亞洲金融
Asia Financial
Stock Code : 662

A Focus on Coverage & Care

Annual Report 2012

www.afh.hk

Contents

Corporate Information

Directors

CHAN Yau Hing Robin *(Chairman)*
CHAN Bernard Charnwut *(President)*
TAN Stephen *(Executive Director)*
WONG Kok Ho *(Executive Director)*
LAU Ki Chit
SOPHONPANICH Choedchu
NG Song Hin
MIYAZAKI Mamoru
CHAN Yeow Toh
CHOW Suk Han Anna*
MA Andrew Chiu Cheung*
SIAO Chi Lam Kenneth*
WONG Yu Hong Philip*
LAI KO Wing Yee Rebecca*

* *independent non-executive director*

Audit Committee

MA Andrew Chiu Cheung *(Chairman)*
CHOW Suk Han Anna
SIAO Chi Lam Kenneth
LAI KO Wing Yee Rebecca

Compliance Committee

CHOW Suk Han Anna *(Chairman)*
MA Andrew Chiu Cheung
SIAO Chi Lam Kenneth
LAI KO Wing Yee Rebecca
CHAN Bernard Charnwut
TAN Stephen

Remuneration Committee

LAI KO Wing Yee Rebecca *(Chairman)*
CHOW Suk Han Anna
MA Andrew Chiu Cheung
CHAN Bernard Charnwut

Nomination Committee

CHOW Suk Han Anna *(Chairman)*
MA Andrew Chiu Cheung
LAI KO Wing Yee Rebecca
CHAN Bernard Charnwut

Auditors

Ernst & Young
Certified Public Accountants
22nd Floor CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

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

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

Company Secretary

LAU Chi Tak

Principal Bankers

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

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

Asia Financial Holdings Limited ("Asia Financial") achieved net profit attributable to shareholders of HK$403.8 million in 2012, comparing a loss of HK$137.5 million in 2011. This very positive result is due to the continued growth in underwriting profit and insurance operations, and very satisfactory growth from our jointly-controlled entities and associates. Realised and unrealised gains in the value of our portfolio investments were also recorded.

CHAN Yau Hing Robin
Chairman

Economic Background

After the sharp downturn of 2011, the global economy was at least relatively stable last year. Western economies generally achieved low if any growth, while China showed welcome signs of a soft landing following a period of heavy stimulus; Hong Kong showed modest GDP expansion of just around 1%, but maintained continued low unemployment.

Loose monetary policy around the world – and possibly some hopes of future recovery in leading economies – led to buoyant asset prices, with the Hang Seng and Dow Jones Industrial Average Indexes rising 23% and 7% respectively. This market strength provided a sound basis for the positive performance of Asia Financial's trading and non-trading investment returns. Although Hong Kong's overseas trade faced weak global demand, parts of the domestic economy proved resilient and offered decent opportunities for growth in insurance operations.

Management Approach and Future Prospects

The global economic outlook for 2013 is mixed. Developed economy government deficits remain a concern; the Eurozone is undergoing contraction; and competitive currency devaluations or trade restrictions are possible, on the other hand, China seems to have achieved a 'soft landing' after the investment-led growth of the last few years, and the United States economy is showing some early signs of a recovery. Therefore, we expect the stock market will remain volatile.

One danger is possible asset price volatility in the wake of continued monetary easing in many economies; given our aim above all to preserve shareholder's wealth in uncertain times, we will remain alert to this possibility. We must also remain mindful of consumer price inflation, which was around 4% last year in Hong Kong and could affect our costs and competitiveness.

Given the degree of uncertainty, we will continue to exercise caution in the management of our cash and direct and indirect investments in the coming year. This is our longstanding approach, and it has served our shareholders well over the years. We will also remain alert to the possibility that short-term instability in markets can create worthwhile investment opportunities within acceptable levels of risk.

Management Approach and Future Prospects (cont'd)

The outlook for our insurance operations is generally positive, helped by continued infrastructure construction and resilient consumption in our main markets, and further efforts to optimize the balance between Asia Insurance's direct and reinsurance underwriting business. The Company will remain alert to possible new opportunities arising from health care coverage reforms in Hong Kong.

Our focus will remain very much on the long term, which we believe continues to offer attractive new opportunities arising from the overall relative economic vibrancy of much of the East Asian region. We will continue to build our interests in livelihood-related service industries such as insurance, retirement, health 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 in Management Discussion and Analysis. This choice of investment segments is based upon the transformation of the Greater China/East Asia region as a large middle class comes into being, societies begin to age and governments seek 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.

CHAN Yau Hing Robin
Chairman

Hong Kong, 1st March, 2013

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

Profit attributable to equity holders of the Company:	HK$403.8 million	
Earnings per share:	HK39.6 cents	
Final dividend per share:	HK4.3 cents	+115.0%
Total dividend per share:	HK7.8 cents	+122.9%

Asia Financial Holdings Limited ("Asia Financial") achieved net profit attributable to shareholders of HK$403.8 million in 2012, comparing a loss of HK$137.5 million in 2011. This very positive result is due to the continued growth in underwriting profit and insurance operations, and very satisfactory growth from our jointly-controlled entities and associates. Realised and unrealised gains in the value of our portfolio investments were also recorded.

Overview by Investment Segments

Insurance

Wholly owned Asia Insurance's profit attributable to shareholders for 2012 was HK$274.2 million, comparing a loss of HK$27.5 million in 2011. Underwriting profit increased by 30.1%, which is acceptable given remaining exposure to the flooding in Thailand in the second half of 2011 and to Hurricane Sandy in 2012.

Turnover rose by a healthy 22.3% and this reflects management's continuing efforts to focus on more high-value business. We have also focused on maintaining prudent balances between levels of reinsurance and direct insurance business and among geographical regions. The success of these measures underlines Asia Insurance's status as one of Hong Kong's leading local insurers.

The employees' compensation sector saw particularly good performance. This is partly helped by the large number of construction projects taking place in Hong Kong and Macau, but it also reflects our efforts to enlarge specialised risk management capacities in this sector. Most other lines of business produced stable profits. There were no significant changes to the size and reach of our agent network. Asia Insurance successfully kept costs under control, despite growth in turnover.

As with Asia Financial's other portfolio investments, Asia Insurance's securities holdings enjoyed significant gains in valuations following year-on-year rise in the equities markets during 2012. This was helped by a greater exposure to equities during the year, higher dividend income and improved positioning in order to capture capital gains. Interest income benefited from a bigger weighting in higher yield RMB bonds, which also offered exchange rate gains. Asia Insurance has no significant direct exposure to vulnerable European sovereign debt and related investments.

Asia Insurance continued in 2012 to build on its sound reputation among a steadily expanding base of clients in the Hong Kong and regional general insurance market. The outlook for core underwriting in 2013 looks reasonable, not least because of continuing high levels of infrastructure construction and resilient consumption levels. We will take steps to further optimise the balance between direct and reinsurance business in the portfolio.

One potential problem for Asia Insurance's core business (and indeed Hong Kong as a whole) would be a major setback to the Mainland economy, such as a hard landing after recent years' stimulus measures. Prospects for portfolio investments reflect the wider global picture, and management will maintain its prudent approach to management of traded investments and the maintenance of a well-balanced investment portfolio.

Asia Insurance remains open to possible new growth areas, but these seem fairly limited in the foreseeable future. Health care finance reform in Hong Kong has been proceeding slowly in the face of weak public support. However, the new administration may seek to give fresh impetus to the expansion of personal health care coverage.

Jointly-controlled entities and associates in the insurance segment generally performed satisfactorily. BC Reinsurance Limited enjoyed a good rebound in profit in line with investment valuations. Hong Kong Life Insurance Limited reported growth in turnover, reflecting the continued expansion of the business. The People's Insurance Company of China (Hong Kong), Limited reported healthy and stable performance, as did Professional Liability Underwriting Services Limited.

Overview by Investment Segments (cont'd)

Insurance (cont'd)

PICC Life Insurance Company Limited 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. It now ranks fifth in the Chinese market and operates a network of some 2,050 offices. The company reported RMB64.0 billion in gross premiums for 2012, down 9.0% on the same period for the year before. All other business performance and risk control indicators showed positive and healthy figures.

Other Portfolio Investment

Year-on-year realised and unrealised valuation gains on trading investments rose significantly compared with 2011. This reflected largely above-benchmark performance of traded holdings and healthy dividend income from the non-traded segments of the portfolio during a rebound in the markets. A proportion of the gains from trading were realized in order to lock in profit. Net interest income rose in line with the level of idle funds during the period. The company's expenses remained steady.

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 most of our fixed income investments and derivative instruments are of investment grade or above.

The upturn in equities markets has continued into 2013, and our portfolio holdings may benefit during the coming year given the likelihood of global monetary easing continuing to stimulate asset prices. That said, our investment strategy will be flexible enough to cope with the market changes. Regardless of year-on-year fluctuations in market valuations, we will continue to place the highest priority on preservation of core shareholder wealth. At the same time, we will remain alert to strategic and long-term opportunities arising from structural changes in the international environment.

Health Care

Our 3.7% holding in Bumrungrad Hospital Public Company Limited ("Bumrungrad") in Bangkok remains one of our best-performing investments, with its valuation rising 77.0% in 2012. This is largely due to market recognition of Bumrungrad's success in attracting patients internationally through the delivery of high-quality medical services. This success looks likely to continue.

Bumrungrad International Limited ("BIL"), in which Asia Financial holds a 19.5% stake, is undergoing liquidation following the consolidation of its activities and the lack of suitable new investment opportunities. This has resulted in a return of capital to Asia Financial, including some exchange rate gain, which accounts for a minor increase in our share of profits from this source in 2012. We also refrained from submitting a bid to the Hong Kong government to start a new hospital at Wong Chuk Hang on the south of Hong Kong Island, as in our view the conditions attached to the project seriously hindered its viability. Despite these developments, we continue to foresee very good prospects for the health care business in the region, owing to long-term demographic and policy trends, and we will remain alert to potential new opportunities in the sector.

Pension and Asset Management

The Group's holding in jointly-controlled company Bank Consortium Holding Limited ("BCH") enjoyed healthy profit growth in 2012, because of rising fee income in line with equity market growth, and the company for the first time declared a dividend. Bank Consortium Trust Company Limited ("BCT"), a wholly owned subsidiary of BCH, remains one of the top five providers of Mandatory Provident Fund services in Hong Kong and is now marketing back-office services to other market players. Starting 1st November, 2012, employees will have the right to transfer their personal contributions up to one time a year to other service providers; so far, this has not had much effect on the market. At some stage, employees will have control over all their funds, and this may lead to greater competition in the market. 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 to remain a solid and steady contributor to Asia Financial.

Overview by Investment Segments (cont'd)

Property Development

The Group's interests in real estate are focused on Shanghai and Suzhou and represent 4.9% of our total assets. The main project is a residential and commercial complex in Jiading, in which we have a 27.5% stake. Sales of Phase 2 of the project proceeded well during 2012, yielding share of profits of HK$51.4 million booked for the year. The remaining units at Phase 2 are expected to be sold equally successfully during 2013. The timescale of the development of Phase 3 and a smaller plot of land is being kept flexible, in view of possible changes in measures to cool speculative activity in the mainland property market.

The outlook for the China residential property market depends to some extent on regulatory issues. However, we are confident that where financing is concerned, existing capital and cash flow will be sufficient for future projects. We are also confident that our projects contribute to a socially positive housing market, being aimed at middle-class end-users in a competitive local market, and are therefore not the prime targets of anti-speculative policies. Given the overall success of this project, we will consider new possible opportunities in this sector.

Charge on Assets

As at 31st December, 2012, Asia Insurance charged assets with a carrying value of HK$102,912,000 (2011: HK$102,658,000) in favour of the Hong Kong Mortgage Corporation Limited (the "HKMC") to secure the payments under the HKMC Mortgage Insurance Programme.

Contingent Liabilities

As at 31st December, 2012, there was an outstanding counter guarantee issued by the Company in favour of People's Insurance Company (Group) of China Limited (the "PICC Group") amounting to 5% of all the liabilities and expenses of RMB112.5 million (approximately HK$140.0 million) (2011: RMB112.5 million) under a master guarantee provided by the PICC Group. The master guarantee is to secure the repayment of 10-year subordinated term debt of RMB2.25 billion issued by PICC Life Insurance Company Limited. The counter guarantee will expire on 25th April, 2019.

Corporate Social Responsibility

Asia Financial takes pride in being recognized as a "Caring Company" for the 10th consecutive year since 2003 and contributing to community programmes where we can add value. As our business grows, we are determined to nurture the ethos of good corporate citizenship among our entire workforce and within the workplace.

Apart from providing a quality workplace and working to promote environmental responsibility, we continue to honour our commitment to the wider community and develop partnerships with social service organizations and social enterprises. These provide a framework in which our Group contributes time and help to the community in contexts where we can make a real difference.

5 years+ 商界展關懷 caringcompany
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

Environmental Protection

Asia Insurance – The First Carbon-neutral Insurance Company in Greater China

Our wholly-owned subsidiary, Asia Insurance is proud to have become the first carbon-neutral insurance company in Greater China in 2009.

CARBONCARE® COMPANY

During 2012, the Group has continued to reduce its carbon footprint by:

- building a culture of caring for the environment and encouraging staff to change their habits. For example, office lighting is turned on and off gradually before and after office hours, and staff are advised to turn off their PCs during lunch hours or meetings.
- replacing existing office lighting with energy efficient lamps, such as T5 fluorescent and LED lamps.

Asia Insurance also offsets all its emissions to become carbon-neutral by sponsoring an Afforestation & Reforestation project on degraded lands in Sichuan, China.

Donation & Sponsorship

At the end of 2009, we founded AFH Charitable Foundation Limited ("the Foundation") to collect funds and target donations to help meet charitable, educational, cultural and other needs of society.

In 2012, Asia Financial and the Foundation devoted financial resources (mainly through donations and sponsorships) by supporting non-profit-making organizations locally and overseas.

Donation & Sponsorship Made in 2012	Compared with 2011
HK$7.97 million	+51.5%

Asia Financial & Asia Insurance participate in the Hong Kong Community Chest's "Walk for Millions" to raise fund for the needy every year.

Community Involvement – Partnership with Social Enterprises

We have been investing 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 projects of SVHK are Diamond Cab, Dialogue in the Dark and Fullness Hair Salons.

Diamond Cab – Barrier-free Taxi Service

This is a brand new social venture providing point-to-point transportation services 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 services for wheelchair users.
Hotline: 2760 8771
Website: www.diamondcab.com.hk

Community Involvement – Staff Volunteering

We organize a series of volunteering programmes every year to reflect the importance of community life to us on both individual and corporate levels; these activities 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 and the Tung Wah Group of Hospitals, we arranged in 2012 several activities to bring love and care to the children, visually impaired and senior citizens.

