



亞洲金融
Asia Financial

Stock Code : 662

ANNUAL REPORT 2017



A Focus on
Coverage
and Care

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Corporate Information

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
SOPHONPANICH Chote

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*)
CHOW Suk Han Anna
MA Andrew Chiu Cheung
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
22/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

Registered Office

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Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

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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

Principal Bankers

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

Legal Advisers

Conyers Dill & Pearman
Gallant Y.T. Ho & Co.
Deacons

Share Listing

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

Asia Financial Holdings Limited (“Asia Financial” or the “Company”) achieved net profit attributable to shareholders of HK\$468.2 million in 2017, a 27.5% increase on the HK\$367.3 million reported in 2016.

This result is due to realised and unrealised year-on-year gains in the value of portfolio and other investments, underpinned by resilient underwriting profit. Returns from most joint ventures and associates were generally in line with the investment environment.



CHAN Yau Hing Robin
Chairman

Economic Background

The global economy showed surprising strength during 2017, with rising levels of trade and investment and of commodity prices. Developed economies saw positive economic growth without obvious inflationary pressures. The economy of China successfully continued to adjust to a more stable growth pattern. With such a positive external environment, Hong Kong achieved a 3.8% growth rate for the year, and unemployment fell to a 20-year low of just under 3%.

Asset markets performed strongly during the year. The S&P 500 ended the year up 19.4%, the Hang Seng Index rose by 36.0%, and H Shares increased 24.6% to the end of 2017. This partly reflected an unexpected weakening in the US dollar despite the interest rate increased during the year, and related strengthening of the Yuan. Other factors were anticipated US tax cuts and expectations of rising global mergers and acquisitions. With a long-term supply shortage and strong demand, Hong Kong's property market prices continued to rise.

Management Approach and Future Prospects

Despite the positive global environment in 2017, the medium-term outlook includes economic and political uncertainty. After a nine-year bull market, we cannot assume a repeat of 2017's returns, and markets may be very sensitive to possible bad news. Central banks will probably continue to increase interest rates, probably three or four times in the case of the US, and this is likely to dampen markets at some stages. The US administration may introduce harsher than expected protectionist trade measures, which could have a major impact on Asia Pacific economies. Chinese policymakers must balance deleveraging with overall market and economic stability. Hong Kong is inevitably exposed to all these possibilities.

Given this outlook, we will be very cautious on the management of our cash and direct and indirect investments in the coming year. This is in line with our longstanding prudent approach, which served shareholders well in 2017 and in past years. At the same time, we will remain alert to new investment opportunities with a view to the long term.

Chairman's Statement

Management Approach and Future Prospects (cont'd)

Asia Financial's expenses for 2017 reflected acceptable growth in staff and other costs, including charitable donations. We will continue to watch costs, although consumer price inflation in Hong Kong remains fairly moderate.

The outlook for our insurance operations is generally positive, despite some intensive competitions in the Hong Kong market. Management will aim to build on the current scope and quality of the business, while exploring possible new opportunities from industry development in Hong Kong and the region.

Our focus will remain on the long term. We see great potential opportunity arising from the continued future economic development in much of the East Asian region. In addition to investments in various projects mentioned in the "Management Discussion and Analysis" below, we will continue to seek 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 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.

CHAN Yau Hing Robin

Chairman

Hong Kong, 22nd March, 2018



Management Discussion and Analysis

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\$468.2 million	+27.5%
Earnings per share:	HK47.8 cents	+29.9%
Final dividend per share:	HK7.5 cents	+36.4%
Total dividend per share:	HK11.5 cents	+43.8%
Equity attributable to equity holders of the Company:	HK\$7,976.4 million	+13.4%
Total Assets:	HK\$11,982.7 million	+16.8%
Return on equity:	6.2% (5.2% for 2016)	

Earnings and Dividends

For the year ended 31st December, 2017, the Group recorded net profit attributable to shareholders of HK\$468.2 million, representing a 27.5% increase compared with the previous year. These results are largely due to realised and unrealised year-on-year gains in the value of investments. Returns from joint ventures and associated companies also contributed.

The Group's earnings per share for the year 2017 were HK47.8 cents. The Board had declared an interim dividend of HK4.0 cents in August 2017 and proposed a final dividend of HK7.5 cents, making a total dividend for the year of HK11.5 cents per share.

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, 2017 amounted to HK\$2,627,224,000 (2016: HK\$2,433,390,000).

The Group had a bank borrowing of HK\$150,000,000 as at 31st December, 2017 (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 31st December, 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.

Management Discussion and Analysis

Charge on Assets

As at 31st December, 2017, Asia Insurance Company, Limited (“Asia Insurance”) charged assets with a carrying value of HK\$119,409,000 (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 (2016: HK\$150,000,000) to a bank to secure the interest-bearing bank borrowing of HK\$150,000,000 (2016: HK\$150,000,000).

Contingent Liabilities

As at 31st December, 2017, the Group had no material contingent liabilities.

Business Review

Insurance

Wholly owned subsidiary, Asia Insurance achieved profit attributable to shareholders of HK\$336.6 million, an increase of 41.3% on the previous year. Turnover grew by 0.6%, while underwriting profit was 60.2% down compared to 2016. (All the above figures are before the elimination of intergroup transactions.)

The relatively low growth in turnover reflects the extremely soft and overcrowded market currently prevailing in Hong Kong. Asia Insurance benefited from its disciplined and selective approach to business in these extremely competitive conditions.

The drop in underwriting profit was largely due to local typhoon and US hurricane losses, notably typhoon Hato, which caused major damage in Macau. To put this result in context: the general insurance industry in Hong Kong and Macau as a whole made a loss on underwriting for the year. Without these extreme weather losses and one-off Act-of-God savings, we would have seen underwriting profit to be more or less the same as 2016.

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 develop our distribution channels and upgrade personal, small and medium enterprise and other products. We are also enhancing employee skills and systems in anticipation of trends in clients’ needs and market conditions. Asia Insurance’s reputation for service and professionalism was upheld by management and employees’ efficiency in settling typhoon-related claims in Macau and Hong Kong during 2017.

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.

Asia Insurance’s securities holdings experienced a significant year-on-year increase in investment returns, largely due to realised and unrealised gains in trading and other portfolios. Dividend income increased, while interest income rose in line with deposits. Other income included foreign exchange gains compared with the previous year, notably from the stronger Yuan.

Business Review (cont'd)

Insurance (cont'd)

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

The main immediate challenge facing Asia Insurance's core business is the continued fierce price competition in the Hong Kong insurance market. However, this situation is not likely to sustain, and industry and regulatory trends suggest a healthier market in the longer run. We are confident that Asia Insurance is well positioned to build on its existing risk-management and reputational strengths and grasp new future opportunities in Hong Kong and regionally. These include new distribution channels, the targeting of new market segments, the development of emerging lines of business, and new roles for insurance arising from regional development and integration including policy initiatives like Belt and Road and Greater Bay Area.

