



亞洲金融集團(控股)有限公司  
Asia Financial Holdings Ltd.

*Incorporated in Bermuda with limited liability*

(Stock Code: 662)

INTERIM REPORT

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For the six months ended 30th June, 2013

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## Board of Directors

### *Executive Directors*

CHAN Yau Hing Robin (*Chairman*)  
CHAN Bernard Charnwut (*President*)  
TAN Stephen  
WONG Kok Ho

### *Non-Executive Directors*

LAU Ki Chit  
SOPHONPANICH Choedchu  
NG Song Hin  
CHAN Yeow Toh  
YAMAGUCHI Yoshihiro

### *Independent Non-Executive Directors*

CHOW Suk Han Anna  
MA Andrew Chiu Cheung  
SIAO Chi Lam Kenneth  
WONG Yu Hong Philip  
LAI KO Wing Yee Rebecca

## Audit Committee

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

## 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

## 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

## Auditors

Ernst & Young  
Certified Public Accountants  
22/F, 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  
Telephone : (852) 3606 9200  
Fax : (852) 2545 3881  
Website : [www.afh.hk](http://www.afh.hk)  
Email : [contactus@afh.hk](mailto: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

## Share Listing

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



Asia Financial Holdings Limited ("Asia Financial") recorded net profit attributable to shareholders of HK\$79.5 million in the first half of 2013, a 68.2% decline over the same period in 2012. This fall largely reflected unrealised losses in the value of portfolio investments; underwriting performance and organic growth of insurance operations remained satisfactory, as did the results of most of our joint ventures and associates. Increase in expenses remained in line with inflation.

The second half of the year looks uncertain, with possibly limited prospects for strengthening in the markets and the possibility of slower growth in Mainland China as the economy adjusts. However, looking further ahead, we remain confident in the prospects for the insurance, retirement and other individual and family services sectors in Asia represented by our longer-term direct investments, which form our strategic focus.

## Economic Background

Given a background of global weakness, the economies of Asia and Greater China performed reasonably well in the first half of 2013, and Hong Kong continued to enjoy strong consumption and low unemployment. This provided satisfactory conditions for Asia Financial's insurance operations. However, the broader global economic environment was gloomy, with Europe largely in recession, slow growth in the US and the prospect of an end to quantitative easing, as well as policy uncertainty in the Mainland China. These factors weighed down on the financial markets, which impacted our net profit for the period. Specifically, the Hang Seng Index fell by 8.2% during the period, although the main US indices rose by around 12-14%.

## Management Approach and Future Prospects

The global outlook remains uncertain, with major economies facing weak recovery at best and recession at worst. In addition to poor overall growth patterns, leading economies' monetary policies are similarly unclear. Even in our own region, Greater China and Southeast Asia are entering periods of slower export growth and, in Mainland China's case, structural adjustment as the country progresses to a new phase of development. These raise the prospects of asset price volatility around the world and, in our own region, slower growth in companies' business operations.

In such an environment, it is essential that Asia Financial's management maintains its traditional, conservative investment approach and sensible policies in such areas as cost control in the pursuit of long-term growth in shareholders' value. We will continue to seek good quality investments and avoid unnecessary risk. We will especially focus on the underlying quality of our trading portfolios and long-term direct investments.

The outlook for Asia Insurance is still reasonably positive, thanks in particular to continued strength in local infrastructure and construction. We will also continue to review and optimise the mix of direct and reinsurance business and between various segments. We are also monitoring possible future progress in the expansion of private health coverage in Hong Kong.

Our focus will remain very much on the long term and on the East Asian region. We will continue to build on our interests in livelihood-related service industries such as insurance, retirement, health and property development, focused on Greater China and elsewhere in Asia. This choice of investment segments is based on 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.

**Robin Y.H. Chan**  
*Chairman*

Hong Kong, 21st August, 2013

## Interim Results Highlights

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The board of directors (the “Board”) of Asia Financial Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2013 as follows:

Profit attributable to equity holders of the Company:	HK\$79.5 million	–68.2%
Earnings per share:	HK7.8 cents	–68.2%
Interim dividend per share:	HK1.5 cents	–57.1%

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

### Interim Dividend

The Board has resolved to declare an interim cash dividend of HK1.5 cents (2012: HK3.5 cents) per ordinary share for the six months ended 30th June, 2013 payable on or about Friday, 27th September, 2013 to shareholders whose names appear on the Register of Members of the Company on Wednesday, 18th September, 2013.

### Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 16th September, 2013 to Wednesday, 18th September, 2013, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong Branch Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 13th September, 2013.

### Review of Interim Results

The Audit Committee has reviewed the unaudited interim financial statements of the Group for the six months ended 30th June, 2013 and recommended it for the Board’s approval.



## Overview by Investment Segments

### *Insurance*

Wholly owned Asia Insurance's profit attributable to shareholders fell by 52.6% in the first half of 2013 compared with the same period in 2012.

Underwriting profit declined by 20.6%, largely due to the effect of competition in the market on pricing and some claim developments arising from incidents in previous years. However, the underlying health of Asia Insurance was apparent in turnover, which rose at a steady 7.5%, helped by such factors as construction-sector growth in both Hong Kong and Macau. This organic growth in the business reflects Asia Insurance's continued status as a leader in Hong Kong's general insurance market with a very sound reputation among clients.

Most lines of business continued to perform well, notably statutory liability insurance. There were no significant changes to the size and reach of our agent network. Asia Insurance successfully kept costs in line with inflation, despite the growth in turnover.