In September 2012, our staff volunteer team coordinated with Evangelical Lutheran Church Social Service – Hong Kong and accompanied approximately 30 kids from the Po Tin Estate in Tuen Mun to visit the experiential exhibition of "Dialogue in the Dark" & "The Hong Kong Society for the Blind", communicating with and caring for the visually impaired.

In November 2012, Asia Financial volunteers participated in the "Tung Wah – ING Beach Party" at Shek O Beach to raise fund for mainstream schools to provide special education services.

Corporate Governance Practices

Asia Financial Holdings Limited (the "Company") is committed to maintaining high standards of corporate governance. The board of directors (the "Board") of the Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to promote investor confidence and safeguard the interests of shareholders, investors, customers and staff. The Board has taken actions and measures to ensure that a high standard of corporate governance is maintained.

The Company has complied with all the applicable code provisions in the Code on Corporate Governance Practices (effective until 31st March, 2012) and the Corporate Governance Code (the "CG Code") (effective from 1st April, 2012) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31st December, 2012.

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, 2012.

Board of Directors

Composition of the Board

The Board currently comprises fourteen members, consisting of four executive directors (including the Chairman and the President) and ten non-executive directors, five of whom are independent non-executive directors. The individuals who make up the Board are drawn on diverse and professional backgrounds. The biographical details of the directors and the relationship among them are set out in pages 29 to 33 of this annual report. The list of directors of the Company and their roles and functions is also posted on the websites of the Company and the Stock Exchange.

Every director, including those appointed for a specific term, is subject to retirement by rotation and re-election at least once every three years at the annual general meeting in accordance with the Bye-laws of the Company and the CG Code. Director appointed to fill a casual vacancy should be subject to re-election by shareholders at the next forthcoming annual general meeting.

During the year 2012, Dr. Ko Wing Man resigned as an independent non-executive director, the Chairman of the remuneration committee and a member of each of the audit committee, compliance committee and nomination committee of the Company with effect from 14th June, 2012. Mrs. Lai Ko Wing Yee Rebecca has been appointed as an independent non-executive director, the Chairman of the remuneration committee and a member of each of the audit committee, compliance committee and nomination committee of the Company with effect from 3rd December, 2012.

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 Director's Handbook. The Director's Handbook sets out, among other things, the general and specific duties of the directors and the terms of reference of various Board committees. The Director's Handbook is updated from time to time to reflect developments and latest changes in the commercial and regulatory environment in which the Group conducts its businesses.

Board of Directors (cont'd)

Role and Function of the Board

The Board is empowered to manage and conduct the businesses and affairs of the Company and its subsidiaries (collectively 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.

Executive Committee

The Board has delegated the day-to-day management of the Company's business to the executive committee (the "Executive Committee") of the Company 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.

In year 2012, the Executive Committee held twelve meetings and the attendance record of each executive director is set out below:

Name of executive director	Number of meetings attended/held	Attendance rate
Chan Yau Hing Robin *(Chairman)*	12/12	100%
Chan Bernard Charnwut *(President)*	11/12	92%
Tan Stephen	11/12	92%
Wong Kok Ho	12/12	100%

Chairman and President

The Company has appointed a President instead of a Chief Executive Officer. The roles of the Chairman and the President are segregated. Dr. Chan Yau Hing Robin, the executive Chairman is responsible for the leadership and effective running of the Board. Mr. Chan Bernard Charnwut, 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. Their respective roles and responsibilities are set out in writing, which have been approved and adopted by the Board.

Non-executive Directors and Independent Non-executive Directors

The non-executive directors provide the Group with a wide range of expertise and experience as well as checks and balances to safeguard the interests of the shareholders.

Each non-executive director (including independent non-executive director) of the Company has received a letter of appointment from the Company for a specific term of not more than 2 years and is subject to retirement by rotation and eligible for re-election at the annual general meeting in accordance with the Company's Bye-laws.

More than one-third of the members of the Board consist of independent non-executive directors and at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each independent non-executive director an annual confirmation of his/her independence for the year ended 31st December, 2012 pursuant to Rule 3.13 of the Listing Rules. The Board considered all such directors are independent.

Board of Directors (cont'd)

Non-executive Directors and Independent Non-executive Directors (cont'd)

Mr. Siao Chi Lam Kenneth ("Mr. Siao") and Dr. Wong Yu Hong Philip ("Dr. Wong") were re-designated from non-executive directors to independent non-executive directors of the Company on 6th December, 2011. Both of them had been non-executive directors of the Company during the past two years, and in that respect, did not meet one of the independence guidelines under Rule 3.13 of the Listing Rules. The Board after considered the issue was satisfied that all other relevant independence guidelines under Rule 3.13 of the Listing Rules were complied with and concluded that there were no relationships or circumstances that were likely to affect the independence of Mr. Siao and Dr. Wong.

Board Meetings and Attendance

The Board meets regularly, and at least four times a year, to review business development and performance 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 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 2012, 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:		
Chan Yau Hing Robin *(Chairman)*	4/4	100%
Chan Bernard Charnwut *(President)*	4/4	100%
Tan Stephen	4/4	100%
Wong Kok Ho	4/4	100%
Non-executive Directors:		
Lau Ki Chit	4/4	100%
Sophonpanich Choedchu	4/4	100%
Ng Song Hin	4/4	100%
Miyazaki Mamoru	4/4	100%
Chan Yeow Toh	4/4	100%
Independent Non-executive Directors:		
Chow Suk Han Anna	4/4	100%
Ma Andrew Chiu Cheung	4/4	100%
Ko Wing Man*	2/2	100%
Siao Chi Lam Kenneth	3/4	75%
Wong Yu Hong Philip	4/4	100%
Lai Ko Wing Yee Rebecca^	0/0	–

^ *Appointed on 3rd December, 2012*

* *Resigned on 14th June, 2012*

Board of Directors (cont'd)

Board Meetings and Attendance (cont'd)

Board meetings were held to discuss the business development and strategies of the Group; monitor financial and operational performance; approve the annual and interim results of the Group; review and receive the reports from the respective Board committees; and oversee the Group's policies are complied with relevant legal and regulatory requirements.

Other than regular Board meetings, the Chairman also met with non-executive directors (including independent non-executive directors) without the presence of the executive directors, to have an open discussion among the non-executive directors on issues relating to the Group.

Liability Insurance for the Directors

The Company has arranged appropriate insurance coverage on directors' and officers' liabilities against possibility of legal action to be taken against the directors and the senior executives. In 2012, no claims under the insurance policy were made.

Directors' Training

All directors are required to keep abreast of the responsibilities as a director, and of the conduct and business activities of the Company. During the year, all directors were provided with the monthly management accounts of the Group as well as regular updates on applicable legal and regulatory requirements. They are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills.

In year 2012, the Company had organised two in-house seminars conducted by the Hong Kong Institute of Directors and professionals for the directors of the Company. The seminars covered topics including connected transactions, disclosure of inside information and Hong Kong profits tax updates. Written materials of both seminars were provided to the participated directors.

According to the records provided by the directors, a summary of the trainings received for the period from 1st April, 2012 to 31st December, 2012 is as follows:

- Dr. Chan Yau Hing Robin, Mr. Chan Bernard Charnwut, Mr. Tan Stephen, Mr. Wong Kok Ho, Mr. Lau Ki Chit, Mr. Sophonpanich Choedchu, Mr. Ng Song Hin, Mr. Miyazaki Mamoru, Ms. Chow Suk Han Anna and Mr. Ma Andrew Chiu Cheung participated in both the aforesaid seminars.

- Ms. Chan Yeow Toh, Mr. Siao Chi Lam Kenneth and Dr. Ko Wing Man* attended one of the aforesaid seminars.

- Dr. Wong Yu Hong Philip and Mrs. Lai Ko Wing Yee Rebecca^ were not able to attend the aforesaid seminars.

^ *Appointed on 3rd December, 2012*

* *Resigned on 14th June, 2012*

Remuneration Committee

The Board has set up the Company's remuneration committee (the "Remuneration Committee") with specific terms of reference which are posted on the websites of the Company and the Stock Exchange. The Remuneration Committee comprises four members, three of whom are independent non-executive directors. The members are Mrs. Lai Ko Wing Yee Rebecca (Chairman), Mr. Ma Andrew Chiu Cheung, Ms. Chow Suk Han Anna and Mr. Chan Bernard Charnwut. 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, committees' members 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 2012, 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%
Lai Ko Wing Yee Rebecca *(Chairman)*^	0/0	–
Chow Suk Han Anna	1/1	100%
Ma Andrew Chiu Cheung	1/1	100%
Chan Bernard Charnwut	1/1	100%

^ *Appointed on 3rd December, 2012*

* *Resigned on 14th June, 2012*

During the year 2012, the Remuneration Committee had performed the following works:

- reviewed and approved the revised terms of reference;
- reviewed and recommended for approval by the Board the annual salary review, the emolument of the executive directors and allocation of 2012 discretionary bonus;
- reviewed and recommended the directors' fees and Board committees' members' fees for the Board's approval subject to the shareholders' approval at the Company's annual general meeting;
- established and recommended the Company's remuneration policy for the Board's approval;
- reviewed and recommended for approval by the Board the retired members of the Remuneration Committee for re-appointment; and
- submitted a summary report on the resolved issues and recommendations to the Board.

Nomination Committee

The Board has set up the Company's nomination committee (the "Nomination Committee") with specific terms of reference which are posted on the websites of the Company and the Stock Exchange. The Nomination Committee comprises four members, three of whom are independent non-executive directors. The members are Ms. Chow Suk Han Anna (Chairman), Mr. Ma Andrew Chiu Cheung, Mrs. Lai Ko Wing Yee Rebecca and Mr. Chan Bernard Charnwut. The Nomination Committee meets at least once each year.

The Nomination Committee is responsible for making recommendations to the Board on nominations, appointments and re-appointment of directors. The Nomination Committee will consider different criteria including but not limited to appropriate professional knowledge and industry experience, reviews the size, structure and composition of the Board, and is also responsible for reviewing the independence of independent non-executive directors. The Nomination Committee may seek independent professional advice, at the Company's expense, to perform its responsibilities.

In year 2012, the Nomination Committee held two meetings. The attendance record of each member is set out below:

Name of member	Number of meeting attended/held	Attendance rate
Chow Suk Han Anna *(Chairman)*	2/2	100%
Ma Andrew Chiu Cheung	2/2	100%
Ko Wing Man*	1/1	100%
Lai Ko Wing Yee Rebecca^	0/0	–
Chan Bernard Charnwut	1/2	50%

^ *Appointed on 3rd December, 2012*

* *Resigned on 14th June, 2012*

During the year 2012, the Nomination Committee had performed the following works:

- reviewed and approved the revised terms of reference;
- reviewed and recommended the nomination of Mrs. Lai Ko Wing Yee Rebecca as independence non-executive director;
- reviewed and confirmed the independence of the independent non-executive directors;
- nominated directors retired by rotation to stand for re-election by shareholders at the Company's annual general meeting;
- reviewed and recommended for the Board's approval the retired members of certain Board committees for re-appointment as each Board committee's chairman or member; and
- submitted summary reports on the resolved issues and recommendations to the Board.

Audit Committee

The Company's audit committee (the "Audit Committee") consists of four independent non-executive directors, namely Mr. Ma Andrew Chiu Cheung (Chairman), Mr. Siao Chi Lam Kenneth, Ms. Chow Suk Han Anna and Mrs. Lai Ko Wing Yee Rebecca. The Audit Committee meets at least three times each year and has a separate meeting with the external auditors in the absence of management to discuss any audit issues.

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 websites of the Company and the Stock Exchange. The Audit Committee is responsible for reviewing the financial controls, internal control and risk management systems, financial statements, half-year interim report and annual report.

The Audit Committee held three meetings in the year 2012. The attendance record of each member is set out below:

Name of member	Number of meetings attended/held	Attendance rate
Ma Andrew Chiu Cheung *(Chairman)*	3/3	100%
Siao Chi Lam Kenneth	2/3	67%
Chow Suk Han Anna	3/3	100%
Ko Wing Man*	1/1	100%
Lai Ko Wing Yee Rebecca^	0/0	–

^ *Appointed on 3rd December, 2012*

* *Resigned on 14th June, 2012*

During the year 2012, the Audit Committee met with the internal and external auditors on three occasions and had performed, inter alia, the following works:

- met with the external auditors in the absence of management;
- reviewed and approved the revised terms of reference;
- 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 from the external auditors;
- 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;

Audit Committee (cont'd)

- reviewed the internal audit findings and recommendations of both the internal auditor and the external consultant and the responses from the management;
- reviewed the Group's compliance with regulatory and statutory requirements;
- reviewed and recommended the Company's whistleblowing policy for the Board's approval;
- reviewed and recommended for the Board's approval the retired members of the Audit Committee for re-appointment; and
- submitted summary reports on the resolved issues and recommendations to the Board and Asia Insurance Company, Limited ("Asia Insurance").

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	2,507
Non-audit services*	657
Total:	3,164

* *The non-audit service fees paid/payable to the external auditors were for advice on taxation matters and for preparation, review, submission of tax returns and other non-audit engagement.*

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 the Group's results and cash flows for that period. In preparing the accounts for the year ended 31st December, 2012, 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, 2012 have been audited by the external auditors, 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.

In addition to the internal control system, the Board has maintained an Internal Audit and Compliance Department ("IACD") which reports directly to the Audit Committee and the compliance committee (the "Compliance Committee") of the Company. 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 also engaged an external consultant during the year to assist in performing periodic internal audits on certain departments and different business units across the Group. IACD and the external consultant present the internal audit reports to the Audit Committee and the compliance reports to the Compliance 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.

Compliance Committee

The Board has delegated the responsibility of overseeing the corporate governance function to the Compliance Committee.

The Compliance Committee has specific terms of reference which are posted on the websites of the Company and the Stock Exchange. The Compliance Committee comprises six members, four of whom are independent non-executive directors. The members are Ms. Chow Suk Han Anna (Chairman), Mr. Ma Andrew Chiu Cheung, Mr. Siao Chi Lam Kenneth, Mrs. Lai Ko Wing Yee Rebecca, Mr. Tan Stephen and Mr. Chan Bernard Charnwut. The Compliance Committee meets at least twice each year.