Prospects for portfolio investments reflect the wider global picture. Given the high asset price valuations and possible changes in interest rate and other conditions, 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, The People's Insurance Company of China (Hong Kong), Limited and Hong Kong Life Insurance Limited ("Hong Kong Life") reported reasonable performances. Professional Liability Underwriting Services Limited saw stable business.

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. It maintains as a major player in the Chinese market, with a network of some 2,239 offices. PICC Life reported RMB106.2 billion in premium income for 2017, a 1.1% increase over 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 adequate levels in line with the business volume. This stake is Asia Financial's single biggest external holding, accounting for 12.7% of our total assets.

Other Portfolio Investment

Trading investments showed significant realised and unrealised gains in 2017, largely reflecting strength in the Hong Kong, China and US equities markets. Returns from non-traded investments declined owing to lower dividend income from PICC Life. Net interest rose in line with deposits.

Last year was obviously a good period for equities in particular. 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.

Management Discussion and Analysis

Business Review (cont'd)

Health Care and Wellness

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

The Kinnet, our wholly owned Hong Kong wellness centre aimed at healthy aging, reported a loss during 2017 before closure of the operation in September. Client satisfaction had been high, and we will examine possible ways to meet this market need on a commercial basis. We see very attractive prospects in Hong Kong and possibly elsewhere in serving the growing senior population.

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 2017, supported by investment market conditions. Bank Consortium Trust Company Limited, 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 3.3% of our total assets. The main project is a residential and commercial complex in Jiading, in which we have a 27.5% stake.

With the sales of some remaining units during the year, a small profit was booked during 2017.

Following official approvals for permits, sales of units in Stage 1 of Phase 3 of the project are expected during 2018. Completion and sales of the remaining stage of the project is expected to be completed in 2019-20.

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 residential properties for leasing in Hong Kong’s Tseung Kwan O district. The investment showed a profit for the year.

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 37 "Financial Risk Management Objectivity and Policies" to the consolidated financial statements of the Group in this 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.

Employees and Remuneration Policy

The total number of employees of the Group for the year ended 31st December, 2017 was 274 (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 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.



Environmental, Social and Governance Report

A. About This Report

This Environmental, Social and Governance (“ESG”) Report captures our ESG performance during the reporting period. The information collected during the report preparation process and disclosed in this Report will serve as the basis of the Group’s ESG strategy, management and future improvement. This Report was prepared according to the “Environment, Social and Governance (“ESG”) Reporting Guide”, Appendix 27 of Main Board Listing Rules of Hong Kong Exchanges and Clearing Limited and it complied with the “comply or explain” provisions set out in the ESG reporting guide.

Unless otherwise specified, the scope and boundary of this report are the same as in the Asia Financial’s Annual Report 2017. The reporting principles of “Materiality”, “Quantitativeness”, “Balance” and “Consistency” set out in the Guide underpinned the preparation and contents of this Report, as well as the presentation of the information.

Asia Financial takes pride in being recognized as a “Caring Company” for the 15th consecutive year since 2003 and in continuing to contribute to community programmes where we can add value.



B. ESG Philosophy

Asia Financial has a strong commitment to Corporate Social Responsibility (“CSR”) in which ESG Management becomes a tool to embed CSR concepts into every part of our operation. The Group believes this includes a duty to protect the environment, provide a quality workplace, and serve the wider community directly and through partnerships with social service organizations and social enterprises.

To effectively and efficiently manage various ESG aspects, we have put great effort into ensuring ESG management at the group level. The Board has overall responsibility for decision-making regarding ESG management and reporting. The Management monitors the performance of actual implementation and reporting process, while the Company Administration monitors relevant trends and regulations for planning and executing CSR initiatives. We prioritize our stakeholders’ views and recommendations through the materiality assessment. Using the above principles, the Group can better understand and manage ESG risks and create greater value for our stakeholders.

B1. Stakeholder Engagement

Asia Financial is committed to operating in a socially responsible and transparent manner with regards to all stakeholders, including employees, customers, shareholders, suppliers, regulatory authorities and the general community. To maintain and develop our performance as a good corporate citizen, we aim to engage fully and openly with all stakeholders through a diverse array of effective communication channels.

B. ESG Philosophy (cont'd)

B1. Stakeholder Engagement (cont'd)

Stakeholders	Communication Channels
Employees	- Annual performance appraisal system
	- Training, seminars and briefing sessions
	- Staff communication
	- Recreational and volunteer activities
Customers	- Client relationship contacts
	- Company website
	- Online platform
	- Customer service hotline
Shareholders	- Annual General Meeting and other general meetings
	- Investor and press conferences and briefings
	- Company website
	- Corporate communications including announcements, press releases, circulars, interim and annual reports
Suppliers	- Regular supplier communications and reviews
Regulators	- Regular meetings and communications
	- On-site review
	- Compliance reports
	- Training, focus groups and other events
Community	- Staff volunteer activities
	- Sponsorships and donations
	- Meetings with NGOs

B2. Materiality Assessment

Asia Financial directly engaged with our stakeholders as part of the materiality assessment process for developing the report. Materiality is determined by considering Asia Financial's most significant economic, environmental, social impacts and stakeholders' concerns.

Based on the results of the assessment, Asia Financial will review its longer-term strategy for addressing specific sustainability issues and explore future opportunities for improving the sustainability performance and reporting.

Several major ESG issues are listed in more detail below together with our responses to them.

Natural disasters and climate change

The insurance industry is exposed to climate-related risks (of the sort seen in 2017 with typhoon and storm surge damage due to typhoon Hato). Asia Insurance Company, Limited ("Asia Insurance") has increased its reinsurance protection, and is expanding its risk analysis of insurance offerings that include climate-related risks.

B. ESG Philosophy (cont'd)

B2. Materiality Assessment (cont'd)

Staff attraction, retention and succession planning

Many traditional industries face growing competition for new talent from technology and other sectors. Asia Financial is responding with development and retention plans for interns and graduate trainees, improved job rotation, and engaging young talents in company-wide, innovation and technology-related projects. As the average age of staff is rising, the group is taking steps to improve succession plans. By involving staff at different levels in various company-wide initiatives, staff engagement can be further improved and both Asia Financial and Asia Insurance can identify high potential staff as part of the succession planning.

Cyber and data security

Owing to the growing incidence of hacking and other data security breaches, cyber and data security are top corporate concerns world-wide, especially for companies processing customer data. Asia Insurance has given high priority to reviewing all relevant control systems, and is taking other measures to mitigate this risk. Internal consultants and external cyber security experts are involved in various comprehensive reviews. The management team is committed to following up on the recommendations so as to minimize risk exposure.

C. Corporate Governance

Asia Financial maintains a robust corporate governance structure and strictly acts in compliance with relevant laws and regulations. Company policies and guidelines are developed to define the correct standards for all our staff in different areas, including Codes of Conduct, Whistleblowing Policy, Anti-Money Laundering Guidelines etc. Our management team and staff must comply with these policies. All staff should ensure that business decisions are made in the best interests of Asia Financial. Any breach of the Codes of Conduct will be subject to disciplinary action.

A more detailed Corporate Governance Report can be found in a separate section of this annual report.

