's directorship was nominated by Aioi Insurance Company, Limited ("Aioi"). As per Aioi's instruction, the total director fee of HK$40,000 was paid directly to Aioi during the year.*

7. DIRECTORS' REMUNERATION (cont'd)

Group

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2007: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2007: one) non-director, highest paid employee for the year is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,487**	1,430
Discretionary bonuses	**–**	1,970
Pension scheme contributions	**68**	72
	1,555	3,472

The remaining one (2007: one) non-director, highest paid employee whose remuneration fell within the band of HK$1,500,001 to HK$2,000,000 (2007: HK$3,000,001 to HK$3,500,000).

9. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31st December, 2008. 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.

	2008 HK$'000	2007 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**862**	66,478
Underprovision/(overprovision) in prior years	**9,968**	(5,666)
Current – Elsewhere	**311**	912
Deferred (note 31)	**(71,626)**	–
Total tax charge/(credit) for the year	**(60,485)**	61,724

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the statutory rates for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2008

	Hong Kong HK$'000	**Macau HK$'000**	**Total HK$'000**
Profit/(loss) before tax	**(836,620)**	**3,056**	**(833,564)**
Tax at the statutory tax rate	**(138,042)**	**367**	**(137,675)**
Share of profits and losses attributable to jointly-controlled entities and associates	**13,575**	**–**	**13,575**
Adjustments in respect of current tax of previous periods	**9,968**	**–**	**9,968**
Income not subject to tax	**(15,758)**	**(56)**	**(15,814)**
Expenses not deductible for tax	**46,829**	**–**	**46,829**
Tax losses not recognised	**22,469**	**–**	**22,469**
Others	**163**	**–**	**163**
Tax charge/(credit) at the Group's effective rate	**(60,796)**	**311**	**(60,485)**

9. TAX (cont'd)

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

The share of tax attributable to associates and jointly-controlled entities amounting to HK$445,000 (2007: HK$538,000) and HK$5,026,000 (2007: HK$4,329,000), 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/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity holders of the Company for the year ended 31st December, 2008 includes a profit of HK$73,369,000 (2007: HK$135,199,000) which has been dealt with in the financial statements of the Company (note 26).

11. DIVIDENDS

	2008 HK$'000	2007 HK$'000
Interim – HK1.0 cent (2007: HK9.4 cents) per ordinary share	**10,527**	98,958
Proposed final – HK1.0 cent (2007: HK9.4 cents) per ordinary share	**10,241**	98,958
	20,768	197,916

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

The calculation of the basic earnings/(loss) per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of HK$771,348,000 (2007: profit of HK$520,584,000) and the weighted average number of 1,048,253,603 ordinary shares (2007: 1,052,739,428 ordinary shares) in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31st December, 2008 and 2007 have not been disclosed as no dilutive events existed in current and last years.

13. PROPERTY, PLANT AND EQUIPMENT

31st December, 2008

	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	71,448	271,187	2,521
Additions	–	7,041	7,041	–
Disposals/write-off	–	(2,638)	(2,638)	(1,727)
At 31st December, 2008	199,739	75,851	275,590	794
Accumulated depreciation and impairment:				
At beginning of year	36,337	32,122	68,459	2,308
Charge for the year	3,924	13,121	17,045	73
Disposals/write-off	–	(2,627)	(2,627)	(1,727)
At 31st December, 2008	40,261	42,616	82,877	654
Net book value:				
At 31st December, 2008	159,478	33,235	192,713	140
At 31st December, 2007	163,402	39,326	202,728	213

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

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

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

The cost or valuation of the buildings comprises:

	2008 HK$'000	2007 HK$'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:

	2008 HK$'000	2007 HK$'000
Long term leases in Hong Kong	**152,113**	155,864
Long term leases outside Hong Kong	**6,882**	7,032
Medium term leases outside Hong Kong	**483**	506
	159,478	163,402

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$15,090,000 (2007: HK$15,698,000).

14. INVESTMENT PROPERTIES

		Group	
	Note	**2008 HK$'000**	2007 HK$'000
Carrying amount at 1st January		**3,780**	3,450
Changes in fair value of investment properties	6	**(630)**	330
Carrying amount at 31st December		**3,150**	3,780

The investment properties were revalued at 31st December, 2008 by AA Property Services Limited, a firm of professionally qualified valuers, at HK$3,150,000 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.

15. INTERESTS IN SUBSIDIARIES

	Company 2008 HK$'000	Company 2007 HK$'000
Unlisted shares, at cost	**1,714,547**	1,714,547
Impairment #	**(18,800)**	(18,800)
	1,695,747	1,695,747
Due from subsidiaries	**1,888,941**	1,946,745
Impairment ^	**(29,164)**	(9,000)
	1,859,777	1,937,745

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) (2007: HK$18,800,000).