The bulk of the decline in Asia Insurance's profit was due to unrealised losses in investments, which, allowing for their additional weighting towards bonds, performed broadly in line with those of Asia Financial as a whole (see below). Interest income grew in line with the size of the fixed-income portfolio. Other income rose largely as a result of foreign exchange exposure. Asia Insurance has no significant direct exposure to vulnerable European sovereign debt and related investments.

Despite the possibility of slower economic growth in Greater China and the rest of Asia, the outlook for profit and organic growth in Asia Insurance's core underwriting activities looks stable for the second half of 2013 and beyond. We will continue to review the mix of direct and reinsurance business and to use our risk management expertise to focus on better quality business in such areas as employees' compensation, especially as the market adjusts following a 2012 British legal judgment on compensation rates in personal injury cases. The industry continues to engage with government and other sectors of the community in discussing possible ways to encourage a bigger role for personal health insurance coverage in Hong Kong.

In terms of investment performance, the uncertainty of the global and regional outlook in terms of economic performance and policy makes a medium-term forecast very difficult. Given the uncertainty surrounding the markets, we will maintain a prudent approach towards portfolio management.

Joint ventures and associates in the insurance segment delivered generally satisfactory results given the China and Hong Kong markets' weak investment returns in the first half of 2013. Hong Kong Life Insurance Limited enjoyed reasonable performance, while Professional Liability Underwriting Services Limited and The People's Insurance Company of China (Hong Kong), Limited achieved reasonable increases in profit and business turnover. BC Reinsurance Limited performed less well. Looking further ahead, all these companies look well positioned for future healthy development.

PICC Life Insurance Company Limited ("PICC Life"), in which Asia Financial has a 5% stake, continues to take advantage of its opportunities as a company with a nationwide licence. The company reported RMB37.7 billion in premium income for the first half of 2013. All other business performance and risk control indicators showed positive and healthy figures. PICC Life's insurance liability reserves and solvency ratio were maintained at high levels in line with the business volume. This stake is Asia Financial's single biggest external holding, accounting for 16.8% of our total assets.

## Management Discussion and Analysis

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### Overview by Investment Segments (continued)

#### **Other Portfolio Investment**

Unrealised year-on-year losses on trading investments accounted for most of Asia Financial's decline in net profit in the first half of 2013. This particularly reflected a drop in the China and Hong Kong markets that coincided with the six-month period and inevitably affected the valuations of our conservatively managed portfolio. Returns from non-traded investments saw a healthy rise owing in particular to dividend income from long-term holdings. Net interest income remained steady, in line with rates.

Asia Financial has no direct exposure to vulnerable European sovereign debt. Secondary exposure via equity and fund investments is limited by our policy of diversification and focus on quality, while our fixed income investments and derivative instruments are of investment grade or above. Ever since the extreme volatility of world markets in 2008-09, we have adopted a particularly prudent attitude towards management of our portfolio investments. In view of the ongoing uncertainty concerning future economic growth and monetary policy in all major economies, our investment strategy will remain cautious but flexible. Regardless of year-on-year fluctuations in market valuations, we will continue to place the highest priority on preservation of core shareholders' 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 long-term investments, with its valuation rising 2.3% for the first half of the year. Bumrungrad is maintaining its recognition in the market and its 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, has almost completed its liquidation process after the consolidation of its activities due to a lack of suitable new investment opportunities. However, we still foresee good prospects for the health care business in the region, owing to long-term demographic and policy trends. We and Bumrungrad will therefore continue to actively explore potential new opportunities; among areas of possible interest are emerging markets in Asia and specific demographic segments in Hong Kong.

#### **Pension and Asset Management**

The Group's investment in Bank Consortium Holding Limited ("BCH") continued to enjoy growth in assets under management and achieved an acceptable level of profit in the first half of 2013. 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. Starting 1st November, 2012, employees have had the right to transfer their personal MPF contributions up to one time a year to other service providers. Although there has been no significant impact so far, we are confident that BCT's commitment to quality service will give it an edge in retaining and indeed attracting funds in a market with greater client choice.

#### **Property Development**

The Group's interests in real estate are focused on Shanghai and Suzhou and represent 4.8% of our total assets. The main project is a residential and commercial complex in Jiading in Shanghai, in which we have a 27.5% stake. Sales of Phase 2 yielded a share of profits of HK\$12.1 million booked in the first half of 2013. The project is proceeding well, with some 88% of units sold up to August 2013. Demand remains encouraging, especially for smaller units, and we expect the sales target for the full year will be met. We are adjusting plans for the development of a smaller lot of land in the same district, where work will begin by end-year, and remain flexible about plans for Phase 3. Government controls to calm the property market are likely to remain for the time being. We are confident that where financing is concerned, existing capital and cash flow will be sufficient for future projects.



### Liquidity, Financial Resources and Gearing Ratio

Cash and cash equivalents as at 30th June, 2013 amounted to HK\$1,343,891,000 (31st December, 2012: HK\$1,484,550,000).

The Group had a bank borrowing of HK\$200,000,000 as at 30th June, 2013 (31st December, 2012: Nil), which was secured by certain Hong Kong listed shares, repayable on demand and charged at 1% over the 3-month Hong Kong Interbank Offered Rate.

No gearing ratio was calculated as the Group had no net debt as at 30th June, 2013. The gearing ratio was based on net debt divided by total capital plus net debt. Net debt includes insurance contract liabilities, insurance payables, amounts due to associates and a joint venture, interest-bearing bank borrowings 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.