D. Working Environment

D1. Employment

A satisfied and motivated workforce is key to Asia Financial's customer service, operating efficiency, creation of shareholder value and positive contribution to the community. Our general workplace policy is to ensure:

- full compliance with all relevant legal requirements at all times;
- mutual respect on a foundation of shared interests;
- fair treatment, including an equitable, performance-linked reward system;
- equal opportunities for all individuals to reach full potential;
- working conditions conducive to good physical and mental health;
- maintenance of work-life balance.

During the year, Asia Financial fully complied with all the legal requirements regarding employment.

D. Working Environment (cont'd)

D1. Employment (cont'd)

(a) Remuneration and Employee Benefits

Our policy and practices are regularly reviewed to ensure that remuneration packages are in line with market trends. This ensures that we are competitive in attracting and retaining good quality staff. The remuneration package for staff comprises a basic salary, year-end double pay and a discretionary bonus, the payment of which is based on both the individual's performance and overall performance of Asia Financial.

The Group provides insurance plans to protect employees' livelihoods and reduce the burden of medical expenses for them. Where appropriate, the Group makes voluntary Mandatory Provident Fund contributions to employees in addition to the standard employer's contributions required under the Ordinance.

(b) Balance between Work and Family Life

Asia Financial encourages a balance between work and family life. All full-time staff are expected to use all rest days, public holidays and paid annual leave during employment. Management makes every effort to ensure that employees may take leave at times of their choosing.

(c) Equal Employment Opportunities

We strive to ensure that every employee and job applicant is treated fairly and that no-one is disadvantaged because of disability, gender, pregnancy, marital status, family status or race. The Group aims to create a working environment that is free of discrimination and harassment.

In 2017, Asia Financial complied with all current laws on equal opportunities in Hong Kong, including the Sex Discrimination Ordinance, Disability Discrimination Ordinance, Family Status Discrimination Ordinance and Race Discrimination Ordinance.

We have an Equal Employment Opportunities Policy ("EEO Policy") in place to provide general information and guidance to staff members on ensuring equality of opportunities and complying with the above Ordinances. The purpose of EEO Policy is to outline the responsibilities both Asia Financial and its staff have to promoting a fair and equitable work environment. It is the responsibility of all staff to treat their colleagues and members of the public fairly without discrimination.

We believe that it is the right of all individuals to be fairly considered for all positions within an organisation for which they have the necessary skills and qualities, and to be treated fairly during their employment. Equal Employment Opportunities principles apply, but are not limited to, recruitment, selection, promotion and transfers, working hours, discipline and dismissal, compensation and benefits.

Environmental, Social and Governance Report

D. Working Environment (cont'd)

D1. Employment (cont'd)

(d) Staff Profile

As of 31 December 2017, we had 274 staff, representing an 11.0% reduction in headcount compared to the previous year.

Employees by employment type (as at 31/12/2017)

Type	No of Staff
Full-time	272
Part-time	2
Total	274

Our gender mix of our workforce is 37% male and 63% female. Of the 38 employees at management level, 17 are female; four of twelve members of the Board of Directors are female.

Our employees are spread relatively evenly across all age groups, reflecting general workforce trends in Hong Kong.

Employees by age group (as at 31/12/2017)

Age	No of Staff
Below 30	51
30 – 40	53
41 – 50	64
51 and above	102
Total	270*

* excluding employees in Mainland China and Taiwan

Employees by geographic location (as at 31/12/2017)

Location	No of Staff
Hong Kong	235
Mainland China	1
Macau	35
Taiwan	3
Total	274

D. Working Environment (cont'd)

D1. Employment (cont'd)

(e) Staff Turnover

For full-time staff, the turnover rate in 2017 was 11.9%. This is in line with the local pattern reported by the Hong Kong Institute of Human Resource Management.

Turnover rate by gender	
Male	5.1%
Female	6.8%
Total	11.9%

Turnover rate by age group	
Age	Rate
Below 30	4.7%
30 – 40	3.8%
41 – 50	2.5%
51 and above	0.9%
Total	11.9%

Note: All the above calculations on turnover rate include Hong Kong employees only.

Turnover rate by geographic location	
Location	Rate
Hong Kong	11.9%
Mainland China	0.0%
Macau	5.9%
Taiwan	0.0%

D2. Health and Safety

(a) Keeping Employees Safe

It is the policy of Asia Financial to take all practicable steps to ensure the health and safety of all staff at work. The aim is to achieve health and safety standards over and above compliance with relevant statutory requirements, and zero workplace injuries.

There was no lost work day due to zero workplace injury at Asia Financial in 2017.

D. Working Environment (cont'd)

D2. Health and Safety (cont'd)

(b) Occupational Health & Safety Measures

Asia Financial implements clear measures to ensure a safe workplace. In order to minimize fire hazards, the Group has a strict policy on proper connection and use of electrical appliances, such as sufficient capacity and correct rating. Electrical appliance and wiring faults are the most common cause of fire in office environments, especially in the presence of combustible materials such as carpets and curtains.

Regular training and fire drills are arranged to ensure that staff are familiar with the emergency procedures in case of a fire. Management ensures that staff are aware of exits and emergency procedures, and that fire evacuation plans and illuminated exit signs are properly displayed and maintained. The Group ensures that all company premises are equipped with sufficient fire-fighting equipment such as extinguishers, hose reels, and that these are properly maintained and not obstructed.

Management promotes “good housekeeping” in order to eliminate or promptly rectify hazards such as loose cables and folded carpets to prevent trips and falls in the office. Staff are encouraged to make use of mechanical and other aids, such as trolleys or team lifting, to minimize risk of injury when performing manual operations like transporting heavy documents. It is also policy to ensure that adequate first aid facilities on office premises are properly maintained, and designated employees are appointed to look after them.