^ *An impairment was recognised for certain amounts due from subsidiaries with a carrying amount of HK$29,164,000 (before deducting the impairment loss) (2007: HK$9,000,000).*

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.

15. 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	Percentage of equity attributable to the Company 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

15. 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

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.

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investments, at cost	**–**	–	**–**	–
Share of net assets	**249,827**	289,372	**–**	–
Goodwill on acquisition	**16,655**	16,655	**–**	–
	266,482	306,027	**–**	–
Loans to jointly-controlled entities (note)	**59,743**	70,964	**–**	5,267

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

Note:

A loan to a jointly-controlled entity of the Group of HK$22,172,000 (2007: HK$23,840,000) 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 three (2007: 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 joint-controlled entity, the Group may, at its own discretion, extend the loan for another five years.

A loan to another jointly-controlled entity of the Group of HK$37,571,000 (2007: HK$41,857,000) is secured by a property situated in Hong Kong, bears interest at 0.55% above the HIBOR per annum and is repayable by seven (2007: 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.

At 31st December, 2007, a loan to a jointly-controlled entity of the Group and the Company of HK$5,267,000 was unsecured and interest-free. This loan was fully repaid during the year.

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 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$3,150,000 (2007: HK$23,100,000) from the jointly-controlled entities during the year.

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

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

	2008 HK$'000	2007 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Assets	**929,973**	755,299
Liabilities	**(680,146)**	(465,927)
Net assets	**249,827**	289,372
Share of the jointly-controlled entities' results:		
Revenue	**207,136**	28,412
Underwriting results, net	**(65,518)**	44,772
Other income and gains, net	**(22,954)**	14,751
	118,664	87,935
Total expenses	**(190,379)**	(17,519)
Tax	**(5,026)**	(4,329)
Profit/(loss) for the year	**(76,741)**	66,087

17. INTERESTS IN ASSOCIATES

	Group	
	2008 HK$'000	2007 HK$'000
Share of net assets	**68,808**	67,094
Goodwill on acquisition	**5,729**	5,729
	74,537	72,823

17. INTERESTS IN ASSOCIATES (cont'd)

Particulars of the associates of the Group as at 31st December, 2008, 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/registered share capital	Principal activities
APIC Holdings, Inc. *	Philippines	50	Peso23,241,700	Investment holding
Asian Insurance International (Holding) Limited	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$1,000	Investment holding
Excellent Star Development Limited	Hong Kong	25	HK$1	Investment holding
上海盤谷房地產有限公司 (“上海盤谷”)*	The People's Republic of China	24.75^	RMB500,000,000	Investment holding

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

\# *The Group holds 25% equity interest in this associate through a non-wholly owned subsidiary.*

^ *Excellent Star Development Limited holds 99% equity interest in 上海盤谷.*

The Group received dividend income amounted to HK$2,025,000 (2007: HK$2,025,000) from the associates during the year.

The amount due from an associate of HK$107,498,000 (2007: HK$107,510,000) is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, this balance is considered as quasi-equity investment in the associate.

The amounts due to associates are classified as financial liabilities at amortised cost, unsecured, interest-free and have no fixed terms of repayment.

17. INTERESTS IN ASSOCIATES (cont'd)

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

	2008 HK$'000	2007 HK$'000
Assets	**1,196,413**	1,099,859
Liabilities	**(905,094)**	(816,194)
Revenue and underwriting results	**11,147**	43,285
Profit/(loss)	**(21,551)**	14,648

18. HELD-TO-MATURITY SECURITIES

	Group	
	2008 HK$'000	2007 HK$'000
Listed debt securities in Hong Kong, at amortised cost	**5,421**	10,645
Listed debt securities outside Hong Kong, at amortised cost	**356,674**	155,467
Unlisted debt securities, at amortised cost	**72,660**	127,997
Total held-to-maturity securities	**434,755**	294,109
Fair value of listed and unlisted held-to-maturity securities	**410,094**	289,603

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

	Group	
	2008 HK$'000	2007 HK$'000
Public sector entities	**36,568**	40,670
Banks and other financial institutions	**299,157**	197,312
Corporate entities	**99,030**	56,127
	434,755	294,109

18. 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	
	2008	2007
	HK$'000	HK$'000
With a residual maturity of:		
Three months or less	**11,503**	15,670
One year or less but over three months	**37,117**	23,662
Five years or less but over one year	**282,640**	91,964
Over five years	**103,495**	162,813
	434,755	294,109

During the year, the Group invested in the held-to-maturity securities with investment grade and non-investment grade, amounting to HK$423,120,000 (2007: 290,209,000) and HK$11,635,000 (2007: HK$3,900,000), respectively.

