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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)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2018

RESULTS

The board of directors (the "Board") of Asia Financial Holdings Limited (the "Company" or "Asia Financial") announces the results of the Company and its subsidiaries (collectively known as the "Group") for the year ended 31st December, 2018 as follows:

Consolidated Statement of Profit or Loss

Year ended 31st December, 2018

	Notes	2018 HK\$'000	2017 HK\$'000 (Restated)*
REVENUE	3	<u>1,482,935</u>	<u>1,294,323</u>
Gross premiums		1,379,005	1,293,680
Reinsurers' share of gross premiums		(494,633)	(448,091)
Net insurance contracts premiums revenue		884,372	845,589
Gross claims paid		(834,952)	(603,271)
Reinsurers' share of gross claims paid		387,777	191,838
Gross change in outstanding claims		8,409	(690,542)
Reinsurers' share of gross change in outstanding claims		24,236	627,140
Net claims incurred		(414,530)	(474,835)
Commission income		106,003	92,014
Commission expense		(337,094)	(305,891)
Net commission expense		(231,091)	(213,877)
Management expenses for underwriting business		(81,665)	(77,743)
Underwriting profit		157,086	79,134

* Details of the restatement are set out in note 1.2 to the announcement.

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Consolidated Statement of Profit or Loss (continued)

Year ended 31st December, 2018

	Notes	2018 HK\$'000	2017 HK\$'000 (Restated)*
Dividend income		122,399	114,114
Realised gain/(loss) on investments		(44,864)	121,636
Unrealised gain/(loss) on investments		(63,684)	176,698
Interest income		82,242	65,885
Other income and gains, net		136,154	21,975
		<u>389,333</u>	<u>579,442</u>
Operating expenses		(124,924)	(139,796)
Finance costs	4	(4,348)	(3,170)
		<u>260,061</u>	<u>436,476</u>
Share of profits and losses of joint ventures		24,574	57,157
Share of profits and losses of associates		9,552	19,310
		<u>294,187</u>	<u>512,943</u>
PROFIT BEFORE TAX	5	294,187	512,943
Income tax expense	6	(36,893)	(34,152)
		<u>257,294</u>	<u>478,791</u>
PROFIT FOR THE YEAR		257,294	478,791
Attributable to:			
Equity holders of the Company		255,889	477,098
Non-controlling interests		1,405	1,693
		<u>257,294</u>	<u>478,791</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic			
- For profit for the year		<u>HK26.2 cents</u>	<u>HK48.8 cents</u>
Diluted			
- For profit for the year		<u>N/A</u>	<u>N/A</u>

* Details of the restatement are set out in note 1.2 to the announcement.

Consolidated Statement of Comprehensive Income

Year ended 31st December, 2018

	2018 HK\$'000	2017 HK\$'000 (Restated)*
PROFIT FOR THE YEAR	<u>257,294</u>	<u>478,791</u>
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale securities:		
Changes in fair value	-	496,362
Reclassification adjustment for gain on disposal included in the consolidated statement of profit or loss	<u>-</u>	<u>(51,963)</u>
	<u>-</u>	<u>444,399</u>
Share of other comprehensive income/(expense) of joint ventures	(21,105)	4,655
Share of other comprehensive income/(expense) of associates	(31,594)	30,283
Exchange differences on translation of foreign operations	<u>271</u>	<u>114</u>
Net other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods	<u>(52,428)</u>	<u>479,451</u>
Other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	(868,783)	-
Income tax effect	<u>76,621</u>	<u>-</u>
	(792,162)	-
Share of other comprehensive income of a joint venture	5	-
Asset revaluation reserve:		
Gain on property revaluation	<u>-</u>	<u>85,450</u>
Net other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods	<u>(792,157)</u>	<u>85,450</u>
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX	<u>(844,585)</u>	<u>564,901</u>
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR	<u>(587,291)</u>	<u>1,043,692</u>

* Details of the restatement are set out in note 1.2 to the announcement.

Consolidated Statement of Comprehensive Income (continued)

Year ended 31st December, 2018

	2018 HK\$'000	2017 HK\$'000 (Restated)*
ATTRIBUTABLE TO:		
Equity holders of the Company	(586,170)	1,041,093
Non-controlling interests	<u>(1,121)</u>	<u>2,599</u>
	<u>(587,291)</u>	<u>1,043,692</u>

* Details of the restatement are set out in note 1.2 to the announcement.

