



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

Incorporated in Bermuda with limited liability

(Stock Code: 662)

INTERIM REPORT

For the six months ended 30th June, 2017

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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

CHAN Yeow Toh
TANAKA Junichi
YAMAMOTO Takao

Independent Non-Executive Directors

CHOW Suk Han Anna
MA Andrew Chiu Cheung
LAI KO Wing Yee Rebecca
SHUEN LEUNG Lai Sheung Loretta

Audit Committee

MA Andrew Chiu Cheung (*Chairman*)
CHOW Suk Han Anna
LAI KO Wing Yee Rebecca
SHUEN LEUNG Lai Sheung Loretta

Compliance Committee

CHOW Suk Han Anna (*Chairperson*)
MA Andrew Chiu Cheung
LAI KO Wing Yee Rebecca
SHUEN LEUNG Lai Sheung Loretta
CHAN Bernard Charnwut
TAN Stephen

Remuneration Committee

LAI KO Wing Yee Rebecca (*Chairperson*)
MA Andrew Chiu Cheung
CHOW Suk Han Anna
SHUEN LEUNG Lai Sheung Loretta
CHAN Bernard Charnwut

Nomination Committee

CHOW Suk Han Anna (*Chairperson*)
MA Andrew Chiu Cheung
LAI KO Wing Yee Rebecca
SHUEN LEUNG Lai Sheung Loretta
CHAN Bernard Charnwut

Risk Committee

LAI KO Wing Yee Rebecca (*Chairperson*)
MA Andrew Chiu Cheung
CHOW Suk Han Anna
SHUEN LEUNG Lai Sheung Loretta
CHAN Bernard Charnwut

Auditors

Ernst & Young
Certified Public Accountants
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1 Tim Mei Avenue, Central
Hong Kong

Registered Office

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Hamilton HM 11
Bermuda

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Principal Registrar and Transfer Office

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church 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\$265.9 million in the first half of 2017, a 105.5% increase over the same period in 2016. This reflected realised and unrealised gains in the value of portfolio investments and stronger returns from some of our joint ventures and associates. Underwriting profits fell somewhat, in line with insurance market conditions. Our expenses remained under control and in line with inflation.

Asia Financial's prospects for the second half of the year look reasonable, subject to unexpected volatility in global markets. We will continue with our conservative core investment approach and prudent policies in such areas as cost control in the pursuit of long-term growth in shareholder value.

Economic Background

The international economy grew moderately in the first half of 2017, with expansion in the United States, Europe and China. Hong Kong's economy benefited from this environment, achieving first-quarter GDP growth of over 4%. This was reflected in continuing firmness in the labour market and in consumption and investment.

Global business and consumer confidence generally strengthened during the period, and stock markets rose. The Hang Seng Index showed year-on-year growth of 17.1%, while H Shares rose by 10.3% and the S&P500 grew 8.2%. Concerns about inflation introduced some weakness into bond markets.

Management Approach and Future Prospects

The global outlook at mid-2017 looks fair, and the regional situation seems positive, with China showing signs of successfully balancing growth with ongoing structural adjustments. Hong Kong looks likely to surpass last year's 2% GDP growth. The main uncertainties are possible protectionism disrupting international trade, and unexpected inflation and interest rate pressure.

Medium-term prospects for our insurance operations remain positive, with our strong distribution network and market positioning helping us to perform well despite a crowded market. We will continue reviewing and optimizing our mix of business segments. We are also further developing our distribution capacity and product range.

We remain positive about the longer-term outlook. China's leadership is gradually addressing structural adjustment through increased consumption, urbanization and financial and other reforms. Other parts of East Asia are continuing their own long-term reforms and development. The region is in the midst of a major transformation involving the rise of large middle classes, gradually aging societies and greater use of market-based solutions to demographic and other policy challenges.

This is the long-term environment on which Asia Financial's management focuses. We aim to continue building on our interests in livelihood-related service industries such as insurance, retirement, health and property development, focused on Greater China and elsewhere in Asia. Our investment spheres fit well with our traditional expertise and networks of clients and partners, and as a whole are 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.

I look forward to reporting generally successful performance for the full year.

CHAN Yau Hing Robin

Chairman

Hong Kong, 16th August, 2017

Management Discussion and Analysis

Business Review

Insurance

Wholly owned subsidiary, Asia Insurance Company, Limited (“Asia Insurance”) achieved profit attributable to shareholders of HK\$197.4 million in the first half of 2017, a 125.8% increase compared with the same period in 2016.

Turnover declined by 4.0%. This was largely due to intense competition in pricing in several major market segments in Hong Kong, which led us to tighten underwriting discipline. There was no exposure to major catastrophes in the period. Under these circumstances, the 11.4% year-on-year decline in underwriting profit is acceptable (all the above figures are before elimination of intergroup transactions).

Realised and unrealised gains in investments resulted in a significant year-on-year recovery in investment returns. This reflected strength in equity markets and in the value of certain strategic holdings. Dividend income was steady, as was interest income. Other income reflected foreign exchange gains.

The rise in Asia Insurance’s costs in the first half of 2017 reflect the enhancement of the Company’s management capacity as well as market trends in pay.

The outlook for Asia Insurance’s core underwriting activities looks positive for the second half of 2017 and beyond. Our key challenge is soft pricing in what is currently a very competitive market. We will continue to utilize our risk management expertise to focus on quality business and optimize the mix of business segments, especially in our core market of Hong Kong. We are confident that our strengths in these areas will ensure continued healthy underwriting profitability.