19. AVAILABLE-FOR-SALE SECURITIES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity outside Hong Kong, at market value	**409,173**	668,139	**–**	–
Unlisted equity, at cost	**243,942**	251,524	**141,997**	141,997
Impairment	**(37,499)**	(18,184)	**–**	–
	206,443	233,340	**141,997**	141,997
Unlisted debt, at cost	**45,278**	27,800	**–**	–
Impairment	**(6,900)**	(6,900)	**–**	–
	38,378	20,900	**–**	–
Total available-for-sale securities	**653,994**	922,379	**141,997**	141,997

19. 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Banks and other financial institutions	**433,689**	665,707	**139,922**	139,922
Corporate entities	**220,305**	256,672	**2,075**	2,075
	653,994	922,379	**141,997**	141,997

During the year, the gross loss of the Group's available-for-sale listed investments recognised directly in equity amounted to HK$307,559,000 (2007: gross gain of HK$53,438,000) (note 26).

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$206,443,000 (2007: HK$233,340,000) and HK$141,997,000 (2007: HK$141,997,000), 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.

20. LOANS AND ADVANCES AND OTHER ASSETS

	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Loans and advances	**100,189**	109,697	**50,000**	50,000
Accrued interest and other assets	**103,160**	182,899	**10,272**	8,518
Gross loans and advances and other assets	**203,349**	292,596	**60,272**	58,518

The Group's and the Company's accrued interest and other assets were current in nature as at 31st December, 2008 and 2007. 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 advances 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 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Repayable on demand	**46**	56	**–**	–
With a residual maturity of:				
Three months or less	**950**	1,130	**–**	–
One year or less but over three months	**2,879**	3,251	**–**	–
Five years or less but over one year	**85,679**	88,276	**50,000**	50,000
Over five years	**10,635**	16,984	**–**	–
	100,189	109,697	**50,000**	50,000

21. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2008 HK$'000	2007 HK$'000
Debt securities:		
– listed outside Hong Kong, at market value	**22,736**	43,591
– unlisted, at quoted market price	**22,054**	74,922
	44,790	118,513
Equity securities at market value:		
– listed in Hong Kong	**318,718**	355,312
– listed outside Hong Kong	**249,044**	472,392
	567,762	827,704
Investment funds:		
– listed outside Hong Kong, at market value	**–**	9,363
– unlisted, at quoted market price	**502,409**	1,056,348
	502,409	1,065,711
Total	**1,114,961**	2,011,928

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

	Group 2008 HK$'000	2007 HK$'000
Public sector entities	**20,556**	52,400
Banks and other financial institutions	**72,199**	241,434
Corporate	**1,022,206**	1,718,094
	1,114,961	2,011,928

21. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (cont'd)

During the year, 5,950,000 shares of an equity security listed outside Hong Kong with a fair value of HK$48,583,000 on the date of reclassification were reclassified out of the held for trading category to the available-for-sale category because the equity security is no longer held for the purpose of selling it in the near term. In the opinion of the directors, the deterioration of world's financial markets that has occurred during the third quarter of 2008 is a rare circumstance that allows such a reclassification. Prior to the reclassification, the Group recognised a fair value loss of HK$5,392,000 on this equity security for the year (2007: profit of HK$2,557,000). Had the reclassification not taken place, the Group would have recognised a fair value loss of HK$22,553,000 in the income statement for the year.

As at 31st December, 2008, the fair value and carrying value of the equity security reclassified during the current year was HK$31,422,000.

22. INSURANCE RECEIVABLES

	Group	
	2008	2007
	HK$'000	HK$'000
Amounts due in respect of:		
Direct underwriting	**99,791**	127,971
Reinsurance accepted	**28,129**	21,418
	127,920	149,389

The Group grants credit terms of 3 months to 6 months. 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 amounts of the insurance receivables approximate to their fair values.

22. INSURANCE RECEIVABLES (cont'd)

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

	Group 2008 HK$'000	Group 2007 HK$'000
Three months or less	**79,243**	115,237
Six months or less but over three months	**51,553**	37,904
One year or less but over six months	**878**	–
Over one year	**246**	246
	131,920	153,387
Less: Impairment allowances	**(4,000)**	(3,998)
	127,920	149,389

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

	Group 2008 HK$'000	Group 2007 HK$'000
At 1st January	**3,998**	3,914
Impairment losses recognised (note 6)	**45**	220
Amount written off as uncollectible	**(43)**	(136)
At 31st December	**4,000**	3,998

Included in the above provision for impairment of insurance receivables is a provision for individually impaired insurance receivables of HK$3,000,000 (2007: HK$2,998,000) with a carrying amount of HK$3,000,000 (2007: HK$2,998,000). 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.

22. INSURANCE RECEIVABLES (cont'd)

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

	Group	
	2008	2007
	HK$'000	HK$'000
Not past due	**107,371**	136,651
Less than one month past due	**20,303**	5,972
Over one month past due	**246**	6,766
	127,920	149,389

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.