Consolidated Statement of Financial Position

31st December, 2018

	2018 HK\$'000	2017 HK\$'000 (Restated)*
ASSETS		
Property, plant and equipment	183,611	176,450
Investment properties	287,900	280,200
Interests in joint ventures	395,672	322,025
Loans to a joint venture	-	54,000
Interests in associates	408,428	436,700
Due from associates	256,140	256,140
Held-to-collect debt securities at amortised cost	797,012	-
Held-to-maturity securities	-	725,558
Equity investments designated at fair value through other comprehensive income	5,086,935	-
Available-for-sale securities	-	3,616,130
Pledged deposits	323,066	206,488
Loans and advances and other assets	90,055	117,335
Financial assets at fair value through profit or loss	1,514,638	1,736,186
Insurance receivables	239,309	225,162
Reinsurance assets	1,264,045	1,211,355
Cash and cash equivalents	<u>2,699,974</u>	<u>2,627,224</u>
 Total assets	 <u><u>13,546,785</u></u>	 <u><u>11,990,953</u></u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Issued capital	973,180	978,478
Reserves	8,361,735	6,932,788
Proposed final dividend	48,615	73,386
	<u>9,383,530</u>	<u>7,984,652</u>
Non-controlling interests	44,568	45,689
Total equity	<u>9,428,098</u>	<u>8,030,341</u>
Liabilities		
Insurance contracts liabilities	3,283,302	3,187,781
Insurance payables	176,081	181,949
Due to a joint venture	25,731	28,099
Due to associates	4,222	4,222
Other liabilities	240,223	348,521
Interest-bearing bank borrowing	150,000	150,000
Tax payable	63,884	46,414
Deferred tax liabilities	175,244	13,626
Total liabilities	<u>4,118,687</u>	<u>3,960,612</u>
Total equity and liabilities	<u><u>13,546,785</u></u>	<u><u>11,990,953</u></u>

* Details of the restatement are set out in note 1.2 to the announcement.

Notes

1.1 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and interpretations for the first time for the current year's financial statements.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to HKFRS 1 and HKAS 28</i>

Other than as explained below regarding the impact of amendments to HKFRS 4 and HKFRS 9, the adoption of the above new and revised standards has had no significant effect on the Group's financial statements:

- (a) Amendments to HKFRS 4 address issues arising from the different effective dates of HKFRS 9 and the new insurance contracts standard. The amendments introduce two options for entities issuing contracts within the scope of HKFRS 4 upon the adoption of HKFRS 9, notably a temporary exemption and an overlay approach. The temporary exemption enables entities whose activities are predominantly connected with insurance to defer the implementation date of HKFRS 9 until the earlier of the effective date of the new insurance contracts standard and annual reporting periods beginning on or after 1st January, 2021. The overlay approach allows entities applying HKFRS 9 from 2018 onwards to remove from profit or loss the effects arising from the adoption of HKFRS 9 and reclassify the amounts to other comprehensive income for designated financial assets. An entity can apply the temporary exemption from HKFRS 9 for annual periods beginning on or after 1st January, 2018. An entity may start applying the overlay approach when it applies HKFRS 9 for the first time. Certain joint ventures and associates of the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31st December, 2015. There had been no significant change in the activities of these entities that requires reassessment. These joint ventures and associates applied the temporary exemption from HKFRS 9 and, therefore, continue to apply HKAS 39 to their financial assets and liabilities. Amendments to HKFRS 4 permit an entity to retain the accounting policies applied by its joint ventures and associates when accounting for its investment in an associate or joint venture using the equity method for the consolidated financial statements, and require disclosures on fair value and credit risk for comparison among entities applying the temporary exemption from HKFRS 9 and entities implementing HKFRS 9.
- (b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1st January, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1st January, 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Notes (continued)

1.1 Changes in Accounting Policies and Disclosures (continued)

(b) (continued)

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position.

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1st January, 2018 is as follows:

	Notes	HKAS 39 measurement		Re- classification HK\$'000	ECL HK\$'000	Other HK\$'000	HKFRS 9 measurement	
		Category	Amount HK\$'000				Amount HK\$'000	Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	-	3,614,273	-	2,341,445	5,955,718	FVOCI ¹ (equity)
From: Available-for-sale securities	(i)			3,614,273	-	-		
Available-for-sale securities		AFS ²	3,616,130	(3,616,130)	-	-	-	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)			(3,614,273)	-	-		
To: Held-to-collect debt securities at amortised cost	(ii)			(1,857)	-	-		
Held-to-collect debt securities at amortised cost		N/A	-	727,415	-	-	727,415	AC
From: Held-to-maturity securities	(iii)			725,558	-	-		
From: Available-for-sale securities	(ii)			1,857	-	-		
Held-to-maturity securities		HTM ⁶	725,558	(725,558)	-	-	-	N/A
To: Held-to-collect debt securities at amortised cost	(iii)			(725,558)	-	-		
Insurance receivables		L&R ³	225,162	-	-	-	225,162	AC ⁴
Financial assets included in loans and advances and other assets		L&R	109,712	-	-	-	109,712	AC
Financial assets at fair value through profit or loss		FVPL ⁵	1,736,186	-	-	-	1,736,186	FVPL
Loans to joint ventures		L&R	54,000	-	-	-	54,000	AC
Due from an associate		L&R	87,750	-	-	-	87,750	AC
Pledged deposits		L&R	206,488	-	-	-	206,488	AC
Cash and cash equivalents		L&R	2,627,224	-	-	-	2,627,224	AC
Total assets			<u>9,388,210</u>	<u>-</u>	<u>-</u>	<u>2,341,445</u>	<u>11,729,655</u>	