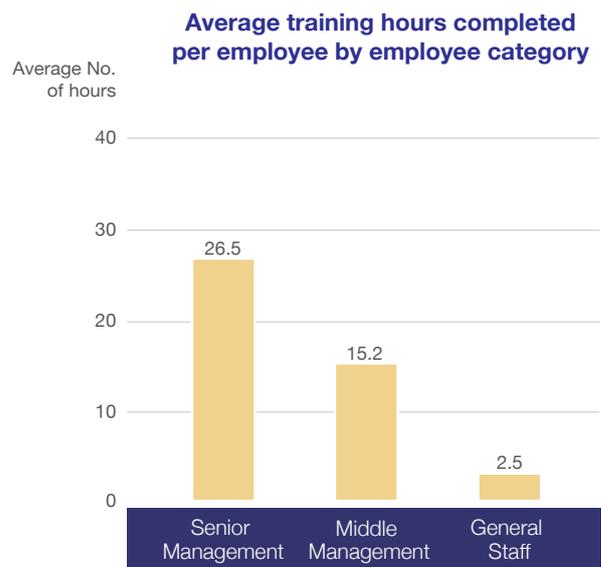
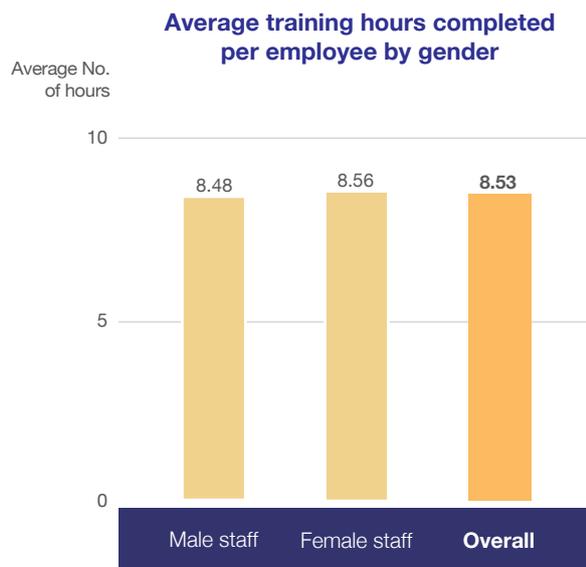
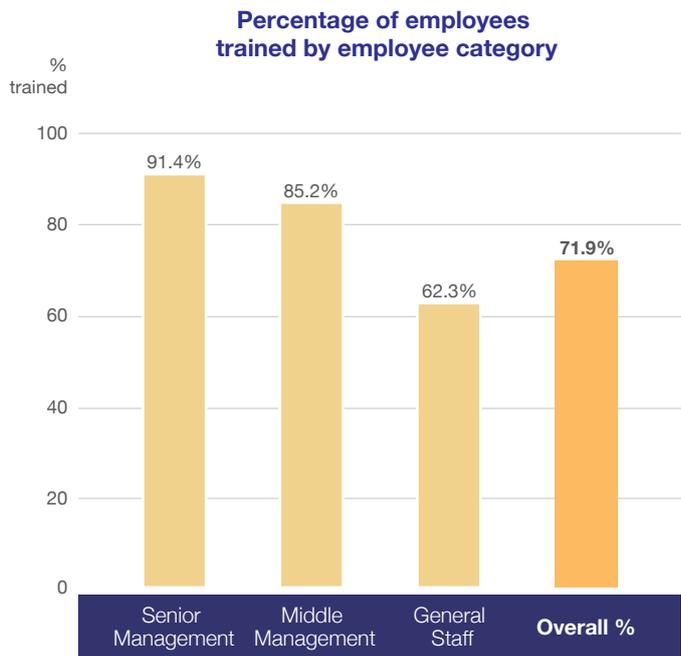
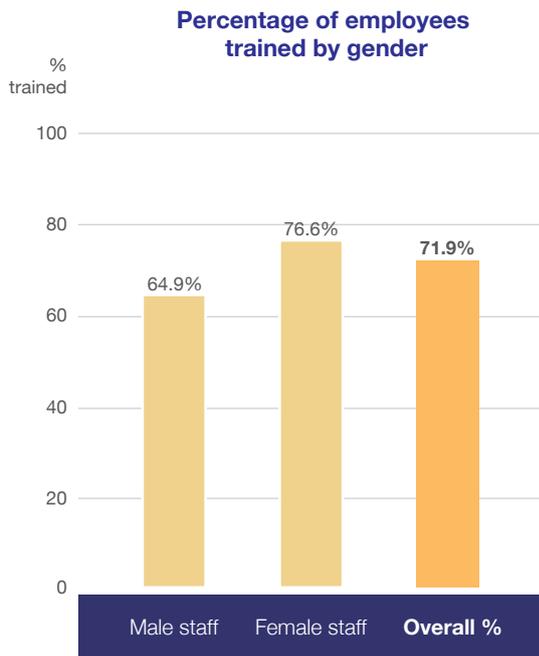
D3. Development and Training

Asia Financial’s success depends on the professionalism, skill and commitment of all our employees. Our training and development policy is to equip staff to competently and effectively undertake all assignments, to develop their skills in order to realize their own personal potential, and to acquire our corporate culture and values.

D. Working Environment (cont'd)

D3. Development and Training (cont'd)

Apart from providing seminars and training courses, Asia Financial also offers training and education allowances as an incentive for employees to advance their academic qualifications and professional skills in the mutual interests of the employee and the Company. Training statistics for the year 2017 are as follows.



Note: All the above training statistics include Hong Kong employees only.

D. Working Environment (cont'd)

D4. Labour Standards

As part of the financial services industry, Asia Financial sees little or no risk of potential involvement in or exposure to child, forced or compulsory labour. However, we are aware of the need to be in compliance with laws and regulations and community expectations concerning these issues in our operations.

Management believes its recruitment procedures are more than adequate to prevent child or forced labour. All such procedures involve a stringent monitoring process to verify a candidate's personal information in order to avoid misrepresentation and any form of forced labour. An official employment contract clearly states relevant terms and conditions, and each individual is well briefed and duly assigned.

The Group is totally committed to complying with the Employment Ordinance and associated guidelines. Our Internal Audit team includes compliance in this area in its regular reviews of employment conditions in our operations in all locations. If it is discovered that these labour standards have been breached, such employment will be discontinued immediately and parents, guardians or relevant authorities will be immediately notified.

E. Environmental

Asia Financial's business does not involve significant generation of emissions or pollutants, or the use of resources such as energy, water, raw and packaging materials. However, we strive to be a pioneer in environmental best practices and in complying with regulatory requirements – and exceeding them wherever possible. We have active strategies to manage our carbon footprint and use resources efficiently and reduce waste in our business operations.

As a result of organic growth, total revenue of Asia Financial reached HK\$1,294.3 million in 2017, an increase of 61.9% over the base year 2009. Although the increase in business activities inevitably increased some categories of carbon emission, we were able to reduce overall greenhouse gas emissions from 975 to 808.97 tonnes of CO₂-e during 2009-17.

Note: All the reported data on environmental performance include the Hong Kong operations of Asia Financial Holdings Limited and its wholly-owned subsidiary, Asia Insurance Company, Limited.

E. Environmental (cont'd)

E1. Emissions

(a) Carbon Footprint Management Strategy

Asia Financial has been continuously measuring its emission profile since 2009. With the help of an external consultant, company vehicle information and the unleaded petrol consumption data, electricity consumption, paper consumption and recycling, and overseas business trips records are used to calculate carbon emissions according to international standards.

By identifying these sources of emission, we can adopt plans to reduce carbon emissions; as a result, our carbon footprint has decreased despite continuous business growth over the past several years. We are also able to quantify savings in operational costs. The emission data for the year 2017 are as follows:

Greenhouse Gas ("GHG") Emissions	Total (tonnes CO ₂ equivalent)
Scope 1: Unleaded petrol & gas oil combustion	124.41
Scope 2: Purchased electricity	603.62
Scope 3: Overseas business travel, paper waste	80.94
Total	808.97

GHG Emissions Intensity	
GHG Emissions (tonnes CO ₂ equivalent)	808.97
Business Turnover in 2017 ("HK\$ million)	1,294.3
Intensity per HK\$ million turnover	0.63 tonnes

Types of Emissions and Respective Emission Data	
Nitrogen Oxides ("NO _x ") emissions mainly from company cars	17,975g
Sulphur Oxides ("SO _x ") emissions mainly from company cars	524g
Particulate Matter ("PM") emissions mainly from company cars	1,323g

Notes to Types of Emissions and Respective Emission Data:

1. The source of the emissions is mainly from our company cars while our business operations have minimal effects.
2. All the above calculations are based on the emission factors listed in Appendix 2 Reporting Guide on Environmental KPIs of "How to prepare an ESG Report" issued by Hong Kong Exchanges and Clearing Limited.

