亞洲金融
Asia Financial

Annual Report 2010

A Focus on
Coverage and Care

Stock Code : 662

www.afh.hk

Contents

Corporate Information

Directors
Robin Yau Hing Chan *(Chairman)*
Bernard Charnwut Chan *(President)*
Stephen Tan *(Executive Director)*
Wong Kok Ho *(Executive Director)*
Lau Ki Chit
Choedchu Sophonpanich
Ng Song Hin
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
Email : contactus@afh.hk

Company Secretary
Lau Chi Tak

Principal Registrar and Transfer Office
HSBC Securities Services (Bermuda) Limited
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
Gallant Y.T. Ho & Co.
Deacons

Share Listing
Main Board of The Stock Exchange of Hong Kong Limited
Stock Code : 662

Robin Y.H. Chan
Chairman

> "Asia Financial Holdings Limited ("Asia Financial") achieved net profit attributable to shareholders of HK$268.8 million in 2010, an 18.6% decrease on the HK$330.3 million for the year 2009. This is largely due to the fall in gains from the Group's portfolio investments, reflecting the far slower market environment in 2010 following the sharp rebounds in 2009. At 9.1%, trading returns nonetheless remained in line with main benchmarks. For the fourth consecutive year, underwriting profits reached a record level, while returns from joint ventures and associated companies were satisfactory. Despite some growth in operations, costs remained under control."

Economic Background

Although the world economy as a whole continued to recover from the 2008-09 crisis in 2010, the picture was mixed. The United States and many other developed markets relied on loose monetary policy to counter high unemployment and continuing consumer debt. Developing economies on the other hand, including China and Asia, largely enjoyed strong growth, at least partly due to emerging domestic markets. China's GDP expanded by over 10% and Hong Kong's by over 6%. This strength contributed to the continuing development of our operating activities in Hong Kong and our direct investments in the Mainland.

Asset prices, which affect much of our year-on-year profitability, slowed considerably in 2010 compared with the sharp recovery the year before. The Hang Seng index rose 5.3% and the Dow Jones 11% for the year. The impact of this was especially pronounced for more conservatively managed portfolios like ours, with a relatively low weighting in asset classes such as minor emerging markets and commodities which were boosted by very loose monetary conditions.

Management Approach and Future Prospects

The global outlook is far from certain. Many developed economies are pursuing uncoordinated and even contradictory monetary and fiscal policies in their attempts to recover from the financial crisis; at the same time, they are suffering unemployment and unsustainable budget deficits. Many emerging markets meanwhile face such challenges as food and commodity price pressures and unpredictable capital flows. China continues to enjoy strong growth but is also being affected by inflation. The best we can hope for is gradual worldwide recovery, but we cannot rule out setbacks and volatility.

Under these circumstances, caution will remain our guiding principle in the management of our cash and direct and indirect investments in the coming year. This is our longstanding philosophy, and it is one that has served our shareholders well over the years. Our number-one priority will continue to be preservation of value and an avoidance of unnecessary risk.

Management Approach and Future Prospects *(cont'd)*

Most of all, we will continue to focus on the long term. The recent financial crisis has by many standards been the biggest economic shock the world has seen for over half a century. Yet, even though some developed economies may need several more years of hardship to recover from the credit bubble, our own region is proving to be resilient. It would be over-optimistic to assume that Asia has no problems: China and other economies face long-term demographic and other structural challenges. But the continuing, historic rebalancing of global growth away from more mature economies is a real phenomenon. As an investment-based company, Asia Financial is in the right place at the right time.

We will continue to base our growth largely upon our existing range of investments in livelihood service industries, including insurance, retirement products, health care and property development, focused on Greater China and elsewhere in Asia. A good example would be the prospects for our interests in the life insurance sector in the Mainland. These are described in more detail below. This range of investment segments is not a coincidence: this region is witnessing the growth of a large middle class; societies are at the same time beginning to age; and governments are seeking more market-based solutions to demographic policy challenges. This is the long-term environment on which Asia Financial's management focuses.

Our existing base of investments fits well with our traditional expertise and networks of clients and partners, and is well-positioned to benefit from long-term economic and social trends. In considering ways to build upon this base, we will adhere to this fundamental approach and exercise patience and caution.

Robin Y.H. Chan
Chairman

Hong Kong, 2nd March, 2011

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

Profit attributable to equity holders of the Company:	HK$268.8m	-18.6%
Earnings per share:	HK26.4 cents	-18.5%
Final dividend per share:	HK6.5 cents	-
Total dividend per share:	HK7.7 cents	-23.0%

Asia Financial Holdings Limited ("Asia Financial") achieved net profit attributable to shareholders of HK$268.8 million in 2010, an 18.6% decrease on the HK$330.3 million for the year 2009. This is largely due to the fall in gains from the Group's portfolio investments, reflecting the far slower market environment in 2010 following the sharp rebounds in 2009.

Overview by Investment Segments

Insurance

For the fourth consecutive year, wholly owned Asia Insurance Company, Limited ("Asia Insurance") reported a record underwriting profit, achieving a 14.8% increase over that of 2009. Turnover rose 20.6%. This satisfactory result reflects management's ongoing efforts to expand our base of quality business and take advantage of changes in supply and demand in the market to focus on more profitable market segments. In particular, Asia Insurance benefited from a firmer pricing environment in the motor sector and rising demand for employees' compensation coverage arising from new infrastructure and other construction projects in Hong Kong and Macau. Our growing reinsurance-related business also grew satisfactorily, helped by expansion overseas. We were also helped by the fact that the impact of earlier major events, such as the 2008 earthquakes, had run its course.

As with Asia Financial as a whole, the relative performances in equities markets in 2009 and 2010 produced declines in the year-on-year unrealized gain on market values of Asia Insurance's trading portfolio investments; this reflects the far slower market environment in 2010 following the sharp rebounds in 2009. In general, investment performance was acceptable. Dividend income benefited from improved corporate earnings. With bank interest levels very low, we maintained a strategy of balancing the portfolio away from deposits into fixed income instruments held to maturity and blue-chip holdings. Asia Insurance has no significant direct exposure to vulnerable European sovereign debt and related investments. Other income largely comprised foreign exchange gains.

Asia Insurance continued to keep costs under control, despite growth in turnover and the recruitment of extra staff in response to new opportunities.

The continuing strength of Asia Insurance's operations is a reflection of the company's status as a leader in Hong Kong's general insurance market with a sound reputation among clients. The outlook in 2011 for core underwriting is generally good. Hong Kong is seeing renewed growth driven by such factors as consumption and infrastructure projects. Strong economic expansion on the Mainland looks set to continue, if at a slightly slower pace due to official efforts to rein in inflation. The main potential dangers are deterioration of major economies overseas, sudden major rises in interest rates or an unexpected slowdown in the Mainland. Prospects for portfolio investments reflect this uncertainty, and as with Asia Financial as a whole, management will maintain a particularly prudent approach to management of traded investments.

Overview by Investment Segments *(cont'd)*

Insurance *(cont'd)*

Asia Insurance is open to potential new opportunities, but these seem fairly limited in the foreseeable future. Significant health care reform in Hong Kong, which could expand the market by encouraging a bigger role for personal health insurance coverage in the community, is proceeding slowly. Nonetheless, with this new potential market in mind, Asia Insurance has launched a new 'Care Forever' product aimed essentially at middle- and upper-class individuals and families.

Associated and joint venture companies in the insurance segment generally performed in line with expectations under the overall investment climate. BC Reinsurance Ltd. and Hong Kong Life Insurance Ltd. both saw profits fall owing to declines in investment income; both companies enjoyed solid underwriting results. The People's Insurance Company of China (Hong Kong) Ltd. experienced a similar trend but also benefited from good premium growth. Professional Liability Underwriting Services Ltd. remained profitable in an increasingly competitive market.

PICC Life Insurance Co. Ltd. in Mainland China, in which Asia Financial has a 5% stake, continues to take advantage of its opportunities as a company with a nationwide licence in a country where life insurance premiums are growing at double-digit rates. It now ranks sixth in the Chinese life insurance market and operates a network of some 1,900 offices. The company reported RMB72.1 billion in gross premiums for 2010, up 54.9% on the same period in the year before. All other business performance and risk control indicators were positive and healthy. The insurance liability reserves and solvency ratio were maintained at comfortable levels in line with the fast-growing business volume.

Other Portfolio Investment

Asia Financial's other portfolio investment income fell on a year-on-year basis by 14.2%. Net interest income's 5.2% decline in the period reflects low interest rates and a lower level of idle funds. Lower returns from trading investments (along with the corresponding decline in Asia Insurance's investment income) account for much of the reduction in Asia Financial's group net profit in 2010. As mentioned above, these declines reflect the strong recovery in equity market valuations in 2009 in Hong Kong and New York as much as the relative weakness during 2010. The results also reflect a greater weighting towards bonds during much of the year.

Asia Financial has no direct exposure to vulnerable European sovereign debt. Secondary exposure via equity and fund investments is limited by our policy of diversification and focus on quality, while our fixed income investments and derivative instruments are of investment grade or above.

Although world markets seem to have stabilized and corporate earnings in major markets recovered, this does not tell the whole story. This is by no means a benign environment, and we will stick to our traditional careful investment principles and maintain exposure to high-quality holdings to defend shareholders' wealth.

Overview by Investment Segments *(cont'd)*

Health Care

Asia Financial's share of profits from its 19.5% stake in Bumrungrad International Limited ("BIL") showed a decline in 2010. This is partly a result of foreign exchange loss incurred when BIL sold Asia Renal Care, the chain of outpatient dialysis facilities in Asia. We hope to see more positive returns in future. We continue to foresee very healthy prospects for the business in Asia and the Middle East, owing to long-term demographic and policy trends, and BIL will continue to consider suitable opportunities for expansion. BIL have expressed an interest to the Hong Kong government in bidding for a hospital site at Wong Chuk Hang on the south of Hong Kong Island.

Pension and Asset Management

The Group's holding in jointly-controlled company, Bank Consortium Holding Limited ("BCH") enjoyed acceptable profit growth in 2010. This is largely due to the rising fee income from increased assets under management and provision of services to third parties. Bank Consortium Trust Co. Ltd. ("BCT"), a wholly owned subsidiary of BCH, remains one of the top five providers of Mandatory Provident Fund services in Hong Kong. The market may become more competitive at some stage when employees are given the right to transfer their personal contributions to other service providers; however, we are confident that BCT's commitment to quality client service will give it an edge in retaining and indeed attracting funds. Future expansion of this market will to some extent be influenced by government policy, but we expect BCT at least to remain a solid and steady contributor.

Property Development

The Group's interests in real estate are focused on Shanghai and Suzhou and represent 4.7% of our total assets. The main project is a residential and commercial complex in Jiading, in which we have a 27.5% stake. Phase 1 of the project has now been sold, and Phase 2 is now attracting pre-sales. Under Hong Kong accounting practices, Asia Financial booked part of the Phase 1 profits in 2010, and the remainder to be booked in the first half of 2011. Another piece of new land in an adjacent area in Jiading was acquired during early 2010 for a planned residential complex with a saleable area of 40,000 square meters. It is planned that the construction will start in 2011.

Measures to cool the mainland property market may have some limited impact on continuing sales, but we are confident that this overall project will continue to deliver good returns. It is a good quality development in a convenient location with a growing range of local facilities, and is intended to satisfy strong demand among middle-class end-users.

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 applicable 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, 2010.

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, 2010.

Board of Directors

The 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 fourteen members, consisting of four executive directors (including the Chairman and the President) and ten 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 23 to 27 of this annual report.

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

Each non-executive director 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.

Board of Directors *(cont'd)*

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.