Notes (continued)

1.1 Changes in Accounting Policies and Disclosures (continued)

(b) (continued)

Classification and measurement (continued)

	HKAS 39		Re- classification HK\$'000	ECL HK\$'000	Other HK\$'000	HKFRS 9	
	measurement Category	Amount HK\$'000				measurement Amount HK\$'000	Category
<u>Financial liabilities</u>							
Insurance payables	AC	181,949	-	-	-	181,949	AC
Due to a joint venture	AC	28,099	-	-	-	28,099	AC
Due to associates	AC	4,222	-	-	-	4,222	AC
Financial liabilities included in other liabilities	AC	348,521	-	-	-	348,521	AC
Interest-bearing bank borrowings	AC	150,000	-	-	-	150,000	AC
		<u>712,791</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>712,791</u>	
<u>Other liabilities</u>							
Deferred tax liabilities		<u>13,626</u>	<u>-</u>	<u>-</u>	<u>237,891</u>	<u>251,517</u>	
Total liabilities		<u>726,417</u>	<u>-</u>	<u>-</u>	<u>237,891</u>	<u>964,308</u>	

- ¹ FVOCI: Financial assets at fair value through other comprehensive income
² AFS: Available-for-sale securities
³ L&R: Loans and receivables
⁴ AC: Financial assets or financial liabilities at amortised cost
⁵ FVPL: Financial assets at fair value through profit or loss
⁶ HTM: Held-to-maturity securities

Notes:

- (i) The Group has elected the option to irrevocably designate all of its previous available-for-sale equity securities as equity investments at fair value through other comprehensive income, except for the debt securities set out in (ii) below, resulting in gross gain of HK\$2,341,445,000 which was recognised in other comprehensive income.
- (ii) As of 1st January, 2018, the Group classified debt securities previously classified as available-for-sale securities at cost less impairment as held-to-collect debt securities at amortised cost. These instruments passed the contractual cash flow characteristics test in HKFRS 9, were not actively traded and were held with the intention to collect cash flows and without the intention to sell.
- (iii) As of 1st January, 2018 the Group did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as held-to-collect debt securities at amortised cost.

Impairment

The Group replaced HKAS 39's incurred credit loss calculation with HKFRS 9's ECL. There is no material impairment from the initial adoption of the new impairment calculation.

Notes (continued)

1.1 Changes in Accounting Policies and Disclosures (continued)

(b) (continued)

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves is as follows:

	Reserves HK\$'000
<u>Fair value reserve under HKFRS 9</u> <u>(available-for-sale investment revaluation reserve under HKAS 39)</u>	
Balance as at 31st December, 2017 under HKAS 39 (as restated)	1,578,015
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	2,341,445
Deferred tax in relation to the above (as restated)	<u>(237,891)</u>
Balance as at 1st January, 2018 under HKFRS 9 (as restated)	<u><u>3,681,569</u></u>

Notes (continued)

1.2 Restatement

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 a joint venture, Hong Kong Life Insurance Limited, for a cash consideration of approximately HK\$1,183 million before transaction related expenses (the "Disposal"). Asia Insurance had received a non-refundable deposit of HK\$118,333,000, being 10% of the consideration, which was included in the Group's accrued liabilities and other payables as at 31st December, 2017. Completion of the Disposal was subject to certain conditions including obtaining the necessary approvals from the relevant authorities, which was in progress as at 31st December, 2017 and the Group's interests in Hong Kong Life Insurance Limited was classified as a disposal group held for sale as at 31st December, 2017, accordingly.

On 1st October, 2018, as certain conditions precedent to completion of the Disposal had not been satisfied, Asia Insurance terminated the Disposal. The non-refundable deposit received was forfeited and HK\$116,214,000, after deducting transaction related expenses, was credited to the consolidated statement of profit or loss. The Group's interests in Hong Kong Life Insurance Limited no longer met the criteria to be classified as held for sale. Accordingly, the results of the joint venture were equity-accounted for the period since the classification of the interests in the joint venture as held for sale and the results of the Group for the year ended 31st December, 2017, were restated, accordingly.