Several new products – including comprehensive packages aimed at small and medium enterprises – are proving popular among clients. We are currently enhancing our product range, employee skills, systems and distribution capacity in anticipation of future trends in clients’ needs and market conditions. In this way, Asia Insurance expects to continue to build on its status as one of the leaders in Hong Kong’s general insurance market with an outstanding reputation for service and professionalism.

At the end of the first half of 2017 the Insurance Authority replaced the Office of the Commissioner of Insurance as the independent regulatory authority for the insurance industry in Hong Kong. We fully support this development, which we believe will strengthen the regulatory framework and benefit all stakeholders in the insurance sector in Hong Kong.

In terms of investment performance, the outlook for the rest of the year looks fairly good. However, given the uncertainty over interest rates and other factors, we will maintain a prudent approach towards portfolio management.

Joint ventures and associates in the insurance segment delivered generally positive results in the first half of 2017. BC Reinsurance Limited enjoyed a healthy turnaround thanks to improved investment returns and stable underwriting performance. The People’s Insurance Company of China (Hong Kong), Limited similarly recorded a good increase in profit. Professional Liability Underwriting Services Limited continued to deliver steady results.

Hong Kong Life Insurance Limited (“Hong Kong Life”) saw stable performance in line with returns from fixed income investments. In March 2017, Asia Insurance entered into a share sale agreement with an independent third party to dispose of 16.67% of the issued capital of Hong Kong Life for a cash consideration of approximately HK\$1,183 million before transaction expenses. Completion of the transaction is subject to certain conditions including obtaining the necessary approvals from the relevant authorities.

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. PICC Life reported RMB83.3 billion in premium income for the first half of 2017, a 1.7% increase over the same period in 2016. 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 14.0% of our total assets.



Business Review (continued)

Other Portfolio Investment

Trading investments showed realised and unrealised gains in the first half of 2017. This particularly reflected strength in the Hong Kong, China and US equities markets. Returns from non-traded investments declined owing mainly to lower dividend income. Net interest income was steady.

Our portfolio investment approach will remain long-term and not simply focused on 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 and Wellness

Our 3.6% holding in Bumrungrad Hospital Public Company Limited (“Bumrungrad”) in Bangkok remains one of our most solid investments. The stock market valuation was stable in the first half of the year. Bumrungrad’s success in attracting patients internationally through the delivery of high-quality medical services looks likely to continue.

Asia Financial’s 20% share (in a consortium with Bumrungrad) in Ulaanbaatar Songdo Hospital reported a small loss for the period. We see this investment as an opportunity to participate in future growth in Mongolia’s health-care sector. It forms an attractive long-term addition to our portfolio of investments in regional companies focusing on personal coverage and care services.

The Kinnet, our wholly owned Hong Kong wellness centre aimed at healthy aging, reported another loss in the first half, and management has since decided to close the operation with effect from September. Client satisfaction had been high, and we will examine possible ways to meet this market need on a commercial basis.

Pension and Asset Management

The Group’s holding in Bank Consortium Holding Limited (“BCH”), one of our joint ventures, generated healthy returns in the first half of 2017 owing to organic growth and market conditions. Bank Consortium Trust Company Limited (“BCT”), a wholly owned subsidiary of BCH, is one of the major providers of Mandatory Provident Fund services in Hong Kong.

Property Development

The Group’s interests in real estate are focused on Shanghai and represent 3.5% 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.

The first stage of Phase 3 of the project is now under construction, and pre-sales should start by the end of this year.

Current measures to regulate China’s residential property market have reduced transactions in parts of the country. However, this is not affecting pricing or demand among middle-class end-users in this attractive locality in Shanghai. We will consider new possible opportunities in this sector.

The Group holds 50% in Super Win Limited. This comprises some rental residential property in Hong Kong, reported a small loss.

Management Discussion and Analysis

Liquidity, Financial Resources and Gearing Ratio

The Group's cash and cash equivalents as at 30th June, 2017 amounted to HK\$2,654,585,000 (31st December, 2016: HK\$2,433,390,000).

The Group had a bank borrowing of HK\$150,000,000 as at 30th June, 2017 (31st December, 2016: HK\$150,000,000), which was secured by certain Hong Kong listed shares, repayable on or before 29th January, 2018 and charged at 1.25% over the 3-month Hong Kong Interbank Offered Rate per annum.

No gearing ratio was calculated as the Group had no net debt as at 30th June, 2017. 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 a joint venture and associates, interest-bearing bank borrowing 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 at 30th June, 2017, Asia Insurance charged assets with a carrying value of HK\$119,685,000 (31st December, 2016: HK\$119,956,000) in favour of a cedant to secure the performance of Asia Insurance's obligations to the cedant under certain pecuniary loss reinsurance contracts.

The Group also pledged certain equity securities listed in Hong Kong classified as available-for-sale securities and securities measured at fair value through profit or loss with fair value of not less than HK\$150,000,000 (31st December, 2016: HK\$150,000,000) to a bank to secure the interest-bearing bank borrowing of HK\$150,000,000 (31st December, 2016: HK\$150,000,000).

Contingent Liabilities

As at 30th June, 2017, the Group had no material contingent liabilities.

Employees and Remuneration Policy

The total number of employees of the Group as at 30th June, 2017 was 308 (31st December, 2016: 308). 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, 2017. The Group also offers various training and induction programmes to its employees.

The remuneration policy of the Group is formulated and recommended by the Remuneration Committee of the Company for the Board's approval. The Remuneration Committee's responsibilities include reviewing and approving the management's remuneration proposals, and making recommendations to the Board on the adjustments to remuneration packages payable to directors, senior management and employees of the Group.