In year 2012, the Compliance Committee held two meetings. The attendance record of each member is set out below:

Name of member	Number of meeting attended/held	Attendance rate
Chow Suk Han Anna *(Chairman)*	2/2	100%
Ma Andrew Chiu Cheung	2/2	100%
Siao Chi Lam Kenneth	1/2	50%
Ko Wing Man*	1/1	100%
Lai Ko Wing Yee Rebecca^	0/0	–
Tan Stephen	2/2	100%
Chan Bernard Charnwut	2/2	100%

^ *Appointed on 3rd December, 2012*

* *Resigned on 14th June, 2012*

Compliance Committee (cont'd)

During the year 2012, the Compliance Committee had performed the following works:

- reviewed and approved the revised terms of reference and formalised the responsibility of the corporate governance functions into its terms of reference;
- reviewed and monitored the reports and works done by IACD and the external consultant respectively on the Group's compliance with legal and regulatory requirements;
- reviewed the complaint cases by the complaint officer of Asia Insurance;
- reviewed and recommended for the Board's approval the retired members of the Compliance Committee for re-appointment; and
- submitted summary reports to the Board on overall compliance performance and corporate governance practices of the Group.

Professional Training of Company Secretary

According to Rule 3.29 of the Listing Rules, the Secretary of the Company, Mr. Lau Chi Tak, had confirmed that he undertook no less than 15 hours of relevant professional training during the year 2012.

Constitutional Documents

There was no change to the Company's Memorandum of Association and Bye-laws during the year 2012. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is posted on the websites of the Company and the Stock Exchange.

Communications with Shareholders

The Board recognizes the importance of good communications with all shareholders. A shareholders' communication policy has been established during the year which is posted on the website of the Company. The Company 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, Compliance, Nomination, and Remuneration Committees (or in their absence, other members of such committees) together with the external auditors are available to answer shareholders' questions at the meeting. The Chairman also advised all other directors of the Company to attend the annual general meeting in order to develop a balanced understanding of the views of shareholders. 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 Stock Exchange.

The Company's last annual general meeting was held at 16th Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong on 3rd May, 2012 at 11:30 a.m. All directors, except Mr. Sophonpanich Choedchu, attended that annual general meeting.

Shareholders' Rights

Convening a Special General Meeting

Shareholders holding in aggregate of not less than one-tenth (1/10) of the paid up capital can send a written request to the Board or the Secretary of the Company to request a Special General Meeting ("SGM").

The written request should be deposited at the principal place of business of the Company at 16th Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong, for the attention of the Company Secretary.

The written request must state the resolution(s), accompanied by a statement of the matters referred in the proposed resolution(s) and signed by the shareholders concerned.

The request will be verified with the Company's share registrar and upon its confirmation that the request is proper and in order, the Company will convene a SGM within twenty-one (21) days of the deposit of the request. The actual SGM shall be held within two (2) months after the deposit of the written request.

Notice of SGM will be sent out at least fourteen (14) clear days before the meeting unless shorter notice is permitted by the majority members having the right to attend and vote at the meeting.

Making Proposals at Shareholders' Meeting

Shareholder can send a written request to the Board or the Secretary of the Company to make proposal(s) at a shareholders' meeting.

The written request must state the resolution(s), accompanied by a statement of the matters referred in the proposed resolution(s) and signed by the shareholder concerned.

The written request should be deposited with the Company at its principal place of business at 16th Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong, at least fourteen (14) clear days before the date of the shareholders' meeting.

The request will be verified with the Company's share registrar and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the proposed resolution(s) in the agenda for the shareholders' meeting.

A revised notice of the shareholders' meeting that included the proposed resolution(s) will be issued to the shareholders.

Demanding Poll Voting

In accordance with the Company's Bye-law 66, shareholders can demand poll voting at any general meeting if: (i) at least three (3) shareholders present in person or by proxy that are entitled to vote at the meeting; or (ii) by shareholder(s) present in person or by proxy and representing not less than one-tenth (1/10) of the total voting rights of all shareholders having the right to vote at the meeting; or (iii) by shareholder(s) present in person or by proxy and holding shares aggregated to not less than one-tenth (1/10) of the total paid up shares.

The result of the poll shall be the resolution of the meeting. The Company shall only required to disclose the poll voting result if such disclosure is required by the Listing Rules.

Shareholders' Rights (cont'd)

Nomination of Person for Director Election

Shareholder wishes to nominate a person to stand for election as a director at the Company's annual general meeting ("AGM") should send a written notice to the Secretary of the Company at 16th Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong within the period of at least seven (7) days as determined by the Company. Such lodgement period will commence no earlier than the day after dispatch of the notice of AGM and end no later than seven (7) days prior to the date of AGM.

The nomination notice must be signed by the nominating shareholder and stated: (i) the name, address and shareholding of the nominating shareholder; (ii) the proposed candidate's biographical details as required by the rule 13.51(2) of the Listing Rules and (iii) a signed letter from the candidate confirming willingness to act as director if being elected.

The nomination notice will be verified with the Company's share registrar and upon its confirmation that the notice is proper and in order, the Secretary of the Company will arrange a meeting of the Nomination Committee of the Company.

The nomination notice will be reviewed by the members of the Nomination Committee who will consider the factors such as character, integrity, diversity of experience, area of expertise, other commitments, independence and other factors that the Nomination Committee may consider appropriate.

After assessing the nomination, the Nomination Committee will send a report to the Board advising whether the candidate possessed the qualifications for a position on the Board. The Nomination Committee will recommend the right candidate to the Board for election as a director at the AGM.

The Company will publish an announcement or issue and dispatch a supplementary circular to shareholders containing the details of the candidate(s) proposed. The assessment conclusion of the Nomination Committee will also be included in the supplementary circular for the consideration of shareholders.

The shareholder proposing the candidate will be required to attend the AGM and read out the proposed resolution at the AGM.

Sending Enquiries

Shareholders enquire about their shareholdings should contact the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Shareholders who have any queries to the Board should send the questions to the Company Secretary whose details are as follows:

The Company Secretary
Asia Financial Holdings Limited
16th Floor, Worldwide House
19 Des Voeux Road Central
Hong Kong
Email : contactus@afh.hk
Tel : (852) 3606 9200
Fax : (852) 2545 3881

Public Float

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 2012 and up to the date of this annual report as required by the Listing Rules.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31st December, 2012.

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, 2012 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 37 to 120.

An interim dividend of HK3.5 cents per ordinary share, totalling approximately HK$35,672,000, was paid on 8th October, 2012.

The directors recommend the payment of a final dividend of HK4.3 cents per ordinary share, totalling approximately HK$43,826,000 in respect of the year, which will be payable on or about 27th May, 2013 in cash to shareholders on the register of members of the Company on 20th May, 2013. 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, 2012, the Company's reserves available for cash distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981, amounted to HK$2,570,604,000, of which HK$43,826,000 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 Years 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,				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**1,321,365**	1,079,847	964,312	799,342	852,781
Profit/(loss) for the year	**406,035**	(134,100)	271,563	331,529	(773,079)
Profit/(loss) for the year attributable to:					
Equity holders of the Company	**403,796**	(137,516)	268,819	330,320	(771,348)
Non-controlling interests	**2,239**	3,416	2,744	1,209	(1,731)
	406,035	(134,100)	271,563	331,529	(773,079)

Assets, Liabilities and Non-controlling Interests

	31st December,				
	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**8,621,164**	7,411,645	7,325,260	6,606,534	6,074,685
Total liabilities	**(2,397,980)**	(1,999,603)	(1,762,614)	(1,506,522)	(1,525,572)
Non-controlling interests	**(21,776)**	(14,449)	(16,363)	(17,936)	(15,483)
	6,201,408	5,397,593	5,546,283	5,082,076	4,533,630

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:

CHAN Yau Hing Robin*, G.B.S., LL.D., J.P.
CHAN Bernard Charnwut*, G.B.S., J.P.
TAN Stephen*
WONG Kok Ho*
LAU Ki Chit
SOPHONPANICH Choedchu
NG Song Hin
MIYAZAKI Mamoru
CHAN Yeow Toh
CHOW Suk Han Anna**
MA Andrew Chiu Cheung**
SIAO Chi Lam Kenneth**
WONG Yu Hong Philip**, G.B.S.
LAI KO Wing Yee Rebecca**, J.P. (Appointed on 3rd December, 2012)
KO Wing Man**, J.P. (Resigned on 14th June, 2012)

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

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

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mrs. Lai Ko Wing Yee Rebecca will hold office until the forthcoming general meeting and, being eligible, will offer herself for re-election.

The Company has received an annual independence confirmation from each of the independent non-executive directors, and still considers all of them are 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, 2012, 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**
Chan Yau Hing Robin	–	–	576,039,712[1]	576,039,712	56.52
Chan Bernard Charnwut	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
Sophonpanich Choedchu	791,496	–	–	791,496	0.08
Chow Suk Han Anna	41,559	–	–	41,559	0.00

Notes:

(1) Out of the 576,039,712 shares, (i) 566,069,712 shares were held through Claremont Capital Holdings Ltd ("Claremont Capital") and (ii) 8,830,000 shares were held through Robinson Enterprise Limited, (iii) 570,000 shares were held through Asia Panich Investment Company (Hong Kong) Limited ("Asia Panich") and (iv) 570,000 shares were held through Man Tong Company Limited ("Man Tong"). More than one third of the issued share capital of Claremont Capital, Asia Panich and Man Tong are held by Cosmos Investments Inc. These corporations or their directors are accustomed to act in accordance with the directions or instructions of Dr. Chan Yau Hing Robin.

(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. Chan Yau Hing Robin 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, 2012, 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

As at 31st December, 2012, the following persons (other than the directors or chief executive of the Company) had 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)*	567,209,712	55.65
Claremont Capital Holdings Ltd	*(a)*	566,069,712	55.54
Bangkok Bank Public Company Limited		95,488,236	9.37
Sompo Japan Insurance Inc.		52,563,020	5.16
Aioi Nissay Dowa Insurance Company, Limited		52,550,175	5.16

Notes:

(a) These shares have been included in the interest disclosure of Dr. Chan Yau Hing Robin 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 567,209,712 shares in which 566,069,712 shares were held by Claremont Capital, 570,000 shares were held by Asia Panich and 570,000 shares were held by Man Tong since Cosmos Investments Inc. holds more than one-third of the issued share capital of Claremont Capital, Asia Panich and Man Tong, respectively.

Save as disclosed above, as at 31st December, 2012, 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, 2012.

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
Chan Yau Hing Robin	The People's Insurance Company of China (Hong Kong), Limited	General insurance	Director
Chan Bernard Charnwut	The People's Insurance Company of China (Hong Kong), Limited	General insurance	Director
	Sompo Japan Insurance (China) Company 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 Staff

Executive Directors:

Dr. Chan Yau Hing Robin, G.B.S., LL.D., J.P., aged 80, is the Chairman and an executive director of the Company and Asia Insurance Company, Limited ("Asia Insurance"), a wholly-owned subsidiary of the Company. Dr. Chan has been working for the Group for 57 years. He is also a director of several other subsidiaries of the Company and a director of Claremont Capital Holdings Ltd, the controlling shareholder of the Company. 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 by the Government of the HKSAR in 2000. He was also conferred with the Honorary University Fellowships by Hong Kong Baptist University and the University of Hong Kong in 2010 and 2011 respectively. Dr. Chan is the Ex-officio Life Honorary Chairman of The Chinese General Chamber of Commerce and the Vice Chairman of the All-China Federation of Returned Overseas Chinese. He is also the Founding Chairman and President of the Hong Kong Federation of Overseas Chinese Associations Limited, the Honorary 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, Keck Seng Investments (Hong Kong) Limited and Chong Hing Bank Limited, all of which are listed on the Stock Exchange. Dr. Chan is the father of Mr. Tan Stephen and Mr. Chan Bernard Charnwut and is the brother of Mr. Sophonpanich Choedchu.

Mr. Chan Bernard Charnwut, G.B.S., J.P., aged 48, is an executive director and the President of the Company and Asia Insurance. Mr. Chan is a member of the remuneration committee, nomination committee and compliance committee of the Company and also the Chairman of AFH Charitable Foundation Limited. Mr. Chan has been working for the Group for 23 years. He is the son of Dr. Chan Yau Hing Robin, the brother of Mr. Tan Stephen and the nephew of Mr. Sophonpanich Choedchu. He graduated from Pomona College in California, U.S.A. In addition to directorships in other subsidiaries of the Company, Mr. Chan is a non-executive director of City e-Solutions Limited and New Heritage Holdings Ltd, both companies are listed on the Stock Exchange. He is also an independent non-executive director of Yau Lee Holdings Limited, Chen Hsong Holdings Limited and China Resources Enterprise, Limited, all of which are listed on the Stock Exchange. On 4th May, 2011, Mr. Chan resigned as an independent non-executive director of Kingboard Laminates Holdings Limited which is listed on the Stock Exchange. Mr. Chan is currently a director of PICC Life Insurance Company Limited, a director of Claremont Capital Holdings Ltd which is 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 has also been appointed as a non-official member of the Executive Council of the HKSAR since July 2012. Mr. Chan was awarded the Gold Bauhinia Star by the Government of the HKSAR in 2006. He is the Chairman of the Council for Sustainable Development, 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, Mr. Chan serves as the 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 Staff (cont'd)

Executive Directors: (cont'd)

Mr. Tan Stephen, aged 59, has been an executive director of the Company since 30th May, 2006 and has been working for the Group for 26 years. He is a member of the compliance committee of the Company. In addition to directorships in other subsidiaries of the Company, Mr. Tan also sits on the boards of AFH Charitable Foundation Limited, Bank Consortium Trust Company Limited, Hong Kong Life Insurance Limited and The Chinese General Chamber of Commerce. Mr. Tan is an independent non-executive director of Pioneer Global Group Limited which is listed on the Stock Exchange. Mr. Tan serves as the Vice President of Hong Kong Chiu Chow Chamber of Commerce, the Chairman of the Cantonese Opera Development Fund Investment Committee of the HKSAR, the Incumbent Honorary 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 has been a member of the finance subsector of the Election Committee, and is also a member of the Mega Events Fund Assessment Committee and an honorary adviser of the Hong Kong Baseball Association. 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. Chan Yau Hing Robin, the brother of Mr. Chan Bernard Charnwut and the nephew of Mr. Sophonpanich Choedchu.

Mr. Wong Kok Ho, aged 65, has been an executive director of the Company since 2nd May, 2007 and has served the Group for over 40 years. Mr. Wong is an executive director and the chief executive officer of Asia Insurance and a director of several other subsidiaries of the Company. Mr. Wong has extensive experience in the insurance industry. He sits on the boards of AFH Charitable Foundation Limited, 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 the Chairman of the Employees Compensation Insurer Insolvency Bureau and also a councillor of the General Insurance Council of the Hong Kong Federation of Insurers and the Motor Insurers' Bureau of Hong Kong. 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. Mr. Wong has been elected as a member of the insurance subsector of the Election Committee in December 2011.