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. With respect to regular Board meetings, directors receive written notice of the meeting at least 14 days in advance and an agenda and accompanying Board papers at least 3 days before the 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 2010, 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	3/4	75%
Ng Song Hin	4/4	100%
Leo Tung Hai Lee*	1/1	100%
Philip Yu Hong Wong	1/4	25%
Kenneth Chi Lam Siao	4/4	100%
Chan Yeow Toh	3/4	75%
Mamoru Miyazaki	4/4	100%
Independent Non-executive Directors:		
Andrew Chiu Cheung Ma	4/4	100%
Anna Suk Han Chow	4/4	100%
Ko Wing Man	3/4	75%

* Dr. The Hon. Leo Tung Hai Lee passed away on 8th June, 2010.

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. Dr. Robin Yau Hing 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 2010, the Remuneration Committee held one meeting. The attendance record of each member is set out below:

Name of member	Number of meeting 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 2010, the Nomination Committee held one meeting. The attendance record of each member is set out below:

Name of member	Number of meeting 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%

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 three meetings in the year 2010. The attendance record of each member is set out below:

Name of member	Number of meeting attended/held	Attendance rate
Andrew Chiu Cheung Ma *(Chairman)*	3/3	100%
Kenneth Chi Lam Siao	3/3	100%
Anna Suk Han Chow	3/3	100%
Ko Wing Man	2/3	67%

Audit Committee *(cont'd)*

During the year 2010, 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 changes in accounting standards and their impact on the Group's financial statements.

– 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	2,313
Non-audit services	796
Total:	3,109

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, 2010, 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.

The consolidated financial statements of the Company for the year ended 31st December, 2010 have been audited by the external auditor, Ernst & Young, and reviewed by the Audit Committee. The directors acknowledge their responsibility for preparing the financial statements of the Group which were prepared in accordance with statutory requirements and applicable accounting standards.

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 continued to engage 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 usually conducts post-results press conferences, with executive 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 20 clear business 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 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 2010 and up to the date of this annual report as required by the Listing Rules.

We believe that corporations, in the course of doing business, can have a significant impact on the people and society in which they operate. With that comes a responsibility: to ensure that our activities and behaviour reflect conscientiousness and integrity at all times and in all 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 hope to continue to help others in shaping the impact of the corporation as a constructive force in an ever-changing and often uncertain world.

We take pride in obtaining recognition as a "Caring Company" for the eighth 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 2010, Asia Financial devoted a total of over HK$3.7 million (mainly through donations and sponsorships) to support the Community Chest, Oxfam Hong Kong and many other non-profit-making organizations.

We organized a series of programmes in 2010 to reflect the importance of community life to us on both individual and corporate levels; 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, Tung Wah Group of Hospitals and Senior Citizen Home Safety Association, we arranged several activities to bring love and care to children and senior citizens.

At the end of 2009, we founded AFH Charitable Foundation Limited (the "Foundation") to collect funds and systematically make donations to help meet charitable, educational, cultural and other needs of society. In 2010, the Foundation devoted a total of over HK$1.7 million (mainly through donations and sponsorships) to support other non-profit-making organizations locally and overseas.

The major focus of the Foundation is investment in SVHK Capital Limited ("SVHK"), which is a venture philanthropic organization, aiming to provide financial and non-financial support to social-purpose organizations or social enterprises in Hong Kong. The flagship project of SVHK is Diamond Cab (Hong Kong) Limited. This is a brand new social venture providing point-to-point transportation service for wheelchair users. It provides not only unprecedented wheelchair-accessible and barrier-free taxi services, but top quality standards of professional transportation for people in need. This taxi service has been receiving an overwhelming response from the general public.

Diamond Cab (Hong Kong) Limited provides point-to-point transportation service for the wheelchair users.

Hotline: 2760 8771

Website: www.diamondcab.com.hk

Meanwhile, our wholly-owned subsidiary, Asia Insurance was proud to become the first carbon-neutral insurance company in Greater China in 2009. The company's biggest producers of greenhouse gas emissions are electricity and waste disposal. To achieve carbon-neutrality, we have introduced mechanisms to reduce our carbon footprint on the environment and also offset all emissions generated by our offices' operations and administration systems.

To conclude: in 2010, Asia Financial continued to honour its commitment to the wider community. It continued to develop partnerships with social service organizations and social enterprises. These provide a framework for staff to contribute caring and time to the community in contexts where they can make a real difference.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31st December, 2010.

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 profit for the year ended 31st December, 2010 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 31 to 120.

An interim dividend of HK1.2 cents per ordinary share, totalling approximately HK$12,230,000, was paid on 7th October, 2010.

The directors recommend the payment of a final dividend of HK6.5 cents per ordinary share, totalling approximately HK$66,248,000 in respect of the year, which will be payable on or about 20th May, 2011 in cash to shareholders on the register of members of the Company on 5th May, 2011. 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 the Company's statements of financial position. Further details of this accounting treatment are set out in note 11 to the financial statements.

Property, plant and equipment and investment property

Details of movements in the property, plant and equipment and the investment property 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

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 statement of changes in equity, respectively.

Distributable reserves

At 31st December, 2010, the Company's reserves available for cash distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981, amounted to HK$2,309,807,000, of which HK$66,248,000 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 non-controlling 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,				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
CONTINUING OPERATIONS					
Revenue	**964,312**	799,342	852,781	813,693	740,338
Profit/(loss) for the year from continuing operations	**271,563**	331,529	(773,079)	520,939	416,311
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	–	–	–	2,677,299
Profit/(loss) for the year	**271,563**	331,529	(773,079)	520,939	3,093,610
Profit/(loss) for the year attributable to:					
Equity holders of the Company	**268,819**	330,320	(771,348)	520,584	3,092,434
Non-controlling interests	**2,744**	1,209	(1,731)	355	1,176
	271,563	331,529	(773,079)	520,939	3,093,610

Assets, liabilities and non-controlling interests

	31st December,				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**7,325,260**	6,606,534	6,074,685	7,282,979	6,819,800
Total liabilities	**(1,762,614)**	(1,506,522)	(1,525,572)	(1,491,249)	(1,374,426)
Non-controlling interests	**(16,363)**	(17,936)	(15,483)	(17,214)	(29,748)
	5,546,283	5,082,076	4,533,630	5,774,516	5,415,626

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
Ng Song Hin
Philip Yu Hong Wong, G.B.S.
Kenneth Chi Lam Siao
Mamoru Miyazaki
Chan Yeow Toh
Anna Suk Han Chow**
Andrew Chiu Cheung Ma**
Ko Wing Man, J.P.**

* Executive directors

** Independent non-executive directors

Dr. The Hon. Leo Tung Hai Lee, a non-executive director of the Company, passed away on 8th June, 2010.

In accordance with Bye-law 87(2) of the Company's Bye-laws, Mr. Bernard Charnwut Chan, Ms. Chan Yeow Toh, Ms. Anna Suk Han Chow, Mr. Andrew Chiu Cheung Ma and Dr. Ko Wing Man 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, Ms. Anna Suk Han Chow, Mr. Andrew Chiu Cheung Ma 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

As at 31st December, 2010, 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, Cap. 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

	Number of ordinary shares held, capacity and nature of interest				
Name of director	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Robin Yau Hing Chan	–	–	568,647,712[(1)]	568,647,712	55.79
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	1.14
Choedchu Sophonpanich	791,496	–	–	791,496	0.08
Anna Suk Han Chow	41,559	–	–	41,559	0.00

Notes:

(1) Out of the 568,647,712 shares, (i) 561,817,712 shares were held through Claremont Capital Holdings Ltd and (ii) 6,830,000 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 Dr. Robin Yau Hing 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, Dr. Robin Yau Hing Chan and Mr. Wong Kok Ho have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31st December, 2010, 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, its holding 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, 2010, the following parties have interests or short positions in the shares and underlying shares of the Company as recorded in the register 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)	561,817,712	55.12
Claremont Capital Holdings Ltd	(a)	561,817,712	55.12
Bangkok Bank Public Company Limited		95,488,236	9.37
Sompo Japan Insurance Inc.		52,563,020	5.16
Aioi Nissay Dowa Insurance Company, Ltd. (formerly known as Aioi Insurance Company, Ltd.)		52,550,175	5.16

Notes:

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

(b) Cosmos Investments Inc. was deemed to be interested in 561,817,712 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, 2010, 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 34(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, its holding 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, 2010.

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	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 of directors and senior management

Executive Directors:

Dr. Robin Yau Hing Chan, G.B.S., LL.D., J.P., aged 78, is the Chairman and an executive director of the Company. Dr. Chan has been working for the Group for 55 years. He is the Chairman of Asia Insurance Company, Limited ("Asia Insurance"), a wholly-owned subsidiary of the Company, and a director of several other subsidiaries of the Company. Dr. 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. Dr. 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. In 2010, Dr. Chan has also been honoured with the Honorary University Fellowship by Hong Kong Baptist University. 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 Associations Limited, the Chairman of the China Federation of Overseas Chinese Entrepreneurs and the Executive Vice Chairman of the China Overseas Chinese Entrepreneurs Association. Dr. 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. Dr. 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. Dr. Chan is the father of Mr. Stephen Tan and Mr. Bernard Charnwut Chan and is the brother of Mr. Choedchu Sophonpanich.

Mr. Bernard Charnwut Chan, G.B.S., J.P., aged 46, is an executive director and the President of the Company and Asia Insurance, and also the Chairman of AFH Charitable Foundation Limited. Mr. Chan has been working for the Group for 21 years. He is the son of Dr. Robin Yau Hing 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 Standing Committee on Judicial Salaries and Conditions of Service, Hong Kong-Thailand Business Council and the Council of Lingnan University. He is also a trustee of Pomona College, California U.S.A. In addition, he serves as the Vice Chairperson of The Hong Kong Council of Social Service and the Vice Chairman of the Oxfam Hong Kong.

Brief biographical details of directors and senior management *(cont'd)*

Executive Directors: *(cont'd)*

Mr. Stephen Tan, aged 57, was appointed as an executive director of the Company on 30th May, 2006. Mr. Tan has been working for the Group for 24 years. He is also a director of AFH Charitable Foundation Limited. 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 Chairman of the Cantonese Opera Development Fund Investment Committee of the Hong Kong Special Administration Region, the President of Chiu Yang Residents Association Limited and the Manager of Chiu Yang Primary School of Hong Kong. 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, a member of Rotary Club of The Peak and a founding member of Opera Hong Kong Limited. Mr. Tan is also a member of the Election Committee (Finance), a member of the Mega Events Fund Assessment Committee, an honorary adviser of both the Hong Kong Baseball Association and the New Graduate School of Business of the Hong Kong Polytechnic University. 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 Dr. Robin Yau Hing Chan, the brother of Mr. Bernard Charnwut Chan and the nephew of Mr. Choedchu Sophonpanich.

Mr. Wong Kok Ho, aged 63, 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 AFH Charitable Foundation Limited 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 40 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.

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 of directors and senior management *(cont'd)*

Non-executive Directors:

Mr. Lau Ki Chit, aged 80, 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 52 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 serves as a member of its Chinese Medicine Clinic Management Committee. He is also a member of the Hospital Governing Committee of Ruttonjee & Tang Shiu Kin Hospitals 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 was 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 organisations.

Mr. Ng Song Hin, aged 77, is a non-executive director of the Company. Mr. Ng has been with the Group for 30 years. Mr. Ng was educated in Australia. He is also the Chairman of Ng Song Choon & Brothers Sdn. Bhd., Kinta Realty Sdn. Bhd., KIB Development Sdn. Bhd. and Ikatan Bina Sdn. Bhd. in Malaysia. He is also the Deputy Chairman of Shenzhen Xengzhong Building Material Co., Ltd., and a director of Pen Apparel Sdn. Bhd. and Imperial Garments Sdn. Bhd. in Malaysia. He was the President of the Malaysian Textiles Manufacturers Association from 1979 to 1981.

Dr. The Hon. Philip Yu Hong Wong, G.B.S., aged 72, 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 20 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. Dr. Wong is also a member of the Legislative Council of the 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.