23. REINSURANCE ASSETS

	Group	
	2008	2007
	HK$'000	HK$'000
Reinsurers' share of insurance contract liabilities (note 27)	**362,651**	342,444

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.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**260,232**	207,980	**6,149**	6,997
Time deposits with original maturity of over three months	**296,248**	91,827	**–**	–
Time deposits with original maturity of less than three months	**1,803,167**	2,171,664	**321,058**	329,601
	2,359,647	2,471,471	**327,207**	336,598
Pledged deposits with original maturity of:				
– over three months	**25,642**	22,219	**–**	–
– less than three months	**27,241**	12,612	**–**	–
	52,883	34,831	**–**	–
	2,412,530	2,506,302	**327,207**	336,598

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.

24. 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	
	2008	2007
	HK$'000	HK$'000
With a residual maturity of:		
Three months or less	**2,124,876**	2,477,453
Over three months but less than one year	**287,654**	28,849
	2,412,530	2,506,302

25. SHARE CAPITAL

	2008	2007
	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:		
1,028,649,428 ordinary shares (2007: 1,052,739,428) of HK$1 each	**1,028,649**	1,052,739

During the year, the Company repurchased and cancelled 24,090,000 of its ordinary shares of HK$1 each from the market at a total amount of approximately HK$46,615,000, including the transaction cost of approximately HK$130,000.

The premium of approximately HK$22,525,000 paid on the repurchase of such shares was debited to the retained profits account and an amount of HK$24,090,000 was transferred from retained profits of the Company to the capital redemption reserve, as set out in note 26 to the financial statements.

Subsequent to the balance sheet date, the Company repurchased and cancelled 4,569,000 of its ordinary shares from the market at a total amount of approximately HK$9,562,000, including the transaction cost of approximately HK$28,000.

26. RESERVES

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$'000	Total HK$'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 19)	–	–	53,438	–	–	–	–	–	–	53,438	–	53,438
Share of changes in the available-for-sale investment 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
Total income and expenses for the year	–	–	53,371	–	(306)	–	–	–	520,584	573,649	355	574,004
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

26. 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$'000	Total HK$'000
At 1st January, 2008	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
Changes in fair value of available-for-sale securities (note 19)	–	–	(307,559)	–	–	–	–	–	–	(307,559)	–	(307,559)
Share of changes in available-for-sale investment reserve of jointly-controlled entities	–	–	(5,119)	–	–	–	–	–	–	(5,119)	–	(5,119)
Share of changes in available-for-sale investment reserve of an associate	–	–	(175)	–	–	–	–	–	–	(175)	–	(175)
Share of changes in exchange reserve of a jointly-controlled entity	–	–	–	–	(10,254)	–	–	–	–	(10,254)	–	(10,254)
Share of changes in exchange reserve of an associate	–	–	–	–	9,448	–	–	–	–	9,448	–	9,448
Exchange realignment	–	–	–	–	221	–	–	–	–	221	–	221
Total income and expense recognised directly in equity	–	–	(312,853)	–	(585)	–	–	–	–	(313,438)	–	(313,438)
Loss for the year	–	–	–	–	–	–	–	–	(771,348)	(771,348)	(1,731)	(773,079)
Total income and expenses for the year	–	–	(312,853)	–	(585)	–	–	–	(771,348)	(1,084,786)	(1,731)	(1,086,517)
Interim 2008 dividend (note 11)	–	–	–	–	–	–	–	–	(10,527)	(10,527)	–	(10,527)
Proposed final 2008 dividend (note 11)	–	–	–	–	–	–	–	–	(10,241)	(10,241)	–	(10,241)
Repurchase of shares (note 25)	–	–	–	–	–	–	–	–	(22,525)	(22,525)	–	(22,525)
Transfer to capital redemption reserve (note 25)	–	–	–	–	–	–	–	24,090	(24,090)	–	–	–
Transfer to contingency reserve	–	3,600	–	–	–	–	–	–	(3,600)	–	–	–
Release from contingency reserve	–	(1,469)	–	–	–	–	–	–	1,469	–	–	–
At 31st December, 2008	560,531	13,180	(46,527)	46,071	(46)	2,427	513,240	29,372	2,376,492	3,494,740	15,483	3,510,223

26. RESERVES (cont'd)

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 with 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.

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, 2008 (2007: Nil).