E. Environmental (cont'd)

E1. Emissions (cont'd)

(b) Measures regarding hazardous and non-hazardous wastes

Total hazardous and non-hazardous waste produced	
Hazardous waste	Hazardous waste is minimal due to the nature of our business operations.
Non-hazardous waste	Our Non-hazardous waste mainly comes from disposal of paper waste at landfills: 21.85 tonnes CO ₂ equivalent. Intensity per staff = 0.092 tonnes CO₂ equivalent

We take the following measures to further minimize waste:

- Professional vendors collect ink cartridges of copiers and printers.
- Professional specialist firms collect paper for recycling.
 Percentage with recycled content = 60.7%
 Total paper recycling = 14,521 kg

(c) Measures to mitigate emissions

c1. Staff engagement

Employee participation is essential to our green office policies. These include a "Switch-off" policy for all idle equipment, encouragement for staff to switch off computers and monitors at the end of the working day and all electrical appliances off (or, where appropriate, on to energy-saving mode) when not in use.

c2. Use of energy efficient lighting & equipment

Since 2009, Asia Financial has replaced T8 fluorescent lamps with T5 fluorescent lamps, and 12V50W spotlights with 3W LED spotlights in all its local offices. This resulted in an 11.5% reduction in carbon emissions through electricity used during 2009-17.

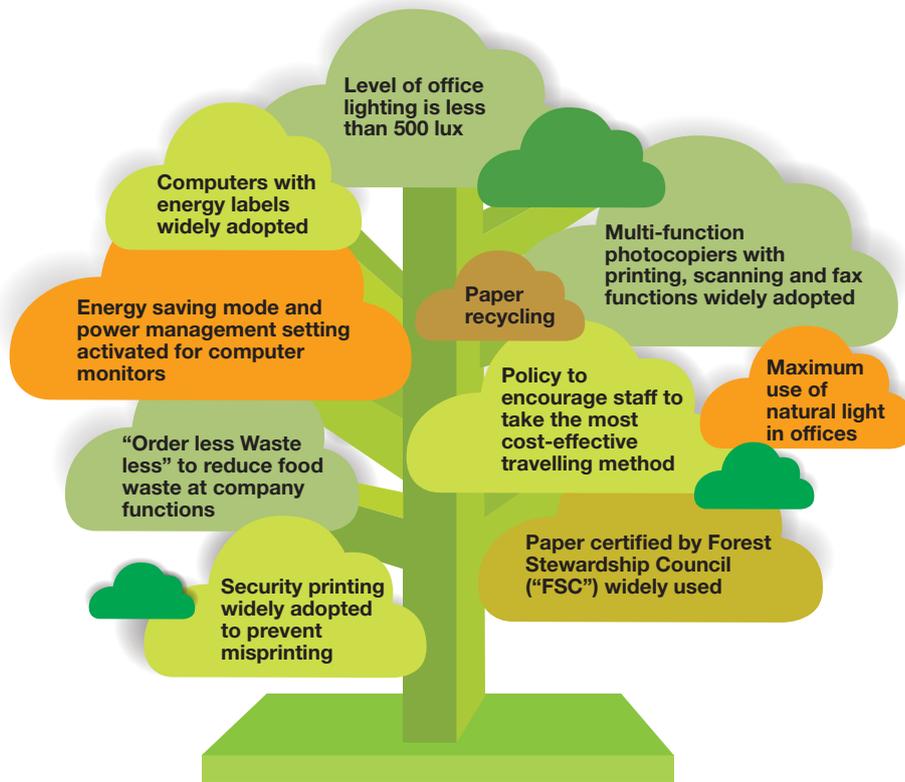
E. Environmental (cont'd)

E1. Emissions (cont'd)

(c) Measures to mitigate emissions (cont'd)

c3. Other environmental practices

We have also adopted the following to reduce carbon emissions.



E2. Use of Resources

Asia Financial's business does not involve significant use of such resources as energy, water, raw and packaging materials. However, we are committed to using resources efficiently and reducing waste within our business operations.

Disclosures on Use of Resources for 2017	
Direct and indirect energy consumption by type (e.g. electricity, gas or oil) and intensity	<ul style="list-style-type: none"> Total and electricity consumption = 718,585 kWh Total unleaded petrol consumption = 35,643 Litres Total gas oil consumption = 10,300 Litres Energy consumption intensity = 3.07 tonnes CO₂ equivalent per staff
Water consumption in total and intensity	Data unavailable as business premises are located in buildings with centralized water metering.
Total packaging material used for finished goods	Not applicable.

E. Environmental (cont'd)

E3. The Environment and Natural Resources

Although our business activities do not have significant impact on the environment and natural resources, our commitment to sustainability has resulted in:

- A 11.5% reduction in carbon emissions through electricity in 2009-17.
- Paper waste sent to landfill reduced from 20,536kg in 2009 to 9,381kg in 2017.

We are proud to have received the following recognition for our efforts in improving the quality of life for both present and future generations.

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

In 2009, our wholly-owned subsidiary, Asia Insurance became the first carbon-neutral insurance company in Greater China. Asia Insurance offsets all its emissions – thus becoming carbon-neutral – by sponsoring an afforestation and reforestation project on degraded lands in Sichuan, China.



Asia Financial – Green Office Award Label

Asia Financial has been awarded the Green Office Award Label by the World Green Organization since 2014.

F. Operations

F1. Supply Chain Management

Asia Financial fully considers environmental and social standards in its sourcing and procurement activities. Our ethics and values inform all our interactions with suppliers, contractors and service partners.

All suppliers of furniture, equipment, stationery and other office items to Asia Financial are local. We expect suppliers and their supply chain to comply fully with all applicable laws and regulations in the conduct of their business. It is our practice to identify, assess and monitor supplier practices with regard to human and labor rights, the environment, health and safety, and anti-corruption principles. Where practical, we also work with our vendors to encourage the utilization of responsibly and sustainably produced goods and services.

F. Operations (cont'd)

F2. Service Quality

For our insurance business, operations strictly comply with the Companies Ordinance and regulations of the Insurance Authority. Our Internal Audit team will conduct periodic checks to make sure the quality of service and the terms of the insurance contracts are properly arranged.

Due to the nature of the insurance business, there are no recall procedures for our products. If customers are dissatisfied with our service or the terms of the insurance contract, our staff are more than willing to make the necessary adjustment. During 2017, two customer complaints were made concerning the products and services provided by Asia Insurance. These were very carefully assessed and handled by the Compliant Officer with the customers concerned and were satisfactorily settled.