Brief Biographical Details of Directors and Senior Management Staff (cont'd)

Non-Executive Directors:

Mr. Lau Ki Chit, aged 82, 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 over 50 years and was the Chairman of the board of executive directors of Asia Insurance, and a director of several other subsidiaries of the Company. He has extensive experience in the insurance industry. Mr. Lau holds an engineering degree in aeronautics. Mr. Lau was 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 Hong Kong 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 had 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. Sophonpanich Choedchu, aged 66, has been a non-executive director of the Company since October 1990 and has been with the Group for 27 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 which is the controlling shareholder of the Company and the Chairman of the Executive Board of Directors of Bangkok Life Assurance Public Company Limited. Mr. Sophonpanich graduated with a BSc (Econ) degree from the London School of Economics. He is the brother of Dr. Chan Yau Hing Robin and is the uncle of Mr. Tan Stephen and Mr. Chan Bernard Charnwut.

Mr. Ng Song Hin, aged 79, has been a non-executive director of the Company since October 1990 and has been with the Group for over 30 years. Mr. Ng was educated in Australia. He is 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.

Mr. Miyazaki Mamoru, aged 51, has been a non-executive director of the Company since 18th April, 2008. Mr. Miyazaki obtained his Degree of Commerce from Waseda University, Japan in 1985. He joined Aioi Nissay Dowa Insurance Company, Limited ("Aioi Insurance") in 2001 and is currently the Chief Representative of the Hong Kong Representative Office of Aioi Insurance.

Ms. Chan Yeow Toh, aged 57, has been a non-executive director of the Company and Asia Insurance since 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. Ms. Chan was the Company Secretary of IMC Holdings Limited from 1990 until 2002 when it was delisted from the Stock Exchange. She was also the Chairman of Suntec City Management Pte. Ltd. from July 2005 to December 2009.

Brief Biographical Details of Directors and Senior Management Staff (cont'd)

Independent Non-Executive Directors:

Ms. Chow Suk Han Anna, aged 65, has been an independent non-executive director of the Company since 27th September, 2004. Ms. Chow is the Chairman of both the nomination committee and the compliance committee, and a member of both the audit committee and the remuneration committee of the Company. 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 and she has been in legal practice in Hong Kong since 1973. Ms. Chow was a partner of Messrs. Peter C. Wong, Chow and Chow from 1st April, 1989 to 30th September, 2012 and has since 1st October, 2012 become a consultant of the firm. 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 Government of the HKSAR. She is currently a chairman of the Appeal Tribunal under Building Ordinance (Cap.123). On 31st December, 2012, she ceased to be 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. She was a trustee of The D.H. Chen Foundation from 1st December, 1998 and became the Honorary Secretary of The D.H. Chen Foundation on 1st January, 2010. She resigned as both a trustee and the Honorary Secretary of the foundation on 1st June, 2012. 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.

Mr. Ma Andrew Chiu Cheung, aged 71, has been an independent non-executive director of the Company since 3rd September, 2004. Mr. Ma is the Chairman of the audit committee and a member of the remuneration committee, nomination committee and compliance committee of the Company. He is also an independent non-executive director of Asia Insurance. Mr. Ma is a founder and former director of AMA CPA Limited (formerly known as Andrew Ma DFK (CPA) Limited) and is presently a director of Mayee Management Limited. Mr. Ma has more than 30 years' experience in the fields 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.

Brief Biographical Details of Directors and Senior Management Staff (cont'd)

Independent Non-Executive Directors: (cont'd)

Mr. Siao Chi Lam Kenneth, aged 65, has been a member of the Board since 28th June, 1999 and was redesignated as a non-executive director of the Company on 30th September, 2004. He became an independent non-executive director of the Company after another redesignation on 6th December, 2011. Mr. Siao has been a member of the audit committee of the Company since June 1999 and was appointed as a member of the compliance committee of the Company on 6th December, 2011. 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.

Dr. Wong Yu Hong Philip, G.B.S., aged 74, has been a member of the Board since 19th October, 1990 and was redesignated as a non-executive director of the Company on 3rd September, 2004. He became an independent non-executive director of the Company after another redesignation on 6th December, 2011. He is also a non-executive director of Asia Insurance. He has been with the Group for over 20 years. Dr. Wong attained his BSc., MSc., JD and PhD degrees in 1963, 1967, 1982 and 1987 respectively. Dr. Wong is the Chairman of Winco Paper Products Co. Ltd. He is also the Life Honorary 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 and a member of the Legislative Council of the HKSAR. Dr. Wong is currently an independent non-executive director of Hop Hing Group Holdings Limited which is listed on the Stock Exchange. On 22nd March, 2012, he resigned as the non-executive Chairman of Qin Jia Yuan Media Services Company Limited which is a listed company in Hong Kong.

Mrs. Lai Ko Wing Yee Rebecca, J.P., aged 54, has been an independent non-executive director of the Company since 3rd December 2012. Mrs. Lai is the Chairman of the remuneration committee and a member of the audit committee, nomination committee and compliance committee of the Company. She is also an independent non-executive director of Asia Insurance. Mrs. Lai is the Director of Theological Education by Extension of China Graduate School of Theology. She obtained her Bachelor of Arts (Hons) degree from University of Hong Kong, Master of Business Administration from the Chinese University of Hong Kong and Master of Christian Studies (Counselling) from China Graduate School of Theology. Mrs. Lai has over 25 years' experience in the civil service. Her last position with the Government of the HKSAR in 2006 was the Permanent Secretary for the Civil Service. She currently is a Council member of City University of Hong Kong.

Employees and Remuneration Policy

The total number of employees of the Group was approximately 255 at the end of the reporting period (2011: 263). Employees were remunerated on the basis of their performance, experience and prevailing industry practice. Remuneration of the employees includes 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$6,326,000 (2011: HK$1,359,000).

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

The financial statements for the year ended 31st December, 2012 have been audited by Ernst & Young who retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

CHAN Yau Hing Robin
Chairman

Hong Kong, 1st March, 2013

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 37 to 120, which comprise the consolidated and company statements of financial position as at 31st December, 2012, 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, 2012, 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
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

1st March, 2013

Consolidated Income Statement

Year ended 31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**1,321,365**	1,079,847
Gross premiums	28(a)	**1,182,994**	1,010,985
Reinsurers' share of gross premiums	28(b)	**(340,973)**	(298,770)
Net insurance contracts premiums revenue		**842,021**	712,215
Gross claims paid	29(a)	**(535,632)**	(416,726)
Reinsurers' share of gross claims paid	29(b)	**124,704**	121,648
Gross change in outstanding claims	29(c)	**(161,541)**	(163,557)
Reinsurers' share of gross change in outstanding claims	29(d)	**48,249**	17,220
Net claims incurred		**(524,220)**	(441,415)
Commission income		**71,034**	61,763
Commission expense		**(249,152)**	(223,776)
Net commission expense		**(178,118)**	(162,013)
Management expenses for underwriting business		**(57,869)**	(46,479)
Underwriting profit		**81,814**	62,308
Dividend income		**68,017**	60,940
Realised gain/(loss) on investments		**80,544**	(133,899)
Unrealised gain/(loss) on investments		**153,662**	(172,867)
Interest income		**67,856**	61,283
Other income and gains, net		**1,797**	11,362
		453,690	(110,873)
Operating expenses		**(90,305)**	(79,075)
		363,385	(189,948)
Share of profits and losses of jointly-controlled entities		**31,194**	6,188
Share of profits and losses of associates		**50,446**	38,548
PROFIT/(LOSS) BEFORE TAX	6	**445,025**	(145,212)
Income tax credit/(expense)	9	**(38,990)**	11,112
PROFIT/(LOSS) FOR THE YEAR		**406,035**	(134,100)

...cont'd

Consolidated Income Statement

Year ended 31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
Attributable to:			
Equity holders of the Company	10	**403,796**	(137,516)
Non-controlling interests		**2,239**	3,416
		406,035	(134,100)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic			
– For profit/(loss) for the year		**HK39.6 cents**	(HK13.5 cents)
Diluted			
– For profit/(loss) 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, 2012

	Note	2012 HK$'000	2011 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**406,035**	(134,100)
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Available-for-sale securities:			
Changes in fair value		**443,809**	76,478
Share of other comprehensive income/(expense) of jointly-controlled entities:			
Changes in available-for-sale investment reserve		**434**	(52)
Changes in exchange reserve		**2,175**	7,279
Reclassification of exchange difference included in the consolidated income statement for capital reduction of a jointly-controlled entity		**(5,476)**	(12,318)
		(2,867)	(5,091)
Share of other comprehensive income/(expense) of associates:			
Changes in available-for-sale investment reserve		**16,767**	(17,539)
Changes in exchange reserve		**2,983**	11,048
		19,750	(6,491)
Exchange differences on translation of foreign operations		**471**	136
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**461,163**	65,032
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		**867,198**	(69,068)
ATTRIBUTABLE TO:			
Equity holders of the Company	*10*	**859,871**	(67,154)
Non-controlling interests		**7,327**	(1,914)
		867,198	(69,068)

Consolidated Statement of Financial Position

31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS			
Property, plant and equipment	13	**150,174**	154,971
Investment property	14	**4,770**	4,150
Interests in jointly-controlled entities	16	**209,863**	245,020
Loans to jointly-controlled entities	16	**14,337**	37,600
Interests in associates	17	**230,270**	162,099
Due from an associate	17	**168,390**	164,763
Deferred tax assets	31	**11,571**	35,029
Held-to-maturity securities	18	**681,904**	776,816
Available-for-sale securities	19	**2,853,817**	2,262,256
Pledged deposits	24	**102,605**	92,605
Loans and advances and other assets	20	**209,881**	208,225
Securities measured at fair value through profit or loss	21	**1,759,393**	1,848,154
Insurance receivables	22	**198,499**	151,751
Reinsurance assets	23	**541,140**	426,625
Cash and cash equivalents	24	**1,484,550**	841,581
Total assets		**8,621,164**	7,411,645

…cont'd

31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital	25	**1,019,200**	1,019,200
Reserves	26(a)	**5,138,382**	4,358,009
Proposed final dividend	11	**43,826**	20,384
		6,201,408	5,397,593
Non-controlling interests		**21,776**	14,449
Total equity		**6,223,184**	5,412,042
Liabilities			
Insurance contract liabilities	27	**1,933,124**	1,633,212
Insurance payables		**174,095**	135,341
Due to associates	17	**4,222**	4,222
Other liabilities	30	**222,562**	168,451
Tax payable		**54,131**	48,531
Deferred tax liabilities	31	**9,846**	9,846
Total liabilities		**2,397,980**	1,999,603
Total equity and liabilities		**8,621,164**	7,411,645

CHAN Yau Hing Robin
Chairman

CHAN Bernard Charnwut
Executive Director & President

Consolidated Statement of Changes in Equity

Year ended 31st December, 2012

	Attributable to equity holders of the Company													
	Issued capital	Share premium account	Contingency reserve	Available-for-sale investment reserve	Asset revaluation reserve	Exchange reserve	Statutory reserve	Capital reserve	Capital redemption reserve	Retained profits	Proposed final dividend	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2011	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
Profit/(loss) for the year	–	–	–	–	–	–	–	–	–	(137,516)	–	(137,516)	3,416	(134,100)
Other comprehensive income/(expense) for the year:														
Changes in fair value of available-for-sale securities *(note 19)*	–	–	–	76,478	–	–	–	–	–	–	–	76,478	–	76,478
Share of changes in available-for-sale investment reserve of jointly-controlled entities	–	–	–	(52)	–	–	–	–	–	–	–	(52)	–	(52)
Share of changes in available-for-sale investment reserve of associates	–	–	–	(12,209)	–	–	–	–	–	–	–	(12,209)	(5,330)	(17,539)
Share of changes in exchange reserve of a jointly-controlled entity	–	–	–	–	–	7,279	–	–	–	–	–	7,279	–	7,279
Reclassification of exchange difference included in the consolidated income statement for capital reduction of a jointly-controlled entity	–	–	–	–	–	(12,318)	–	–	–	–	–	(12,318)	–	(12,318)
Share of changes in exchange reserve of an associate	–	–	–	–	–	11,048	–	–	–	–	–	11,048	–	11,048
Exchange differences on translation of foreign operations	–	–	–	–	–	136	–	–	–	–	–	136	–	136
Total comprehensive income/(expense) for the year	–	–	–	64,217	–	6,145	–	–	–	(137,516)	–	(67,154)	(1,914)	(69,068)
Final 2010 dividend declared	–	–	–	–	–	–	–	–	–	–	(66,248)	(66,248)	–	(66,248)
Interim 2011 dividend *(note 11)*	–	–	–	–	–	–	–	–	–	(15,288)	–	(15,288)	–	(15,288)
Proposed final 2011 dividend *(note 11)*	–	–	–	–	–	–	–	–	–	(20,384)	20,384	–	–	–
Transfer to contingency reserve	–	–	8,905	–	–	–	–	–	–	(8,905)	–	–	–	–
Release from contingency reserve	–	–	(3,879)	–	–	–	–	–	–	3,879	–	–	–	–
At 31st December, 2011	1,019,200	560,531	26,882	546,693	46,071	34,240	2,427	513,240	38,821	2,589,104	20,384	5,397,593	14,449	5,412,042

...cont'd

Year ended 31st December, 2012

	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, 2012	1,019,200	560,531*	26,882*	546,693*	46,071*	34,240*	2,427*	513,240*	38,821*	2,589,104*	20,384	5,397,593	14,449	5,412,042
Profit for the year	–	–	–	–	–	–	–	–	–	403,796	–	403,796	2,239	406,035
Other comprehensive income/(expense) for the year:														
Changes in fair value of available-for-sale securities *(note 19)*	–	–	–	443,809	–	–	–	–	–	–	–	443,809	–	443,809
Share of changes in available-for-sale investment reserve of jointly-controlled entities	–	–	–	434	–	–	–	–	–	–	–	434	–	434
Share of changes in available-for-sale investment reserve of associates	–	–	–	11,679	–	–	–	–	–	–	–	11,679	5,088	16,767
Share of changes in exchange reserve of a jointly-controlled entity	–	–	–	–	–	2,175	–	–	–	–	–	2,175	–	2,175
Reclassification of exchange difference included in the consolidated income statement for capital reduction of a jointly-controlled entity	–	–	–	–	–	(5,476)	–	–	–	–	–	(5,476)	–	(5,476)
Share of changes in exchange reserve of an associate	–	–	–	–	–	2,983	–	–	–	–	–	2,983	–	2,983
Exchange differences on translation of foreign operations	–	–	–	–	–	471	–	–	–	–	–	471	–	471
Total comprehensive income for the year	–	–	–	455,922	–	153	–	–	–	403,796	–	859,871	7,327	867,198
Final 2011 dividend declared	–	–	–	–	–	–	–	–	–	–	(20,384)	(20,384)	–	(20,384)
Interim 2012 dividend *(note 11)*	–	–	–	–	–	–	–	–	–	(35,672)	–	(35,672)	–	(35,672)
Proposed final 2012 dividend *(note 11)*	–	–	–	–	–	–	–	–	–	(43,826)	43,826	–	–	–
Transfer to contingency reserve	–	–	12,227	–	–	–	–	–	–	(12,227)	–	–	–	–
Release from contingency reserve	–	–	(8,336)	–	–	–	–	–	–	8,336	–	–	–	–
At 31st December, 2012	1,019,200	560,531*	30,773*	1,002,615*	46,071*	34,393*	2,427*	513,240*	38,821*	2,909,511*	43,826	6,201,408	21,776	6,223,184