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, 2017 as follows:

Profit attributable to equity holders of the Company:	HK\$265.9 million	+105.5%
Earnings per share:	HK27.2 cents	+114.2%
Interim dividend per share:	HK4.0 cents	+60.0%

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

Review of Interim Financial Statements

The Audit Committee of the Company has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30th June, 2017 and recommended it for the Board’s approval.

Interim Dividend

The Board has resolved to declare an interim cash dividend of HK4.0 cents (2016: HK2.5 cents) per ordinary share for the six months ended 30th June, 2017 payable on or about Wednesday, 27th September, 2017 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 19th September, 2017.

Closure of Register of Members

The Register of Members of the Company will be closed from Friday, 15th September, 2017 to Tuesday, 19th September, 2017, 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 Thursday, 14th September, 2017.



Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30th June, 2017

	Notes	Six months ended 30th June,	
		2017 HK\$'000	2016 HK\$'000
REVENUE	3	689,168	718,766
Gross premiums		689,168	718,766
Reinsurers' share of gross premiums		(218,942)	(259,265)
Change in unearned premiums reserve		(24,440)	(22,920)
Change in life reserve		(17,091)	(10,552)
Net insurance contracts premiums revenue		428,695	426,029
Gross claims paid		(245,678)	(258,998)
Reinsurers' share of gross claims paid		83,764	97,256
Gross change in outstanding claims		(22,264)	18,181
Reinsurers' share of gross change in outstanding claims		3,033	(30,504)
Net claims incurred		(181,145)	(174,065)
Commission income		40,775	44,611
Commission expense		(159,405)	(161,160)
Net commission expense		(118,630)	(116,549)
Management expenses for underwriting business		(33,146)	(26,125)
Underwriting profit		95,774	109,290
Dividend income		63,513	97,388
Realised gain/(loss) on investments		27,629	(16,345)
Unrealised gain/(loss) on investments		79,747	(38,779)
Interest income		31,853	30,535
Other income and gains, net		17,175	2,208
		315,691	184,297
Operating expenses		(63,879)	(59,762)
Finance costs	4	(1,598)	(1,376)
		250,214	123,159
Share of profits and losses of joint ventures		29,033	10,032
Share of profits and losses of associates		12,743	10,772
PROFIT BEFORE TAX	5	291,990	143,963

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Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30th June, 2017

	Notes	Six months ended 30th June,	
		2017	2016
		HK\$'000	HK\$'000
PROFIT BEFORE TAX	5	291,990	143,963
Income tax expense	6	(23,821)	(14,541)
PROFIT FOR THE PERIOD		268,169	129,422
Attributable to:			
Equity holders of the Company		265,898	129,366
Non-controlling interests		2,271	56
		268,169	129,422
INTERIM DIVIDEND	7	39,139	24,576
INTERIM DIVIDEND PER SHARE	7	HK4.0 cents	HK2.5 cents
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic – For profit for the period		HK27.2 cents	HK12.7 cents
Diluted – For profit for the period		N/A	N/A



Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30th June, 2017

	Six months ended 30th June,	
	2017	2016
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	268,169	129,422
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale securities:		
Changes in fair value	216,588	(63,677)
Share of other comprehensive income/(expense) of joint ventures	5,068	(870)
Share of other comprehensive income of associates	16,849	258
Exchange differences on translation of foreign operations	98	(40)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD, NET OF TAX	238,603	(64,329)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	506,772	65,093
ATTRIBUTABLE TO:		
Equity holders of the Company	503,332	62,548
Non-controlling interests	3,440	2,545
	506,772	65,093



Condensed Consolidated Statement of Financial Position (Unaudited)

30th June, 2017

	Notes	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
ASSETS			
Property, plant and equipment		329,985	335,487
Investment properties		28,200	28,200
Interests in joint ventures		202,631	280,104
Loans to joint ventures		56,500	56,500
Interests in associates		386,200	357,817
Due from an associate		256,140	200,765
Held-to-maturity securities	9	648,683	651,969
Available-for-sale securities	10	3,539,208	3,321,596
Pledged deposits	14	167,653	158,915
Loans and advances and other assets	11	100,922	129,352
Securities measured at fair value through profit or loss	12	1,585,484	1,524,770
Insurance receivables	13	250,056	197,465
Reinsurance assets		579,797	583,379
Cash and cash equivalents	14	2,654,585	2,433,390
Assets of a disposal group classified as held for sale	15	108,423	–
		10,894,467	10,259,709
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital		978,478	978,478
Reserves		6,463,585	6,004,220
Reserve of a disposal group classified as held for sale		4,828	–
Proposed dividend		39,139	53,816
		7,486,030	7,036,514
Non-controlling interests		46,530	43,090
		7,532,560	7,079,604
Liabilities			
Insurance contracts liabilities		2,553,778	2,496,596
Insurance payables		163,243	157,233
Due to a joint venture		26,762	25,055
Due to associates		4,222	4,222
Other liabilities		377,562	281,111
Interest-bearing bank borrowing	16	150,000	150,000
Tax payable		74,101	53,649
Deferred tax liabilities		12,239	12,239
		3,361,907	3,180,105
Total equity and liabilities		10,894,467	10,259,709