F3. Intellectual Rights

Our intellectual property policy includes copyright, patents and trademarks. The policy reflects the current laws in Hong Kong relating to intellectual property and will be subject to review from time to time to ensure compliance. The major exposure of our business operation in the area mainly includes the design of our marketing materials and the use of computer software. We have implemented the following measures to minimize the risks.

1. All marketing areas are centrally processed and approved by Administration Department to avoid infringement on intellectual property rights.
2. According to our Policy against Illegal and Unlicensed Computer Software, employees are prohibited to install computer software onto any information technology equipment within the premises of the Group. Duplication of licensed software for backup purpose is also prohibited unless additional license is granted.

F4. Personal Data (Privacy) Policies

Asia Financial is committed to adopting and complying with all relevant provisions of the Personal Data (Privacy) Ordinance, Chapter 486, the Laws of Hong Kong (the "Ordinance"). The Group upholds the personal data privacy protection principles stated in Schedule 1 of the Ordinance for the purposes of collecting, retaining, processing and using personal data. We have also designated a Data Protection Officer for monitoring compliance with the Ordinance. While heads of departments are in direct control of personal data, the Data Protection Officer also offers assistance on the relevant compliance issues. In addition, our Internal Audit Department will conduct regular checks to ensure compliance with all regulations.

F. Operations (cont'd)

F5. Anti-corruption

Asia Financial is committed to combating corruption, money laundering, extortion, fraud and other financial crimes and complying fully with all applicable laws and regulations.

With respect to Asia Financial's clients or counterparties, the company reserves the right to terminate immediately any business relationship that violates or presents the risk of violating such laws, regulations or policies of the company.

Asia Financial maintains written policies, procedures and internal controls designed to comply with the relevant laws. These include a risk assessment process, education and training, review and approval processes, due diligence procedures, accounting processes and independent testing processes. Personnel who engage in or facilitate bribery, or who fail to comply with all applicable laws and regulations, and our related policies, may be subject to disciplinary action.

No concluded legal cases regarding corrupt practices were brought against the Group or its employees during the year 2017.

F6. Preventive Measures & Whistle-blowing

Asia Financial is committed to achieving and maintaining the highest standards of openness, probity and accountability. Employees at all levels are expected to conduct themselves with integrity, impartiality and honesty. Employees are encouraged to raise concerns about any suspected misconduct or malpractice within the Group, without fear of victimization or harassment, in a responsible and effective manner, rather than overlooking a problem or blowing the whistle outside.

Asia Financial has a whistleblowing policy to achieve the above corporate governance target. The Policy applies to employees (permanent or temporary) at all levels of the Group.

Whistleblowing matters may include but not confined to:

- a criminal offence;
- a failure to comply with any legal obligations;
- a miscarriage of justice;
- a financial impropriety;
- an action which endangers the health and safety of an individual;
- an action which causes damages to the environment;
- the deliberate concealment of information concerning any of the matters listed above.

If Asia Financial discovers any incident of corruption, money laundering, extortion, fraud and other financial crimes, legal or disciplinary actions will be taken to protect the interests of the Company and its stakeholders. The Audit Committee of the Company has overall responsibility for overseeing, monitoring and reviewing the operation of the policy and recommendations for actions resulting from investigations while day-to-day responsibility is assigned to the President of the Group.

G. Community

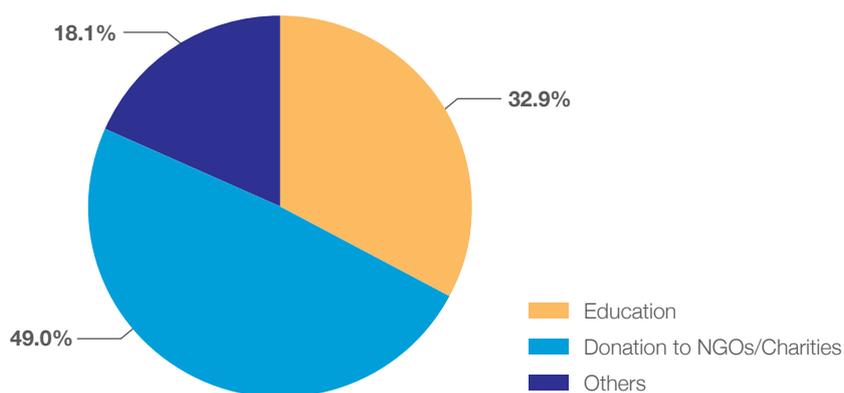
As a responsible corporate citizen, commitment to the wider community is a core part of Asia Financial's culture. We aim to make a positive difference to society through donation, partnerships with social enterprises and staff voluntary activities with a wide range of beneficiaries.

G1. Donation & Sponsorship

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

In 2017, Asia Financial, Asia Insurance and the Foundation devoted financial resources (mainly through donations and sponsorships) by supporting non-profit-making organizations locally and overseas with a total amount of HK\$8.73 million.

Distribution of donation & sponsorship made in 2017



G2. Community Involvement – Partnership with Social Enterprises

We invest in SVHK Capital Limited ("SVHK"), a venture philanthropic organization aiming to provide financial and non-financial support to social-purpose organizations or social enterprises in Hong Kong. The flagship projects of SVHK are Light Be (Social Realty) Limited ("Light Be"), Diamond Cab (Hong Kong) Limited ("Diamond Cab"), Dialogue in the Dark Limited and Fullness Hair Salons.



G. Community (cont'd)

G2. Community Involvement – Partnership with Social Enterprises (cont'd)

“Light Be” helps needy find a room of their own – for cheap

“Light Rooms” is a project of Light Be and offers the needy an alternative to the poor environment of “sub-divided” flats. Specifically, “Light Rooms” encourages private property owners to rent units at an affordable rate or below market prices to underprivileged single-parent families with urgent housing needs. “Light Rooms” provides 3-bedroom flats for three single-parent families who share the dining room, kitchen and washroom. It brings back self-esteem to the families, who are encouraged to live and share together and build up a supportive neighbourhood.



Interested property owners are welcome to join the project.

Hotline : +852 2806 1911

Website : <http://www.lightbe.hk>

Diamond Cab – Barrier-free Taxi Service

This is a social venture providing point-to-point transportation services for wheelchair users. It provides not only unprecedented wheelchair-accessible and barrier-free taxi services, but top quality standards of professional transportation for people in need. This taxi service has been receiving an overwhelming response from the general public.



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

Hotline: +852 2760 8771

Website: www.diamondcab.com.hk



G. Community (cont'd)

G3. Community Involvement – Staff Volunteering

We organize a series of volunteering programmes every year to reflect the importance of community life to us on both individual and corporate levels; these activities extend beyond the provision of financial sponsorship to organizations. At the heart of these efforts is the voluntary work undertaken by individual members of staff within our local communities. With the cooperation of Evangelical Lutheran Church Social Service – Hong Kong and the Tung Wah Group of Hospitals, we arranged several activities in 2017 to bring love and care to children and senior citizens.