Brief biographical details of directors and senior management *(cont'd)*

Non-executive Directors: *(cont'd)*

Mr. Choedchu Sophonpanich, aged 64, is a non-executive director of the Company and has been with the Group for 25 years. He is also an executive director of Asia Insurance and a director of certain other subsidiaries of the Company. Mr. Sophonpanich is also 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. Mr. Sophonpanich graduated with a BSc (Econ) degree from the London School of Economics. He is the brother of Dr. Robin Yau Hing Chan and is the uncle of Mr. Stephen Tan and Mr. Bernard Charnwut Chan.

Mr. Kenneth Chi Lam Siao, aged 63, 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. Mr. Siao 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.

Ms. Chan Yeow Toh, aged 55, 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.

Mr. Mamoru Miyazaki, aged 49, 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 Nissay Dowa Insurance Company, Limited (formerly known as Aioi Insurance Company, Limited) ("Aioi Insurance"), a substantial shareholder of the Company, in 2001 and is currently the Chief Representative of the Hong Kong Representative Office of Aioi Insurance.

Brief biographical details of directors and senior management *(cont'd)*

Independent Non-executive Directors:

Mr. Andrew Chiu Cheung Ma, aged 69, 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. Mr. Ma 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., Beijing Properties Holdings Limited, Tanrich Financial Holdings Limited and Asian Citrus Holdings Limited ("ACHL"). ACHL is also listed on AIM of the London Stock Exchange and PLUS Markets.

Ms. Anna Suk Han Chow, aged 63, 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 and has been practicing as a Notary Public and an attesting officer since the said years respectively. Ms. Chow is a member of a number of public services committees of the HKSAR Government. She is currently a chairman of the Appeal Tribunal under Building Ordinance (Cap.123) and a chairman of the Railway Objections Hearing Panel under the Transport Bureau. She has been appointed as a member of the Vetting Committee for the Professional Services Development Assistance Scheme under the Commerce and Economic Development Bureau since 2008. 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 had also been a member of the Solicitors Disciplinary Tribunal Panel of the Law Society, the Criminal Injuries Compensation Board, the Law Enforcement Injuries Compensation Board, the Administrative Appeals Board and ICAC Complaints Committee. Ms. Chow is also a director of a number of charitable organizations, namely 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.

Dr. Ko Wing Man, J.P., aged 53, 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. He is also an independent non-executive director of Evergreen International Holdings Limited which is listed on the Stock Exchange. 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, adviser or director of a number of public services organisations.

Employees and remuneration policy

The total number of employees of the Group was approximately 252 at the end of the reporting period (2009: 247). 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 benefit 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$2,878,000 (2009: HK$2,461,000).

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 percentage 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.

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, 2nd March, 2011

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Asia Financial Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 31 to 120, which comprise the consolidated and company statements of financial position as at 31st December, 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

2nd March, 2011

Consolidated Income Statement

Year ended 31st December, 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	**964,312**	799,342
Gross premiums	28(a)	**871,308**	781,546
Reinsurers' share of gross premiums	28(b)	**(266,654)**	(229,395)
Net insurance contracts premiums revenue		**604,654**	552,151
Gross claims paid	29(a)	**(343,278)**	(393,411)
Reinsurers' share of gross claims paid	29(b)	**100,384**	113,493
Gross change in outstanding claims	29(c)	**(103,946)**	32,437
Reinsurers' share of gross change in outstanding claims	29(d)	**30,196**	(47,051)
Net claims incurred		**(316,644)**	(294,532)
Commission income		**58,326**	50,024
Commission expense		**(203,827)**	(181,653)
Net commission expense		**(145,501)**	(131,629)
Management expenses for underwriting business		**(49,638)**	(45,132)
Underwriting profit		**92,871**	80,858
Dividend income		**47,327**	30,541
Realised gain on investments		**71,130**	128,670
Unrealised gain on investments		**80,432**	94,153
Interest income		**59,347**	62,599
Other income and gains, net		**11,779**	6,709
		362,886	403,530
Operating expenses		**(95,997)**	(93,280)
		266,889	310,250
Share of profits and losses of jointly-controlled entities		**17,578**	34,407
Share of profits and losses of associates		**29,474**	26,389
PROFIT BEFORE TAX	6	**313,941**	371,046
Income tax expense	9	**(42,378)**	(39,517)
PROFIT FOR THE YEAR		**271,563**	331,529

…cont'd

	Notes	**2010** **HK$'000**	2009 HK$'000
Attributable to:			
Equity holders of the Company	10	**268,819**	330,320
Non-controlling interests		**2,744**	1,209
		271,563	331,529
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic			
– For profit for the year		**HK26.4 cents**	HK32.4 cents
Diluted			
– For profit for the year		**N/A**	N/A

Details of the dividends are disclosed in note 11 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31st December, 2010

	Note	**2010** **HK$'000**	2009 HK$'000
PROFIT FOR THE YEAR		**271,563**	331,529
OTHER COMPREHENSIVE INCOME			
Available-for-sale securities:			
Changes in fair value		**251,998**	257,430
Transfer of impairment loss to the consolidated income statement		**–**	13,799
		251,998	271,229
Share of other comprehensive income of jointly-controlled entities:			
Changes in available-for-sale investment reserves		**144**	4,123
Changes in exchange reserve		**16,960**	5,061
		17,104	9,184
Share of other comprehensive income of associates:			
Changes in available-for-sale investment reserves		**(2,103)**	4,199
Changes in exchange reserve		**6,789**	207
		4,686	4,406
Exchange differences on translation of foreign operations		**(579)**	(297)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**273,209**	284,522
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**544,772**	616,051
ATTRIBUTABLE TO:			
Equity holders of the Company	10	**542,685**	613,598
Non-controlling interests		**2,087**	2,453
		544,772	616,051

Consolidated Statement of Financial Position

31st December, 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS			
Property, plant and equipment	13	**166,671**	178,053
Investment property	14	**3,380**	3,020
Interests in jointly-controlled entities	16	**343,075**	310,073
Loans to jointly-controlled entities	16	**43,553**	53,790
Interests in associates	17	**136,472**	111,837
Due from an associate	17	**164,763**	145,542
Deferred tax assets	31	**19,529**	22,320
Held-to-maturity securities	18	**908,566**	775,330
Available-for-sale securities	19	**1,491,416**	1,242,431
Pledged deposits	24	**80,941**	71,232
Loans and advances and other assets	20	**244,400**	231,039
Securities measured at fair value through profit or loss	21	**1,556,724**	1,135,435
Insurance receivables	22	**171,522**	117,020
Reinsurance assets	23	**393,687**	333,381
Cash and cash equivalents	24	**1,600,561**	1,876,031
Total assets		**7,325,260**	6,606,534

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	Notes	**2010** **HK$'000**	2009 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital	25	**1,019,200**	1,019,200
Reserves	26(a)	**4,460,835**	3,996,628
Proposed final dividend	11	**66,248**	66,248
		5,546,283	5,082,076
Non-controlling interests		**16,363**	17,936
Total equity		**5,562,646**	5,100,012
Liabilities			
Insurance contract liabilities	27	**1,400,793**	1,203,843
Insurance payables		**159,400**	147,972
Due to associates	17	**4,643**	5,898
Other liabilities	30	**131,245**	108,094
Tax payable		**56,687**	40,653
Deferred tax liabilities	31	**9,846**	62
Total liabilities		**1,762,614**	1,506,522
Total equity and liabilities		**7,325,260**	6,606,534

Robin Y.H. Chan
Chairman

Bernard Charnwut Chan
Executive Director & President

Consolidated Statement of Changes in Equity

Year ended 31st December, 2010

Group

	Attributable to equity holders of the Company													
	Issued capital HK$'000	Share premium account HK$'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	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1st January, 2009	1,028,649	560,531	13,180	(46,527)	46,071	(46)	2,427	513,240	29,372	2,376,492	10,241	4,533,630	15,483	4,549,113
Profit for the year	–	–	–	–	–	–	–	–	–	330,320	–	330,320	1,209	331,529
Other comprehensive income for the year:														
Changes in fair value of available-for-sale securities (note 19)	–	–	–	257,430	–	–	–	–	–	–	–	257,430	–	257,430
Transfer of impairment loss to the consolidated income statement (note 19)	–	–	–	13,799	–	–	–	–	–	–	–	13,799	–	13,799
Share of changes in available-for-sale investment reserves of jointly-controlled entities	–	–	–	4,123	–	–	–	–	–	–	–	4,123	–	4,123
Share of changes in available-for-sale investment reserves of associates	–	–	–	2,955	–	–	–	–	–	–	–	2,955	1,244	4,199
Share of changes in exchange reserve of a jointly-controlled entity	–	–	–	–	–	5,061	–	–	–	–	–	5,061	–	5,061
Share of changes in exchange reserve of an associate	–	–	–	–	–	207	–	–	–	–	–	207	–	207
Exchange differences on translation of foreign operations	–	–	–	–	–	(297)	–	–	–	–	–	(297)	–	(297)
Total comprehensive income for the year	–	–	–	278,307	–	4,971	–	–	–	330,320	–	613,598	2,453	616,051
Final 2008 dividend declared	–	–	–	–	–	–	–	–	–	49	(10,241)	(10,192)	–	(10,192)
Interim 2009 dividend (note 11)	–	–	–	–	–	–	–	–	–	(35,672)	–	(35,672)	–	(35,672)
Proposed final 2009 dividend (note 11)	–	–	–	–	–	–	–	–	–	(66,248)	66,248	–	–	–
Repurchase of shares (note 25)	(9,449)	–	–	–	–	–	–	–	–	(9,839)	–	(19,288)	–	(19,288)
Transfer to capital redemption reserve (note 25)	–	–	–	–	–	–	–	–	9,449	(9,449)	–	–	–	–
Transfer to contingency reserve	–	–	4,686	–	–	–	–	–	–	(4,686)	–	–	–	–
Release from contingency reserve	–	–	(1,353)	–	–	–	–	–	–	1,353	–	–	–	–
At 31st December, 2009	1,019,200	560,531	16,513	231,780	46,071	4,925	2,427	513,240	38,821	2,582,320	66,248	5,082,076	17,936	5,100,012

…cont'd

Group

	Attributable to equity holders of the Company													
	Issued capital HK$'000	Share premium account HK$'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	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1st January, 2010	1,019,200	560,531*	16,513*	231,780*	46,071*	4,925*	2,427*	513,240*	38,821*	2,582,320*	66,248	5,082,076	17,936	5,100,012
Profit for the year	-	-	-	-	-	-	-	-	-	268,819	-	268,819	2,744	271,563
Other comprehensive income for the year:														
Changes in fair value of available-for-sale securities (note 19)	-	-	-	251,998	-	-	-	-	-	-	-	251,998	-	251,998
Share of changes in available-for-sale investment reserves of jointly-controlled entities	-	-	-	144	-	-	-	-	-	-	-	144	-	144
Share of changes in available-for-sale investment reserves of associates	-	-	-	(1,446)	-	-	-	-	-	-	-	(1,446)	(657)	(2,103)
Share of changes in exchange reserve of a jointly-controlled entity	-	-	-	-	-	16,960	-	-	-	-	-	16,960	-	16,960
Share of changes in exchange reserve of an associate	-	-	-	-	-	6,789	-	-	-	-	-	6,789	-	6,789
Exchange differences on translation of foreign operations	-	-	-	-	-	(579)	-	-	-	-	-	(579)	-	(579)
Total comprehensive income for the year	-	-	-	250,696	-	23,170	-	-	-	268,819	-	542,685	2,087	544,772
Final 2009 dividend declared	-	-	-	-	-	-	-	-	-	-	(66,248)	(66,248)	-	(66,248)
Interim 2010 dividend (note 11)	-	-	-	-	-	-	-	-	-	(12,230)	-	(12,230)	-	(12,230)
Proposed final 2010 dividend (note 11)	-	-	-	-	-	-	-	-	-	(66,248)	66,248	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(3,660)	(3,660)
Transfer to contingency reserve	-	-	6,756	-	-	-	-	-	-	(6,756)	-	-	-	-
Release from contingency reserve	-	-	(1,413)	-	-	-	-	-	-	1,413	-	-	-	-
At 31st December, 2010	1,019,200	560,531*	21,856*	482,476*	46,071*	28,095*	2,427*	513,240*	38,821*	2,767,318*	66,248	5,546,283	16,363	5,562,646