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30th June, 2017

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	Reserve of a disposal group classified as held for sale HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st January, 2017	978,478	560,531	71,777	1,130,178	56,120	(17,942)	2,427	513,240	79,543	3,608,346	-	53,816	7,038,514	43,090	7,079,604
Profit for the period	-	-	-	-	-	-	-	-	-	265,898	-	-	265,898	2,271	268,169
Other comprehensive income/(expense) for the period:															
Changes in fair value of available-for-sale securities	-	-	-	216,588	-	-	-	-	-	-	-	-	216,588	-	216,588
Share of other comprehensive income of joint ventures	-	-	-	3,120	-	1,948	-	-	-	-	-	-	5,068	-	5,068
Share of other comprehensive income of associates	-	-	-	2,802	-	12,878	-	-	-	-	-	-	15,680	1,169	16,849
Exchange differences on translation of foreign operations	-	-	-	-	-	98	-	-	-	-	-	-	98	-	98
Total comprehensive income/(expense) for the period	-	-	-	222,510	-	14,924	-	-	-	265,898	-	-	503,332	3,440	506,772
Final 2016 dividend declared	-	-	-	-	-	-	-	-	-	-	-	(53,816)	(53,816)	-	(53,816)
Reclassification for a disposal group classified as held for sale	-	-	-	(4,828)	-	-	-	-	-	-	4,828	-	-	-	-
Proposed interim 2017 dividend	-	-	-	-	-	-	-	-	-	(39,139)	-	39,139	-	-	-
Transfer to contingency reserve	-	-	408	-	-	-	-	-	-	(408)	-	-	-	-	-
At 30th June, 2017	978,478	560,531*	72,185*	1,347,860*	56,120*	(3,018)*	2,427*	513,240*	79,543*	3,834,697*	4,828	39,139	7,486,030	46,530	7,532,560

* These reserve accounts comprise the consolidated reserves of HK\$6,463,585,000 (31st December, 2016: HK\$6,004,220,000) 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, 2017

Atributable to equity holders of the Company

	Issued capital HK\$'000	Treasury shares 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, 2016	1,019,200	-	560,531	64,436	1,232,943	56,120	12,425	2,427	513,240	38,821	3,509,282	10,192	7,019,617	40,312	7,059,929
Profit for the period	-	-	-	-	-	-	-	-	-	-	129,366	-	129,366	56	129,422
Other comprehensive income/(expense) for the period:															
Changes in fair value of available-for-sale securities	-	-	-	-	(63,677)	-	-	-	-	-	-	-	(63,677)	-	(63,677)
Share of other comprehensive income/(expense) of joint ventures	-	-	-	-	(1,721)	-	851	-	-	-	-	-	(870)	-	(870)
Share of other comprehensive income/(expense) of associates	-	-	-	-	5,724	-	(7,955)	-	-	-	-	-	(2,231)	2,489	258
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(40)	-	-	-	-	-	(40)	-	(40)
Total comprehensive income/(expense) for the period	-	-	-	-	(59,674)	-	(7,144)	-	-	-	129,366	-	62,548	2,545	65,093
Final 2015 dividend declared	-	-	-	-	-	-	-	-	-	-	86	(10,192)	(10,106)	-	(10,106)
Proposed interim 2016 dividend	-	-	-	-	-	-	-	-	-	-	(24,576)	24,576	-	-	-
Repurchase of shares	(22,832)	(6,250)	-	-	-	-	-	-	-	-	(75,600)	-	(104,682)	-	(104,682)
Transfer to capital redemption reserve	-	-	-	-	-	-	-	-	-	22,832	(22,832)	-	-	-	-
Transfer to contingency reserve	-	-	-	3,251	-	-	-	-	-	-	(3,251)	-	-	-	-
At 30th June, 2016	996,368	(6,250)	560,531	67,687	1,173,269	56,120	5,281	2,427	513,240	61,653	3,512,475	24,576	6,967,377	42,857	7,010,234



Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30th June, 2017

	Six months ended 30th June,	
	2017 HK\$'000	2016 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	291,990	143,963
Adjustments for:		
Interest income	(31,853)	(30,535)
Finance costs	1,598	1,376
Dividend income from investments	(63,513)	(97,388)
Loss on redemption/call-back of held-to-maturity securities	126	–
Gain on disposal of available-for-sale securities	(57)	(57)
Depreciation	7,121	7,129
Gain on disposal of items of property, plant and equipment	(226)	(1)
Share of profits and losses of joint ventures	(29,033)	(10,032)
Share of profits and losses of associates	(12,743)	(10,772)
	163,410	3,683
Decrease/(increase) in loans and advances and other assets	35,253	(37,522)
Decrease/(increase) in securities measured at fair value through profit or loss	(60,714)	210,636
Increase in insurance receivables	(52,591)	(49,175)
Decrease/(increase) in reinsurance assets	3,582	(23,381)
Decrease in time deposits with original maturity of over three months	50,343	188,420
Increase in insurance contracts liabilities	57,182	69,178
Increase in insurance payables	6,010	37,608
Decrease in other liabilities	(21,784)	(9,693)
	180,691	389,754
Cash generated from operations	180,691	389,754
Hong Kong profits tax paid	(3,386)	–
Overseas taxes refund	17	–
	177,322	389,754
Net cash flows from operating activities	177,322	389,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	31,853	30,535
Dividends received from investments	56,690	52,305
Dividends received from joint ventures	3,151	3,150
Dividends received from associates	1,214	1,377
Purchases of held-to-maturity securities	(38,841)	(37,072)
Purchases of available-for-sale securities	(1,024)	(2,485)
Proceeds from redemption/call back of held-to-maturity securities	42,001	3,594
Proceeds from disposal of available-for-sale securities	57	57
Purchases of items of property, plant and equipment	(2,185)	(20,769)
Proceeds from disposal of items of property, plant and equipment	792	34
Advance of a loan to a joint venture	–	(19,000)
Repayment of a loan to a joint venture	–	5,835
Capital contribution to an associate	(5)	–
Increase in an amount due to a joint venture	1,707	836
Increase in an amount due from an associate	(55,375)	–
Increase in pledged deposits	(8,738)	(10,679)
Deposit received for a proposed disposal of a joint venture	118,333	–
	149,630	7,718
Net cash flows from investing activities	149,630	7,718