Volunteer Service Statistics for 2017	
Total number of volunteers	105
Total service hours	575

H. Conclusion

This report shows Asia Financial's ongoing efforts in areas such as workplace equality, carbon footprint management, promotion of ethical business practices and community involvement. Like our business environment, the community of which we are a part is constantly growing and changing. Our environmental, social and governance commitments will therefore continue to evolve and adapt to new conditions. As with our traditional financial indicators, we will continue to monitor and enhance our ESG performance as a core function of corporate management.

Corporate Governance Report

Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The board of directors (the “Board”) believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to promote investor confidence and safeguard the interests of shareholders, investors, customers, staff and other stakeholders.

The Board has applied with the principles set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and has adopted various measures to ensure that a high standard of corporate governance is maintained.

The Company has complied with all the applicable code provisions set out in the CG Code throughout the year ended 31st December, 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.

Directors’ Securities Transactions

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 Listing Rules.

The Company has made specific enquiry of all directors and all directors have confirmed that they have complied with the required standard as set out in the Code of Conduct and the Model Code throughout the year ended 31st December, 2017.

Board of Directors

Board Composition

The Board currently comprises 12 members, consisting of 4 executive directors (including the Chairman and the President), 4 non-executive directors (“NEDs”) and 4 independent non-executive directors (“INEDs”). NEDs and INEDs provide the Group with a wide range of expertise and experience as well as checks and balances to safeguard the interests of the shareholders. Members of the Board, who come from a variety of different backgrounds, have a diverse range of business and professional expertise. The biographical details of the directors and the relationship among them are set out in pages 52 to 56 of this annual report. The updated list of directors of the Company identifying their roles and functions and whether they are INEDs is available on the websites of the Company and the Stock Exchange. INEDs are also identified as such in all corporate communications that disclose the names of directors of the Company.

Board of Directors (cont'd)

Board Composition (cont'd)

The Board has adopted a Board Diversity Policy which is published on the Company's website. The policy sets out the Company's approach to achieve diversity at Board level. Board appointments are based on merit and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board including, but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge, length of services and also other factors based on its business model and specific needs.

An analysis of the Board's current composition as at 31st December, 2017 is as follows:

		Number of Directors	
Designation	ED	4	33.3%
	NED	4	33.3%
	INED	4	33.3%
Gender	Male	8	66.7%
	Female	4	33.3%
Age group	81 or over	1	8.3%
	71-80	2	16.7%
	61-70	5	41.7%
	51-60	4	33.3%
Nationality	Chinese	8	66.7%
	Non-Chinese	4	33.3%
Directorship with Asia Financial (years)	Over 20	2	16.6%
	10-19	5	41.7%
	1-9	5	41.7%
Other listed company directorships	4	2	16.7%
	2	2	16.7%
	1	1	8.3%
	0	7	58.3%

Induction for Directors

Every Board member receives a package of orientation materials on key areas of business operations and practices of the Company, as well as a copy of the Director's Handbook upon joining the Board. The Director's Handbook sets out, among other things, the general and specific duties of the directors and the terms of reference of various Board committees. The Director's Handbook is updated from time to time to reflect developments and latest changes in the commercial and regulatory environment in which the Group conducts its businesses.

Board of Directors (cont'd)

Appointment and Re-election of Directors

The Company has a formal procedure for the appointment of new directors. Any proposed appointment will be first reviewed by the Nomination Committee. Upon recommendation by the Nomination Committee, the proposed appointment will then be reviewed by the Board and, if thought fit, approved by the Board or by shareholders in any general meeting.

All directors are subject to retirement by rotation at least once every three years. Retiring directors are eligible for re-election at each annual general meeting ("AGM") in accordance with the Bye-laws of the Company. Any new director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

During the year 2017, the Board appointed Mrs. SHUEN LEUNG Lai Sheung Loretta and Mr. SOPHONPANICH Chote as INED and NED respectively so that they shall hold office only until the next following annual general meeting of the Company to be held on 16th May 2018 and shall be eligible for re-election at that meeting.

Role and Function of the Board

The Board is empowered to manage and conduct the businesses and affairs of the Group and is responsible for determining the Group's overall corporate objectives, business strategies and operational policies. The Board monitors the Group's financial performance, maintains effective oversight over the management, risks assessment, controls over business operations and ensures the Group's operations are conducted prudently and complied with specific corporate governance requirements and appropriate framework of laws and regulatory guidelines.

Chairman and President

The Company has appointed a President instead of a Chief Executive Officer. The roles of the Chairman and the President are segregated. Dr. CHAN Yau Hing Robin, the executive Chairman is responsible for the leadership and effective running of the Board. Mr. CHAN Bernard Charnwut, also an executive director, is the President of the Company and he is responsible for the overall strategic planning and the day-to-day management of the Group. Their respective roles and responsibilities are set out in writing, which have been approved and adopted by the Board.

Non-executive Directors and Independent Non-executive Directors

All NEDs and INEDs do not actively involve in the day-to-day management of the Company. They, however, do play an important role in bringing their independent judgement, considerable knowledge and diverse expertise to the Board's deliberations.

Each NED (including INED) of the Company has received a letter of appointment from the Company for a specific term of 2 years and is subject to retirement by rotation and eligible for re-election at the AGM in accordance with the Company's Bye-laws.

The Company was non-compliance with appointment of INEDs representing at least one-third of the Board as required under Rule 3.10A of the Listing Rules due to the resignation of Mr. SIAO Chi Lam Kenneth on 10th August, 2017. After the appointment of Mrs. SHUEN LEUNG Lai Sheung Loretta as an INED on 16th August, 2017, the Company has 4 INEDs which fulfilled the requirement under Rule 3.10A of the Listing Rules for having the INEDs of the Company representing at least one-third of the Board.

Board of Directors (cont'd)

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

Save as disclosed above, the Board at all times has more than one-third of the members of the Board consist of INEDs and at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Company has received from each of the INEDs an annual written confirmation of his/her independence for the year ended 31st December, 2017. The independence of the INEDs has been assessed in accordance with the criteria as set out in Rule 3.13 of the Listing Rules. Following such assessment, the Board has affirmed that all the INEDs continue to be independent.

Board Meetings

The Board meets regularly, and at least four times a year, to review business development and performance of the Group and additional meetings will be held as and when required. Directors have full access to information on the Group and may, in appropriate circumstances, take independent professional advice at the Company's expense. The schedule of Board meetings for a year is planned in the preceding year and such schedule is made available to all directors to facilitate directors' attendance at the meetings. Directors receive written notice of each regular Board meeting at least 14 days in advance and they are given an opportunity to include matters in meeting agenda. The Company Secretary assists the Board in preparing the agenda for meetings. Directors receive the meeting agenda and accompanying Board papers at least 3 days before the date of Board meeting so that the directors have the time to review the documents. Minutes of every Board meeting are circulated to all directors for their perusal prior to confirmation of the minutes at the following Board meeting. Minutes of Board meetings are kept by the Company Secretary and are open for inspection by directors.

Directors make their best efforts to contribute to the development of strategy, policies and decision-making by attending the Board meetings in person or via telephone conferencing.