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, 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 and at 1st January, 2008		560,531	60,060	5,282	2,385,523	3,011,396
Profit for the year	10	–	–	–	73,369	73,369
Repurchase of shares		–	–	–	(22,525)	(22,525)
Transfer to capital redemption reserve		–	–	24,090	(24,090)	–
Interim 2008 dividend	11	–	–	–	(10,527)	(10,527)
Proposed final dividend	11	–	–	–	(10,241)	(10,241)
At 31st December, 2008		**560,531**	**60,060**	**29,372**	**2,391,509**	**3,041,472**

27. INSURANCE CONTRACT LIABILITIES

Group

	Notes	2008 Insurance contract liabilities HK$'000	2008 Reinsurers' share of liabilities HK$'000	2008 Net HK$'000	2007 Insurance contract liabilities HK$'000	2007 Reinsurers' share of liabilities HK$'000	2007 Net HK$'000
Life insurance contracts	(a)	**19,372**	**–**	**19,372**	17,607	–	17,607
General insurance contracts	(b)	**1,199,109**	**(362,651)**	**836,458**	1,130,547	(342,444)	788,103
Total insurance contract liabilities		**1,218,481**	**(362,651)**	**855,830**	1,148,154	(342,444)	805,710
			(note 23)			(note 23)	

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

	Notes	2008 Insurance contract liabilities HK$'000	2008 Reinsurers' share of liabilities HK$'000	2008 Net HK$'000	2007 Insurance contract liabilities HK$'000	2007 Reinsurers' share of liabilities HK$'000	2007 Net HK$'000
Life reserve	(1)	**19,205**	**–**	**19,205**	17,607	–	17,607
Provision for claims	(2)	**167**	**–**	**167**	–	–	–
		19,372	**–**	**19,372**	17,607	–	17,607

(1) Life reserve is analysed as follows:

	2008 HK$'000	2007 HK$'000
At 1st January	**17,607**	15,739
Increase in the year	**1,598**	1,868
At 31st December	**19,205**	17,607

27. 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:

	2008			2007		
	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
Claims incurred during the year	**2,560**	**(757)**	**1,803**	813	–	813
Claims paid during the year	**(2,393)**	**757**	**(1,636)**	(1,008)	–	(1,008)
At 31st December	**167**	**–**	**167**	–	–	–

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

		2008			2007		
	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		**496,153**	**(185,626)**	**310,527**	479,649	(174,252)	305,397
Provision for claims incurred but not reported ("IBNR")		**239,166**	**(26,500)**	**212,666**	202,066	(21,500)	180,566
Total claims reported and IBNR	(1)	**735,319**	**(212,126)**	**523,193**	681,715	(195,752)	485,963
Provision for unearned premiums	(2)	**463,790**	**(150,525)**	**313,265**	448,832	(146,692)	302,140
Total general insurance contracts liabilities		**1,199,109**	**(362,651)**	**836,458**	1,130,547	(342,444)	788,103

27. 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:

	2008 Insurance contract liabilities HK$'000	2008 Reinsurers' share of liabilities HK$'000	2008 Net HK$'000	2007 Insurance contract liabilities HK$'000	2007 Reinsurers' share of liabilities HK$'000	2007 Net HK$'000
At 1st January	681,715	(195,752)	485,963	669,529	(220,231)	449,298
Claims incurred during the year	404,253	(91,761)	312,492	352,498	(99,500)	252,998
Claims paid during the year	(350,649)	75,387	(275,262)	(340,312)	123,979	(216,333)
At 31st December	735,319	(212,126)	523,193	681,715	(195,752)	485,963

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

	2008 Insurance contract liabilities HK$'000	2008 Reinsurers' share of liabilities HK$'000	2008 Net HK$'000	2007 Insurance contract liabilities HK$'000	2007 Reinsurers' share of liabilities HK$'000	2007 Net HK$'000
At 1st January	448,832	(146,692)	302,140	410,541	(151,007)	259,534
Premiums written during the year	848,866	(260,213)	588,653	810,902	(252,710)	558,192
Premiums earned during the year	(833,908)	256,380	(577,528)	(772,611)	257,025	(515,586)
At 31st December	463,790	(150,525)	313,265	448,832	(146,692)	302,140

28. NET PREMIUMS

		Notes	2008 HK$'000	2007 HK$'000
(a)	Gross premiums on insurance contracts			
	Gross general insurance premiums:			
	Direct underwriting		**645,103**	638,720
	Reinsurance accepted		**203,763**	172,182
	Total gross general insurance premiums	27(b)(2)	**848,866**	810,902
	Gross life insurance premiums		**3,915**	2,791
	Change in gross unearned premiums		**(14,958)**	(38,291)
	Change in life reserve	27(a)(1)	**(1,598)**	(1,868)
	Total gross premiums		**836,225**	773,534
(b)	Reinsurers' share of gross premiums on insurance contracts			
	Gross general insurance premiums:			
	Direct underwriting		**(231,693)**	(218,269)
	Reinsurance accepted		**(28,520)**	(34,441)
	Total gross general insurance premiums	27(b)(2)	**(260,213)**	(252,710)
	Gross life insurance premiums		**(1,160)**	(758)
	Change in unearned premiums		**3,833**	(4,315)
	Total reinsurers' share of gross premiums		**(257,540)**	(257,783)