* These reserve accounts comprise the consolidated reserves of HK$4,460,835,000 (2009: HK$3,996,628,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31st December, 2010

	Notes	**2010** **HK$'000**	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**313,941**	371,046
Adjustments for:			
Interest income	6	**(59,347)**	(62,599)
Dividend income from equity investments	6	**(47,327)**	(30,541)
Loss on redemption/call-back of held-to-maturity securities	6	**1,652**	563
Gain on disposal of available-for-sale securities	6	**(78)**	(12,166)
Impairment loss of available-for-sale securities	6	**–**	22,306
Depreciation	6	**13,391**	14,958
Changes in fair value of investment properties	6	**(360)**	130
Loss/(gain) on disposal/write-off of items of property, plant and equipment	6	**(13)**	246
Share of profits and losses of jointly-controlled entities		**(17,578)**	(34,407)
Share of profits and losses of associates		**(29,474)**	(26,389)
		174,807	243,147
Increase in loans and advances and other assets		**(13,361)**	(27,690)
Increase in securities measured at fair value through profit or loss		**(421,289)**	(20,474)
Decrease/(increase) in insurance receivables		**(54,502)**	10,900
Decrease/(increase) in reinsurance assets		**(60,306)**	29,270
Decrease/(increase) in time deposits with original maturity of over three months		**441,291**	(502,954)
Increase/(decrease) in insurance contract liabilities		**196,950**	(14,638)
Increase/(decrease) in insurance payables		**11,428**	(5,023)
Increase in other liabilities		**22,572**	14,259
Cash generated from/(used in) operations		**297,590**	(273,203)
Hong Kong profits tax paid		**(12,936)**	(20,448)
Overseas taxes paid		**(833)**	(565)
Net cash flows from/(used in) operating activities		**283,821**	(294,216)

…cont'd

	Notes	2010 HK$'000	2009 HK$'000
Net cash flows from/(used in) operating activities		**283,821**	(294,216)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**59,347**	62,599
Dividends received from equity investments		**47,327**	30,541
Dividends received from jointly-controlled entities	16	**1,680**	–
Dividends received from associates	17	**9,525**	2,025
Purchases of held-to-maturity securities		**(242,588)**	(455,087)
Purchases of available-for-sale securities		**(385)**	(345,896)
Proceeds from redemption/call back of held-to-maturity securities		**107,700**	113,949
Proceeds from disposal of available-for-sale securities		**3,476**	18,548
Purchases of items of property, plant and equipment	13	**(2,212)**	(577)
Proceeds from disposal of items of property, plant and equipment		**216**	33
Additional acquisition of an associate		**–**	(8,530)
Repayment of loans to jointly-controlled entities		**10,237**	5,953
Changes in balances with associates		**(20,476)**	(32,411)
Increase in pledged deposits		**(9,709)**	(18,349)
Net cash flows used in investing activities		**(35,862)**	(627,202)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(78,478)**	(45,864)
Dividends paid to non-controlling interests		**(3,660)**	–
Repurchase of shares		**–**	(19,288)
Net cash flows used in financing activities		**(82,138)**	(65,152)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**165,821**	(986,570)
Cash and cash equivalents at beginning of year		**1,076,829**	2,063,399
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,242,650**	1,076,829

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	Notes	2010 HK$'000	2009 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**177,780**	289,946
Non-pledged time deposits with original maturity of over three months when acquired	24	**357,911**	799,202
Non-pledged time deposits with original maturity of less than three months when acquired	24	**1,064,870**	786,883
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,600,561**	1,876,031
Less: time deposits with original maturity of over three months when acquired		**(357,911)**	(799,202)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,242,650**	1,076,829

Statement of Financial Position

31st December, 2010

	Notes	**2010** **HK$'000**	2009 HK$'000
ASSETS			
Property, plant and equipment	13	**15**	72
Interests in subsidiaries	15	**1,695,747**	1,695,747
Due from subsidiaries	15	**1,709,086**	1,721,764
Interest in a jointly-controlled entity	16	**–**	–
Available-for-sale securities	19	**487,893**	487,893
Loans and advances and other assets	20	**58,960**	59,944
Cash and cash equivalents	24	**48,454**	64,791
Total assets		**4,000,155**	4,030,211
EQUITY AND LIABILITIES			
Equity			
Issued capital	25	**1,019,200**	1,019,200
Reserves	26(b)	**2,902,971**	2,934,498
Proposed final dividend	11	**66,248**	66,248
Total equity		**3,988,419**	4,019,946
Liabilities			
Other liabilities	30	**10,773**	9,714
Tax payable		**963**	551
Total liabilities		**11,736**	10,265
Total equity and liabilities		**4,000,155**	4,030,211

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 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM11, Bermuda and its principal place of business in Hong Kong 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, 2010. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation.

Basis of consolidation from 1st January, 2010

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 Basis of Preparation *(cont'd)*

Basis of consolidation *(cont'd)*

Basis of consolidation from 1st January, 2010 *(cont'd)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in consolidated income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to consolidated income statement or retained profits, as appropriate.

Basis of consolidated prior to 1st January, 2010

All the above-mentioned requirements for consolidation from 1st January, 2010 have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisition of non-controlling interests (formerly known as minority interests), prior to 1st January, 2010, were 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 were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the Company, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1st January, 2010 were not reallocated between non-controlling interest and the Company's shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1st January, 2010 has not been restated.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised) and HKAS 27 (Revised), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 Changes in Accounting Policy and Disclosures *(cont'd)*

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

HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised HKAS 27 changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with non-controlling interests after 1st January, 2010.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures –Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation –Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1st July, 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1st January, 2011 although there are separate transitional provisions for each standard.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards *(cont'd)*

[1] Effective for annual periods beginning on or after 1st February, 2010

[2] Effective for annual periods beginning on or after 1st July, 2010

[3] Effective for annual periods beginning on or after 1st January, 2011

[4] Effective for annual periods beginning on or after 1st July, 2011

[5] Effective for annual periods beginning on or after 1st January, 2012

[6] Effective for annual periods beginning on or after 1st January, 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in consolidated income statement, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in consolidated income statement. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1st January, 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1st January, 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards *(cont'd)*

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1st January, 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

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 rate method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, 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.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group/Company 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/Company 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 interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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. 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 and is not individually tested for impairment.

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.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Associates

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

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. 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. 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 and is not individually tested for impairment.

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.

Business combinations and goodwill

Business combinations from 1st January, 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through consolidated income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in consolidated income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Business combinations and goodwill *(cont'd)*

Business combinations from 1st January, 2010 *(cont'd)*

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in consolidated income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31st December. 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.

Business combinations prior to 1st January, 2010 but after 1st January, 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1st January, 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Impairment of non-financial assets

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.

An assessment is made at the end of each reporting period 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.

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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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.

2.4 Summary of Significant Accounting Policies *(cont'd)*

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

Land and 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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 end of the reporting period.

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

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

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, including prepaid land lease payments under 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.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Leases *(cont'd)*

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.

Investments and other financial assets

Initial recognition and measurement

Financial assets within 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 investments or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and cash equivalents, pledged deposits, loans and advances and other assets, securities measured at fair value through profit or loss, available-for-sale securities, held-to-maturity securities, the amount due from an associate, insurance receivables and loans to jointly-controlled entities.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

2.4 Summary of Significant Accounting Policies *(cont'd)*

Investments and other financial assets *(cont'd)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do 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.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. 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.

Loans and receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the income statement. The loss arising from impairment is recognised in the income statement in operating expenses.

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 calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment revaluation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income 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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Investments and other financial assets *(cont'd)*

Available-for-sale financial investments *(cont'd)*

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to the income statement over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Impairment of financial assets *(cont'd)*

Financial assets carried at amortised cost *(cont'd)*

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred 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, 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 investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investment is impaired.

If an available-for-sale financial asset 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 removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Impairment of financial assets *(cont'd)*

Available-for-sale financial investments *(cont'd)*

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include other liabilities, amounts due to associates and insurance payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 or other valuation models.

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.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Derecognition insurance payables

Insurance payables are derecognised when the obligation under the liability is discharged or cancelled, expires.

Insurance contract liabilities

General insurance contract liabilities

General insurance contract liabilities include the outstanding claims provision and the provision for unearned premiums. The outstanding claims provision is based on estimated ultimate cost of all claims incurred but not settled at the reporting 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 reporting date.

Outstanding claims

Full provision has been made for outstanding claims, including those incurred but not reported and incurred but not enough reported until after the end of the reporting period, 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 end of the reporting period but reported only subsequent to the end of the reporting period. 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 the portion of premium received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Insurance contract liabilities *(cont'd)*

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 premium deficiency.

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.

2.4 Summary of Significant Accounting Policies *(cont'd)*

Reinsurance *(cont'd)*

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 statement of cash flows, 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 statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period 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 relating to items recognised outside consolidated income statement is recognised either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

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

2.4 Summary of Significant Accounting Policies *(cont'd)*

Income tax *(cont'd)*

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 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 joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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.

2.4 Summary of Significant Accounting Policies *(cont'd)*

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 statement of financial position, 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 recorded by the entities of the Group are initially recorded using their respective 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 end of the reporting period. 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 end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, 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.

2.4 Summary of Significant Accounting Policies *(cont'd)*

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 end of the reporting period. 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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation of insurance contract liabilities

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

The carrying value at the end of the reporting period for these general insurance contract liabilities was HK$806,895,000 (2009: HK$702,895,000) (note 27(b)).

3. Significant Accounting Judgements and Estimates *(cont'd)*

Estimation uncertainty *(cont'd)*

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 in the foreseeable future. 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, 2010 was HK$19,959,000 (2009: HK$33,544,000). The amount of unrecognised tax losses at 31st December, 2010 was HK$66,331,000 (2009: HK$122,040,000). 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$572,815,000 (2009: HK$575,828,000) (note 19).

4. Operating Segment Information

For management purposes, the Group is organised into business units based on their business activities and has two reportable operating segments 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.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of profit before tax from existing operations.

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

4. Operating Segment Information *(cont'd)*

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's operating segments for the years ended 31st December, 2010 and 2009.