The effect of the restatement on the Group's financial statements for the year ended 31st December, 2017 is summarised as follows:

Impact on consolidated statement of financial position:

	Increase/ (decrease) HK\$'000
Interests in joint ventures	113,291
Assets of a disposal group classified as held for sale	<u>(105,084)</u>
Total assets	<u>8,207</u>
Retained profits	8,911
Investment revaluation reserve	2,891
Reserve of a disposal group classified as held for sale	<u>(3,595)</u>
Total equity	<u>8,207</u>

Notes (continued)

1.2 Restatement (continued)

The effect of the restatement on the Group's financial statements for the year ended 31st December, 2017 is summarised as follows: (continued)

Impact on consolidated statement of profit or loss:

	Increase/ (decrease) HK\$'000
Share of results of joint ventures and net impact on profit for the year attributable to equity holders of the Company	<u>8,911</u>

Impact on consolidated statement of comprehensive income:

	Increase/ (decrease) HK\$'000
Profit for the year	8,911
Share of other comprehensive income of joint ventures	<u>(704)</u>
Net impact on total comprehensive income for the year attributable to equity holders of the Company	<u>8,207</u>

Impact on basic and diluted earnings per share (EPS)

	Increase/ (decrease)
Earnings per share	
Basic, profit for the year attributable to ordinary equity holders of the parent	<u>HK0.9 cent</u>
Diluted, profit for the year attributable to ordinary equity holders of the parent	<u>N/A</u>

The restatements did not have any impact on the Group's operating, investing and financing cash flows.

Notes (continued)

2. Operating Segment Information

(a) Operating segments

The following tables present revenue, profit and certain asset and liability information for the Group's operating segments.

	Insurance 2018 HK\$'000	Corporate 2018 HK\$'000	Eliminations 2018 HK\$'000	Consolidated 2018 HK\$'000
Segment revenue:				
External customers	1,482,935	-	-	1,482,935
Other revenue, income and gains, net	195,939	36,308	-	232,247
Intersegment	1,049	-	(1,049)	-
Total	<u>1,679,923</u>	<u>36,308</u>	<u>(1,049)</u>	<u>1,715,182</u>
Segment results	<u>285,852</u>	<u>(25,791)</u>	<u>-</u>	<u>260,061</u>
Share of profits and losses of:				
Joint ventures	(3,032)	27,606	-	24,574
Associates	12,144	(2,592)	-	9,552
Profit before tax				294,187
Income tax expense	(35,767)	(1,126)	-	<u>(36,893)</u>
Profit for the year				<u>257,294</u>

	Insurance 2017 HK\$'000	Corporate 2017 HK\$'000	Eliminations 2017 HK\$'000	Consolidated 2017 HK\$'000
Segment revenue:				
External customers	1,294,323	-	-	1,294,323
Other revenue, income and gains, net	304,816	195,492	-	500,308
Intersegment	5,449	-	(5,449)	-
Total	<u>1,604,588</u>	<u>195,492</u>	<u>(5,449)</u>	<u>1,794,631</u>
Segment results	<u>318,747</u>	<u>117,729</u>	<u>-</u>	436,476
Share of profits and losses of:				
Joint ventures	32,095	25,062	-	57,157
Associates	23,878	(4,568)	-	19,310
Profit before tax				512,943
Income tax expense	(34,171)	19	-	<u>(34,152)</u>
Profit for the year				<u>478,791</u>

Notes (continued)

2. Operating Segment Information (continued)

(a) Operating segments (continued)

	Insurance HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
31st December, 2018			
Segment assets	6,832,100	5,910,585	12,742,685
Interests in joint ventures	275,020	120,652	395,672
Interests in associates	<u>201,151</u>	<u>207,277</u>	<u>408,428</u>
Total assets	<u>7,308,271</u>	<u>6,238,514</u>	<u>13,546,785</u>
Segment liabilities	<u>3,719,505</u>	<u>399,182</u>	<u>4,118,687</u>
	Insurance HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
31st December, 2017			
Segment assets	6,738,621	4,493,607	11,232,228
Interests in joint ventures	206,415	115,610	322,025
Interests in associates	<u>201,792</u>	<u>234,908</u>	<u>436,700</u>
Total assets	<u>7,146,828</u>	<u>4,844,125</u>	<u>11,990,953</u>
Segment liabilities	<u>3,715,391</u>	<u>245,221</u>	<u>3,960,612</u>

(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 businesses underwritten during the year.

4. Finance Costs

	2018 HK\$'000	2017 HK\$'000
Interest on a bank loan	<u>4,348</u>	<u>3,170</u>

Notes (continued)