.....continued



Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30th June, 2017

	Six months ended 30th June,	
	2017	2016
	HK\$'000	HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	–	(104,682)
Dividends paid	(53,816)	(10,106)
Interest paid	(1,598)	(1,376)
	<u> </u>	<u> </u>
Net cash flows used in financing activities	(55,414)	(116,164)
	<u> </u>	<u> </u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	271,538	281,308
	<u> </u>	<u> </u>
Cash and cash equivalents at beginning of period	2,218,027	1,724,020
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,489,565	2,005,328
	<u> </u>	<u> </u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	204,330	283,091
Non-pledged time deposits with original maturity of over three months when acquired	165,020	250,428
Non-pledged time deposits with original maturity of less than three months when acquired	2,285,235	1,722,237
	<u> </u>	<u> </u>
Cash and cash equivalents as stated in the unaudited condensed consolidated statement of financial position	2,654,585	2,255,756
	<u> </u>	<u> </u>
Less: Non-pledged time deposits with original maturity of over three months when acquired	(165,020)	(250,428)
	<u> </u>	<u> </u>
Cash and cash equivalents as stated in the unaudited condensed consolidated statement of cash flows	2,489,565	2,005,328
	<u> </u>	<u> </u>



Notes to the Interim Financial Statements (Unaudited)

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, 2016 except for the adoption of the revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”), which are effective for accounting period beginning on or after 1st January, 2017 and the new accounting policy adopted by the Group during the period as disclosed below.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Annual Improvements 2014-2016 Cycle	<i>Amendments to HKFRS 12 Disclosure of Interests in Other Entities</i>

Adoption of these 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.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

2. Operating Segment Information

(a) Operating segments

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

	Insurance HK\$’000	Corporate HK\$’000	Eliminations HK\$’000	Consolidated HK\$’000
For the six months ended 30th June, 2017				
Segment revenue:				
External customers	689,168	–	–	689,168
Other revenue, income and gains, net	125,810	94,107	–	219,917
Intersegment	5,205	–	(5,205)	–
Total	820,183	94,107	(5,205)	909,085
Segment results	191,981	58,233	–	250,214
Share of profits and losses of:				
Joint ventures	17,733	11,300	–	29,033
Associates	7,734	5,009	–	12,743
Profit before tax				291,990
Income tax expense	(23,543)	(278)	–	(23,821)
Profit for the period				268,169



2. Operating Segment Information (continued)

(a) Operating segments (continued)

	Insurance HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
For the six months ended 30th June, 2016				
Segment revenue:				
External customers	718,766	–	–	718,766
Other revenue, income and gains, net	10,782	64,225	–	75,007
Intersegment	4,590	–	(4,590)	–
Total	734,138	64,225	(4,590)	793,773
Segment results	93,649	29,510	–	123,159
Share of profits and losses of:				
Joint ventures	827	9,205	–	10,032
Associates	435	10,337	–	10,772
Profit before tax				143,963
Income tax expense	(12,597)	(1,944)	–	(14,541)
Profit for the period				129,422
	Insurance HK\$'000	Corporate HK\$'000	Consolidated HK\$'000	
30th June, 2017				
Segment assets	6,008,821	4,188,392		10,197,213
Interests in joint ventures	85,566	117,065		202,631
Interests in associates	156,005	230,195		386,200
Assets of a disposal group classified as held for sale	108,423	–		108,423
Total assets	6,358,815	4,535,652		10,894,467
Segment liabilities	3,099,312	262,595		3,361,907
	Insurance HK\$'000	Corporate HK\$'000		Consolidated HK\$'000
31st December, 2016				
Segment assets	5,564,830	4,056,958		9,621,788
Interests in joint ventures	176,330	103,774		280,104
Interests in associates	145,509	212,308		357,817
Total assets	5,886,669	4,373,040		10,259,709
Segment liabilities	2,891,449	288,656		3,180,105

Notes to the Interim Financial Statements (Unaudited)

2. Operating Segment Information (continued)

(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 represents gross premiums net of discounts, from the direct and reinsurance business underwritten during the period.

4. Finance Costs

	Six months ended 30th June,	
	2017 HK\$'000	2016 HK\$'000
Interest on a bank loan	1,598	1,376

5. Profit Before Tax

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

	Six months ended 30th June,	
	2017 HK\$'000	2016 HK\$'000
Auditors' remuneration	(1,876)	(1,554)
Depreciation	(7,121)	(7,129)
Employee benefits expense (including directors' remuneration)	(64,697)	(59,710)
Minimum lease payments under operating leases	(741)	(719)
Realised gain/(loss) on:		
– disposal of securities measured at fair value through profit or loss (held for trading), net	27,698	(16,402)
– disposal of available-for-sale securities	57	57
– redemption/call back of held-to-maturity securities	(126)	–
Total realised gain/(loss) on investments	27,629	(16,345)
Unrealised gain/(loss) on securities measured at fair value through profit or loss (held for trading), net	79,747	(38,779)
Interest income	31,853	30,535
Gain on disposal/write-off of items of property, plant and equipment	226	1
Foreign exchange gain/(loss), net [#]	11,225	(2,994)
Dividend income from:		
– Listed investments	41,866	40,088
– Unlisted investments	21,647	57,300
Total dividend income	63,513	97,388

[#] Such amount was included in "Other income and gains, net" on the face of the unaudited condensed consolidated statement of profit or loss.



6. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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,	
	2017 HK\$'000	2016 HK\$'000
Current – Hong Kong		
Charge for the period	19,589	8,798
Current – Elsewhere		
Charge for the period	4,232	4,075
Deferred	–	1,668
	<hr/>	<hr/>
Total tax charge for the period	23,821	14,541
	<hr/>	<hr/>

7. Dividend

	Six months ended 30th June,	
	2017 HK\$'000	2016 HK\$'000
Proposed interim dividend:		
HK4.0 cents (2016: HK2.5 cents) per ordinary share	39,139	24,576
	<hr/>	<hr/>

The Board has resolved to pay an interim dividend of HK4.0 cents per share (2016: HK2.5 cents), which will be paid in cash, for the six months ended 30th June, 2017 payable on or about 27th September, 2017 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 19th September, 2017.

8. 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\$265,898,000 (2016: HK\$129,366,000) and the weighted average number of ordinary shares of 978,478,000 (2016: 1,015,447,000, as adjusted to reflect the number of treasury shares of 1,348,000 held) in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30th June, 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

Notes to the Interim Financial Statements (Unaudited)

9. Held-to-maturity Securities

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Listed debt securities in Hong Kong, at amortised cost	318,294	298,467
Listed debt securities outside Hong Kong, at amortised cost	160,794	183,723
Unlisted debt securities, at amortised cost	169,595	169,779
	<hr/>	<hr/>
Total held-to-maturity securities	648,683	651,969
	<hr/>	<hr/>
Fair value of listed and unlisted held-to-maturity securities	678,081	675,301
	<hr/>	<hr/>

The fair values of the listed and unlisted held-to-maturity securities are based on quoted market prices and quoted prices from brokers and fund managers, respectively.

None of the held-to-maturity securities are either past due or impaired. The financial assets included in held-to-maturity securities relate to receivables for which there was no recent history of default.

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

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Banks and other financial institutions	478,470	439,343
Corporate entities	170,213	212,626
	<hr/>	<hr/>
	648,683	651,969
	<hr/>	<hr/>



9. Held-to-maturity Securities (continued)

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

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
With a residual maturity of:		
Three months or less	5,000	11,699
One year or less but over three months	150,252	79,789
Five years or less but over one year	246,306	313,351
Over five years	247,125	247,130
	<u>648,683</u>	<u>651,969</u>

During the period, 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 30th June, 2017, listed debt securities of the Group amounting to HK\$119,685,000 (31st December, 2016: HK\$119,956,000) were pledged.

10. Available-for-sale Securities

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Listed equity in Hong Kong, at fair value	194,398	176,787
Listed equity outside Hong Kong, at fair value	1,750,146	1,550,145
Total listed available-for-sale securities	<u>1,944,544</u>	<u>1,726,932</u>
Unlisted equity, at cost	1,624,863	1,624,863
Less: Impairment	(32,056)	(32,056)
	<u>1,592,807</u>	<u>1,592,807</u>
Unlisted debt, at cost	8,070	8,070
Less: Impairment	(6,213)	(6,213)
	<u>1,857</u>	<u>1,857</u>
Total unlisted available-for-sale securities	<u>1,594,664</u>	<u>1,594,664</u>
Total available-for-sale securities	<u>3,539,208</u>	<u>3,321,596</u>

Notes to the Interim Financial Statements (Unaudited)

10. 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:

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Banks and other financial institutions	2,424,022	2,230,363
Corporate entities	1,115,186	1,091,233
	3,539,208	3,321,596

During the period, the gross gain in respect of the Group's available-for-sale listed investments recognised in other comprehensive income amounted to HK\$216,588,000 (30th June, 2016: gross loss of HK\$63,677,000).

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\$1,592,807,000 (31st December, 2016: HK\$1,592,807,000) 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, 2017, the Group's bank loan is secured by the pledge of certain equity securities listed in Hong Kong classified as available-for-sale securities and securities measured at fair value through profit or loss with fair value of not less than HK\$150,000,000 (31st December, 2016: HK\$150,000,000) (note 16).

11. Loans and Advances and Other Assets

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Loans and advances	13,574	14,517
Dividend receivable	6,823	–
Accrued interest and other assets	80,525	114,835
Gross loans and advances and other assets	100,922	129,352

The Group's accrued interest and other assets are current in nature. 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.

11. Loans and Advances and Other Assets (continued)

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

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Repayable on demand	–	–
With a residual maturity of:		
Three months or less	388	442
One year or less but over three months	1,177	1,279
Five years or less but over one year	5,339	5,486
Over five years	6,670	7,310
	13,574	14,517

12. Securities Measured at Fair Value through Profit or Loss

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Debt securities:		
– listed in Hong Kong, at fair value	70,913	79,552
– listed outside Hong Kong, at fair value	70,349	110,244
– unlisted, at quoted market price	15,832	15,792
	157,094	205,588
Equity securities at fair value:		
– listed in Hong Kong	369,686	321,166
– listed outside Hong Kong	463,792	467,569
	833,478	788,735
Investment funds:		
– listed outside Hong Kong, at fair value	11,372	–
– unlisted, at quoted price	583,540	530,447
	594,912	530,447
Total	1,585,484	1,524,770

Notes to the Interim Financial Statements (Unaudited)

12. 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:

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Public sector entities	18,561	22,028
Banks and other financial institutions	252,653	268,601
Corporate entities	1,314,270	1,234,141
	1,585,484	1,524,770

Securities measured at fair value through profit or loss at 30th June, 2017 and 31st December, 2016 were classified as held for trading.