Group

	Insurance		Corporate		Eliminations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
External customers	**964,312**	799,342	**-**	–	**-**	–	**964,312**	799,342
Other revenue, income, gains, net	**165,722**	201,257	**104,293**	121,415	**-**	–	**270,015**	322,672
Intersegment	**777**	686	**-**	–	**(777)**	(686)	**-**	–
Total	**1,130,811**	1,001,285	**104,293**	121,415	**(777)**	(686)	**1,234,327**	1,122,014
Segment results	**216,887**	241,114	**50,002**	69,136	**-**	–	**266,889**	310,250
Share of profits and losses of:								
Jointly-controlled entities	**11,017**	27,383	**6,561**	7,024	**-**	–	**17,578**	34,407
Associates	**11,455**	13,619	**18,019**	12,770	**-**	–	**29,474**	26,389
Profit before tax							**313,941**	371,046
Income tax expense	**(34,453)**	(27,394)	**(7,925)**	(12,123)	**-**	–	**(42,378)**	(39,517)
Profit for the year							**271,563**	331,529

4. Operating Segment Information *(cont'd)*

Group

	Insurance		Corporate		Eliminations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**4,438,944**	3,901,609	**2,411,769**	2,288,444	**(5,000)**	(5,429)	**6,845,713**	6,184,624
Interests in jointly-controlled entities	**99,810**	90,339	**243,265**	219,734	**-**	–	**343,075**	310,073
Interests in associates	**80,773**	80,946	**55,699**	30,891	**-**	–	**136,472**	111,837
Total assets	**4,619,527**	4,072,894	**2,710,733**	2,539,069	**(5,000)**	(5,429)	**7,325,260**	6,606,534
Segment liabilities	**1,697,180**	1,455,036	**70,434**	56,915	**(5,000)**	(5,429)	**1,762,614**	1,506,522
Other segment information:								
Depreciation	**6,006**	6,348	**7,385**	8,610	**-**	–	**13,391**	14,958
Loss/(gain) on disposal/write-off of items of property, plant and equipment	**(13)**	–	**-**	246	**-**	–	**(13)**	246
Loss/(gain) in fair value of an investment property	**(360)**	130	**-**	–	**-**	–	**(360)**	130
Impairment loss of available-for -sale securities	**-**	886	**-**	21,420	**-**	–	**-**	22,306
Impairment allowances/ (write-back of impairment allowances) on insurance receivables	**458**	(840)	**-**	–	**-**	–	**458**	(840)
Capital expenditure	**2,156**	242	**56**	335	**-**	–	**2,212**	577

Geographical information

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

5. Revenue

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

6. Profit Before Tax

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

	Notes	2010 HK$'000	2009 HK$'000
Auditors' remuneration		**(2,313)**	(2,125)
Depreciation	13	**(13,391)**	(14,958)
Employee benefit expense (including directors' remuneration, note 7):			
Wages and salaries		**(83,434)**	(80,262)
Pension scheme contributions		**(3,536)**	(3,401)
Less: Forfeited contributions		**143**	12
Net pension scheme contributions		**(3,393)**	(3,389)
Total employee benefit expense		**(86,827)**	(83,651)
Minimum lease payments under operating leases in respect of land and buildings		**(203)**	(1,179)
Realised gain/(loss) on:			
– disposal of securities measured at fair value through profit or loss, net		**72,704**	117,067
– disposal of available-for-sale securities		**78**	12,166
– redemption/call-back of held-to-maturity securities		**(1,652)**	(563)
		71,130	128,670
Unrealised gain on securities measured at fair value through profit or loss, net#		**80,432**	116,459
Impairment loss of available-for-sale securities#		**–**	(22,306)
Excess over the cost of additional acquisition of an associate*		**–**	16,700
Gain/(loss) on disposal/write-off of items of property, plant and equipment		**13**	(246)
Changes in fair value of an investment property	14	**360**	(130)
Write-back of impairment allowances/(impairment allowances) on insurance receivables	22	**(458)**	840
Dividend income from:			
Listed investments		**40,727**	27,272
Unlisted investments		**6,600**	3,269
		47,327	30,541
Interest income		**59,347**	62,599

* Excess over the cost of additional acquisition of an associate is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

Unrealised gain on securities measured at fair value through profit or loss, net and impairment loss of available-for-sale securities are included in "Unrealised gain 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

2010	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Robin Yau Hing Chan	100	1,836	3,350	72	5,358
Bernard Charnwut Chan	140	3,640	885	167	4,832
Stephen Tan	70	1,713	767	79	2,629
Wong Kok Ho	80	2,845	600	131	3,656
	390	10,034	5,602	449	16,475
Non-executive directors:					
Lau Ki Chit	80	–	–	–	80
Choedchu Sophonpanich	80	12	200	–	292
Ng Song Hin	50	–	–	–	50
Philip Yu Hong Wong	80	–	–	–	80
Leo Tung Hai Lee#	25	–	–	–	25
Kenneth Chi Lam Siao	70	–	–	–	70
Chan Yeow Toh	80	–	–	–	80
Mamoru Miyazaki*	50	–	–	–	50
	515	12	200	–	727
Independent non-executive directors:					
Andrew Chiu Cheung Ma	170	–	–	–	170
Anna Suk Han Chow	180	–	–	–	180
Ko Wing Man	170	–	–	–	170
	520	–	–	–	520
	1,425	10,046	5,802	449	17,722

Deceased during the year ended 31st December, 2010.

* Mr. Miyazaki's directorship was nominated by Aioi Nissay Dowa Insurance Company, Limited, formerly known as Aioi Insurance Company, Limited ("Aioi Insurance"), a substantial shareholder of the Company. As per Aioi Insurance's instruction, the total director fee of HK$50,000 was paid directly to Aioi Insurance during the year.

7. Directors' Remuneration *(cont'd)*

Group

2009	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Robin Yau Hing Chan	80	1,836	4,500	72	6,488
Bernard Charnwut Chan	120	3,568	885	164	4,737
Stephen Tan	60	1,679	900	78	2,717
Wong Kok Ho	60	2,790	594	128	3,572
	320	9,873	6,879	442	17,514
Non-executive directors:					
Lau Ki Chit	60	–	–	–	60
Choedchu Sophonpanich	60	12	200	–	272
Ng Song Hin	40	–	–	–	40
Philip Yu Hong Wong	60	–	–	–	60
Leo Tung Hai Lee	40	–	–	–	40
Kenneth Chi Lam Siao	60	–	–	–	60
Chan Yeow Toh	60	–	–	–	60
Mamoru Miyazaki	40	–	–	–	40
	420	12	200	–	632
Independent non-executive directors:					
Andrew Chiu Cheung Ma	150	–	–	–	150
Anna Suk Han Chow	160	–	–	–	160
Ko Wing Man	150	–	–	–	150
	460	–	–	–	460
	1,200	9,885	7,079	442	18,606

8. Five Highest Paid Employees

The five highest paid employees during the year included four (2009: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2009: one) non-director, highest paid employee for the year are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,262**	1,487
Discretionary bonuses	**702**	372
Pension scheme contributions	**58**	68
	2,022	1,927

The remuneration of the remaining one (2009: one) non-director, highest paid employee fell within the band of HK$2,000,001 to HK$2,500,000 (2009: HK$1,500,001 to HK$2,000,000).

9. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

	2010	2009
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**11,029**	601
Underprovision/(overprovision) in prior years	**17,293**	(384)
Current – Elsewhere	**1,481**	1,218
Deferred (note 31)	**12,575**	38,082
Total tax charge for the year	**42,378**	39,517

9. Income Tax Expense *(cont'd)*

A reconciliation of the tax expense applicable to profit before tax at 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 – 2010

	Hong Kong HK$'000	Macau HK$'000	Total HK$'000
Profit before tax	**299,542**	**14,399**	**313,941**
Tax at the statutory tax rate	**49,424**	**1,728**	**51,152**
Share of profits and losses attributable to jointly-controlled entities and associates	**(7,764)**	**–**	**(7,764)**
Adjustments in respect of current tax of previous periods	**17,293**	**–**	**17,293**
Income not subject to tax	**(17,432)**	**(263)**	**(17,695)**
Expenses not deductible for tax	**8,568**	**16**	**8,584**
Tax losses from previous periods utilised	**(9,192)**	**–**	**(9,192)**
Tax charge at the Group's effective rate	**40,897**	**1,481**	**42,378**

Group – 2009

	Hong Kong HK$'000	Macau HK$'000	Total HK$'000
Profit before tax	362,016	9,030	371,046
Tax at the statutory tax rate	59,733	1,084	60,817
Share of profits and losses attributable to jointly-controlled entities and associates	(10,031)	–	(10,031)
Adjustments in respect of current tax of previous periods	(384)	–	(384)
Income not subject to tax	(14,454)	–	(14,454)
Expenses not deductible for tax	11,715	134	11,849
Tax losses from previous periods utilised	(8,137)	–	(8,137)
Others	(143)	–	(143)
Tax charge at the Group's effective rate	38,299	1,218	39,517

9. Income Tax Expense *(cont'd)*

The share of tax attributable to jointly-controlled entities amounting to HK$6,561,000 (2009: HK$8,978,000) is included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement. The share of tax attributable to associates and the effect of withholding tax on the distributable profits of the Group's PRC associate amounting to HK$12,388,000 (2009: HK$742,000) and HK$1,058,000 (2009: Nil), respectively, are included in "Share of profits and losses of associates" on the face of the consolidated income statement.

10. Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company for the year ended 31st December, 2010 includes a profit of HK$46,951,000 (2009: HK$4,736,000) which has been dealt with in the financial statements of the Company (note 26(b)).

11. Dividends

	2010 **HK$'000**	2009 HK$'000
Interim – HK1.2 cents (2009: HK3.5 cents) per ordinary share	**12,230**	35,672
Proposed final – HK6.5 cents (2009: HK6.5 cents) per ordinary share	**66,248**	66,248
	78,478	101,920

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 statement of financial position.

12. Earnings Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$268,819,000 (2009: HK$330,320,000) and the 1,019,200,000 (2009: weighted average number of ordinary shares of 1,021,079,193) ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31st December, 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

13. Property, Plant and Equipment

31st December, 2010

	Group			Company
	Land and 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	73,864	273,603	794
Additions	–	2,212	2,212	–
Disposals/write-off	–	(13,373)	(13,373)	–
At 31st December, 2010	199,739	62,703	262,442	794
Accumulated depreciation and impairment:				
At beginning of year	44,185	51,365	95,550	722
Charge for the year	3,923	9,468	13,391	57
Disposals/write-off	–	(13,170)	(13,170)	–
At 31st December, 2010	48,108	47,663	95,771	779
Net book value:				
At 31st December, 2010	151,631	15,040	166,671	15
At 31st December, 2009	155,554	22,499	178,053	72

13. Property, Plant and Equipment *(cont'd)*

31st December, 2009

	Group			Company
	Land and 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	75,851	275,590	794
Additions	–	577	577	–
Disposals/write-off	–	(2,564)	(2,564)	–
At 31st December, 2009	199,739	73,864	273,603	794
Accumulated depreciation and impairment:				
At beginning of year	40,261	42,616	82,877	654
Charge for the year	3,924	11,034	14,958	68
Disposals/write-off	–	(2,285)	(2,285)	–
At 31st December, 2009	44,185	51,365	95,550	722
Net book value:				
At 31st December, 2009	155,554	22,499	178,053	72
At 31st December, 2008	159,478	33,235	192,713	140

13. Property, Plant and Equipment *(cont'd)*

The cost or valuation of the buildings comprises:

	2010	2009
	HK$'000	HK$'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:

	2010	2009
	HK$'000	HK$'000
Long term leases in Hong Kong	**144,610**	148,361
Long term leases outside Hong Kong	**6,583**	6,733
Medium term leases outside Hong Kong	**438**	460
	151,631	155,554

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

Had the revalued land and buildings of the Group been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$13,874,000 (2009: HK$14,482,000).

14. Investment Property

	Group	
	2010	2009
	HK$'000	HK$'000
Carrying amount at 1st January	**3,020**	3,150
Changes in fair value of an investment property	**360**	(130)
Carrying amount at 31st December	**3,380**	3,020

The investment property was revalued at 31st December, 2010 by AA Property Services Limited, a firm of professionally qualified valuers, at HK$3,380,000 on an open market value basis, based on its existing use. The investment property is leased to third party under an operating lease.

The Group's investment property is situated in Macau and is held under a short term lease.

15. Interests in Subsidiaries

	Company 2010 HK$'000	2009 HK$'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	**1,744,817**	1,757,495
Impairment^	**(35,731)**	(35,731)
	1,709,086	1,721,764

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

\# An impairment was recognised for an investment with a carrying amount of HK$18,800,000 (before deducting the impairment loss) (2009: HK$18,800,000) because the respective subsidiary was loss-making for some time.

^ An impairment was recognised for certain amounts due from subsidiaries with a carrying amount of HK$35,731,000 (before deducting the impairment loss) (2009: HK$35,731,000).