5. Profit before Tax

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

	2018	2017
	HK\$'000	HK\$'000
Depreciation	(8,904)	(15,068)
Employee benefit expense (including directors' remuneration):		
Wages and salaries	(133,531)	(140,703)
Pension scheme contributions	(5,973)	(6,041)
Less: Forfeited contributions	457	38
Net pension scheme contributions	(5,516)	(6,003)
Total employee benefit expense	(139,047)	(146,706)
Minimum lease payments under operating leases	(1,470)	(1,578)
Realised gain/(loss) on:		
- disposal of financial assets at fair value through profit or loss (held for trading), net	(45,765)	69,486
- disposal of available-for-sale securities	-	52,238
- redemption/call-back of held-to-collect debt securities at amortised cost/held-to-maturity securities	567	(88)
- disposal of interest in an associate	334	-
Total realised gain/(loss) on investments	(44,864)	121,636
Unrealised gain/(loss) on financial assets at fair value through profit or loss (held for trading), net	(63,684)	176,698
Interest income	82,242	65,885
Gain on forfeiture of non-refundable deposit received*	116,214	-
Gain/(loss) on disposal/write-off of items of property, plant and equipment*	2,629	(7,390)
Gross rental income*	7,149	-
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties	(857)	(170)
Change in fair value of investment properties*	7,700	6,000
Foreign exchange gain/(loss), net*	(936)	13,807
Dividend income from:		
Listed investments	74,314	68,874
Unlisted investments	48,085	45,240
Total dividend income	122,399	114,114

* These amounts were included in "Other income and gains, net" in the consolidated statement of profit or loss.

Notes (continued)

6. Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

	2018	2017
	HK\$'000	HK\$'000
Current - Hong Kong		
Charge for the year	29,599	31,045
Under/(Over) provision in prior years	335	(78)
Current - Elsewhere		
Charge for the year	6,696	2,367
Overprovision in prior years	(85)	(569)
Deferred	348	1,387
	<u>36,893</u>	<u>34,152</u>

7. Dividends

	2018	2017
	HK\$'000	HK\$'000
Interim - HK2.0 cents (2017: HK4.0 cents) per ordinary share	19,509	39,139
Proposed final – HK5.0 cents (2017: HK7.5 cents) per ordinary share	<u>48,615</u>	<u>73,386</u>
	<u>68,124</u>	<u>112,525</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. Accordingly, the proposed final dividend has been included in the proposed final dividend reserve account within the equity attributable to the equity holders of the Company of the statement of financial position.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK\$255,889,000 (2017: HK\$477,098,000) and the weighted average number of ordinary shares of 975,956,000 (2017: 978,478,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31st December, 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31st December, 2018 and 2017.

Notes (continued)

9. Share Capital

	2018 HK\$'000	2017 HK\$'000
Authorised:		
1,500,000,000 (2017: 1,500,000,000) ordinary shares of HK\$1 each	<u>1,500,000</u>	<u>1,500,000</u>
Issued and fully paid:		
973,180,000 (2017: 978,478,000) ordinary shares of HK\$1 each	<u>973,180</u>	<u>978,478</u>

During the year ended 31st December, 2018, a subsidiary of the Company repurchased and cancelled 5,298,000 ordinary shares of the Company of HK\$1 each on The Stock Exchange of Hong Kong Limited at prices ranging from HK\$4.21 to HK\$5.50 per share at a total consideration of HK\$25,738,000 (including expenses and dividend).

The premium of HK\$20,440,000 paid on the repurchase of such shares was debited to the retained profits account and an amount of HK\$5,298,000 was transferred from retained profits of the Company to the capital redemption reserve.

MANAGEMENT DISCUSSION AND ANALYSIS

Asia Financial Holdings Limited ("Asia Financial", the "Group" or the "Company") achieved net profit attributable to shareholders of HK\$255.9 million in 2018, a 46.4% fall compared to the restated profit of HK\$477.1 million in 2017.

This result reflects realised and unrealised year-on-year declines in the value of portfolio investments at a time of market volatility; on the positive side, we achieved a very healthy increase in underwriting profit, and booked an exceptional profit arising from the forfeited deposit on the terminated sale of Hong Kong Life Insurance Limited. Returns from joint ventures and associates were generally in line with the business and investment environments.

Economic Background

The US economy enjoyed continued strength during the year, helped by the Trump administration's pro-cyclical policies. Other major economies showed signs of slowing by the end of 2018. China's economy, undergoing a period of deleveraging, grew at a multi-year low rate of 6.6%. Hong Kong's GDP growth rate fell from 3.8% in 2017 to 3.0% in 2018, with consumption starting to soften, though unemployment remained low.

Uncertainty about interest rates and trade tensions contributed to volatility in commodity and financial markets, especially later in the year. The S&P 500 ended the year down 6.2%, the Hang Seng Index declined by 13.6%, and H Shares fell 13.5% to the end of 2018.

Management Approach and Future Prospects

We are not particularly pessimistic about the immediate outlook for the world economy. The US is experiencing low unemployment and inflation, and central banks are cautious about further policy tightening. By some measurements, Hong Kong and China equities markets still represent relatively good value.

However, after a period of exceptionally loose monetary policy following the global financial crisis 10 years ago, we may be seeing a more subdued phase in the global business cycle and even the end of a long bull market. This is especially the case in view of great uncertainties like US-China trade tensions, Brexit, growing protectionism and record global debt levels. Therefore, we expect global stock markets will remain volatile and we will continue to exercise caution in the management of our investment portfolio in the coming year.