As at 30th June, 2017, the Group's bank loan is secured by the pledge of certain equity securities listed in Hong Kong classified as available-for-sale securities and securities measured at fair value through profit or loss with fair value of not less than HK\$150,000,000 (31st December, 2016: HK\$150,000,000) (note 16).

13. Insurance Receivables

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Amounts due in respect of:		
Direct underwriting	176,153	102,296
Reinsurance accepted	73,903	95,169
	250,056	197,465

The Group grants credit terms of three months to six months on billed policies. 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.



13. 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:

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Three months or less	202,491	183,907
Six months or less but over three months	33,157	15,922
One year or less but over six months	16,908	–
Over one year	265	401
	252,821	200,230
Less: Impairment allowances	(2,765)	(2,765)
	250,056	197,465

14. Cash and Cash Equivalents and Pledged Deposits

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Cash and bank balances	204,330	168,772
Time deposits with original maturity of over three months	165,020	215,363
Time deposits with original maturity of less than three months	2,285,235	2,049,255
	2,654,585	2,433,390
Pledged deposits	167,653	158,915
	2,822,238	2,592,305

15. Assets of a Disposal Group Classified as Held for Sale

On 20th March, 2017, Asia Insurance Company, Limited (“Asia Insurance”), a wholly-owned subsidiary of the Company, entered into a share sale agreement with an independent third party to dispose of 16.67% of the issued share capital of Hong Kong Life Insurance Limited for a cash consideration of approximately HK\$1,183 million before transaction related expenses. Asia Insurance has received a non-refundable deposit of amount equal to approximately HK\$118 million, being 10% of the consideration.

Completion of the transaction is subject to certain conditions including obtaining the necessary approvals from the relevant authorities. Accordingly, interests in Hong Kong Life Insurance Limited was classified as a disposal group held for sale.

Notes to the Interim Financial Statements (Unaudited)

16. Interest-bearing Bank Borrowing

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Interest-bearing bank loan, secured	150,000	150,000

The bank loan bears interest at 1.25% (31st December, 2016: 1.25%) over the 3-month Hong Kong Interbank Offered Rate per annum, is repayable on or before 29th January, 2018, and is secured by the pledge of certain equity securities listed in Hong Kong classified as available-for-sale securities and securities measured at fair value through profit or loss with fair value of not less than HK\$150,000,000 (31st December, 2016: HK\$150,000,000) (notes 10 and 12).

17. Commitments

The Group's share of certain of its joint ventures' own capital commitment is as follows:

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Contracted, but not provided for	–	2,025

18. Related Party Transactions

(a)

	30th June, 2017		31st December, 2016	
	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000	Directors and key management personnel HK\$'000	Enterprises and individuals related to directors and key management personnel HK\$'000
Loans and advances granted:				
Aggregate balance at the end of the reporting period	–	1,913	–	1,910
Interbank activities:				
Deposits placed	–	773,446	–	846,604

18. Related Party Transactions (continued)

(a)

	Six months ended 30th June, 2017		Six months ended 30th June, 2016	
	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	–	4,337	–	2,688
Premium income:				
Gross premiums written	166	4,406	151	7,254
Commission expense, net	–	411	–	364
Compensation:				
Salaries and short-term employee benefits	6,419	–	6,557	–
Pension scheme contributions	268	–	272	–

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

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

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Loans and advances granted:		
Aggregate balance at the end of the reporting period	56,500	56,500
Loans and advances received:		
Aggregate balance at the end of the reporting period	25,089	23,640
	Six months ended 30th June, 2017 HK\$'000	2016 HK\$'000
Interest expense paid or payable	1,276	1,276
Commission expense paid	58	63

Notes to the Interim Financial Statements (Unaudited)

18. Related Party Transactions (continued)

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

	30th June, 2017 HK\$'000	31st December, 2016 HK\$'000
Loans and advances granted:		
Aggregate balance at the end of the reporting period	256,140	200,765
Loans and advances received:		
Aggregate balance at the end of the reporting period	4,222	4,222
	Six months ended 30th June, 2017 HK\$'000	2016 HK\$'000
Reinsurance premium ceded	67	91
Commission expense paid	4,392	5,158

19. Fair Value Hierarchy of Financial Instruments

Assets measured at fair value:

	Fair value measurement using		
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Total HK\$'000
At 30th June, 2017			
Available-for-sale securities:			
Equity investments	1,051,484	893,060	1,944,544
Securities measured at fair value through profit or loss	839,142	746,342	1,585,484
	1,890,626	1,639,402	3,530,028

19. Fair Value Hierarchy of Financial Instruments (continued)

	Fair value measurement using		
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Total HK\$'000
At 31st December, 2016			
Available-for-sale securities:			
Equity investments	838,841	888,091	1,726,932
Securities measured at fair value through profit or loss	832,379	692,391	1,524,770
	<u>1,671,220</u>	<u>1,580,482</u>	<u>3,251,702</u>

As at 30th June, 2017 and 31st December, 2016, the Group had no financial instruments measured at fair value under Level 3 for both financial assets and financial liabilities.

During the periods ended 30th June, 2017 and 30th June, 2016, there were no transfers of fair value measurements between Level 1 and Level 2 for both financial assets and financial liabilities.

During the periods ended 30th June, 2017 and 30th June, 2016, there were no transfers of fair value measurements into or out of Level 3 for both financial assets and financial liabilities.