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 end of the reporting period.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Nominal value of issued share capital	Principal activities
Asia Insurance Company, Limited	Hong Kong	100	–	HK$2,000,000,000	Insurance
Asia Investment Services Limited	British Virgin Islands	100	–	HK$10,000,000	Investment holding
AFH Investments (BVI) Limited	British Virgin Islands	100	–	US$1,000,000	Investment holding
Asia Insurance (Finance) Limited	Hong Kong	–	100	HK$25,000,000	Mortgage loan financing
Chamberlain Investment Limited	Republic of Liberia	–	100	US$100	Investment holding

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
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
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	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted investments, at cost	**–**	–	**–**	–
Share of net assets	**326,420**	293,418	**–**	–
Goodwill on acquisition	**16,655**	16,655	**–**	–
	343,075	310,073	**–**	–
Loans to jointly-controlled entities (note)	**43,553**	53,790	**–**	–

Note:

A loan to a jointly-controlled entity of the Group of HK$18,839,000 (2009: HK$20,505,000) 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 an annual instalment of HK$1,667,000 commencing from the year ended 31st December, 2010 and the last instalment of HK$17,172,000. Before the maturity of the loan, at the request of the jointly-controlled entity, the Group may, at its own discretion, extend the loan for another five years.

A loan to another jointly-controlled entity of the Group of HK$24,714,000 (2009: HK$33,285,000) is secured by a property situated in Hong Kong, bears interest at 0.55% above the HIBOR per annum and is repayable by three (2009: five) semi-annual instalments of HK$2,143,000 and the last instalment of HK$18,285,000. 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.

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#	Life insurance
BC Reinsurance Limited*	Corporate	Hong Kong	21	2 out of 10#	Reinsurance underwriting
Bumrungrad International Limited	Corporate	Thailand	19.5	1 out of 5#	Provision of health care services

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

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

16. Interests in Jointly-controlled Entities *(cont'd)*

During the year, the Group received dividend income amounting to HK$1,680,000 (2009: Nil) from the jointly-controlled entities.

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

	2010 HK$'000	2009 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Assets	1,175,521	1,070,033
Liabilities	(849,101)	(776,615)
Net assets	326,420	293,418
Share of the jointly-controlled entities' results:		
Revenue	170,831	213,689
Underwriting results, net	10,690	18,399
Other income and gains, net	5,931	18,941
	187,452	251,029
Total expenses	(163,313)	(207,644)
Tax	(6,561)	(8,978)
Profit for the year	17,578	34,407

17. Interests in Associates

	Group	
	2010 HK$'000	2009 HK$'000
Share of net assets	130,743	106,108
Goodwill on acquisition	5,729	5,729
	136,472	111,837

17. Interests in Associates *(cont'd)*

Particulars of the associates of the Group as at 31st December, 2010, which are all corporate entities, are as follows:

Name	Place of incorporation/ establishment	Percentage of equity indirectly held by the Company	Nominal value of issued ordinary share/ registered 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	27.5	US$1,000	Investment holding
Excellent Star Development Limited	Hong Kong	27.5	HK$1	Investment holding
上海盤谷房地產有限公司*	The People's Republic of China	27.5	RMB800,000,000	Property development

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

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

17. Interests in Associates *(cont'd)*

The Group received dividend income amounting to HK$9,525,000 (2009: HK$2,025,000) from the associates during the year.

The amount due from an associate of HK$164,763,000 (2009: HK$145,542,000) is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, this balance is considered as a 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.

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

	2010	2009
	HK$'000	HK$'000
Assets	**2,444,514**	1,915,825
Liabilities	**(2,013,906)**	(1,576,725)
Revenue and underwriting results	**393,642**	39,652
Profit	**104,887**	37,300

18. Held-to-maturity Securities

	Group	
	2010	2009
	HK$'000	HK$'000
Listed debt securities in Hong Kong, at amortised cost	**22,921**	22,617
Listed debt securities outside Hong Kong, at amortised cost	**782,669**	633,550
Unlisted debt securities, at amortised cost	**102,976**	119,163
Total held-to-maturity securities	**908,566**	775,330
Fair value of listed and unlisted held-to-maturity securities	**946,449**	804,100

18. Held-to-maturity Securities *(cont'd)*

The held-to-maturity securities analysed by issuers as at the end of the reporting period are as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
Public sector entities	**69,879**	35,034
Banks and other financial institutions	**671,805**	534,053
Corporate entities	**166,882**	206,243
	908,566	775,330

The maturity profile of the held-to-maturity securities as at the end of the reporting period is as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
With a residual maturity of:		
Three months or less	**39,041**	25,346
One year or less but over three months	**283,582**	46,830
Five years or less but over one year	**486,073**	597,969
Over five years	**99,870**	105,185
	908,566	775,330

At the end of the reporting period, the Group invested in the held-to-maturity securities with investment grade amounting to HK$908,566,000 (2009: HK$751,906,000). At 31st December, 2009, the Group invested in held-to-maturity securities with non-investment grade amounting to HK$23,424,000.

During the year, a cedant of certain pecuniary loss reinsurance contracts requested the Group to provide security in favour of the cedant to secure the performance of the Group's obligations to the cedant under those pecuniary loss reinsurance contracts. Accordingly, at 31st December, 2010, listed debt securities of the Group amounting to HK$78,621,000 (2009: Nil) were pledged.

19. Available-for-sale Securities

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity outside Hong Kong, at market value	**918,601**	666,603	**–**	–
Unlisted equity, at cost	**575,607**	580,339	**487,893**	487,893
Impairment	**(37,116)**	(42,233)	**–**	–
	538,491	538,106	**487,893**	487,893
Unlisted debt, at cost	**41,224**	44,622	**–**	–
Impairment	**(6,900)**	(6,900)	**–**	–
	34,324	37,722	**–**	–
Unlisted available-for-sale securities	**572,815**	575,828	**487,893**	487,893
Total available-for-sale securities	**1,491,416**	1,242,431	**487,893**	487,893

The available-for-sale securities as at the end of the reporting period, analysed by the sector of the issuers, are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Banks and other financial institutions	**1,233,420**	999,115	**485,818**	485,818
Corporate entities	**257,996**	243,316	**2,075**	2,075
	1,491,416	1,242,431	**487,893**	487,893

Particulars of certain available-for-sale securities of the Group and the Company, of which the carrying amount at 31st December, 2010 amounted to HK$1,233,420,000 (2009: HK$999,115,000) and HK$485,818,000 (2009: HK$485,818,000), respectively, are as follows:

Name	**Place of registration**	**Class of equity held**	**Proportion held**
Direct			
PICC Life Insurance Company Limited	The People's Republic of China	Paid up capital	5%
Indirect			
Bangkok Bank Public Company Limited	Thailand	Ordinary	0.99%

19. Available-for-sale Securities *(cont'd)*

During the year, the gross gain in respect of the Group's available-for-sale listed investments recognised in other comprehensive income amounted to HK$251,998,000 (2009: HK$257,430,000).

During the year ended 31st December, 2009, an impairment loss of HK$13,799,000 was transferred from other comprehensive income to the income statement.

Included in the unlisted equity investments are investments in 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 such companies' operations. The results of these companies are dealt with in the consolidated income statement to the extent of dividends received/receivable 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 of the Company with carrying amounts of HK$538,491,000 (2009: HK$538,106,000) and HK$487,893,000 (2009: HK$487,893,000), respectively, are measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion 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		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans and advances	**101,221**	94,498	**50,000**	50,000
Accrued interest and other assets	**143,179**	136,541	**8,960**	9,944
Gross loans and advances and other assets	**244,400**	231,039	**58,960**	59,944

The Group's and the Company's accrued interest and other assets were current in nature as at 31st December, 2010 and 2009. None of the loans and advances and other assets is 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 maturity profile of the loans and advances as at the end of the reporting period is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Repayable on demand	**–**	41	**–**	–
With a residual maturity of:				
Three months or less	**645**	816	**–**	–
One year or less but over three months	**1,939**	2,328	**–**	–
Five years or less but over one year	**84,237**	83,018	**50,000**	50,000
Over five years	**14,400**	8,295	**–**	–
	101,221	94,498	**50,000**	50,000

21. Securities Measured at Fair Value Through Profit or Loss

	Group 2010 HK$'000	Group 2009 HK$'000
Debt securities:		
– listed outside Hong Kong, at market value	**39,572**	59,377
– unlisted, at quoted market price	**32,390**	42,151
	71,962	101,528
Equity securities at market value:		
– listed in Hong Kong	**624,739**	358,391
– listed outside Hong Kong	**200,043**	179,082
	824,782	537,473
Investment funds:		
– unlisted, at quoted price	**659,980**	496,434
Total	**1,556,724**	1,135,435

The securities measured at fair value through profit or loss as at the end of the reporting period, analysed by the sector of the issuers, are as follows:

	Group 2010 HK$'000	Group 2009 HK$'000
Public sector entities	**31,692**	17,288
Banks and other financial institutions	**277,768**	190,090
Corporate	**1,247,264**	928,057
	1,556,724	1,135,435

22. Insurance Receivables

	Group 2010 HK$'000	2009 HK$'000
Amounts due in respect of:		
Direct underwriting	**122,751**	82,124
Reinsurance accepted	**48,771**	34,896
	171,522	117,020

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 end of the reporting period.

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.

An aged analysis of the insurance receivables based on the issuance date of policies, as at the end of the reporting period, is as follows:

	Group 2010 HK$'000	2009 HK$'000
Three months or less	**137,514**	106,411
Six months or less but over three months	**31,634**	11,270
One year or less but over six months	**4,150**	882
Over one year	**246**	246
	173,544	118,809
Less: Impairment allowances	**(2,022)**	(1,789)
	171,522	117,020

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

	Group 2010 HK$'000	2009 HK$'000
At 1st January	**1,789**	4,000
Impairment losses recognised/(written back) (note 6)	**458**	(840)
Amount written off as uncollectible	**(225)**	(1,371)
At 31st December	**2,022**	1,789

22. Insurance Receivables *(cont'd)*

Included in the above provision for impairment of insurance receivables at 31st December, 2009 was a provision for individually impaired insurance receivables of HK$12,000 with a carrying amount of HK$12,000. No individually impaired insurance receivables were noted at 31st December, 2010. The individually impaired insurance receivables related to customers that were in financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2010	2009
	HK$'000	HK$'000
Not past due	**148,022**	109,912
Less than one month past due	**23,170**	6,006
Over one month past due	**330**	1,102
	171,522	117,020

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	
	2010	2009
	HK$'000	HK$'000
Reinsurers' share of insurance contract liabilities (note 27)	**393,687**	333,381

24. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**177,780**	289,946	**5,440**	6,044
Time deposits with original maturity of over three months	**357,911**	799,202	**–**	–
Time deposits with original maturity of less than three months	**1,064,870**	786,883	**43,014**	58,747
	1,600,561	1,876,031	**48,454**	64,791
Pledged deposits	**80,941**	71,232	**–**	–
	1,681,502	1,947,263	**48,454**	64,791

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 operating in Macau as required under the applicable laws of Macau.

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

The maturity profile of the cash and bank balances, time deposits and pledged deposits as at the end of the reporting period was as follows:

	Group	
	2010	2009
	HK$'000	HK$'000
With a residual maturity of:		
Three months or less	**1,383,774**	1,340,189
Over three months but less than one year	**297,728**	607,074
	1,681,502	1,947,263

25. Share Capital

	2010 HK$'000	2009 HK$'000
Authorised:		
1,500,000,000 ordinary shares of HK$1 each	**1,500,000**	1,500,000
Issued and fully paid:		
1,019,200,000 ordinary shares (2009: 1,019,200,000) of HK$1 each	**1,019,200**	1,019,200

During the year ended 31st December, 2009, the Company repurchased and cancelled 9,449,428 of its ordinary shares of HK$1 each from the market at a total amount of approximately HK$19,288,000, including the transaction cost of approximately HK$58,000.