The Group's liquidity position remains strong and the Group has sufficient financial resources to satisfy its commitment and working capital requirements.

### Charge on Assets

As of 30th June, 2013, Asia Insurance charged assets with a carrying value of HK\$125,357,000 (31st December, 2012: HK\$102,912,000) in favour of the Hong Kong Mortgage Corporation Limited (the "HKMC") to secure the payments under the HKMC Mortgage Insurance Programme.

The Group also pledged certain Hong Kong listed shares with a market value of not less than HK\$200,000,000 (31st December, 2012: Nil) to a bank to secure the bank borrowing of HK\$200,000,000 (31st December, 2012: Nil).

### Contingent Liabilities

As at 30th June, 2013, 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\$142.2 million) (31st December, 2012: 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.

### Employees and Remuneration Policy

The total number of employees of the Group as at 30th June, 2013 was 259 (31st December, 2012: 255). 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 six months ended 30th June, 2013. The Group also offers various training and induction programmes to its employees.



# Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30th June, 2013

	Notes	Six months ended 30th June,	
		2013 HK\$'000	2012 HK\$'000
<b>REVENUE</b>	3	<b>739,466</b>	687,858
Gross premiums		739,466	687,858
Reinsurers' share of gross premiums		(205,406)	(208,830)
Change in unearned premiums reserve		(62,085)	(71,034)
Change in life fund		(8,212)	(2,958)
Net insurance contracts premiums revenue		463,763	405,036
Gross claims paid		(271,330)	(308,219)
Reinsurers' share of gross claims paid		64,162	69,784
Gross change in outstanding claims		(97,433)	(7,509)
Reinsurers' share of gross change in outstanding claims		17,634	6,939
Net claims incurred		(286,967)	(239,005)
Commission income		33,973	34,062
Commission expense		(142,529)	(126,621)
Net commission expense		(108,556)	(92,559)
Management expenses for underwriting business		(29,157)	(23,926)
Underwriting profit		39,083	49,546
Dividend income		44,252	39,492
Realised gain/(loss) on investments		(13,306)	23,243
Unrealised gain/(loss) on investments		(21,792)	93,397
Interest income		34,777	32,937
Other income and gains, net		6,151	(2,309)
		89,165	236,306
Operating expenses		(40,610)	(39,688)
Finance costs		(1,151)	–
		47,404	196,618
Share of profits and losses of joint ventures		15,697	15,363
Share of profits and losses of associates		22,933	60,399
<b>PROFIT BEFORE TAX</b>	4	<b>86,034</b>	272,380

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## Condensed Consolidated Income Statement (Unaudited)

For the six months ended 30th June, 2013

	Notes	Six months ended 30th June,	
		2013 HK\$'000	2012 HK\$'000
Income tax expense	5	<u>(3,555)</u>	<u>(19,818)</u>
<b>PROFIT FOR THE PERIOD</b>		<b><u>82,479</u></b>	<b><u>252,562</u></b>
Attributable to:			
Equity holders of the Company		<b>79,512</b>	249,894
Non-controlling interests		<b>2,967</b>	2,668
		<b><u>82,479</u></b>	<b><u>252,562</u></b>
<b>INTERIM DIVIDEND</b>	6	<b><u>15,288</u></b>	<b><u>35,672</u></b>
<b>INTERIM DIVIDEND PER SHARE</b>	6	<b><u>HK1.5 cents</u></b>	<b><u>HK3.5 cents</u></b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	7		
Basic – For profit for the period		<b><u>HK7.8 cents</u></b>	<b><u>HK24.5 cents</u></b>
Diluted – For profit for the period		<b><u>N/A</u></b>	<b><u>N/A</u></b>



# Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30th June, 2013

	Six months ended 30th June,	
	2013	2012
	HK\$'000	HK\$'000
<b>PROFIT FOR THE PERIOD</b>	<b>82,479</b>	252,562
<b>OTHER COMPREHENSIVE INCOME</b> (Items that may be reclassified subsequently to income statement)		
Available-for-sale securities:		
Changes in fair value	<b>(15,292)</b>	346,240
Share of other comprehensive income of joint ventures:		
Changes in available-for-sale investment reserve	<b>(231)</b>	252
Changes in exchange reserve	<b>(484)</b>	726
Reclassification of exchange difference included in the condensed consolidated income statement for capital reduction of a joint venture	<b>—</b>	(5,211)
	<b>(715)</b>	(4,233)
Share of other comprehensive income of associates:		
Changes in available-for-sale investment reserve	<b>(14,528)</b>	7,709
Changes in exchange reserve	<b>4,641</b>	(2,722)
	<b>(9,887)</b>	4,987
Exchange differences on translation of foreign operations	<b>(102)</b>	349
<b>OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD, NET OF TAX</b>	<b>(25,996)</b>	347,343
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>56,483</b>	599,905
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the Company	<b>57,942</b>	594,897
Non-controlling interests	<b>(1,459)</b>	5,008
	<b>56,483</b>	599,905