29. NET CLAIMS INCURRED

		Notes	2008 HK$'000	2007 HK$'000
(a)	Gross claims paid			
	Life insurance contracts claims paid	27(a)(2)	**(2,393)**	(1,008)
	General insurance contracts claims paid	27(b)(1)	**(350,649)**	(340,312)
	Total gross claims paid		**(353,042)**	(341,320)
(b)	Reinsurers' share of gross claims paid			
	Life insurance contracts claims paid	27(a)(2)	**757**	–
	General insurance contracts claims paid	27(b)(1)	**75,387**	123,979
	Total reinsurers' share of gross claims paid		**76,144**	123,979
(c)	Gross change in outstanding claims			
	Change in life insurance outstanding claims		**(167)**	195
	Change in general insurance outstanding claims		**(53,604)**	(12,186)
	Total gross change in outstanding claims		**(53,771)**	(11,991)
(d)	Reinsurers' share of gross change in outstanding claims			
	Life insurance outstanding claims		**–**	–
	General insurance outstanding claims		**16,374**	(24,479)
	Total reinsurers' share of gross change in outstanding claims		**16,374**	(24,479)

30. OTHER LIABILITIES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals and other payables	**93,538**	121,074	**4,269**	12,812

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, 2008 and 2007.

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

31. 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	Total HK$'000
Gross deferred tax liabilities at 1st January, 2007, 31st December, 2007 and 31st December, 2008	**1,452**	**9,834**	**11,286**

Deferred tax assets

	Losses available for offsetting against future taxable profit HK$'000
At 1st January, 2007 and 1st January, 2008	**–**
Deferred tax credited to the income statement during the year (note 9)	**71,626**
Gross deferred tax assets at 31st December, 2008	**71,626**

31. DEFERRED TAX (cont'd)

For the purpose of the balance sheet presentation, deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2008 HK$'000	2007 HK$'000
Net deferred tax assets recognised in the consolidated balance sheet	60,402	–
Net deferred tax liabilities recognised in the consolidated balance sheet	(62)	(11,286)

The Group has tax losses arising in Hong Kong of HK$143,340,000 (2007: HK$7,165,000) 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.

32. LOAN TO A DIRECTOR

The loan to a director of the Company disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name of borrower	Office held	Balance at 31st December, 2008 HK$'000	Balance at 1st January, 2008 HK$'000	Maximum amount outstanding during the year HK$'000
Wong Kok Ho	Executive director	1,410	1,794	1,794

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$48,000 (2007: HK$79,000).

33. OPERATING LEASE COMMITMENTS

The Group leases its building under an operating lease arrangement. Lease for building is negotiated for a term of three years. The terms of the lease requires the Group to pay security deposit.

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

	Group	
	2008	2007
	HK$'000	HK$'000
Within one year	**505**	1,515
In the second to fifth years, inclusive	**–**	631
	505	2,146

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

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had capital commitments as follows at the balance sheet date:

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for acquisition of computer software	**4,441**	4,438

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

35. RELATED PARTY TRANSACTIONS

(a) **Group**

	2008 Directors and key management personnel HK$'000	**2008** Enterprises and individuals related to directors and key management personnel HK$'000	2007 Directors and key management personnel HK$'000	2007 Enterprises and individuals related to directors and key management personnel HK$'000
Loans and advances granted:				
Aggregate balance at the balance sheet date	**1,410**	**2,518**	1,794	4,793
Interest income received and receivables	**48**	**–**	79	–
Interbank activities:				
Deposits placed	**–**	**910,915**	–	1,148,017
Interest income	**–**	**25,119**	–	39,320
Premium income:				
Gross premiums written	**171**	**1,256**	136	736
Commission expense, net	**–**	**531**	–	1,120

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

	2008 HK$'000	2007 HK$'000
Loans and advances granted:		
Aggregate balance at the balance sheet date	**59,743**	70,964
Interest income received and receivables	**787**	319
Reinsurance premium ceded	**9**	9

35. RELATED PARTY TRANSACTIONS (cont'd)

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

	2008 HK$'000	2007 HK$'000
Loan and advance granted:		
Aggregate balance at the balance sheet date	**107,498**	107,510
Commission expense paid	**12,673**	11,961

(d) Details of the Group's advances to its jointly-controlled entities and associates as at the balance sheet date are included in notes 16 and 17 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.

36. 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.

36. 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.