The premium of approximately HK$9,839,000 paid on the repurchase of such shares was debited to the retained profits account and an amount of HK$9,449,000 was transferred from retained profits of the Company to the capital redemption reserve (note 26(b)).

26. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 36 to 37 of the financial statements.

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, 2010 (2009: Nil).

26. Reserves *(cont'd)*

(b) 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, 2009		560,531	60,060	29,372	2,391,509	3,041,472
Profit for the year and total comprehensive income for the year	10	–	–	–	4,736	4,736
Repurchase of shares	25	–	–	–	(9,839)	(9,839)
Adjustment to final 2008 dividend		–	–	–	49	49
Transfer to capital redemption reserve	25	–	–	9,449	(9,449)	–
Interim 2009 dividend	11	–	–	–	(35,672)	(35,672)
Proposed final 2009 dividend	11	–	–	–	(66,248)	(66,248)
At 31st December, 2009 and at 1st January, 2010		**560,531**	**60,060**	**38,821**	**2,275,086**	**2,934,498**
Profit for the year and total comprehensive income for the year	10	**–**	**–**	**–**	**46,951**	**46,951**
Interim 2010 dividend	11	**–**	**–**	**–**	**(12,230)**	**(12,230)**
Proposed final 2010 dividend	11	**–**	**–**	**–**	**(66,248)**	**(66,248)**
At 31st December, 2010		**560,531**	**60,060**	**38,821**	**2,243,559**	**2,902,971**

27. Insurance Contract Liabilities

Group

	Notes	2010 Insurance contract liabilities HK$'000	2010 Reinsurers' share of liabilities HK$'000	2010 Net HK$'000	2009 Insurance contract liabilities HK$'000	2009 Reinsurers' share of liabilities HK$'000	2009 Net HK$'000
Life insurance contracts	(a)	**25,489**	**-**	**25,489**	20,554	–	20,554
General insurance contracts	(b)	**1,375,304**	**(393,687)**	**981,617**	1,183,289	(333,381)	849,908
Total insurance contract liabilities		**1,400,793**	**(393,687)**	**1,007,106**	1,203,843	(333,381)	870,462
			(note 23)			(note 23)	

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

	Notes	2010 Insurance contract liabilities HK$'000	2010 Reinsurers' share of liabilities HK$'000	2010 Net HK$'000	2009 Insurance contract liabilities HK$'000	2009 Reinsurers' share of liabilities HK$'000	2009 Net HK$'000
Life reserve	(1)	**25,389**	**-**	**25,389**	20,400	–	20,400
Provision for claims	(2)	**100**	**-**	**100**	154	–	154
		25,489	**-**	**25,489**	20,554	–	20,554

(1) Life reserve is analysed as follows:

	2010 HK$'000	2009 HK$'000
At 1st January	**20,400**	19,205
Increase in the year	**4,989**	1,195
At 31st December	**25,389**	20,400

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:

	2010			2009		
	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	**154**	**-**	**154**	167	–	167
Claims incurred during the year	**225**	**-**	**225**	1,537	(50)	1,487
Claims paid during the year	**(279)**	**-**	**(279)**	(1,550)	50	(1,500)
At 31st December	**100**	**-**	**100**	154	–	154

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

		2010			2009		
	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		**444,485**	**(133,527)**	**310,958**	422,729	(137,575)	285,154
Provision for claims incurred but not reported ("IBNR")		**362,410**	**(61,744)**	**300,666**	280,166	(27,500)	252,666
Total claims reported and IBNR	(1)	**806,895**	**(195,271)**	**611,624**	702,895	(165,075)	537,820
Provision for unearned premiums	(2)	**568,409**	**(198,416)**	**369,993**	480,394	(168,306)	312,088
Total general insurance contract liabilities		**1,375,304**	**(393,687)**	**981,617**	1,183,289	(333,381)	849,908

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:

	2010			2009		
	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	**702,895**	**(165,075)**	**537,820**	735,319	(212,126)	523,193
Claims incurred during the year	**446,999**	**(130,580)**	**316,419**	359,437	(66,392)	293,045
Claims paid during the year	**(342,999)**	**100,384**	**(242,615)**	(391,861)	113,443	(278,418)
At 31st December	**806,895**	**(195,271)**	**611,624**	702,895	(165,075)	537,820

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

	2010			2009		
	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	**480,394**	**(168,306)**	**312,088**	463,790	(150,525)	313,265
Premiums written during the year	**958,838**	**(295,970)**	**662,868**	796,267	(245,995)	550,272
Premiums earned during the year	**(870,823)**	**265,860**	**(604,963)**	(779,663)	228,214	(551,449)
At 31st December	**568,409**	**(198,416)**	**369,993**	480,394	(168,306)	312,088

28. Net Premiums

		Notes	2010 HK$'000	2009 HK$'000
(a)	Gross premiums on insurance contracts			
	Gross general insurance premiums:			
	Direct underwriting		**633,629**	540,267
	Reinsurance accepted		**325,209**	256,000
	Total gross general insurance premiums	27(b)(2)	**958,838**	796,267
	Gross life insurance premiums		**5,474**	3,078
	Change in gross unearned premiums		**(88,015)**	(16,604)
	Change in life reserve	27(a)(1)	**(4,989)**	(1,195)
	Total gross premiums		**871,308**	781,546
(b)	Reinsurers' share of gross premiums on insurance contracts			
	Gross general insurance premiums:			
	Direct underwriting		**(222,193)**	(197,223)
	Reinsurance accepted		**(73,777)**	(48,772)
	Total gross general insurance premiums	27(b)(2)	**(295,970)**	(245,995)
	Gross life insurance premiums		**(794)**	(1,181)
	Change in unearned premiums		**30,110**	17,781
	Total reinsurers' share of gross premiums		**(266,654)**	(229,395)

29. Net Claims Incurred

		Notes	2010 HK$'000	2009 HK$'000
(a)	Gross claims paid			
	Life insurance contracts claims paid	27(a)(2)	**(279)**	(1,550)
	General insurance contracts claims paid	27(b)(1)	**(342,999)**	(391,861)
	Total gross claims paid		**(343,278)**	(393,411)
(b)	Reinsurers' share of gross claims paid			
	Life insurance contracts claims paid	27(a)(2)	**–**	50
	General insurance contracts claims paid	27(b)(1)	**100,384**	113,443
	Total reinsurers' share of gross claims paid		**100,384**	113,493
(c)	Gross change in outstanding claims			
	Change in life insurance outstanding claims		**54**	13
	Change in general insurance outstanding claims		**(104,000)**	32,424
	Total gross change in outstanding claims		**(103,946)**	32,437
(d)	Reinsurers' share of gross change in outstanding claims			
	Life insurance outstanding claims		**–**	–
	General insurance outstanding claims		**30,196**	(47,051)
	Total reinsurers' share of gross change in outstanding claims		**30,196**	(47,051)

30. Other Liabilities

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals and other payables	**131,245**	108,094	**10,773**	9,714

At the end of the reporting period, included in other liabilities was an amount due to a non-controlling shareholder of a subsidiary of HK$23,130,000 (2009: HK$24,270,000). The amount due to that non-controlling shareholder is unsecured, interest-free and has no fixed terms of repayment.

The Group's and the Company's other liabilities were current in nature as at 31st December, 2010 and 2009.

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, 2009, 31st December, 2009 and 1st January, 2010	**1,452**	**9,834**	**11,286**
Deferred tax credited to the income statement during the year (note 9)	**(1,010)**	**–**	**(1,010)**
Gross deferred tax liabilities at 31st December, 2010	**442**	**9,834**	**10,276**

31. Deferred Tax *(cont'd)*

Deferred tax assets

	Losses available for offsetting against future taxable profits HK$'000
At 1st January, 2009	71,626
Deferred tax charged to the income statement during the year (note 9)	(38,082)
At 31st December, 2009 and 1st January, 2010	**33,544**
Deferred tax charged to the income statement during the year (note 9)	**(13,585)**
Gross deferred tax assets at 31st December, 2010	**19,959**

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

	2010 HK$'000	2009 HK$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**19,529**	22,320
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(9,846)**	(62)

The Group has tax losses arising in Hong Kong of HK$66,331,000 (2009: HK$122,040,000) 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, is as follows:

Name of borrower	Office held	Balance at 31st December, 2010 HK$'000	Balance at 1st January, 2010 HK$'000	Maximum amount outstanding during the year HK$'000
Wong Kok Ho	Executive director	–	756	756

The loan was secured by a property owned by the director, bore interest at the Hong Kong dollar prime rate less 2.5% per annum, capped at 4% per annum, and was fully repaid during the year. During the year, the interest income from the director amounted to HK$5,000 (2009: HK$27,000).

33. Commitments

The Group had capital commitments as follows at the end of the reporting period:

	Group 2010 HK$'000	2009 HK$'000
Contracted, but not provided for acquisition of computer software	2,292	3,004

The Company did not have any significant capital commitments at the end of the reporting period.

34. Related Party Transactions

(a) **Group**

	2010		2009	
	Directors and key management personnel HK$'000	**Enterprises and individuals related to directors and key management personnel HK$'000**	Directors and key management personnel HK$'000	Enterprises and individuals related to directors and key management personnel HK$'000
Loans and advances granted:				
Aggregate balance at the end of the reporting period	**–**	**8,823**	756	1,862
Interest income received and receivables	**5**	**–**	27	–
Interbank activities:				
Deposits placed	**–**	**530,196**	–	584,870
Interest income	**–**	**3,204**	–	6,512
Premium income:				
Gross premiums written	**179**	**2,422**	153	2,346
Commission expense, net	**–**	**831**	–	426

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

	2010 HK$'000	2009 HK$'000
Loans and advances granted:		
Aggregate balance at the end of the reporting period	**43,553**	53,790
Interest income received and receivables	**147**	167
Reinsurance premium ceded	**9**	9

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

	2010 HK$'000	2009 HK$'000
Loans and advances granted:		
Aggregate balance at the end of the reporting period	**164,763**	145,542
Commission expense paid	**13,027**	13,284

34. Related Party Transactions *(cont'd)*

(d) Details of the Group's advances to its jointly-controlled entities and associates as at the end of the reporting period 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, respectively.

35. 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 end of the reporting period.

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.

35. 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 e.g. 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 end of the reporting period.

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 estimate of cumulative incurred claims, including both notified and IBNR claims, for each successive accident year at the end of each reporting period, together with cumulative claims as at the end of the current reporting period.