# Condensed Consolidated Statement of Financial Position (Unaudited)

30th June, 2013

	Notes	30th June, 2013 HK\$'000	31st December, 2012 HK\$'000
<b>ASSETS</b>			
Property, plant and equipment		147,501	150,174
Investment property		4,770	4,770
Interests in joint ventures		220,645	209,863
Loan to a joint venture		14,337	14,337
Interests in associates		241,291	230,270
Due from an associate		168,390	168,390
Deferred tax assets		11,571	11,571
Held-to-maturity securities	8	694,033	681,904
Available-for-sale securities	9	3,185,639	2,853,817
Pledged deposits	13	120,080	102,605
Loans and advances and other assets	10	206,056	209,881
Securities measured at fair value through profit or loss	11	1,881,419	1,759,393
Insurance receivables	12	242,366	198,499
Reinsurance assets		554,929	541,140
Cash and cash equivalents	13	1,343,891	1,484,550
		<u>9,036,918</u>	<u>8,621,164</u>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to equity holders of the Company			
Issued capital		1,019,200	1,019,200
Reserves		5,181,036	5,138,382
Proposed dividend		15,288	43,826
		<u>6,215,524</u>	<u>6,201,408</u>
Non-controlling interests		20,317	21,776
		<u>6,235,841</u>	<u>6,223,184</u>
Liabilities			
Insurance contract liabilities		2,097,010	1,933,124
Insurance payables		191,483	174,095
Due to a joint venture		27,460	–
Due to associates		4,222	4,222
Other liabilities		213,536	222,562
Interest-bearing bank borrowing	14	200,000	–
Tax payable		57,520	54,131
Deferred tax liabilities		9,846	9,846
		<u>2,801,077</u>	<u>2,397,980</u>
Total liabilities		<u>2,801,077</u>	<u>2,397,980</u>
Total equity and liabilities		<u>9,036,918</u>	<u>8,621,164</u>



# Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30th June, 2013

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 dividend HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st January, 2013	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
Profit for the period	-	-	-	-	-	-	-	-	-	79,512	-	79,512	2,967	82,479
Other comprehensive income/(expense) for the period:														
Changes in fair value of available-for-sale securities	-	-	-	(15,292)	-	-	-	-	-	-	-	(15,292)	-	(15,292)
Share of changes in available-for-sale investment reserve of joint ventures	-	-	-	(231)	-	-	-	-	-	-	-	(231)	-	(231)
Share of changes in available-for-sale investment reserve of associates	-	-	-	(10,102)	-	-	-	-	-	-	-	(10,102)	(4,426)	(14,528)
Share of changes in exchange reserve of a joint venture	-	-	-	-	-	(484)	-	-	-	-	-	(484)	-	(484)
Share of changes in exchange reserve of an associate	-	-	-	-	-	4,641	-	-	-	-	-	4,641	-	4,641
Exchange differences on translation of foreign operations	-	-	-	-	-	(102)	-	-	-	-	-	(102)	-	(102)
Total comprehensive income/(expense) for the period	-	-	-	(25,625)	-	4,055	-	-	-	79,512	-	57,942	(1,459)	56,483
Final 2012 dividend declared	-	-	-	-	-	-	-	-	-	-	(43,826)	(43,826)	-	(43,826)
Proposed interim 2013 dividend	-	-	-	-	-	-	-	-	-	(15,288)	15,288	-	-	-
Transfer to contingency reserve	-	-	5,611	-	-	-	-	-	-	(5,611)	-	-	-	-
At 30th June, 2013	1,019,200	560,531*	36,384*	976,990*	46,071*	38,448*	2,427*	513,240*	38,821*	2,968,124*	15,288	6,215,524	20,317	6,235,841

\* These reserve accounts comprise the consolidated reserves of HK\$5,181,036,000 (31st December, 2012: HK\$5,138,382,000) in the unaudited condensed consolidated statement of financial position.

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# Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30th June, 2013

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 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 period	-	-	-	-	-	-	-	-	-	249,894	-	249,894	2,668	252,562
Other comprehensive income/(expense) for the period:														
Changes in fair value of available-for-sale securities	-	-	-	346,240	-	-	-	-	-	-	-	346,240	-	346,240
Share of changes in available-for-sale investment reserve of joint ventures	-	-	-	252	-	-	-	-	-	-	-	252	-	252
Share of changes in available-for-sale investment reserve of associates	-	-	-	5,369	-	-	-	-	-	-	-	5,369	2,340	7,709
Share of changes in exchange reserve of a joint venture	-	-	-	-	-	726	-	-	-	-	-	726	-	726
Reclassification of exchange difference included in the condensed consolidated income statement for capital reduction of a joint venture	-	-	-	-	-	(5,211)	-	-	-	-	-	(5,211)	-	(5,211)
Share of changes in exchange reserve of an associate	-	-	-	-	-	(2,722)	-	-	-	-	-	(2,722)	-	(2,722)
Exchange differences on translation of foreign operations	-	-	-	-	-	349	-	-	-	-	-	349	-	349
Total comprehensive income/(expense) for the period	-	-	-	351,861	-	(6,858)	-	-	-	249,894	-	594,897	5,008	599,905
Final 2011 dividend declared	-	-	-	-	-	-	-	-	-	-	(20,384)	(20,384)	-	(20,384)
Proposed interim 2012 dividend	-	-	-	-	-	-	-	-	-	(35,672)	35,672	-	-	-
Transfer to contingency reserve	-	-	2,798	-	-	-	-	-	-	(2,798)	-	-	-	-
At 30th June, 2012	1,019,200	560,531	29,680	898,554	46,071	27,382	2,427	513,240	38,821	2,800,528	35,672	5,972,106	19,457	5,991,563



## Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30th June, 2013

	<b>Six months ended 30th June,</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
Net cash flows from/(used in) operating activities	<b>(40,545)</b>	191,806
Net cash flows from/(used in) investing activities	<b>(265,160)</b>	651
Net cash flows from/(used in) financing activities	<b>156,174</b>	(20,384)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(149,531)</b>	172,073
Cash and cash equivalents at beginning of period	<b>1,209,510</b>	740,442
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>1,059,979</b>	912,515
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>217,900</b>	129,268
Non-pledged time deposits with original maturity of over three months when acquired	<b>283,912</b>	169,045
Non-pledged time deposits with original maturity of less than three months when acquired	<b>842,079</b>	783,247
Cash and cash equivalents as stated in the unaudited condensed consolidated statement of financial position	<b>1,343,891</b>	1,081,560
Less: Time deposits with original maturity of over three months when acquired	<b>(283,912)</b>	(169,045)
Cash and cash equivalents as stated in the unaudited condensed consolidated statement of cash flows	<b>1,059,979</b>	912,515



## 1. Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard No. 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted are consistent with those adopted in the Company’s financial statements for the year ended 31st December, 2012 except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”), which are effective for accounting period beginning on 1st January, 2013 and as disclosed below.

HKFRS 7 Amendments	<i>Amendments to HKFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	<i>Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	<i>Amendments to HKAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
Annual Improvements 2009-2011 Cycle	<i>Amendments to a number of HKFRSs issued in June 2012</i>

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.

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



2. Operating Segment Information

(a) Operating segments

The following tables present revenue, profit/(loss) and certain asset and liability for the Group's operating segments.

Group	Insurance HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>For the six months ended 30th June, 2013</b>				
<b>Segment revenue:</b>				
External customers	739,466	-	-	739,466
Other revenue, income, gains, net	39,520	10,562	-	50,082
Intersegment	2,297	-	(2,297)	-
<b>Total</b>	<b>781,283</b>	<b>10,562</b>	<b>(2,297)</b>	<b>789,548</b>
<b>Segment results</b>	<b>56,862</b>	<b>(9,458)</b>	<b>-</b>	<b>47,404</b>
<b>Share of profits and losses of:</b>				
Joint ventures	8,068	7,629	-	15,697
Associates	10,818	12,115	-	22,933
<b>Profit before tax</b>				<b>86,034</b>
<b>Income tax expense</b>	<b>(3,310)</b>	<b>(245)</b>	<b>-</b>	<b>(3,555)</b>
<b>Profit for the period</b>				<b>82,479</b>
Group	Insurance HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>For the six months ended 30th June, 2012</b>				
<b>Segment revenue:</b>				
External customers	687,858	-	-	687,858
Other revenue, income, gains, net	128,660	58,100	-	186,760
Intersegment	939	-	(939)	-
<b>Total</b>	<b>817,457</b>	<b>58,100</b>	<b>(939)</b>	<b>874,618</b>
<b>Segment results</b>	<b>157,361</b>	<b>39,257</b>	<b>-</b>	<b>196,618</b>
<b>Share of profits and losses of:</b>				
Joint ventures	2,964	12,399	-	15,363
Associates	9,558	50,841	-	60,399
<b>Profit before tax</b>				<b>272,380</b>
<b>Income tax expense</b>	<b>(15,996)</b>	<b>(3,822)</b>	<b>-</b>	<b>(19,818)</b>
<b>Profit for the period</b>				<b>252,562</b>

2. Operating Segment Information (continued)

(a) Operating segments (continued)

Group	Insurance HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
<b>30th June, 2013</b>			
Segment assets	4,892,635	3,682,347	8,574,982
Interests in joint ventures	123,344	97,301	220,645
Interests in associates	92,337	148,954	241,291
<b>Total assets</b>	<b>5,108,316</b>	<b>3,928,602</b>	<b>9,036,918</b>
<b>Segment liabilities</b>	<b>2,319,859</b>	<b>481,218</b>	<b>2,801,077</b>
Group	Insurance HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
<b>31st December, 2012</b>			
Segment assets	4,870,933	3,310,098	8,181,031
Interests in joint ventures	119,691	90,172	209,863
Interests in associates	98,072	132,198	230,270
<b>Total assets</b>	<b>5,088,696</b>	<b>3,532,468</b>	<b>8,621,164</b>
<b>Segment liabilities</b>	<b>2,145,964</b>	<b>252,016</b>	<b>2,397,980</b>

(b) Geographical information

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

3. Revenue

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

### 4. Profit before Tax

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

	<b>Six months ended 30th June,</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
Auditors' remuneration	<b>(1,254)</b>	(1,203)
Depreciation	<b>(2,736)</b>	(4,735)
Employee benefits expense (including directors' remuneration)	<b>(42,343)</b>	(39,982)
Minimum lease payments under operating leases in respect of land and buildings	<b>(625)</b>	(468)
Realised gain/(loss) on:		
– disposal of securities measured at fair value through profit or loss (held for trading), net	<b>(12,960)</b>	21,379
– disposal of available-for-sale securities	<b>23</b>	47
– redemption/call back of held-to-maturity securities	<b>(369)</b>	1,817
Total realised gain/(loss) on investments	<b>(13,306)</b>	23,243
Unrealised gain/(loss) on securities measured at fair value through profit or loss (held for trading), net	<b>(21,052)</b>	77,055
Unrealised gain on prepaid derivative (designated as at fair value through profit or loss upon initial recognition)	<b>–</b>	16,342
Impairment of available-for-sale securities	<b>(740)</b>	–
Total unrealised gain/(loss) on investments	<b>(21,792)</b>	93,397
Interest income	<b>34,777</b>	32,937
Finance costs	<b>(1,151)</b>	–
Gain/(loss) on disposal/write-off of items of property, plant and equipment	<b>(7)</b>	35
Impairment allowance on insurance receivables	<b>(206)</b>	(9)
Reclassification of exchange difference included in the condensed consolidated income statement for capital reduction of a joint venture #	<b>–</b>	5,211
Dividend income from:		
Listed investments	<b>38,081</b>	36,536
Unlisted investments	<b>6,171</b>	2,956
Total dividend income	<b>44,252</b>	39,492