* These reserve accounts comprise the consolidated reserves of HK$5,138,382,000 (2011: HK$4,358,009,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**445,025**	(145,212)
Adjustments for:			
Interest income	*6*	**(67,856)**	(61,283)
Dividend income from investments	*6*	**(68,017)**	(60,940)
Loss/(gain) on redemption/call-back of held-to-maturity securities	*6*	**(1,429)**	853
Gain on disposal of available-for-sale securities	*6*	**(70)**	(83)
Impairment of available-for-sale securities	*6*	**3,760**	–
Write-back of impairment of available-for-sale securities	*6*	**(41)**	–
Depreciation	*6*	**8,020**	12,316
Changes in fair value of an investment property	*6*	**(620)**	(770)
Loss/(gain) on disposal/write-off of items of property, plant and equipment	*6*	**(117)**	5
Share of profits and losses of jointly-controlled entities		**(31,194)**	(6,188)
Share of profits and losses of associates		**(50,446)**	(38,548)
		237,015	(299,850)
Decrease/(increase) in loans and advances and other assets		**(1,656)**	36,175
Decrease/(increase) in securities measured at fair value through profit or loss		**88,761**	(291,430)
Decrease/(increase) in insurance receivables		**(46,748)**	19,771
Increase in reinsurance assets		**(114,515)**	(32,938)
Decrease/(increase) in time deposits with original maturity of over three months		**(173,901)**	256,772
Increase in insurance contract liabilities		**299,912**	232,419
Increase/(decrease) in insurance payables		**38,754**	(24,059)
Increase in other liabilities		**54,582**	37,342
Cash generated from/(used in) operations		**382,204**	(65,798)
Hong Kong profits tax paid		**(7,500)**	(10,430)
Overseas taxes paid		**(2,432)**	(2,114)
Net cash flows from/(used in) operating activities		**372,272**	(78,342)

…cont'd

Year ended 31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
Net cash flows from/(used in) operating activities		**372,272**	(78,342)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**67,856**	61,283
Dividends received from investments		**68,017**	60,940
Dividends received from jointly-controlled entities	*16*	**7,360**	1,053
Dividends received from associates	*17*	**2,025**	6,430
Purchases of held-to-maturity securities		**(77,977)**	(189,052)
Purchases of available-for-sale securities		**(153,282)**	(697,860)
Proceeds from redemption/call back of held-to-maturity securities		**174,318**	319,949
Proceeds from disposal of available-for-sale securities		**1,881**	3,581
Purchases of items of property, plant and equipment	*13*	**(3,257)**	(639)
Proceeds from disposal of items of property, plant and equipment		**151**	18
Repayment of loans to jointly-controlled entities		**23,263**	5,953
Changes in balances with associates		**(3,627)**	(421)
Capital reduction of a jointly-controlled entity		**56,124**	98,099
Increase in pledged deposits		**(10,000)**	(11,664)
Net cash flows from/(used in) investing activities		**152,852**	(342,330)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(56,056)**	(81,536)
Net cash flows used in financing activities		**(56,056)**	(81,536)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**469,068**	(502,208)
Cash and cash equivalents at beginning of year		**740,442**	1,242,650
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,209,510**	740,442

...cont'd

Year ended 31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**245,438**	142,888
Non-pledged time deposits with original maturity of over three months when acquired	24	**275,040**	101,139
Non-pledged time deposits with original maturity of less than three months when acquired	24	**964,072**	597,554
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,484,550**	841,581
Less: Time deposits with original maturity of over three months when acquired		**(275,040)**	(101,139)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,209,510**	740,442

31st December, 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS			
Property, plant and equipment	13	**–**	–
Interests in subsidiaries	15	**1,695,747**	1,695,747
Due from subsidiaries	15	**1,445,850**	1,551,425
Interest in a jointly-controlled entity	16	**–**	–
Available-for-sale securities	19	**1,176,231**	1,176,231
Loans and advances and other assets	20	**59,642**	59,967
Cash and cash equivalents	24	**91,961**	6,063
Total assets		**4,469,431**	4,489,433
EQUITY AND LIABILITIES			
Equity			
Issued capital	25	**1,019,200**	1,019,200
Reserves	26(b)	**3,186,190**	3,231,983
Proposed final dividend	11	**43,826**	20,384
Total equity		**4,249,216**	4,271,567
Liabilities			
Other liabilities	30	**10,035**	6,532
Due to subsidiaries	15	**209,535**	209,544
Tax payable		**645**	1,790
Total liabilities		**220,215**	217,866
Total equity and liabilities		**4,469,431**	4,489,433

CHAN Yau Hing Robin
Chairman

CHAN Bernard Charnwut
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 ("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 classified as property, plant and equipment, 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, 2012. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it 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.

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.

2.2 Changes in Accounting Policy and Disclosures

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1st July, 2012
2 Effective for annual periods beginning on or after 1st January, 2013
3 Effective for annual periods beginning on or after 1st January, 2014
4 Effective for annual periods beginning on or after 1st January, 2015

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1st January, 2013.

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 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 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, 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

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

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011) and the subsequent amendments to these standards issued in July and December 2012 from 1st January, 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1st January, 2013.

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

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1st January, 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1st January, 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1st January, 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1st January, 2013. 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. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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 over 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.

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

2.4 Summary of Significant Accounting Policies (cont'd)

Joint ventures (cont'd)

A joint venture is treated as:

(a) a subsidiary, if the Group/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.

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.

2.4 Summary of Significant Accounting Policies (cont'd)

Associates (cont'd)

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 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 Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in consolidated income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in consolidated income statement or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets 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.

2.4 Summary of Significant Accounting Policies (cont'd)

Business combinations and goodwill (cont'd)

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 has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

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 an 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.

2.4 Summary of Significant Accounting Policies (cont'd)

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 depreciates them accordingly.

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.

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 including 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.

2.4 Summary of Significant Accounting Policies (cont'd)

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.

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 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

2.4 Summary of Significant Accounting Policies (cont'd)

Investments and other financial assets (cont'd)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net 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.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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, in rare circumstances, 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 them. 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. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

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 other 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 them to maturity. Held-to-maturity investments 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 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 other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments 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, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments 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 investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount 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.

2.4 Summary of Significant Accounting Policies (cont'd)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a 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 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 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.

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.

2.4 Summary of Significant Accounting Policies (cont'd)

Impairment of financial assets (cont'd)

Assets carried at cost

If there is objective evidence that an impairment loss 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 investments 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.

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 in the income statement. 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.

2.4 Summary of Significant Accounting Policies (cont'd)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

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, net of directly attributable transaction costs.

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

Subsequent measurement

The subsequent 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 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.

2.4 Summary of Significant Accounting Policies (cont'd)

Financial liabilities (cont'd)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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 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.

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 is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 Summary of Significant Accounting Policies (cont'd)

Related parties (cont'd)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Product classification – insurance contracts

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

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

Insurance 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, or 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.

2.4 Summary of Significant Accounting Policies (cont'd)

Insurance contract liabilities (cont'd)

Outstanding claims

Full provision has been made for outstanding claims, including those incurred but not reported and incurred but not enough reported until after the 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.

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 in accordance with 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.

2.4 Summary of Significant Accounting Policies (cont'd)

Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

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

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

The Group also assumes reinsurance risk in the normal course of business for general insurance contracts where 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.

2.4 Summary of Significant Accounting Policies (cont'd)

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.

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

- when the deferred tax liability arises from the initial recognition of goodwill or 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, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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 in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

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 prevailing 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.

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 their accompanying disclosures, and the disclosure of contingent liabilities. 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 described 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$1,131,008,000 (2011: HK$970,201,000) (note 27(b)).

Deferred tax assets

Deferred tax assets are recognised for 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, 2012 was HK$12,001,000 (2011: HK$35,459,000). The amount of unrecognised tax losses at 31st December, 2012 was HK$172,422,000 (2011: HK$200,658,000). 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 securities was HK$1,256,911,000 (2011: HK$1,258,072,000) (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.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's operating segments for the years ended 31st December, 2012 and 2011.

Group

	Insurance		Corporate		Eliminations		Consolidated	
	2012 *HK$'000*	2011 *HK$'000*	**2012 *HK$'000***	2011 *HK$'000*	**2012 *HK$'000***	2011 *HK$'000*	**2012 *HK$'000***	2011 *HK$'000*
Segment revenue:								
External customers	**1,321,365**	1,079,847	**–**	–	**–**	–	**1,321,365**	1,079,847
Other revenue, income, gains/(losses), net	**241,194**	(80,707)	**130,682**	(92,474)	**–**	–	**371,876**	(173,181)
Intersegment	**1,951**	1,313	**–**	–	**(1,951)**	(1,313)	**–**	–
Total	**1,564,510**	1,000,453	**130,682**	(92,474)	**(1,951)**	(1,313)	**1,693,241**	906,666
Segment results	**276,666**	(57,575)	**86,719**	(132,373)	**–**	–	**363,385**	(189,948)
Share of profits and losses of:								
Jointly-controlled entities	**15,233**	5,318	**15,961**	870	**–**	–	**31,194**	6,188
Associates	**13,026**	13,500	**37,420**	25,048	**–**	–	**50,446**	38,548
Profit/(loss) before tax							**445,025**	(145,212)
Income tax credit/(expense)	**(30,538)**	12,201	**(8,452)**	(1,089)	**–**	–	**(38,990)**	11,112
Profit/(loss) for the year							**406,035**	(134,100)

31st December, 2012

4. Operating Segment Information (cont'd)

Group

	Insurance		Corporate		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**4,870,933**	4,084,372	**3,310,098**	2,920,154	**8,181,031**	7,004,526
Interests in jointly-controlled entities	**119,691**	104,071	**90,172**	140,949	**209,863**	245,020
Interests in associates	**98,072**	70,304	**132,198**	91,795	**230,270**	162,099
Total assets	**5,088,696**	4,258,747	**3,532,468**	3,152,898	**8,621,164**	7,411,645
Segment liabilities	**2,145,964**	1,746,598	**252,016**	253,005	**2,397,980**	1,999,603
Other segment information:						
Depreciation	**5,409**	5,526	**2,611**	6,790	**8,020**	12,316
Loss/(gain) on disposal/ write-off of items of property, plant and equipment	**(37)**	5	**(80)**	–	**(117)**	5
Gain on change in fair value of an investment property	**(620)**	(770)	**–**	–	**(620)**	(770)
Impairment of available-for-sale securities	**–**	–	**3,760**	–	**3,760**	–
Write-back of impairment of available-for-sale securities	**(41)**	–	**–**	–	**(41)**	–
Impairment of an interest in a jointly-controlled entity	**–**	–	**–**	16,655	**–**	16,655
Impairment allowances on insurance receivables	**300**	488	**–**	–	**300**	488
Capital expenditure	**1,750**	420	**1,507**	219	**3,257**	639

Geographical information

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

5. Revenue

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

6. Profit/(Loss) Before Tax

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

	Notes	2012 HK$'000	2011 HK$'000
Auditors' remuneration		**(2,507)**	(2,406)
Depreciation	13	**(8,020)**	(12,316)
Employee benefit expense (including directors' remuneration, note 7):			
Wages and salaries		**(88,210)**	(73,792)
Pension scheme contributions		**(3,795)**	(3,669)
Less: Forfeited contributions		**140**	–
Net pension scheme contributions		**(3,655)**	(3,669)
Total employee benefit expense		**(91,865)**	(77,461)
Minimum lease payments under operating leases in respect of land and buildings		**(1,014)**	(222)
Realised gain/(loss) on:			
– disposal of securities measured at fair value through profit or loss (held for trading), net		**67,537**	(133,129)
– exercise of prepaid derivative		**11,508**	–
– disposal of available-for-sale securities		**70**	83
– redemption/call-back of held-to-maturity securities		**1,429**	(853)
Total realised gain/(loss) on investments		**80,544**	(133,899)
Unrealised gain/(loss) on securities measured at fair value through profit or loss (held for trading), net		**157,381**	(135,233)
Unrealised loss on prepaid derivative (designated as at fair value through profit or loss upon initial recognition)		**–**	(37,634)
Impairment of available-for-sale securities		**(3,760)**	–
Write-back of impairment of available-for-sale securities		**41**	–
Total unrealised gain/(loss) on investments		**153,662**	(172,867)
Interest income		**67,856**	61,283
Gain/(loss) on disposal/write-off of items of property, plant and equipment		**117**	(5)
Change in fair value of an investment property	14	**620**	770
Impairment allowance on insurance receivables	22	**(300)**	(488)
Impairment of an interest in a jointly-controlled entity#		**–**	(16,655)
Reclassification of exchange difference included in the consolidated income statement for capital reduction of a jointly-controlled entity#		**5,476**	12,318
Dividend income from:			
Listed investments		**62,650**	55,035
Unlisted investments		**5,367**	5,905
Total dividend income		**68,017**	60,940

6. Profit/(Loss) Before Tax (cont'd)

Impairment of an interest in a jointly-controlled entity and reclassification of exchange difference included in the consolidated income statement for capital reduction of a jointly-controlled entity are included in "Share of profit and loss of jointly-controlled entities" 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

2012	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:					
Chan Yau Hing Robin	100	1,836	4,600	72	6,608
Chan Bernard Charnwut[1]	140	3,790	1,100	174	5,204
Tan Stephen	70	2,390	1,250	83	3,793
Wong Kok Ho	80	2,959	600	136	3,775
	390	10,975	7,550	465	19,380
Non-executive directors:					
Lau Ki Chit	80	–	–	–	80
Sophonpanich Choedchu	80	12	200	–	292
Ng Song Hin	50	–	–	–	50
Chan Yeow Toh	80	–	–	–	80
Miyazaki Mamoru[2]	50	–	–	–	50
	340	12	200	–	552
Independent non-executive directors:					
Ma Andrew Chiu Cheung	170	–	–	–	170
Chow Suk Han Anna	180	–	–	–	180
Ko Wing Man[3]	85	–	–	–	85
Siao Chi Lam Kenneth	90	–	–	–	90
Wong Yu Hong Philip	80	–	–	–	80
Lai Ko Wing Yee Rebecca[4]	14	–	–	–	14
	619	–	–	–	619
	1,349	10,987	7,750	465	20,551

1 Mr. Chan Bernard Charnwut is also the President of the Group.

2 The directorship of Mr. Miyazaki Mamoru was nominated by Aioi Nissay Dowa Insurance Company, Limited ("Aioi Insurance"). As per Aioi Insurance's instruction, the total director fee of HK$50,000 was paid directly to Aioi Insurance during the year.