35. 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	2009 HK$'000	2010 HK$'000	Total HK$'000
Accident year	460,141	193,696	271,111	343,231	397,590	350,726	382,549	403,169	355,504	408,407	
One year later	478,931	213,745	265,153	317,189	360,933	342,124	388,776	390,049	355,887	–	
Two years later	479,239	199,937	233,142	290,479	364,956	334,451	383,015	412,656	–	–	
Three years later	505,216	202,457	241,905	303,588	368,588	329,234	382,481	–	–	–	
Four years later	503,132	200,877	235,102	298,968	393,981	326,674	–	–	–	–	
Five years later	513,974	191,030	237,479	292,655	407,098	–	–	–	–	–	
Six years later	492,044	188,987	240,863	288,911	–	–	–	–	–	–	
Seven years later	495,228	189,355	245,765	–	–	–	–	–	–	–	
Eight years later	500,427	189,311	–	–	–	–	–	–	–	–	
Nine years later	504,892	–	–	–	–	–	–	–	–	–	
Current estimate of cumulative gross claims	504,892	189,311	245,765	288,911	407,098	326,674	382,481	412,656	355,887	408,407	3,522,082
Cumulative gross payments to date	(498,539)	(188,233)	(235,171)	(266,465)	(369,906)	(273,695)	(300,440)	(289,616)	(191,039)	(102,083)	(2,715,187)
Total gross general insurance outstanding claims provision per the statement of financial position	6,353	1,078	10,594	22,446	37,192	52,979	82,041	123,040	164,848	306,324	806,895

(Note 27(b))

35. 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	2009 HK$'000	2010 HK$'000	Total HK$'000
Accident year	225,033	67,518	151,658	217,908	246,522	220,375	243,904	311,628	302,613	331,523	
One year later	287,712	127,175	168,110	225,626	267,267	229,650	245,053	289,249	285,137	–	
Two years later	300,779	129,964	168,962	230,275	287,131	229,936	248,861	297,333	–	–	
Three years later	308,626	131,195	173,745	236,448	288,825	223,191	244,492	–	–	–	
Four years later	307,659	128,821	169,537	232,392	302,537	217,667	–	–	–	–	
Five years later	314,369	122,160	171,539	228,042	304,869	–	–	–	–	–	
Six years later	299,665	120,778	173,677	225,971	–	–	–	–	–	–	
Seven years later	300,836	121,174	175,391	–	–	–	–	–	–	–	
Eight years later	304,688	121,156	–	–	–	–	–	–	–	–	
Nine years later	306,912	–	–	–	–	–	–	–	–	–	
Current estimate of cumulative net claims	306,912	121,156	175,391	225,971	304,869	217,667	244,492	297,333	285,137	331,523	2,510,451
Cumulative net payments to date	(303,130)	(120,093)	(169,570)	(208,170)	(277,232)	(179,583)	(184,691)	(201,004)	(148,070)	(107,284)	(1,898,827)
Total net general insurance outstanding claims provision per the statement of of financial position	3,782	1,063	5,821	17,801	27,637	38,084	59,801	96,329	137,067	224,239	611,624
											(Note 27(b))

36. Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, but where prices have not been determined in an active market, financial assets with fair value based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own model whereby the majority of assumptions are market observation.

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

Assets measured at fair value:

At 31st December, 2010	**Level 1 HK$'000**	**Level 2 HK$'000**	**Total HK$'000**
Available-for-sale securities:			
Equity investments	**918,601**	**–**	**918,601**
Securities measured at fair value through profit or loss	**864,354**	**692,370**	**1,556,724**
	1,782,955	**692,370**	**2,475,325**

At 31st December, 2009	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
Available-for-sale securities:			
Equity investments	666,603	–	666,603
Securities measured at fair value through profit or loss	596,850	538,585	1,135,435
	1,263,453	538,585	1,802,038

As at 31st December, 2010 and 2009, the Group had no financial instruments measured at fair value under Level 3.

During the year ended 31st December, 2010 and 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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 and, 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 and insurance receivables are disclosed in notes 18, 20 and 22 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 end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2010			
	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	**133,345**	**311,140**	**–**	**444,485**
IBNR	**108,723**	**253,687**	**–**	**362,410**
Insurance payables	**159,400**	**–**	**–**	**159,400**
Due to associates	**4,643**	**–**	**–**	**4,643**
Other liabilities	**131,245**	**–**	**–**	**131,245**
	537,356	**564,827**	**–**	**1,102,183**

Group

	2009			
	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	152,182	270,547	–	422,729
IBNR	100,860	179,306	–	280,166
Insurance payables	147,972	–	–	147,972
Due to associates	5,898	–	–	5,898
Other liabilities	108,094	–	–	108,094
	515,006	449,853	–	964,859

37. Financial Risk Management Objectives and Policies *(cont'd)*

(3) Liquidity risk management *(cont'd)*

Company

	2010			
	Less than 1 year HK$'000	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Other liabilities	**10,773**	**–**	**–**	**10,773**

Company

	2009			
	Less than 1 year HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Other liabilities	9,714	–	–	9,714

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

Group

31st December, 2010	**Current* HK$'000**	**Non-current HK$'000**	**Total HK$'000**
Property, plant and equipment	**–**	**166,671**	**166,671**
Investment property	**–**	**3,380**	**3,380**
Interests in jointly-controlled entities	**–**	**343,075**	**343,075**
Loans to jointly-controlled entities	**5,953**	**37,600**	**43,553**
Interests in associates	**–**	**136,472**	**136,472**
Due from an associate	**–**	**164,763**	**164,763**
Deferred tax assets	**–**	**19,529**	**19,529**
Held-to-maturity securities	**322,623**	**585,943**	**908,566**
Available-for-sale securities	**–**	**1,491,416**	**1,491,416**
Pledged deposits	**80,941**	**–**	**80,941**
Loans and advances and other assets	**145,761**	**98,639**	**244,400**
Securities measured at fair value through profit or loss	**1,556,724**	**–**	**1,556,724**
Insurance receivables	**171,522**	**–**	**171,522**
Reinsurance assets	**393,687**	**–**	**393,687**
Cash and cash equivalents	**1,600,561**	**–**	**1,600,561**
Total assets	**4,277,772**	**3,047,488**	**7,325,260**

37. Financial Risk Management Objectives and Policies *(cont'd)*

(3) Liquidity risk management *(cont'd)*

31st December, 2009	Current* HK$'000	Non-current HK$'000	Total HK$'000
Property, plant and equipment	–	178,053	178,053
Investment property	–	3,020	3,020
Interests in jointly-controlled entities	–	310,073	310,073
Loans to jointly-controlled entities	5,953	47,837	53,790
Interests in associates	–	111,837	111,837
Due from an associate	–	145,542	145,542
Deferred tax assets	–	22,320	22,320
Held-to-maturity securities	72,176	703,154	775,330
Available-for-sale securities	–	1,242,431	1,242,431
Pledged deposits	71,232	–	71,232
Loans and advances and other assets	139,726	91,313	231,039
Securities measured at fair value through profit or loss	1,135,435	–	1,135,435
Insurance receivables	117,020	–	117,020
Reinsurance assets	333,381	–	333,381
Cash and cash equivalents	1,876,031	–	1,876,031
Total assets	3,750,954	2,855,580	6,606,534

* Expected recovery or settlement within 12 months from the end of the reporting period

Company

31st December, 2010	**Current* HK$'000**	**Non-current HK$'000**	**Total HK$'000**
Property, plant and equipment	**–**	**15**	**15**
Interests in subsidiaries	**–**	**1,695,747**	**1,695,747**
Due from subsidiaries	**–**	**1,709,086**	**1,709,086**
Available-for-sale securities	**–**	**487,893**	**487,893**
Loans and advances and other assets	**8,960**	**50,000**	**58,960**
Cash and cash equivalents	**48,454**	**–**	**48,454**
Total assets	**57,414**	**3,942,741**	**4,000,155**

37. Financial Risk Management Objectives and Policies *(cont'd)*

(3) Liquidity risk management *(cont'd)*

31st December, 2009	Current* HK$'000	Non-current HK$'000	Total HK$'000
Property, plant and equipment	–	72	72
Interests in subsidiaries	–	1,695,747	1,695,747
Due from subsidiaries	–	1,721,764	1,721,764
Available-for-sale securities	–	487,893	487,893
Loans and advances and other assets	9,944	50,000	59,944
Cash and cash equivalents	64,791	–	64,791
Total assets	74,735	3,955,476	4,030,211

* Expected recovery or settlement within 12 months from the end of the reporting period

(4) Capital 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 requirements of Relevant Amount 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**
2010 required Relevant Amount	**2,980**	**86,365**
2009 required Relevant Amount	2,709	75,214

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 represents equity attributable to equity holders of the Company. As at 31st December, 2010, the Group had 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.

		2010		2009	
		Increase/(decrease)		Increase/(decrease)	
	Change in interest rate	**in profit before tax HK$'000**	**in equity* HK$'000**	in profit before tax HK$'000	in equity* HK$'000
Securities measured at fair value through profit or loss	+50 basis points	**(403)**	**–**	(196)	–
	–50 basis points	**403**	**–**	196	–
Time deposits	+50 basis points	**8,217**	**–**	9,556	–
	–50 basis points	**(8,217)**	**–**	(9,556)	–
Loans and advances and other assets	+50 basis points	**131**	**–**	97	–
	–50 basis points	**(131)**	**–**	(97)	–
Loans to jointly-controlled entities	+50 basis points	**218**	**–**	269	–
	–50 basis points	**(218)**	**–**	(269)	–

* 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 end of the reporting period to a reasonably possible change in the exchange rates of Thai Baht and Japanese Yen, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of monetary assets and liabilities and available-for-sale securities).

	Change in exchange rate %	Decrease in profit before tax HK$'000	Decrease in equity* HK$'000
2010			
If Thai Baht weakens against Hong Kong dollar	**–5%**	**(2,767)**	**(45,930)**
If Japanese Yen weakens against Hong Kong dollar	**–8%**	**(1,404)**	**–**
2009			
If Thai Baht weakens against Hong Kong dollar	–5%	(1,962)	(33,330)
If Japanese Yen weakens against Hong Kong dollar	–8%	(3,509)	–

* 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 may 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. Furthermore, 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 statement of financial position 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 reinsurer is unable to meet its obligations assumed under such reinsurance agreement.

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 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.

	2010			2009		
	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
Employees' compensation	**389,037**	**(75,774)**	**313,263**	332,308	(47,593)	284,715
Property damage	**291,618**	**(101,242)**	**190,376**	247,275	(107,571)	139,704
General liability	**296,131**	**(126,081)**	**170,050**	270,394	(116,993)	153,401
Motor vehicle	**201,670**	**(19,416)**	**182,254**	181,189	(22,814)	158,375
Others	**196,848**	**(71,174)**	**125,674**	152,123	(38,410)	113,713
Total general insurance	**1,375,304**	**(393,687)**	**981,617**	1,183,289	(333,381)	849,908

As at 31st December, 2010, over 90% (2009: 90%) of the general insurance contract liabilities were 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, 2010. The Group's listed investments are mainly listed on the stock exchanges of Hong Kong, United States, Thailand stock exchanges and are valued at quoted market prices at the end of the reporting period.

The following table demonstrates the sensitivity to every change of 15%, 10%, 5% and 10% 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 end of the reporting period. For the purpose of this analysis, the impact for the available-for-sale securities 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
2010				
Investments in:				
Hong Kong				
– Listed securities measured at fair value through profit or loss	**+15%**	**648,115**	**97,217**	**–**
	–15%	**648,115**	**(97,217)**	**–**
United States				
– Listed securities measured at fair value through profit or loss	**+10%**	**596,653**	**59,665**	**–**
	–10%	**596,653**	**(59,665)**	**–**
Thailand				
– Available-for-sale securities	**+5%**	**918,601**	**–**	**45,930**
	–5%	**918,601**	**–**	**(45,930)**
– Listed securities measured at fair value through profit or loss	**+5%**	**54,607**	**2,730**	**–**
	–5%	**54,607**	**(2,730)**	**–**
All other areas				
– Listed and unlisted debt securities, equity securities and investment funds	**+10%**	**257,349**	**25,734**	**–**
	–10%	**257,349**	**(25,734)**	**–**

* 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
2009				
Investments in:				
Hong Kong				
– Listed securities measured	+15%	366,417	54,963	–
at fair value through profit or loss	–15%	366,417	(54,963)	–
United States				
– Listed securities measured	+10%	502,739	50,274	–
at fair value through profit or loss	–10%	502,739	(50,274)	–
Thailand				
– Available-for-sale securities	+5%	666,603	–	33,330
	–5%	666,603	–	(33,330)
– Listed securities measured	+5%	38,507	1,925	–
at fair value through profit or loss	–5%	38,507	(1,925)	–
All other areas				
– Listed and unlisted debt	+10%	227,772	22,777	–
securities, equity securities and investment funds	–10%	227,772	(22,777)	–

* Excluding retained profits

38. Comparative Amounts

Certain comparative amounts in the consolidated statement of cash flows have been reclassified to conform with current year's presentation.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 2nd March, 2011.