36. 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$'000	2008 HK$'000	Total HK$'000
Accident year	460,141	193,696	271,111	343,231	397,590	350,726	382,549	403,169	2,802,213
One year later	478,931	213,745	265,153	317,189	360,933	342,124	388,776	–	2,366,851
Two years later	479,239	199,937	233,142	290,479	364,956	334,451	–	–	1,902,204
Three years later	505,216	202,457	241,905	303,588	368,588	–	–	–	1,621,754
Four years later	503,132	200,877	235,102	298,968	–	–	–	–	1,238,079
Five years later	513,974	191,030	237,479	–	–	–	–	–	942,483
Six years later	492,044	188,987	–	–	–	–	–	–	681,031
Seven years later	495,228	–	–	–	–	–	–	–	495,228
Current estimate of cumulative gross claims	495,228	188,987	237,479	298,968	368,588	334,451	388,776	403,169	2,715,646
Cumulative gross payments to date	(486,243)	(187,365)	(218,848)	(248,763)	(290,885)	(228,073)	(205,296)	(114,854)	(1,980,327)
Total gross general insurance claim liabilities as per the balance sheet	8,985	1,622	18,631	50,205	77,703	106,378	183,480	288,315	735,319
									(Note 27(b))

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

General insurance contracts (cont'd)

(4) Loss development triangle (cont'd)

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$'000	2008 HK$'000	Total HK$'000
Accident year	225,033	67,518	151,658	217,908	246,522	220,375	243,904	311,628	1,684,546
One year later	287,712	127,175	168,110	225,626	267,267	229,650	245,053	–	1,550,593
Two years later	300,779	129,964	168,962	230,275	287,131	229,936	–	–	1,347,047
Three years later	308,626	131,195	173,745	236,448	288,825	–	–	–	1,138,839
Four years later	307,659	128,821	169,537	232,392	–	–	–	–	838,409
Five years later	314,369	122,160	171,539	–	–	–	–	–	608,068
Six years later	299,665	120,778	–	–	–	–	–	–	420,443
Seven years later	300,836	–	–	–	–	–	–	–	300,836
Current estimate of cumulative net claims	300,836	120,778	171,539	232,392	288,825	229,936	245,053	311,628	1,900,987
Cumulative net payments to date	(295,459)	(119,331)	(162,610)	(193,465)	(229,874)	(145,363)	(118,918)	(112,774)	(1,377,794)
Total net general insurance claim liabilities as per the balance sheet	5,377	1,447	8,929	38,927	58,951	84,573	126,135	198,854	523,193
									(Note 27(b))

37. 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, which are approved and endorsed by the board of directors and reviewed regularly by the Group's management, executive committee, investment committee, fund management committee and other designated committees or working groups. Material risks are identified and measured by designated committees and/or working groups before the launch of new products or business activities, and monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures. 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, reinsurance assets, held-to-maturity securities, available-for-sale securities, loans and advances and other assets and amounts due from associates and jointly-controlled entities, 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 held-to-maturity securities, loans and advances and other assets, insurance receivables and reinsurance assets are disclosed in notes 18, 20, 22 and 23 to the financial statements.

37. 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 contractual undiscounted payments, was as follows:

Group

			2008		
	On demand HK$'000	**Less than 1 year HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Provision for claims reported by policyholders	**–**	**175,421**	**320,732**	**–**	**496,153**
IBNR	**–**	**84,560**	**154,606**	**–**	**239,166**
Insurance payables	**–**	**152,995**	**–**	**–**	**152,995**
Loans from associates	**265**	**–**	**–**	**–**	**265**
Other liabilities	**36,354**	**57,184**	**–**	**–**	**93,538**
	36,619	**470,160**	**475,338**	**–**	**982,117**

Group

			2007		
	On demand HK$'000	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Provision for claims reported by policyholders	–	169,586	310,063	–	479,649
IBNR	–	71,443	130,623	–	202,066
Insurance payables	–	154,228	–	–	154,228
Loans from associates	265	–	–	–	265
Other liabilities	42,190	57,752	21,132	–	121,074
	42,455	453,009	461,818	–	957,282

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

(3) Liquidity risk management (cont'd)

Company

	2008				
	On demand HK$'000	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Other liabilities	**2,024**	**2,245**	**–**	**–**	**4,269**

	2007				
	On demand HK$'000	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Other liabilities	3,630	9,182	–	–	12,812

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

Group

31st December, 2008	Current* HK$'000	Non-current HK$'000	Total HK$'000
Property, plant and equipment	**–**	**192,713**	**192,713**
Investment properties	**–**	**3,150**	**3,150**
Interests in jointly-controlled entities	**–**	**266,482**	**266,482**
Loans to jointly-controlled entities	**5,953**	**53,790**	**59,743**
Interests in associates	**–**	**74,537**	**74,537**
Due from an associate	**–**	**107,498**	**107,498**
Deferred tax assets	**–**	**60,402**	**60,402**
Held-to-maturity securities	**48,620**	**386,135**	**434,755**
Available-for-sale securities	**–**	**653,994**	**653,994**
Loans and advances and other assets	**107,035**	**96,314**	**203,349**
Securities measured at fair value through profit or loss	**1,114,961**	**–**	**1,114,961**
Insurance receivables	**127,920**	**–**	**127,920**
Reinsurance assets	**362,651**	**–**	**362,651**
Pledged deposits	**52,883**	**–**	**52,883**
Cash and cash equivalents	**2,359,647**	**–**	**2,359,647**
Total assets	**4,179,670**	**1,895,015**	**6,074,685**