As I have repeatedly told shareholders over the years, Asia Financial's goal is to achieve long-term growth in value. Our strategy focuses on prudent management of our cash and direct and indirect investments, while remaining alert to possible new investment opportunities over time. This approach has proved itself in the long run, and it will continue.

Asia Financial's normal business expenses for 2018 reflected acceptable growth in staff and other costs and including charitable donations. We will continue to watch costs, although consumer price inflation in Hong Kong remains fairly moderate.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Management Approach and Future Prospects (continued)

Asia Insurance – approaching its 60th anniversary – is performing well in a crowded and competitive market. The outlook for our insurance operations is positive, and management will continue to develop the scope and quality of the business, while exploring possible new opportunities from industry development in Hong Kong and the region.

Our long-term focus rests especially on the great potential arising from continued economic development in much of the East Asian region. In addition to investments in various sectors mentioned in the "Business Review" below, we will continue to seek more opportunities to build our interests in livelihood-related service industries such as insurance, retirement, health and wellness, education and property development, focused on Greater China and elsewhere in Asia.

This choice of investment segments is based upon the ongoing transformation of the Greater China/East Asia region as a large middle class emerges, societies age and governments broaden market-based policies. It also fits well with our traditional expertise and networks of clients and partners.

Key Financial and Business Performance Indicators

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

Profit attributable to equity holders of the Company:	HK\$255.9 million	-46.4%
Earnings per share:	HK26.2 cents	-46.3%
Final dividend per share:	HK5.0 cents	-33.3%
Total dividend per share:	HK7.0 cents	-39.1%
Equity attributable to equity holders of the Company:	HK\$9,383.5 million	+17.5%
Total Assets:	HK\$13,546.8 million	+13.0%
Return on equity:	2.9% (6.4% for 2017)	

Earnings and Dividends

For the year ended 31st December, 2018, the Group recorded net profit attributable to shareholders of HK\$255.9 million, representing a 46.4% fall compared with the previous year. This result is largely due to realised and unrealised year-on-year declines in the value of investments, but also reflects good underwriting performance and an exceptional item from the forfeited deposit on the terminated sale of Hong Kong Life Insurance Limited ("Hong Kong Life"). Dividend income and returns from joint ventures and associates also contributed.

The Group's earnings per share for the year 2018 were HK26.2 cents. The Board had declared an interim dividend of HK2.0 cents in August 2018 and proposed a final dividend of HK5.0 cents, making a total dividend for the year of HK7.0 cents per share.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital Structure

The Group finances its own working capital requirement through a combination of funds generated from operations and bank borrowings.

Liquidity, Financial Resources and Gearing Ratio

Cash and cash equivalents as at 31st December, 2018 amounted to HK\$2,699,974,000 (2017: HK\$2,627,224,000).

The Group had a bank borrowing of HK\$150,000,000 as at 31st December, 2018 (2017: HK\$150,000,000), which was secured by certain Hong Kong listed shares, repayable on or before 29th January, 2019 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 31st December, 2018. 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 financial assets 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 31st December, 2018, Asia Insurance Company, Limited ("Asia Insurance") charged assets with a carrying value of HK\$118,863,000 (2017: HK\$119,409,000) 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 financial assets at fair value through profit or loss with fair value of not less than HK\$150,000,000 (2017: HK\$150,000,000) to a bank to secure the interest-bearing bank borrowing of HK\$150,000,000 (2017: HK\$150,000,000).

Contingent Liabilities

As at 31st December, 2018, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review

Insurance

Wholly owned subsidiary, Asia Insurance achieved profit attributable to shareholders of HK\$260 million, a decline of 24.7% on the previous year. Turnover grew by 14.5%, while underwriting profit was 93.2% up on 2017. Other income included HK\$116.2 million forfeited deposit (after related expenses) on the terminated sale of Hong Kong Life. (All the above figures are before the elimination of intergroup transactions.)

The increase in turnover was balanced across business classes and is very satisfactory in view of the extremely soft and overcrowded market currently prevailing in Hong Kong. This reflects development of new distribution channels as well as Asia Insurance's success in winning loyalty among its clients.

The rise in underwriting profit partly reflects the losses in 2017 from extreme weather, notably typhoon Hato. Following that experience, Asia Insurance significantly strengthened a range of risk management practices, and was well-positioned to withstand the impact of 2018's typhoon Mangkhut and such events as typhoons in Japan, an earthquake in Indonesia and fires in California.

The underlying performance of Asia Insurance's underwriting reflects the company's strength in attracting and developing high-quality business and maintaining prudent balances between levels of reinsurance and direct insurance business and among geographical regions.

We continued to upgrade our product lines, and to develop our networks of agents, brokers and other distribution channels. We are also enhancing employee skills and systems in anticipation of trends in clients' needs and market conditions. Management and employees' proactive customer service in response to super typhoon Mangkhut further strengthened Asia Insurance's reputation for professionalism.