3 Resigned during the year ended 31st December, 2012

4 Appointed during the year ended 31st December, 2012

7. Directors' Remuneration (cont'd)

Group

2011	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:					
Chan Yau Hing Robin	100	1,836	838	72	2,846
Chan Bernard Charnwut	140	3,791	221	174	4,326
Tan Stephen	70	1,789	192	83	2,134
Wong Kok Ho	80	2,959	150	136	3,325
	390	10,375	1,401	465	12,631
Non-executive directors:					
Lau Ki Chit	80	–	–	–	80
Sophonpanich Choedchu	80	12	50	–	142
Ng Song Hin	50	–	–	–	50
Chan Yeow Toh	80	–	–	–	80
Miyazaki Mamoru	50	–	–	–	50
	340	12	50	–	402
Independent non-executive directors:					
Ma Andrew Chiu Cheung	170	–	–	–	170
Chow Suk Han Anna	180	–	–	–	180
Ko Wing Man	170	–	–	–	170
Siao Chi Lam Kenneth	72	–	–	–	72
Wong Yu Hong Philip	80	–	–	–	80
	672	–	–	–	672
	1,402	10,387	1,451	465	13,705

8. Five Highest Paid Employees

The five highest paid employees during the year included four (2011: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining one (2011: one) highest paid employee who is non-director of the Company are as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,313**	1,313
Discretionary bonuses	**600**	465
Pension scheme contributions	**60**	60
	1,973	1,838

The remuneration of the remaining one (2011: one) non-director, highest paid employee fell within the band of HK$1,500,001 to HK$2,000,000 (2011: HK$1,500,001 to HK$2,000,000).

9. Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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.

	2012	2011
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**12,083**	1,178
Overprovision in prior years	**(2)**	–
Current – Elsewhere		
Charge for the year	**3,392**	3,090
Underprovision in prior years	**59**	120
Deferred *(note 31)*	**23,458**	(15,500)
Total tax charge/(credit) for the year	**38,990**	(11,112)

9. Income Tax (cont'd)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) 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/(credit) at the effective tax rates is as follows:

Group – 2012

	Hong Kong *HK$'000*	Macau *HK$'000*	Total *HK$'000*
Profit before tax	**421,026**	**23,999**	**445,025**
Tax at the statutory tax rate	**69,469**	**2,880**	**72,349**
Share of profits and losses attributable to jointly-controlled entities and associates	**(13,471)**	**–**	**(13,471)**
Adjustments in respect of current tax of previous periods	**(2)**	**59**	**57**
Income not subject to tax	**(22,591)**	**(90)**	**(22,681)**
Expenses not deductible for tax	**6,793**	**602**	**7,395**
Tax losses from previous period utilised	**(4,659)**	**–**	**(4,659)**
Tax charge at the Group's effective rate	**35,539**	**3,451**	**38,990**

Group – 2011

	Hong Kong *HK$'000*	Macau *HK$'000*	Total *HK$'000*
Profit/(loss) before tax	(164,654)	19,442	(145,212)
Tax at the statutory tax rate	(27,168)	2,333	(24,835)
Share of profits and losses attributable to jointly-controlled entities and associates	(7,381)	–	(7,381)
Adjustments in respect of current tax of previous periods	–	120	120
Income not subject to tax	(12,029)	(107)	(12,136)
Expenses not deductible for tax	10,092	864	10,956
Tax losses not recognised	22,164	–	22,164
Tax charge/(credit) at the Group's effective rate	(14,322)	3,210	(11,112)

The share of tax attributable to jointly-controlled entities amounting to HK$5,152,000 (2011: HK$6,249,000) 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 associate in the People Republic of China amounting to HK$15,776,000 (2011: HK$17,078,000) and HK$2,856,000 (2011: HK$1,664,000), respectively, are included in "Share of profits and losses of associates" on the face of the consolidated income statement.

10. Profit/(Loss) Attributable to Equity Holders of the Company

The consolidated profit/(loss) attributable to equity holders of the Company for the year ended 31st December, 2012 includes a loss of HK$19,295,000 (2011: HK$15,316,000) which has been dealt with in the financial statements of the Company *(note 26(b))*.

11. Dividends

	2012	2011
	HK$'000	*HK$'000*
Interim – HK3.5 cents (2011: HK1.5 cents) per ordinary share	**35,672**	15,288
Proposed final – HK4.3 cents (2011: HK2.0 cents) per ordinary share	**43,826**	20,384
	79,498	35,672

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/(Loss) per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic earnings/(loss) per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$403,796,000 (2011: loss of HK$137,516,000) and 1,019,200,000 (2011: 1,019,200,000) ordinary shares in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31st December, 2012 and 2011 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, 2012

	Group			Company
	Land and buildings	Furniture, fixtures, equipment, yacht and motor vehicles	Total	Furniture and fixtures
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:				
At beginning of year	199,739	62,750	262,489	794
Additions	–	3,257	3,257	–
Disposals/write-off	–	(1,391)	(1,391)	–
At 31st December, 2012	199,739	64,616	264,355	794
Accumulated depreciation and impairment:				
At beginning of year	52,032	55,486	107,518	794
Charge for the year	3,924	4,096	8,020	–
Disposals/write-off	–	(1,357)	(1,357)	–
At 31st December, 2012	55,956	58,225	114,181	794
Net book value:				
At 31st December, 2012	143,783	6,391	150,174	–
At 31st December, 2011	147,707	7,264	154,971	–

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

31st December, 2011

	Group Land and buildings HK$'000	Group Furniture, fixtures, equipment, yacht and motor vehicles HK$'000	Group Total HK$'000	Company Furniture and fixtures HK$'000
Cost or valuation:				
At beginning of year	199,739	62,703	262,442	794
Additions	–	639	639	–
Disposals/write-off	–	(592)	(592)	–
At 31st December, 2011	199,739	62,750	262,489	794
Accumulated depreciation and impairment:				
At beginning of year	48,108	47,663	95,771	779
Charge for the year	3,924	8,392	12,316	15
Disposals/write-off	–	(569)	(569)	–
At 31st December, 2011	52,032	55,486	107,518	794
Net book value:				
At 31st December, 2011	147,707	7,264	154,971	–
At 31st December, 2010	151,631	15,040	166,671	15

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

The cost or valuation of the buildings comprises:

	2012 *HK$'000*	2011 *HK$'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:

	2012 *HK$'000*	2011 *HK$'000*
Long term leases in Hong Kong	**137,106**	140,858
Long term leases outside Hong Kong	**6,284**	6,434
Medium term leases outside Hong Kong	**393**	415
	143,783	147,707

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$12,658,000 (2011: HK$13,266,000).

14. Investment Property

	Group	
	2012 *HK$'000*	2011 *HK$'000*
Carrying amount at 1st January	**4,150**	3,380
Change in fair value of an investment property *(note 6)*	**620**	770
Carrying amount at 31st December	**4,770**	4,150

The investment property was revalued at 31st December, 2012 by AA Property Services Limited, a firm of professionally qualified valuers, at HK$4,770,000 on an open market value basis, based on its existing use. The investment property is leased to a 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	
	2012	2011
	HK$'000	*HK$'000*
Unlisted shares, at cost	**1,714,547**	1,714,547
Less: Impairment#	**(18,800)**	(18,800)
	1,695,747	1,695,747
Due from subsidiaries	**1,481,581**	1,587,156
Less: Impairment^	**(35,731)**	(35,731)
	1,445,850	1,551,425
Due to subsidiaries	**(209,535)**	(209,544)

The balances with subsidiaries, except for an amount due to a subsidiary of HK$200,000,000 (2011: HK$200,000,000) which is unsecured, bears interest at 0.5% per annum (2011: Nil) and repayable on demand, 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) (2011: 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) (2011: HK$35,731,000) because the respective subsidiaries were loss-making for some time.

As the balances with subsidiaries, except for amounts due to 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.

15. Interests in Subsidiaries (cont'd)

Particulars of the principal subsidiaries are as follows:

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

15. Interests in Subsidiaries (cont'd)

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

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

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

16. Interests in Jointly-Controlled Entities

	Group		Company	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Unlisted investments, at cost	**–**	–	**–**	–
Share of net assets	**209,863**	245,020	**–**	–
Goodwill on acquisition	**16,655**	16,655	**–**	–
	226,518	261,675	**–**	–
Less: Impairment#	**(16,655)**	(16,655)	**–**	–
	209,863	245,020	**–**	–
Loans to jointly-controlled entities *(note)*	**14,337**	37,600	**–**	–

\# As at 31st December, 2012, an impairment of HK$16,655,000 (2011: HK$16,655,000) was recognised for an interest in a jointly-controlled entity with a carrying amount of HK$52,579,000 (2011: HK$109,383,000) (before deducting the impairment loss) because this jointly-controlled entity has been loss-making for some time.

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

Note:

At 31st December, 2012, a loan to a jointly-controlled entity of the Group of HK$14,337,000 (2011: HK$17,172,000) is secured by a property situated in Hong Kong and bears interest at 0.55% for the period from 1st January, 2012 to 27th September, 2012 and 2.6% for the period from 28th September, 2012 to 31st December, 2012 (year ended 31st December, 2011: 0.55%) above the Hong Kong Interbank Offered Rate ("HIBOR") per annum. The loan was originally matured in the current year. Before the maturity of the loan, at the request of the jointly-controlled entity, the Group extended the loan for another five years. As at 31st December, 2012, the loan is repayable by five annual instalments comprising four instalments of HK$2,834,000 each and the last instalment of HK$3,001,000 commencing from the year ending 31st December, 2013.

A loan to another jointly-controlled entity of the Group of HK$20,428,000 was secured by a property situated in Hong Kong, bore interest at 0.55% above the HIBOR per annum and was fully repaid during the year.

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.

During the year, the Group received dividend income amounting to HK$7,360,000 (2011: HK$1,053,000) from the jointly-controlled entities.

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

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

	2012 HK$'000	2011 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Assets	**1,361,086**	1,164,693
Liabilities	**(1,151,223)**	(919,673)
Net assets	**209,863**	245,020
Share of the jointly-controlled entities' results:		
Revenue	**43,036**	103,790
Underwriting results, net	**447**	13,799
Other income and gains, net	**17,334**	(7,280)
	60,817	110,309
Total expenses	**(29,947)**	(93,535)
Income tax expense	**(5,152)**	(6,249)
Profit for the year	**25,718**	10,525

17. Interests in Associates

	Group	
	2012 HK$'000	2011 HK$'000
Share of net assets	**224,541**	156,370
Goodwill on acquisition	**5,729**	5,729
	230,270	162,099

17. Interests in Associates (cont'd)

Particulars of the associates of the Group as at 31st December, 2012, 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), Limited	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	RMB570,870,560	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.

The Group received dividend income amounting to HK$2,025,000 (2011: HK$6,430,000) from the associates during the year.

The amount due from an associate of HK$168,390,000 (2011: HK$164,763,000) 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, and are unsecured, interest-free and have no fixed terms of repayment.

17. Interests in Associates (cont'd)

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

	2012	2011
	HK$'000	*HK$'000*
Assets	**3,033,458**	2,973,044
Liabilities	**(2,238,997)**	(2,447,036)
Revenue/underwriting results	**842,160**	491,460
Profits	**198,371**	150,363

18. Held-To-Maturity Securities

	Group	
	2012	2011
	HK$'000	*HK$'000*
Listed debt securities in Hong Kong, at amortised cost	**65,812**	36,306
Listed debt securities outside Hong Kong, at amortised cost	**502,988**	626,999
Unlisted debt securities, at amortised cost	**113,104**	113,511
Total held-to-maturity securities	**681,904**	776,816
Fair value of listed and unlisted held-to-maturity securities	**712,843**	791,950

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Public sector entities	**69,884**	50,519
Banks and other financial institutions	**459,475**	600,216
Corporate entities	**152,545**	126,081
	681,904	776,816

18. Held-To-Maturity Securities (cont'd)

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
With a residual maturity of:		
Three months or less	**38,773**	15,601
One year or less but over three months	**244,862**	115,236
Five years or less but over one year	**300,642**	520,773
Over five years	**97,627**	125,206
	681,904	776,816

At the end of the reporting period, the Group invested in the held-to-maturity securities with investment grade and non-investment grade amounting to HK$623,401,000 (2011: HK$760,917,000) and HK$58,503,000 (2011: HK$15,899,000), respectively.

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, 2012, listed debt securities of the Group amounting to HK$102,912,000 (2011: HK$102,658,000) were pledged.

19. Available-For-Sale Securities

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed equity in Hong Kong, at fair value	**169,001**	–	**–**	–
Listed equity outside Hong Kong, at fair value	**1,427,905**	1,004,184	**–**	–
Total listed available-for-sale securities	**1,596,906**	1,004,184	**–**	–
Unlisted equity, at cost	**1,268,733**	1,264,364	**1,176,231**	1,176,231
Less: Impairment	**(40,876)**	(37,116)	**–**	–
	1,227,857	1,227,248	**1,176,231**	1,176,231
Unlisted debt, at cost	**35,913**	37,724	**–**	–
Less: Impairment	**(6,859)**	(6,900)	**–**	–
	29,054	30,824	**–**	–
Total unlisted available-for-sale securities	**1,256,911**	1,258,072	**1,176,231**	1,176,231
Total available-for-sale securities	**2,853,817**	2,262,256	**1,176,231**	1,176,231

19. Available-For-Sale Securities (cont'd)

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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Banks and other financial institutions	**2,203,165**	1,938,478	**1,174,156**	1,174,156
Corporate entities	**650,652**	323,778	**2,075**	2,075
	2,853,817	2,262,256	**1,176,231**	1,176,231

Particulars of certain available-for-sale securities of the Group and the Company, of which the carrying amount at 31st December, 2012 amounted to HK$2,177,051,000 (2011: HK$1,938,478,000) and HK$1,174,156,000 (2011: HK$1,174,156,000), respectively, are as follows:

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

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$443,809,000 (2011: HK$76,478,000).