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, together with internal audit outsourcing professionals, play an important role in the Group's internal control framework. They monitor the effectiveness of the internal control procedures and ensure 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, intermediaries 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 intermediaries 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, loans to joint ventures and an amount due from an associate, 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 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 the 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 contracts liabilities, insurance payables, amounts due to a joint venture and associates, interest-bearing bank borrowing 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, 2017, 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. 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.

(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 97% 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 catastrophic 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 agreements.

The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract. The Group also considers the 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 of the wholly-owned subsidiary, Asia Insurance Company, Limited, 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 of the wholly-owned subsidiary, Asia Insurance Company, Limited.

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, 2017. 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.

Other Information

The Code for Securities Transactions by Directors

The Company has adopted a code 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 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Code of Conduct and the Model Code throughout the six months ended 30th June, 2017.

Directors’ Interests in Shares

As at 30th June, 2017, 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 under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to 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 ⁽¹⁾
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
CHAN Yau Hing Robin	–	–	578,829,712 ⁽²⁾	578,829,712	59.16
CHAN Bernard Charnwut	1,382,334	–	–	1,382,334	0.14
WONG Kok Ho	810,000	430,000	–	1,240,000	0.13
CHOW Suk Han Anna	41,559	–	–	41,559	0.00

Notes:

(1) Based on 978,478,000 shares in issue as at 30th June, 2017.

(2) Out of the 578,829,712 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) 3,097,000 shares were held through Asia Panich Investment Company (Hong Kong) Limited (“Asia Panich”) and (iv) 833,000 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.

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, 2017, none of the Company’s directors and chief executive had registered an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests in Shares

As at 30th June, 2017, the following persons (other than the directors 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 ^(a)
Cosmos Investments Inc.	(b), (c)	569,999,712	58.25
Claremont Capital Holdings Ltd	(b)	566,069,712	57.85
Bangkok Bank Public Company Limited		95,488,236	9.76
Sompo Holdings, Inc.	(d)	85,981,753	8.79
Sompo Japan Nipponkoa Insurance Inc.	(d)	85,981,753	8.79
Aioi Nissay Dowa Insurance Company, Limited		52,550,175	5.37

Notes:

- (a) Based on 978,478,000 shares in issue as at 30th June, 2017.
- (b) 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.
- (c) Cosmos Investments Inc. was deemed to be interested in 569,999,712 shares in which 566,069,712 shares were held by Claremont Capital, 3,097,000 shares were held by Asia Panich and 833,000 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.
- (d) Sompo Japan Nipponkoa Insurance Inc. ("SJNII") is a wholly-owned subsidiary of Sompo Holdings, Inc. ("SHI") and accordingly, the shares in which SJNII is shown as interested are included in the shares in which SHI is shown as interested.

Save as disclosed above, as at 30th June, 2017, 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, 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Other Information

Changes in Directors' Information

There have been changes in the information of some of the Directors since the date of the Company's 2016 Annual Report. Details of the changes as required to be disclosed under Rule 13.51B(1) of the Listing Rules are as follows:

1. Dr. CHAN Yau Hing Robin, G.B.S., LL.D., J.P., ceased to act as the Executive Vice Chairman of the China Overseas Chinese Entrepreneurs Association and has become its adviser since mid-June 2017.
2. Mr. CHAN Bernard Charnwut, G.B.S., J.P., has been appointed as the Convenor among the Non-official Members of the Executive Council of the HKSAR on 1st July, 2017. He has also been appointed as a member of the Risk Committee of the Company with effect from 16th August, 2017.
3. Mr. TANAKA Junichi ceased to act as the Managing Director and the Chief Executive Officer of Sompo Japan Nipponkoa Insurance Company of Europe Limited on 31st March, 2017, the General Manager of Europe and South America Regional Headquarters of both Sompo Holdings, Inc. and Sompo Japan Nipponkoa Insurance Inc. on 1st July, 2017 and the Chairman of Sompo Canopus AG on 10th July, 2017. Mr. Tanaka took up the position of a non-executive director of Endurance Specialty Holdings Limited on 28th March, 2017.
4. Mr. SOPHONPANICH Choedchu has resigned as a non-executive director of the Company effective on 9th June, 2017.
5. Dr. WONG Yu Hong Philip, G.B.S., has resigned as an independent non-executive director of the Company effective on 9th June, 2017.
6. Mr. SIAO Chi Lam Kenneth has resigned as an independent non-executive director and a member of the Audit Committee and the Compliance Committee of the Company effective on 10th August, 2017.
7. Ms. CHOW Suk Han Anna has been appointed as a member of the Risk Committee of the Company with effect from 16th August, 2017.
8. Mr. MA Andrew Chiu Cheung has been appointed as a member of the Risk Committee of the Company with effect from 16th August, 2017.
9. Mrs. LAI KO Wing Yee Rebecca, J.P., has been appointed as the chairperson of the Risk Committee of the Company with effect from 16th August, 2017.
10. Mrs. SHUEN LEUNG Lai Sheung Loretta has been appointed as an independent non-executive director, a member of the Audit Committee, the Compliance Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee of the Company with effect from 16th August, 2017.

Corporate Governance Code

The Company has applied the principles and complied with all applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2017 except for the deviation as specified and explained below with considered reasons for such deviation:

Code Provision A.6.7 provides that independent non-executive directors and other non-executive directors should attend general meetings. Mr. SOPHONPANICH Choedchu, being the then non-executive director, was unable to attend the 2017 Annual General Meeting ("2017 AGM") of the Company held on 24th May, 2017 due to health reason. Dr. WONG Yu Hong Philip, being the then independent non-executive director, was not able to join the 2017 AGM as he was out-of-town for his other commitment.