Asia Insurance's securities holdings experienced a year-on-year decline in investment returns, largely due to losses in trading and other portfolios, while interest income increased in line with deposits and interest rates.

Asia Insurance's management expenses were in line with growth in business capacity, market pay levels and other business costs.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Insurance (continued)

Although the Hong Kong general insurance industry is very crowded and price competition is fierce, regulatory trends are likely to encourage some market consolidation in the future. We also see opportunities arising from new distribution channels, emerging customer segments, the expanded use of technology in underwriting and risk management, and from regional development and integration including policy initiatives like Belt and Road and Greater Bay Area. We are confident that as Asia Insurance celebrates its 60th anniversary this year, the company is well positioned to build on its existing risk-management and reputational strengths and grasp new future opportunities in Hong Kong and regionally.

Prospects for Asia Insurance's portfolio investments reflect the wider global picture. Management will maintain its prudent approach to management of traded investments and the maintenance of a well-balanced investment portfolio.

Joint ventures and associates in the insurance segment all performed broadly in line with overall market conditions. BC Reinsurance Limited reported a loss, and Hong Kong Life saw fall in profit, largely due to declines in investments. The People's Insurance Company of China (Hong Kong) Limited and Professional Liability Underwriting Services Limited both reported stable results. After being classified as an asset held for sale up to October 2018, Hong Kong Life was reclassified as a joint venture.

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. It maintains as a major player in the China market, with a network of some 1,920 offices. PICC Life reported RMB93.7 billion in premium income for 2018, an 11.8% decrease over 2017. 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 adequate levels in line with the business volume. This stake is Asia Financial's single biggest external holding, accounting for 19.4% of our total assets.

Other Portfolio Investment

Trading investments showed realised and unrealised losses in 2018, although our equities portfolio significantly outperformed the Hong Kong, China and US markets. Dividend from non-traded investments increased. Net interest rose in line with deposits and interest rates.

Our portfolio investment approach will continue to be prudent, favouring blue-chip, dividend-paying equities and investment class bonds. Our core strategy 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.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Health Care and Wellness

Our 3.6% holding in Bumrungrad Hospital Public Company Limited ("Bumrungrad") in Bangkok remains a very sound investment. This reflects Bumrungrad's continuing success in attracting patients internationally through the delivery of high-quality and good-value medical services.

We continue to foresee opportunities in the health and wellness sectors in the region, owing to long-term demographic and policy trends, and we continue to consider further opportunities, including possibly in Mainland China.

Pension and Asset Management

The Group's holding in Bank Consortium Holding Limited ("BCH"), one of our joint ventures, enjoyed satisfactory performance in 2018. Bank Consortium Trust Company Limited, a wholly owned subsidiary of BCH, remains 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 2.7% of our total assets. The main project is a residential and commercial complex in Jiading, in which we have a 27.5% stake.

No profits were booked during 2018.

The majority of the 460 units in Stage 1 of Phase 3 of the project had been sold by end-2018, and we expect to book profits from this phase from late 2019 to early 2020 upon delivery. Work on and sales of the 400-unit Stage 2 are expected to be completed in 2019-20, and of the final 400-unit Stage 3 in 2021.

Measures to regulate China's residential property market have not affected pricing or demand among middle-class end-users in this attractive locality in Shanghai. We will consider other possible opportunities in this sector.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Compliance with Laws and Regulations

The Group takes active steps to ensure compliance with all relevant laws and regulations in all jurisdictions in which it operates, and recognizes the risks of non-compliance. It dedicates sufficient resources and personnel to ensure such compliance, and to maintaining adequate liaison and communication with regulatory authorities. We believe that risks attached to non-compliance are low.

Principal Risks and Uncertainties

The Group's principal risks are exposed to a variety of key risks including credit risk, equity price risk, insurance risk, interest rate risk, liquidity risk, foreign exchange risk, market risk and operation risk. Details of the aforesaid key risks and mitigation measures are elaborated in the note of "Financial Risk Management Objectivity and Policies" to the consolidated financial statements of the Group in the 2018 annual report.

Stakeholders

Asia Financial understands the importance of its relationships with employees, customers, suppliers, investors, regulators, members of the communities in which we operate, and other stakeholders whose actions can affect the company's performance and value.

Employees

The Company recognizes the vital role that skilled and motivated staff play in its success. Our human resources policy is therefore to encourage, recognize and reward good performance through appropriate training, appraisal and remuneration practices. The Company is confident of its ability to attract high quality staff and believes that risks attached to over-reliance on key personnel are moderate.

Customers

The Company's main clients are insurance policyholders. Delivery of excellent customer service is a key reason for our consistent underwriting profitability. Diversification of our client base and avoidance of over-dependency on core clients are among our risk management practices.