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

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

(3) Liquidity risk management (cont'd)

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*

Company

31st December, 2008	**Current* HK$'000**	**Non-current HK$'000**	**Total HK$'000**
Property, plant and equipment	**–**	**140**	**140**
Interests in subsidiaries	**–**	**1,695,747**	**1,695,747**
Due from subsidiaries	**–**	**1,859,777**	**1,859,777**
Available-for-sale securities	**–**	**141,997**	**141,997**
Loans and advances and other assets	**10,272**	**50,000**	**60,272**
Cash and cash equivalents	**327,207**	**–**	**327,207**
Total assets	**337,479**	**3,747,661**	**4,085,140**

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*

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

(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 manages 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 for managing capital from the previous year.

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

	Life insurance HK$'000	Non-life insurance HK$'000
2008 Required Relevant Amount	**2,000**	**78,920**
2007 Required Relevant Amount	2,000	75,863

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, loans from associates and other liabilities, less cash and cash equivalents. Capital includes equity attributable to equity holders of the Company. As at 31st December, 2008, the Group has no net debt.

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

(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, 2008 Increase/(decrease)		31st December, 2007 Increase/(decrease)	
	Change 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)	–
	–50 basis points	**126**	**–**	126	–
Time deposits	+50 basis points	**11,832**	**–**	12,380	–
	–50 basis points	**(11,832)**	**–**	(12,380)	–
Loans and advances and other assets	+50 basis points	**126**	**–**	174	–
	–50 basis points	**(126)**	**–**	(174)	–
Loans to jointly-controlled entities	+50 basis points	**299**	**–**	328	–
	–50 basis points	**(299)**	**–**	(328)	–

* *Excluding retained profits*

37. 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 liabilites and available-for-sale securities).

	Change in exchange rate %	Decrease in profit before tax HK$'000	Decrease in equity* HK$'000
2008			
If Thai Baht weakens against Hong Kong dollar	**–5%**	**(2,510)**	**(20,562)**
If Japanese Yen weakens against Hong Kong dollar	**–8%**	**(3,642)**	**–**
2007			
If Thai Baht weakens against Hong Kong dollar	–5%	(6,322)	(41,778)
If Japanese Yen weakens against Hong Kong dollar	–8%	(11,533)	–

* *Excluding retained profits*

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

(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, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and prompt 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 and territory. Excess-of-loss reinsurance is designed to mitigate the Group's net exposure to catastrophe losses. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets.

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

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

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

(7) Insurance risk management (cont'd)

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 the 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.

	2008			2007		
	Insurance contracts liabilities HK$'000	**Reinsurers' share of liabilities HK$'000**	**Net HK$'000**	Insurance contracts liabilities HK$'000	Reinsurers' share of liabilities HK$'000	Net HK$'000
Employee' compensation	**399,493**	**(63,574)**	**335,919**	403,929	(55,619)	348,310
Property damage	**284,790**	**(150,533)**	**134,257**	243,472	(137,908)	105,564
General liability	**219,010**	**(104,470)**	**114,540**	201,290	(103,062)	98,228
Motor vehicle	**164,639**	**(9,992)**	**154,647**	168,130	(11,841)	156,289
Others	**131,177**	**(34,082)**	**97,095**	113,726	(34,014)	79,712
Total general insurance	**1,199,109**	**(362,651)**	**836,458**	1,130,547	(342,444)	788,103

As at 31st December, 2008, over 90% (2007: 90%) of the general insurance contracts liabilities was related to the business written in Hong Kong and Macau.

(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.

37. 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 21) and available-for-sale securities (note 19) as at 31st December, 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 following table demonstrates the sensitivity to every 15%, 10%, 5% and 10% change in the fair values of the securities listed in Hong Kong, the 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 securities the impact is deemed to be on the available-for-sale investment reserve and no account is given for factors such as impairment which might impact on the income statement.

	Change in sensitivity %	Carrying amount of securities HK$'000	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2008				
Investments in:				
Hong Kong				
– Listed securities measured at	+15%	318,718	47,808	–
fair value through profit or loss	–15%	318,718	(47,808)	–
United States				
– Listed securities measured at	+10%	193,030	19,303	–
fair value through profit or loss	–10%	193,030	(19,303)	–
Thailand				
– Available-for-sale securities	+5%	409,173	–	20,459
	–5%	409,173	–	(20,459)
– Listed securities measured at	+5%	50,112	2,506	–
fair value through profit or loss	–5%	50,112	(2,506)	–
All other areas				
– Listed and unlisted debts securities,	+10%	553,101	55,310	–
equity securities and investment funds	–10%	553,101	(55,310)	–

* *Excluding retained profits*

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

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

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

* *Excluding retained profits*

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

(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.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20th March, 2009.