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$1,227,857,000 (2011: HK$1,227,248,000) and HK$1,176,231,000 (2011: HK$1,176,231,000), 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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Loans and advances	**93,193**	96,377	**50,000**	50,000
Accrued interest and other assets	**116,688**	111,848	**9,642**	9,967
Gross loans and advances and other assets	**209,881**	208,225	**59,642**	59,967

The Group's and the Company's accrued interest and other assets were current in nature as at 31st December, 2012 and 2011. 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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Repayable on demand	**–**	–	**–**	–
With a residual maturity of:				
Three months or less	**512**	544	**–**	–
One year or less but over three months	**1,451**	3,793	**–**	–
Five years or less but over one year	**81,407**	80,302	**50,000**	50,000
Over five years	**9,823**	11,738	**–**	–
	93,193	96,377	**50,000**	50,000

21. Securities Measured at Fair Value Through Profit or Loss

	Group	
	2012	2011
	HK$'000	*HK$'000*
Debt securities:		
– listed in Hong Kong, at fair value	**80,978**	48,258
– listed outside Hong Kong, at fair value	**209,196**	125,665
– unlisted, at quoted market price	**120,855**	127,342
	411,029	301,265
Equity securities at fair value:		
– listed in Hong Kong	**490,977**	625,221
– listed outside Hong Kong	**258,227**	170,858
	749,204	796,079
Investment funds:		
– unlisted, at quoted price	**599,160**	640,334
Prepaid derivative, at fair value	**–**	110,476
Total	**1,759,393**	1,848,154

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	
	2012	2011
	HK$'000	*HK$'000*
Public sector entities	**19,213**	35,410
Banks and other financial institutions	**453,801**	449,523
Corporate	**1,286,379**	1,363,221
	1,759,393	1,848,154

Securities measured at fair value through profit or loss at 31st December, 2012 and 2011 were classified as held for trading, except for prepaid derivative of HK$110,476,000 as at 31st December, 2011, which was designated as at fair value through profit or loss.

22. Insurance Receivables

	Group 2012 HK$'000	Group 2011 HK$'000
Amounts due in respect of:		
Direct underwriting	**159,982**	113,398
Reinsurance accepted	**38,517**	38,353
	198,499	151,751

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 2012 HK$'000	Group 2011 HK$'000
Three months or less	**177,489**	125,141
Six months or less but over three months	**23,456**	26,976
One year or less but over six months	**–**	830
Over one year	**323**	1,273
	201,268	154,220
Less: Impairment allowance	**(2,769)**	(2,469)
	198,499	151,751

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

	Group 2012 HK$'000	Group 2011 HK$'000
At 1st January	**2,469**	2,022
Impairment losses recognised *(note 6)*	**300**	488
Amount written off as uncollectible	**–**	(41)
At 31st December	**2,769**	2,469

22. Insurance Receivables (cont'd)

Included in the above provision for impairment of insurance receivables at 31st December, 2012 was a provision for an individually impaired insurance receivable of HK$488,000 (2011: HK$488,000) with a gross carrying amount of HK$488,000 (2011: HK$488,000). The individually impaired insurance receivable related to a customer that was in financial difficulties. The Group does not hold any collateral or other credit enhancements over the balance.

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Not past due	**177,489**	130,399
Less than one month past due	**16,982**	15,710
Over one month past due	**4,028**	5,642
	198,499	151,751

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	
	2012	2011
	HK$'000	*HK$'000*
Reinsurers' share of insurance contract liabilities *(note 27)*	**541,140**	426,625

24. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**245,438**	142,888	**5,107**	6,063
Time deposits with original maturity of over three months	**275,040**	101,139	**–**	–
Time deposits with original maturity of less than three months	**964,072**	597,554	**86,854**	–
	1,484,550	841,581	**91,961**	6,063
Pledged deposits	**102,605**	92,605	**–**	–
	1,587,155	934,186	**91,961**	6,063

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	
	2012	2011
	HK$'000	*HK$'000*
With a residual maturity of:		
Three months or less	**1,273,966**	821,783
Over three months but less than one year	**313,189**	112,403
	1,587,155	934,186

25. Share Capital

	2012 HK$'000	2011 HK$'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 (2011: 1,019,200,000) ordinary shares of HK$1 each	**1,019,200**	1,019,200

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 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. In respect of mortgage guarantee business entered into before 1st January, 2011, an amount equal to 50% of the net earned premium income derived from mortgage guarantee business shall be assigned to the CR in each year and maintained for a period of seven years. In respect of mortgage guarantee business entered into on or after 1st January, 2011, an amount equal to 50% of the net earned premium income derived from mortgage guarantee business, except for direct non-standard mortgage guarantee business of which the amount equals to 75% of the net earned premium, shall be assigned to the CR in each year and maintained for a period of ten years. In accordance with GN6, withdrawals may be made where the claims incurred in any year exceed 35% of the net earned premium 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 for mortgage guarantee business entered into before 1st January, 2011, or the tenth year for mortgage guarantee business entered into on or after 1st January, 2011, 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, 2012 (2011: Nil).

26. Reserves (cont'd)

(b) Company

	Note	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January, 2011		560,531	60,060	38,821	2,243,559	2,902,971
Profit for the year and total comprehensive income for the year		–	–	–	364,684	364,684
Interim 2011 dividend	11	–	–	–	(15,288)	(15,288)
Proposed final 2011 dividend	11	–	–	–	(20,384)	(20,384)
At 31st December, 2011 and at 1st January, 2012		**560,531**	**60,060**	**38,821**	**2,572,571**	**3,231,983**
Profit for the year and total comprehensive income for the year		**–**	**–**	**–**	**33,705**	**33,705**
Interim 2012 dividend	11	**–**	**–**	**–**	**(35,672)**	**(35,672)**
Proposed final 2012 dividend	11	**–**	**–**	**–**	**(43,826)**	**(43,826)**
At 31st December, 2012		**560,531**	**60,060**	**38,821**	**2,526,778**	**3,186,190**

The profit of HK$33,705,000 (2011: HK$364,684,000) for the year ended 31st December, 2012 included dividend income of HK$53,000,000 (2011: HK$380,000,000) received from a subsidiary of the Company.

27. Insurance Contract Liabilities

Group

	Notes	**2012** Insurance contract liabilities HK$'000	Reinsurers' share of liabilities HK$'000	Net HK$'000	2011 Insurance contract liabilities HK$'000	Reinsurers' share of liabilities HK$'000	Net HK$'000
Life insurance contracts	(a)	**36,094**	**–**	**36,094**	29,248	–	29,248
General insurance contracts	(b)	**1,897,030**	**(541,140)**	**1,355,890**	1,603,964	(426,625)	1,177,339
Total insurance contract liabilities		**1,933,124**	**(541,140)**	**1,391,984**	1,633,212	(426,625)	1,206,587
			(note 23)			*(note 23)*	

27. Insurance Contract Liabilities (cont'd)

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

	Notes	2012 Insurance contract liabilities HK$'000	2012 Reinsurers' share of liabilities HK$'000	2012 Net HK$'000	2011 Insurance contract liabilities HK$'000	2011 Reinsurers' share of liabilities HK$'000	2011 Net HK$'000
Life reserve	(1)	35,009	–	35,009	28,897	–	28,897
Provision for claims	(2)	1,085	–	1,085	351	–	351
		36,094	–	36,094	29,248	–	29,248

(1) Life reserve is analysed as follows:

	2012 HK$'000	2011 HK$'000
At 1st January	28,897	25,389
Increase in the year	6,112	3,508
At 31st December	35,009	28,897

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

	2012 Insurance contract liabilities HK$'000	2012 Reinsurers' share of liabilities HK$'000	2012 Net HK$'000	2011 Insurance contract liabilities HK$'000	2011 Reinsurers' share of liabilities HK$'000	2011 Net HK$'000
At 1st January	351	–	351	100	–	100
Claims incurred during the year	3,258	(500)	2,758	2,765	(1,426)	1,339
Claims paid during the year	(2,524)	500	(2,024)	(2,514)	1,426	(1,088)
At 31st December	1,085	–	1,085	351	–	351

27. Insurance Contract Liabilities (cont'd)

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

	Notes	2012 Insurance contract liabilities HK$'000	2012 Reinsurers' share of liabilities HK$'000	2012 Net HK$'000	2011 Insurance contract liabilities HK$'000	2011 Reinsurers' share of liabilities HK$'000	2011 Net HK$'000
Provision for claims reported by policyholders		627,342	(181,340)	446,002	571,435	(151,191)	420,244
Provision for claims incurred but not reported ("IBNR")		503,666	(79,400)	424,266	398,766	(61,300)	337,466
Total claims reported and IBNR	(1)	1,131,008	(260,740)	870,268	970,201	(212,491)	757,710
Provision for unearned premiums	(2)	766,022	(280,400)	485,622	633,763	(214,134)	419,629
Total general insurance contract liabilities		1,897,030	(541,140)	1,355,890	1,603,964	(426,625)	1,177,339

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

	2012 Insurance contract liabilities HK$'000	2012 Reinsurers' share of liabilities HK$'000	2012 Net HK$'000	2011 Insurance contract liabilities HK$'000	2011 Reinsurers' share of liabilities HK$'000	2011 Net HK$'000
At 1st January	970,201	(212,491)	757,710	806,895	(195,271)	611,624
Claims incurred during the year	693,915	(172,453)	521,462	577,518	(137,442)	440,076
Claims paid during the year	(533,108)	124,204	(408,904)	(414,212)	120,222	(293,990)
At 31st December	1,131,008	(260,740)	870,268	970,201	(212,491)	757,710

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

	2012 Insurance contract liabilities HK$'000	2012 Reinsurers' share of liabilities HK$'000	2012 Net HK$'000	2011 Insurance contract liabilities HK$'000	2011 Reinsurers' share of liabilities HK$'000	2011 Net HK$'000
At 1st January	633,763	(214,134)	419,629	568,409	(198,416)	369,993
Premiums written during the year	1,305,354	(400,093)	905,261	1,071,374	(311,032)	760,342
Premiums earned during the year	(1,173,095)	333,827	(839,268)	(1,006,020)	295,314	(710,706)
At 31st December	766,022	(280,400)	485,622	633,763	(214,134)	419,629

31st December, 2012

28. Net Premiums

		Notes	2012 HK$'000	2011 HK$'000
(a)	Gross premiums on insurance contracts			
	Gross general insurance premiums:			
	Direct underwriting		**851,065**	722,102
	Reinsurance accepted		**454,289**	349,272
	Total gross general insurance premiums	*27(b)(2)*	**1,305,354**	1,071,374
	Gross life insurance premiums		**16,011**	8,473
	Change in gross unearned premiums		**(132,259)**	(65,354)
	Change in life reserve	*27(a)(1)*	**(6,112)**	(3,508)
	Total gross premiums		**1,182,994**	1,010,985
(b)	Reinsurers' share of gross premiums on insurance contracts			
	Gross general insurance premiums:			
	Direct underwriting		**(249,294)**	(228,450)
	Reinsurance accepted		**(150,799)**	(82,582)
	Total gross general insurance premiums	*27(b)(2)*	**(400,093)**	(311,032)
	Gross life insurance premiums		**(7,146)**	(3,456)
	Change in unearned premiums		**66,266**	15,718
	Total reinsurers' share of gross premiums		**(340,973)**	(298,770)

29. Net Claims Incurred

		Notes	2012 HK$'000	2011 HK$'000
(a)	Gross claims paid			
	Life insurance contracts claims paid	27(a)(2)	**(2,524)**	(2,514)
	General insurance contracts claims paid	27(b)(1)	**(533,108)**	(414,212)
	Total gross claims paid		**(535,632)**	(416,726)
(b)	Reinsurers' share of gross claims paid			
	Life insurance contracts claims paid	27(a)(2)	**500**	1,426
	General insurance contracts claims paid	27(b)(1)	**124,204**	120,222
	Total reinsurers' share of gross claims paid		**124,704**	121,648
(c)	Gross change in outstanding claims			
	Change in life insurance outstanding claims		**(734)**	(251)
	Change in general insurance outstanding claims		**(160,807)**	(163,306)
	Total gross change in outstanding claims		**(161,541)**	(163,557)
(d)	Reinsurers' share of gross change in outstanding claims			
	Life insurance outstanding claims		**–**	–
	General insurance outstanding claims		**48,249**	17,220
	Total reinsurers' share of gross change in outstanding claims		**48,249**	17,220

30. Other Liabilities

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Accruals and other payables	**222,562**	168,451	**10,035**	6,532

At the end of the reporting period, included in other liabilities of the Group was an amount due to a non-controlling shareholder of a subsidiary of HK$22,200,000 (2011: HK$22,410,000). 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, 2012 and 2011.

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, 2011, 31st December, 2011, 1st January, 2012 and 31st December, 2012	442	9,834	10,276

Deferred tax assets

	Losses available for offsetting against future taxable profits *HK$'000*
At 1st January, 2011	19,959
Deferred tax credited to the income statement during the year *(note 9)*	15,500
At 31st December, 2011 and 1st January, 2012	35,459
Deferred tax charged to the income statement during the year *(note 9)*	(23,458)
Gross deferred tax assets at 31st December, 2012	12,001

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:

	2012 *HK$'000*	2011 *HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**11,571**	35,029
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(9,846)**	(9,846)

The Group has tax losses arising in Hong Kong of HK$172,422,000 (2011: HK$200,658,000) 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. Contingent Liabilities

As at 31st December, 2012, there was an outstanding counter guarantee issued by the Company in favour of The People's Insurance Company (Group) of China Limited (the "PICC Group") amounting to 5% of all the liabilities and expenses of RMB112.5 million (approximately HK$140.0 million) (2011: RMB112.5 million) under a master guarantee provided by the PICC Group. The master guarantee is to secure the repayment of 10-year subordinated term debt of RMB2.25 billion issued by PICC Life. The counter guarantee will expire on 25th April, 2019.

33. Commitments

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Contracted, but not provided for acquisition of computer software	**2,314**	2,305

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

34. Related Party Transactions

(a) Group

	2012		2011	
	Directors and key management personnel	**Enterprises and individuals related to directors and key management personnel**	Directors and key management personnel	Enterprises and individuals related to directors and key management personnel
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Loans and advances granted:				
Aggregate balance at the end of the reporting period	**–**	**17**	–	471
Interbank activities:				
Deposits placed	**–**	**560,927**	–	326,055
Interest income	**–**	**5,411**	–	2,518
Premium income:				
Gross premiums written	**158**	**3,367**	181	2,581
Commission expense, net	**–**	**2,305**	–	576

34. Related Party Transactions (cont'd)

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

	2012 **HK$'000**	2011 HK$'000
Loans and advances granted:		
Aggregate balance at the end of the reporting period	**14,337**	37,600
Interest income received and receivable	**217**	138
Reinsurance premium ceded	**9**	10

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

	2012 **HK$'000**	2011 HK$'000
Loans and advances granted:		
Aggregate balance at the end of the reporting period	**168,390**	164,763
Commission expense paid	**11,426**	10,062

(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, the most significant risks arise from natural disasters. For longer tail claims that take some years to settle, there is also inflation risk. For accident and health contracts, the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

These risks do not vary significantly in relation to the location of the risk insured by the Group, by type of risk insured and by industry.