Shareholders

The Company is committed to creating wealth for our shareholders. This aim is fundamental to all our operations and investment activities.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employees and Remuneration Policy

The total number of employees of the Group for the year ended 31st December, 2018 was 287 (2017: 274). Employees were remunerated on the basis of their performance, experience and prevailing industry practice. Remuneration of the employees includes salary and discretionary bonus which is based on the Group's results and individual performance. Medical and retirement benefit schemes are made available to all levels of personnel. There was no share option scheme in operation during the year. The Group also offers various training and induction programmes to its employees.

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.

ANNUAL GENERAL MEETING

The Annual General Meeting (the "AGM") of the Company will be held on Thursday, 23rd May, 2019. Notice of the AGM will be published and despatched to the shareholders on or about Thursday, 18th April, 2019.

FINAL DIVIDEND

The Board has resolved to recommend to the shareholders the payment of a final dividend of HK5.0 cents (2017: HK7.5 cents) per share which, together with the interim dividend of HK2.0 cents (2017: HK4.0 cents) per share, will make a total dividend of HK7.0 cents (2017: HK11.5 cents) per share for the year ended 31st December, 2018. The proposed final dividend will be paid in cash to those shareholders whose names are on the Register of Members of the Company on Friday, 31st May, 2019 and the dividend warrants will be despatched to shareholders on or about Wednesday, 12th June, 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed for the following periods:

(a) For the purpose of ascertaining shareholders' right to attend and vote at the AGM:

Latest time to lodge transfers	4:30 p.m. on 17th May, 2019
Book close dates (both days inclusive)	20th to 23rd May, 2019
Record date	23rd May, 2019
AGM	23rd May, 2019

CLOSURE OF REGISTER OF MEMBERS (continued)

(b) For the purpose of ascertaining shareholders' entitlement to the proposed final dividend:

Ex-dividend date for final dividend	27th May, 2019
Latest time to lodge transfers	4:30 p.m. on 28th May, 2019
Book close dates (both days inclusive)	29th to 31st May, 2019
Record date for final dividend	31st May, 2019

All transfers accompanied by the relevant share certificates must be lodged for registration 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, not later than the above specified time.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31st December, 2018, a subsidiary of the Company repurchased a total of 5,298,000 ordinary shares of the Company on the Hong Kong Stock Exchange (the "Stock Exchange") at an aggregate purchase price of HK\$25,717,000 (excluding expenses) which was paid wholly out of retained profits. Such repurchased shares were cancelled during the year. Details of the ordinary shares repurchased on the Stock Exchange during the year are as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per share		Aggregate purchase price (excluding expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
April 2018	1,354,000	4.89	4.70	6,537
May 2018	1,282,000	5.30	4.83	6,454
June 2018	394,000	5.50	5.30	2,150
September 2018	294,000	4.80	4.75	1,406
October 2018	1,818,000	4.80	4.21	8,454
December 2018	156,000	4.60	4.57	716
	<u>5,298,000</u>			<u>25,717</u>

As a result of the above share repurchases, the issued share capital of the Company was accordingly reduced by the par value of the aforesaid repurchased ordinary shares which were cancelled during the year.

The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders received at the annual general meetings held in 2017 and 2018 respectively. The directors believe that the above share repurchases were exercised in the best interests of the Company and its shareholders and that such share repurchases would lead to an enhancement of the net assets value and/or earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

CORPORATE GOVERNANCE CODE

Throughout the year ended 31st December, 2018, the Company has applied the principles and complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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 Chote and Mr. YAMAMOTO Takao, being the then non-executive directors, were unable to attend the 2018 Annual General Meeting (the "2018 AGM") of the Company as both did not offer themselves for re-election as directors at the 2018 AGM due to other commitments and retired from the conclusion of the 2018 AGM.

REVIEW OF RESULTS

The Audit Committee of the Company has met the auditor of the Company, Ernst & Young, and reviewed and agreed with its auditor the Group's results for the year ended 31st December 2018.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website at www.afh.hk and the HKExnews website at www.hkexnews.hk. The 2018 annual report will be despatched to the shareholders and available at the same websites on or about Thursday, 18th April, 2019.

By Order of the Board
Asia Financial Holdings Limited
CHAN Yau Hing Robin
Chairman

Hong Kong, 27th March, 2019

As at the date of this announcement, the Executive Directors of the Company are Dr. CHAN Yau Hing Robin (Chairman), Mr. CHAN Bernard Charnwut (President), Mr. TAN Stephen, Mr. WONG Kok Ho; the Non-executive Directors are Mr. KAWAUCHI Yuji, Mr. IDE Kentaro; and the Independent Non-executive Directors are Ms. CHOW Suk Han Anna, Mr. MA Andrew Chiu Cheung, Mrs. LAI KO Wing Yee Rebecca and Mrs. SHUEN LEUNG Lai Sheung Loretta.

* For identification purposes only