# Reclassification of exchange difference included in the condensed consolidated income statement for capital reduction of a joint venture is included in "Share of profit and loss of joint ventures" on the face of the condensed consolidated income statement.

## 5. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

	Six months ended 30th June,	
	2013 HK\$'000	2012 HK\$'000
Group:		
Current – Hong Kong		
Charge for the period	1,294	294
Current – Elsewhere		
Charge for the period	2,261	2,450
Deferred	–	17,074
	<u>3,555</u>	<u>19,818</u>
Total tax charge for the period		

## 6. Dividend

	Six months ended 30th June,	
	2013 HK\$'000	2012 HK\$'000
Proposed interim dividend:		
HK1.5 cents (2012: HK3.5 cents) per ordinary share based on 1,019,200,000 (2012: 1,019,200,000) shares in issue	15,288	35,672
	<u>15,288</u>	<u>35,672</u>

The Board has resolved to pay an interim dividend of HK1.5 cents per share (2012: HK3.5 cents), which will be paid in cash, for the six months ended 30th June, 2013 payable on or about 27th September, 2013 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 18th September, 2013.

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

The calculation of the basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$79,512,000 (2012: HK\$249,894,000) and 1,019,200,000 (2012: 1,019,200,000) ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30th June, 2013 and 2012 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

### 8. Held-to-maturity Securities

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Listed debt securities in Hong Kong, at amortised cost	<b>64,883</b>	65,812
Listed debt securities outside Hong Kong, at amortised cost	<b>517,039</b>	502,988
Unlisted debt securities, at amortised cost	<b>112,111</b>	113,104
	<hr/>	<hr/>
Total held-to-maturity securities	<b>694,033</b>	681,904
	<hr/>	<hr/>
Fair value of listed and unlisted held-to-maturity securities	<b>720,659</b>	712,843
	<hr/>	<hr/>

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

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Public sector entities	<b>42,608</b>	69,884
Banks and other financial institutions	<b>441,250</b>	459,475
Corporate entities	<b>210,175</b>	152,545
	<hr/>	<hr/>
	<b>694,033</b>	681,904
	<hr/>	<hr/>

**8. Held-to-maturity Securities** (continued)

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

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
With a residual maturity of:		
Three months or less	<b>167,810</b>	38,773
One year or less but over three months	<b>125,950</b>	244,862
Five years or less but over one year	<b>239,847</b>	300,642
Over five years	<b>160,426</b>	97,627
	<b>694,033</b>	681,904

During the period, a cedant of the 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 30th June, 2013, listed debt securities of the Group amounting to HK\$125,357,000 (31st December, 2012: HK\$102,912,000) were pledged.

**9. Available-for-sale Securities**

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Listed equity in Hong Kong, at fair value	<b>161,907</b>	169,001
Listed equity outside Hong Kong, at fair value	<b>1,419,707</b>	1,427,905
Total listed available-for-sale securities	<b>1,581,614</b>	1,596,906
Unlisted equity, at cost	<b>1,603,210</b>	1,268,733
Less: Impairment	<b>(28,239)</b>	(40,876)
	<b>1,574,971</b>	1,227,857
Unlisted debt, at cost	<b>35,913</b>	35,913
Less: Impairment	<b>(6,859)</b>	(6,859)
	<b>29,054</b>	29,054
Total unlisted available-for-sale securities	<b>1,604,025</b>	1,256,911
Total available-for-sale securities	<b>3,185,639</b>	2,853,817

### 9. Available-for-sale Securities (continued)

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

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Banks and other financial institutions	<b>2,532,026</b>	2,203,165
Corporate entities	<b>653,613</b>	650,652
	<b><u>3,185,639</u></b>	<u>2,853,817</u>

During the period, the gross loss in respect of the Group's available-for-sale listed investments recognised in other comprehensive income amounted to HK\$15,292,000 (30th June, 2012: gross gain of HK\$346,240,000).

Particulars of certain available-for-sale securities of the Group, of which the carrying amount at 30th June, 2013 amounted to HK\$2,506,792,000 (31st December, 2012: HK\$2,177,051,000) are as follows:

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

The fair values of listed equity investments are based on quoted market prices. The unlisted available-for-sale equity investments of the Group with carrying amounts of HK\$1,574,971,000 (31st December, 2012: HK\$1,227,857,000) 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.

As at 30th June, 2013, certain listed available-for-sale securities were pledged to secure a bank loan granted to the Group (note 14).