35. Insurance Contract Liabilities and Reinsurance Assets – Terms, Assumptions and Sensitivities (cont'd)

General insurance contracts (cont'd)

(1) Terms and conditions (cont'd)

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.

(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. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation 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 claim 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.

35. Insurance Contract Liabilities and Reinsurance Assets – Terms, Assumptions and Sensitivities (cont'd)

General insurance contracts (cont'd)

(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 estimates 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 31st December, 2012.

Gross general insurance claims

	2003 and before HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000	Total HK$'000
Accident year	924,948	343,231	397,590	350,726	382,549	403,169	355,504	408,407	549,509	587,258	
One year later	957,829	317,189	360,933	342,124	388,776	390,049	355,887	431,873	655,470	–	
Two years later	912,318	290,479	364,956	334,451	383,015	412,656	373,022	475,282	–	–	
Three years later	949,578	303,588	368,588	329,234	382,481	421,836	348,747	–	–	–	
Four years later	939,111	298,968	393,981	326,674	378,447	414,587	–	–	–	–	
Five years later	942,483	292,655	407,098	320,216	379,036	–	–	–	–	–	
Six years later	921,894	288,911	404,536	319,548	–	–	–	–	–	–	
Seven years later	930,348	281,035	401,036	–	–	–	–	–	–	–	
Eight years later	934,330	274,621	–	–	–	–	–	–	–	–	
Nine years later	937,930	–	–	–	–	–	–	–	–	–	
Current estimate of cumulative gross claims	937,930	274,621	401,036	319,548	379,036	414,587	348,747	475,282	655,470	587,258	4,793,515
Cumulative gross payments to date	(929,747)	(271,189)	(387,638)	(298,484)	(337,955)	(346,658)	(279,649)	(316,617)	(362,746)	(131,824)	(3,662,507)
Total gross general insurance outstanding claims provision per the consolidated statement of financial position	8,183	3,432	13,398	21,064	41,081	67,929	69,098	158,665	292,724	455,434	1,131,008
											(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

	2003 and before HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000	Total HK$'000
Accident year	444,209	217,908	246,522	220,375	243,904	311,628	302,613	331,523	451,474	453,795	
One year later	582,997	225,626	267,267	229,650	245,053	289,249	285,137	344,740	530,070	–	
Two years later	599,705	230,275	287,131	229,936	248,861	297,333	279,614	376,135	–	–	
Three years later	613,566	236,448	288,825	223,191	244,492	297,031	259,463	–	–	–	
Four years later	606,017	232,392	302,537	217,667	238,116	288,384	–	–	–	–	
Five years later	608,068	228,042	304,869	212,383	238,741	–	–	–	–	–	
Six years later	594,120	225,971	303,359	210,668	–	–	–	–	–	–	
Seven years later	597,401	220,596	298,367	–	–	–	–	–	–	–	
Eight years later	600,710	215,187	–	–	–	–	–	–	–	–	
Nine years later	601,179	–	–	–	–	–	–	–	–	–	
Current estimate of cumulative net claims	601,179	215,187	298,367	210,668	238,741	288,384	259,463	376,135	530,070	453,795	3,471,989
Cumulative net payments to date	(596,863)	(212,516)	(286,987)	(192,824)	(207,049)	(234,074)	(205,793)	(241,740)	(291,377)	(132,498)	(2,601,721)
Total net general insurance outstanding claims provision per the consolidated statement of financial position	4,316	2,671	11,380	17,844	31,692	54,310	53,670	134,395	238,693	321,297	870,268
											(Note 27(b))

36. Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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).

36. Fair Value Hierarchy (cont'd)

Assets measured at fair value:

At 31st December, 2012	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Total** *HK$'000*
Available-for-sale securities:			
Equity investments	**1,171,896**	**425,010**	**1,596,906**
Securities measured at fair value through profit or loss	**958,480**	**800,913**	**1,759,393**
	2,130,376	**1,225,923**	**3,356,299**

At 31st December, 2011	Level 1 *HK$'000*	Level 2 *HK$'000*	Total *HK$'000*
Available-for-sale securities:			
Equity investments	1,004,184	–	1,004,184
Securities measured at fair value through profit or loss	970,002	878,152	1,848,154
	1,974,186	878,152	2,852,338

As at 31st December, 2012 and 2011, the Group had no financial instruments measured at fair value under Level 3.

The Company did not have any financial asset measured at fair value as at 31st December, 2012 and 2011.

During the year ended 31st December, 2012, because of no active market for the respective securities, an equity listed outside Hong Kong, classified as available-for-sale securities with fair value of HK$387,519,000 and classified as securities measured at fair value through profit or loss with fair value of HK$74,420,000, were transferred from Level 1 to Level 2.

During the year ended 31st December, 2011, there were no transfers of fair value measurements between Level 1 and Level 2.

During the years ended 31st December, 2012 and 2011, there were no transfers of fair value measurements 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, pledged deposits, 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 amounts due from jointly-controlled entities and associates, held-to-maturity securities, available-for-sale securities, loans and advances and other assets, and insurance receivables are disclosed in notes 16, 17, 18, 19, 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 and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group	**2012**			
	On demand and less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Provision for claims reported by policyholders	**183,014**	**445,413**	**–**	**628,427**
IBNR	**146,063**	**357,603**	**–**	**503,666**
Insurance payables	**174,095**	**–**	**–**	**174,095**
Due to associates	**4,222**	**–**	**–**	**4,222**
Other liabilities	**222,562**	**–**	**–**	**222,562**
Counter guarantee given to the PICC Group in connection with a subordinated term debt issued by an investee	**139,995**	**–**	**–**	**139,995**
	869,951	**803,016**	**–**	**1,672,967**

Group	2011			
	On demand and less than 1 year	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Provision for claims reported by policyholders	160,353	411,433	–	571,786
IBNR	111,654	287,112	–	398,766
Insurance payables	135,341	–	–	135,341
Due to associates	4,222	–	–	4,222
Other liabilities	168,451	–	–	168,451
Counter guarantee given to the PICC Group in connection with a subordinated term debt issued by an investee	138,848	–	–	138,848
	718,869	698,545	–	1,417,414

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

(3) Liquidity risk management (cont'd)

Company

	2012			
	On demand and less than 1 year	**1 to 5 years**	**Over 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Other liabilities	**10,035**	**–**	**–**	**10,035**
Due to subsidiaries	**209,535**	**–**	**–**	**209,535**
Counter guarantee given to the PICC Group in connection with a subordinated term debt issued by an investee	**139,995**	**–**	**–**	**139,995**
	359,565	**–**	**–**	**359,565**

	2011			
	On demand and less than 1 year	1 to 5 years	Over 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other liabilities	6,532	–	–	6,532
Due to subsidiaries	209,544	–	–	209,544
Counter guarantee given to the PICC Group in connection with a subordinated term debt issued by an investee	138,848	–	–	138,848
	354,924	–	–	354,924

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

(3) Liquidity risk management (cont'd)

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

Group

31st December, 2012	Current* HK$'000	Non-current HK$'000	Total HK$'000
Property, plant and equipment	–	150,174	150,174
Investment property	–	4,770	4,770
Interests in jointly-controlled entities	–	209,863	209,863
Loans to jointly-controlled entities	2,834	11,503	14,337
Interests in associates	–	230,270	230,270
Due from an associate	–	168,390	168,390
Deferred tax assets	–	11,571	11,571
Held-to-maturity securities	283,635	398,269	681,904
Available-for-sale securities	–	2,853,817	2,853,817
Pledged deposits	102,605	–	102,605
Loans and advances and other assets	118,651	91,230	209,881
Securities measured at fair value through profit or loss	1,759,393	–	1,759,393
Insurance receivables	198,499	–	198,499
Reinsurance assets	541,140	–	541,140
Cash and cash equivalents	1,484,550	–	1,484,550
Total assets	4,491,307	4,129,857	8,621,164

31st December, 2011	Current* HK$'000	Non-current HK$'000	Total HK$'000
Property, plant and equipment	–	154,971	154,971
Investment property	–	4,150	4,150
Interests in jointly-controlled entities	–	245,020	245,020
Loans to jointly-controlled entities	37,600	–	37,600
Interests in associates	–	162,099	162,099
Due from an associate	–	164,763	164,763
Deferred tax assets	–	35,029	35,029
Held-to-maturity securities	130,837	645,979	776,816
Available-for-sale securities	–	2,262,256	2,262,256
Pledged deposits	92,605	–	92,605
Loans and advances and other assets	116,185	92,040	208,225
Securities measured at fair value through profit or loss	1,848,154	–	1,848,154
Insurance receivables	151,751	–	151,751
Reinsurance assets	426,625	–	426,625
Cash and cash equivalents	841,581	–	841,581
Total assets	3,645,338	3,766,307	7,411,645

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

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

(3) Liquidity risk management (cont'd)

Company

31st December, 2012	Current* HK$'000	Non-current HK$'000	Total HK$'000
Interests in subsidiaries	–	1,695,747	1,695,747
Due from subsidiaries	–	1,445,850	1,445,850
Available-for-sale securities	–	1,176,231	1,176,231
Loans and advances and other assets	9,642	50,000	59,642
Cash and cash equivalents	91,961	–	91,961
Total assets	101,603	4,367,828	4,469,431

31st December, 2011	Current* HK$'000	Non-current HK$'000	Total HK$'000
Interests in subsidiaries	–	1,695,747	1,695,747
Due from subsidiaries	–	1,551,425	1,551,425
Available-for-sale securities	–	1,176,231	1,176,231
Loans and advances and other assets	9,967	50,000	59,967
Cash and cash equivalents	6,063	–	6,063
Total assets	16,030	4,473,403	4,489,433

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

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

(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 the 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*
2012 required Relevant Amount	**15,560**	**110,621**
2011 required Relevant Amount	5,860	96,166

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, amounts due to associates and other liabilities, less cash and cash equivalents and securities measured at fair value through profit or loss. Capital represents equity attributable to equity holders of the Company. As at 31st December, 2012, 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 rate risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk.

The Group's interest rate 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. Interest on floating rate instruments is repriced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instruments and is 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, interest-bearing bank 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.

		2012		2011	
		Increase/(decrease)		Increase/(decrease)	
	Change in interest rate	**in profit** *HK$'000*	**in equity*** *HK$'000*	in profit *HK$'000*	in equity* *HK$'000*
Securities measured at fair value through profit or loss	+50 basis points	**(4,257)**	**–**	(3,989)	–
	–50 basis points	**4,257**	**–**	3,989	–
Interest-bearing bank deposits	+50 basis points	**7,746**	**–**	4,380	–
	–50 basis points	**(7,746)**	**–**	(4,380)	–
Loans and advances and other assets	+50 basis points	**91**	**–**	209	–
	–50 basis points	**(91)**	**–**	(209)	–
Loans to jointly-controlled entities	+50 basis points	**72**	**–**	188	–
	–50 basis points	**(72)**	**–**	(188)	–

* 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, Japanese Yen and Renminbi, 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 available-for-sale securities).

	Change in exchange rate *%*	**Decrease in profit before tax** *HK$'000*	**Decrease in equity*** *HK$'000*
2012			
If Thai Baht weakens against Hong Kong dollar	**–5%**	**(5,877)**	**(71,395)**
If Japanese Yen weakens against Hong Kong dollar	**–8%**	**(1,034)**	**–**
If Renminbi weakens against Hong Kong dollar	**–7%**	**(32,067)**	**(59)**
2011			
If Thai Baht weakens against Hong Kong dollar	–5%	(3,074)	(50,209)
If Japanese Yen weakens against Hong Kong dollar	–8%	(2,470)	–
If Renminbi weakens against Hong Kong dollar	–7%	(18,381)	(59)

* 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 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 geographical area. 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.

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.

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

(7) Insurance risk management (cont'd)

The Group uses its own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

	2012			2011		
	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	533,817	(108,812)	425,005	431,593	(76,779)	354,814
Property damage	434,301	(157,062)	277,239	403,295	(130,189)	273,106
General liability	363,296	(155,974)	207,322	317,026	(137,009)	180,017
Motor vehicle	248,680	(25,612)	223,068	208,369	(20,982)	187,387
Others	316,936	(93,680)	223,256	243,681	(61,666)	182,015
Total general insurance	1,897,030	(541,140)	1,355,890	1,603,964	(426,625)	1,177,339

As at 31st December, 2012, over 90% (2011: 90%) of the general insurance contract liabilities were related to the business written in Hong Kong, Macau and Mainland China.

(8) Operational risk management

Operational risk is the risk of financial loss resulting from procedural errors, system failures, fraud 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, 2012. The Group's listed investments are mainly listed on the stock exchanges of Hong Kong, the United States, and Thailand 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
2012				
Equity investments in:				
Hong Kong				
– Available-for-sale securities	+15%	169,001	–	25,350
	–15%	169,001	–	(25,350)
– Listed securities measured at fair value through profit or loss	+15%	490,977	73,647	–
	–15%	490,977	(73,647)	–
United States				
– Listed securities measured at fair value through profit or loss	+10%	111,504	11,150	–
	–10%	111,504	(11,150)	–
Thailand				
– Available-for-sale securities	+5%	1,427,905	–	71,395
	–5%	1,427,905	–	(71,395)
– Listed securities measured at fair value through profit or loss	+5%	117,463	5,873	–
	–5%	117,463	(5,873)	–
All other areas				
– Listed securities measured at fair value through profit or loss	+10%	29,260	2,926	–
	–10%	29,260	(2,926)	–

* 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
2011				
Equity investments in:				
Hong Kong				
– Listed securities and derivative instrument measured at fair values through profit or loss	+15%	735,697	110,355	–
	–15%	735,697	(110,355)	–
United States				
– Listed securities measured at fair value through profit or loss	+10%	83,497	8,350	–
	–10%	83,497	(8,350)	–
Thailand				
– Available-for-sale securities	+5%	1,004,184	–	50,209
	–5%	1,004,184	–	(50,209)
– Listed securities measured at fair value through profit or loss	+5%	60,776	3,039	–
	–5%	60,776	(3,039)	–
All other areas				
– Listed securities measured at fair value through profit or loss	+10%	26,585	2,659	–
	–10%	26,585	(2,659)	–

* Excluding retained profits

38. Events after the Reporting Period

On 28th January, 2013, the Company entered into a Capital Increase Agreement with PICC Life and all its existing equity holders to increase the registered capital of PICC Life. Upon completion of the capital injection, the Company's investment in PICC Life will be increased by RMB281 million (approximately HK$351 million) to RMB1,298 million and the equity interest in PICC Life of the Company will maintain at 5%. The Capital Increase Agreement shall become effective subject to the approvals of China Insurance Regulatory Commission and the relevant authorities.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 1st March, 2013.