10. Loans and Advances and Other Assets

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Loans and advances	<b>92,094</b>	93,193
Accrued interest and other assets	<b>113,962</b>	116,688
	<hr/>	<hr/>
Gross loans and advances and other assets	<b>206,056</b>	209,881
	<hr/> <hr/>	<hr/> <hr/>

The maturity profile of the loans and advances as at the end of the reporting period is as follows:

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Repayable on demand	–	–
With a residual maturity of:		
Three months or less	<b>442</b>	512
One year or less but over three months	<b>1,319</b>	1,451
Five years or less but over one year	<b>80,993</b>	81,407
Over five years	<b>9,340</b>	9,823
	<hr/>	<hr/>
	<b>92,094</b>	93,193
	<hr/> <hr/>	<hr/> <hr/>

11. Securities Measured at Fair Value through Profit or Loss

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Debt securities:		
– listed in Hong Kong, at fair value	<b>102,375</b>	80,978
– listed outside Hong Kong, at fair value	<b>228,932</b>	209,196
– unlisted, at quoted market price	<b>125,179</b>	120,855
	<hr/>	<hr/>
	<b>456,486</b>	411,029
	<hr/> <hr/>	<hr/> <hr/>
Equity securities at fair value:		
– listed in Hong Kong	<b>438,070</b>	490,977
– listed outside Hong Kong	<b>277,283</b>	258,227
	<hr/>	<hr/>
	<b>715,353</b>	749,204
	<hr/> <hr/>	<hr/> <hr/>
Investment funds:		
– unlisted, at quoted price	<b>709,580</b>	599,160
	<hr/>	<hr/>
Total	<b>1,881,419</b>	1,759,393
	<hr/> <hr/>	<hr/> <hr/>



### 11. Securities Measured at Fair Value through Profit or Loss (continued)

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:

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Public sector entities	<b>18,059</b>	19,213
Banks and other financial institutions	<b>457,289</b>	453,801
Corporate entities	<b>1,406,071</b>	1,286,379
	<b>1,881,419</b>	1,759,393

All the securities measured at fair value through profit or loss at 30th June, 2013 and 31st December, 2012 were classified as held for trading.

As at 30th June, 2013, certain listed securities measured at fair value through profit or loss were pledged to secure a bank loan granted to the Group (note 14).

### 12. Insurance Receivables

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Amounts due in respect of:		
Direct underwriting	<b>202,048</b>	159,982
Reinsurance accepted	<b>40,318</b>	38,517
	<b>242,366</b>	198,499

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.

**12. Insurance Receivables** (continued)

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:

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Three months or less	<b>217,471</b>	177,489
Six months or less but over three months	<b>26,164</b>	23,456
One year or less but over six months	<b>366</b>	–
Over one year	<b>1,340</b>	323
	<b>245,341</b>	201,268
Less: Impairment allowances	<b>(2,975)</b>	(2,769)
	<b>242,366</b>	198,499

**13. Cash and Cash Equivalents and Pledged Deposits**

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Cash and bank balances	<b>217,900</b>	245,438
Time deposits with original maturity of over three months	<b>283,912</b>	275,040
Time deposits with original maturity of less than three months	<b>842,079</b>	964,072
	<b>1,343,891</b>	1,484,550
Pledged deposits	<b>120,080</b>	102,605
	<b>1,463,971</b>	1,587,155

**14. Interest-bearing Bank Borrowing**

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Interest-bearing bank loan, secured and repayable on demand	<b>200,000</b>	–

The bank loan bears interest at 1% over the 3-month Hong Kong Interbank Offered Rate and is pledged by certain Hong Kong listed shares classified as available-for-sale securities and securities measured at fair value through profit or loss with fair value for not less than HK\$200,000,000 (notes 9 and 11).

### 15. Contingent Liabilities

As at 30th June, 2013, 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\$142.2 million) (31st December, 2012: 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.

### 16. Commitments

At the end of the reporting period, the Group had capital commitments as follows:

	<b>30th June, 2013 HK\$'000</b>	31st December, 2012 HK\$'000
Contracted, but not provided for acquisition of computer software	<b>1,350</b>	2,314

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

### 17. Related Party Transactions

(a) Group

	<b>30th June, 2013</b>		31st December, 2012	
	<b>Directors and key management personnel HK\$'000</b>	<b>Enterprises and individuals related to directors and key management personnel HK\$'000</b>	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000
Loans and advances granted:				
Aggregate balance at the end of the reporting period	-	<b>10</b>	-	17
Interbank activities:				
Deposits placed	-	<b>595,328</b>	-	560,927

17. Related Party Transactions (continued)

(a) Group (continued)

	Six months ended 30th June, 2013		Six months ended 30th June, 2012	
	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000
Interbank activities:				
Interest income	-	2,090	-	2,679
Premium income:				
Gross premiums written	148	3,237	108	3,163
Commission expense, net	-	1,179	-	1,673
Compensation:				
Salaries and short-term employee benefits	6,213	-	5,576	-
Pension scheme contributions	251	-	233	-

Note: The key management personnel were solely the directors of the Company.

(b) The Group had the following balances and transactions with certain of its joint ventures during the period:

	30th June, 2013 HK\$'000	31st December, 2012 HK\$'000
Loans and advances granted:		
Aggregate balance at the end of the reporting period	14,337	14,337
	<b>Six months ended 30th June, 2013 HK\$'000</b>	<b>2012 HK\$'000</b>
Interest income received and receivables	-	102
Reinsurance premium ceded	9	-

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

	30th June, 2013 HK\$'000	31st December, 2012 HK\$'000
Loans and advances granted:		
Aggregate balance at the end of the reporting period	168,390	168,390

### 18. 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).

Assets measured at fair value:

	Level 1 HK\$'000	Level 2 HK\$'000	Total HK\$'000
<b>At 30th June, 2013</b>			
<b>Available-for-sale securities:</b>			
<b>Equity investments</b>	1,146,689	434,925	1,581,614
<b>Securities measured at fair value through profit or loss</b>	<u>969,904</u>	<u>911,515</u>	<u>1,881,419</u>
	<u><b>2,116,593</b></u>	<u><b>1,346,440</b></u>	<u><b>3,463,033</b></u>
	Level 1 HK\$'000	Level 2 HK\$'000	Total HK\$'000
At 31st December, 2012			
Available-for-sale securities:			
Equity investments	1,171,896	425,010	1,596,906
Securities measured at fair value through profit or loss	<u>958,480</u>	<u>800,913</u>	<u>1,759,393</u>
	<u><b>2,130,376</b></u>	<u><b>1,225,923</b></u>	<u><b>3,356,299</b></u>

As at 30th June, 2013 and 31st December, 2012, the Group had no financial instruments measured at fair value under Level 3.

During the period ended 30th June, 2013, there were no transfers of fair value measurements between Level 1 and Level 2.

During the period ended 30th June, 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 period ended 30th June, 2013 and 30th June, 2012, there were no transfers of fair value measurements into or out of Level 3.

The fair values of listed equity investments are based on quoted market prices. If the market for a listed security is not active, the fair value is established by reference to the current fair value of another security that is substantially the same. The fair values of unlisted investment funds are based on quoted price from fund managers.

## 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 joint ventures, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

### (3) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations as they fall due. To manage liquidity risk, the Group has established liquidity management policies that are pertinent to the operations of business units.

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

### Financial Risk Management Objectives and Policies (continued)

#### (4) Capital management

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 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 a joint venture, interest-bearing bank borrowings 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 30th June, 2013, the Group has no net debt.

#### (5) Interest rate risk management

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

Floating rate instruments expose the Group to cash flow interest 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. Interests on floating rate instruments are repriced at intervals of less than one year. Interest on fixed interest rate instruments are priced at inception of the financial instruments and fixed until maturity.

#### (6) Foreign exchange risk management

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk primarily arises from its overseas operations, reinsurance and investment activities.

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

### Financial Risk Management Objectives and Policies (continued)

#### (7) Insurance risk management

The business of the Group comprises both life and general insurance contracts, and general insurance contracts represent 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.



### Financial Risk Management Objectives and Policies (continued)

#### (8) Operational risk management

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

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

#### (9) Equity price risk management

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as securities measured at fair value through profit or loss and available-for-sale securities as at 30th June, 2013. 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 Group monitors market risk by establishing limits for transactions, open positions and stop-loss. These limits are reviewed and approved by the Investment Committee periodically and are monitored on a daily basis.

## Directors' Interests in Shares

As at 30th June, 2013, the interests of the Company's directors 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, Chapter 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:

Name of director	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Chan Yau Hing Robin	–	–	576,435,712 <sup>(1)</sup>	576,435,712	56.56
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 <sup>(2)</sup>	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 576,435,712 shares, (i) 566,069,712 shares were held through Claremont Capital Holdings Ltd ("Claremont Capital"), (ii) 8,830,000 shares were held through Robinson Enterprise Limited, (iii) 768,000 shares were held through Asia Panich Investment Company (Hong Kong) Limited ("Asia Panich") and (iv) 768,000 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 30th June, 2013, none of the Company's directors had registered an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial Shareholders' and Other Persons' Interests

As at 30th June, 2013, the following persons (other than a director or chief executive of the Company) had interests 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)	567,605,712	55.69
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
Aioli Nissay Dowa Insurance Company, Limited		52,550,175	5.16

## Other Information

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### Substantial Shareholders' and Other Persons' Interests (continued)

Notes:

- (a) *These shares have been included in the interest disclosure of Dr. Chan Yau Hing Robin as set out in the section "Directors' Interests in Shares" above.*
- (b) *Cosmos Investments Inc. was deemed to be interested in 567,605,712 shares in which 566,069,712 shares were held by Claremont Capital, 768,000 shares were held by Asia Panich and 768,000 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 30th June, 2013, 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.

### Purchase, Sale or Redemption of the Company's Shares

During the six months ended 30th June, 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

### Changes in the Board

The Board accepted the resignation of Mr. Mamoru Miyazaki as the Non-executive Director of the Company effective on 1st April, 2013 due to his other commitment and job relocation. The Board welcomed the appointment of Mr. Yoshihiro Yamaguchi as the Non-executive Director of the Company effective on 22nd May, 2013.

### Changes in Directors' Information

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the changes in the information of directors of the Company since the date of its Annual Report 2012 are set out below:

*Dr. Chan Yau Hing Robin, G.B.S., LL.D., J.P., was conferred with the Honorary University Fellowship by The Hong Kong University of Science and Technology on 27th June, 2013.*

*Mr. Lau Ki Chit ceased to be a member of the Hospital Governing Committee of Grantham Hospital and Ruttonjee & Tang Shiu Kin Hospitals on 31st March, 2013.*

### The Code for Securities Transactions by Directors

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

All directors have confirmed, following specific enquiry by the Company, that they complied with the required standards set out in the Code throughout the six months ended 30th June, 2013.

### Corporate Governance Code

The Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2013, except a deviation from code provision A.6.7, namely, an independent non-executive director was unable to attend the annual general meeting of the Company held on 9th May, 2013 as he was not in Hong Kong due to his other commitments.