During the year 2017, the Board held four scheduled meetings to discuss the business development and strategies of the Group; approve the Group's annual business forecast; review and receive financial and business updates with information on the Company's latest financial and operational performance; review the internal control systems and risk management functions; approve the interim and annual results of the Group and the release to the public; approve interim dividend payment; recommend final dividend for shareholders' approval; review and receive reports from the respective Board committees; approve the audit fees; approve new appointment of directors and the re-appointment of the retired board committees' members; set up the Risk Committee with the adoption of its terms of reference; and approve the revised terms of reference of the Compliance Committee and the updated Risk Management Policy in compliance with relevant legal and regulatory requirements.

Other than regular Board meetings, the Chairman also held a meeting with the NEDs and INEDs without the presence of the other executive directors. The meeting aimed at having an open discussion among the NEDs and INEDs on issues relating to the Group. The Board also annually reviewed the time commitment in other appointments or offices held in public companies or organisations required from the directors proposed to be re-elected at each AGM of the Company.

Corporate Governance Report

Board of Directors (cont'd)

Attendance Records of Directors

The attendance records of four scheduled Board meetings held in 2017 and the 2017 AGM of the Company are set out below:

Name of director	Board meetings	2017 AGM
<i>Executive Directors:</i>		
CHAN Yau Hing Robin (<i>Chairman</i>)	4/4	1/1
CHAN Bernard Charnwut (<i>President</i>)	4/4	1/1
TAN Stephen	4/4	1/1
WONG Kok Ho	4/4	1/1
<i>NEDs:</i>		
SOPHONPANICH Choedchu*	0/2	0/1
SOPHONPANICH Chote^	0/0	0/0
CHAN Yeow Toh	4/4	1/1
TANAKA Junichi	4/4	1/1
YAMAMOTO Takao	4/4	1/1
<i>INEDs:</i>		
CHOW Suk Han Anna	4/4	1/1
MA Andrew Chiu Cheung	4/4	1/1
SIAO Chi Lam Kenneth#	2/2	1/1
WONG Yu Hong Philip*	0/2	0/1
LAI KO Wing Yee Rebecca	4/4	1/1
SHUEN LEUNG Lai Sheung Loretta**	1/1	1/1

* Resigned on 9th June, 2017

^ Appointed on 6th December, 2017

Resigned on 10th August, 2017

** Appointed on 16th August, 2017

Liability Insurance for Directors

The Company has arranged appropriate insurance coverage on directors' and officers' liabilities against possibility of legal action to be taken against the Directors and the senior executives. In year 2017, no claim under the insurance policy was made.

Directors' Training

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

In year 2017, the Company organised an in-house seminar on the topic of "Hong Kong Risk Based Capital" conducted by a professional body for directors at the Company's expense. Written materials of the seminar were provided to the participated directors for reading and reference. Apart from what the Company had arranged, some of the directors also attended other external training seminars.

Board of Directors (cont'd)

Directors' Training (cont'd)

According to the records provided by all directors, which had been reviewed by the Compliance Committee in March 2018, the training received by the directors during the year ended 31st December, 2017 is summarized as follows:

- Dr. CHAN Yau Hing Robin, Mr. CHAN Bernard Charnwut, Mr. TAN Stephen, Mr. WONG Kok Ho, Ms. CHAN Yeow Toh, Mr. YAMAMOTO Takao, Ms. CHOW Suk Han Anna, Mr. MA Andrew Chiu Cheung, Mrs. LAI KO Wing Yee Rebecca and Mrs. SHUEN LEUNG Lai Sheung Loretta participated in the in-house seminar.
- Dr. CHAN Yau Hing Robin, Mr. CHAN Bernard Charnwut, Mr. TAN Stephen, Mr. SOPHONPANICH Chote, Ms. CHOW Suk Han Anna, Mr. MA Andrew Chiu Cheung, Mrs. LAI KO Wing Yee Rebecca and Mrs. SHUEN LEUNG Lai Sheung Loretta also attended some other seminars organised by professional bodies or other listed companies.
- Mr. TANAKA Junichi was not able to attend the aforesaid in-house seminar.

Delegation by the Board

Board Committees

The Board has set up several board committees including the Executive Committee, the Remuneration Committee, the Nomination Committee, the Compliance Committee and the Audit Committee to assist it in carrying out its responsibilities. The Board also established a Risk Committee on 16th August, 2017 to oversee and manage all identified risks on an ongoing basis.

Each of these board committees has its specific written terms of reference which set out in detail their respective authorities and responsibilities. All these board committees, except the Executive Committee, comprise a majority of INEDs.

Executive Committee

The Board has delegated the day-to-day management of the Company's business to the Executive Committee which consists of all 4 executive directors of the Company. The Executive Committee usually meets once a month with the Group's senior executives and is responsible for formulating the policies of the Group on major strategic, financial, regulatory, risk management, commercial and operational issues for the Board's consideration; implementing policies as determined by the Board and monitoring the operational and financial performance of the Group.

In year 2017, the Executive Committee held nine meetings and the attendance record of each executive director is set out below:

Name of executive director	Number of meetings attended/held	Attendance rate
CHAN Yau Hing Robin (<i>Chairman</i>)	9/9	100%
CHAN Bernard Charnwut (<i>President</i>)	6/9	67%
TAN Stephen	9/9	100%
WONG Kok Ho	9/9	100%

Delegation by the Board (cont'd)

Remuneration Committee

The Remuneration Committee was set up with specific terms of reference which are available on the websites of the Company and the Stock Exchange. The Remuneration Committee comprises 5 members, four of whom are INEDs. The Remuneration Committee meets at least once each year with the Company's Head of Human Resources and reports to the Board on their decisions or recommendations following each meeting.

The Remuneration Committee is responsible for considering and making recommendations to the Board on the Company's remuneration policy and for the formulation and review of the remuneration packages of all the directors, Board committees' members and senior executives of the Group. The Remuneration Committee may seek advice from external professional advisors for market data of executive remuneration and other remuneration related issues if required.

In year 2017, the Remuneration Committee held one meeting. The attendance record of each member is set out below:

Name of member	Number of meeting attended/held	Attendance rate
LAI KO Wing Yee Rebecca (<i>Chairperson</i>)	1/1	100%
CHOW Suk Han Anna	1/1	100%
MA Andrew Chiu Cheung	1/1	100%
SHUEN LEUNG Lai Sheung Loretta**	0/0	N/A
CHAN Bernard Charnwut	1/1	100%

** *Appointed on 16th August, 2017*

During the year 2017, the Remuneration Committee had performed the following works:

- reviewed and recommended for approval by the Board the annual salary review, the emolument of the executive directors and allocation of discretionary bonus;
- reviewed and recommended the directors' fees and board committees' members' fees for the Board's endorsement subject to the shareholders' approval at the 2017 AGM of the Company;
- reviewed and recommended for approval by the Board the re-appointment of retired member of the Remuneration Committee; and
- submitted a summary report on the resolved issues and recommendations to the Board.

Delegation by the Board (cont'd)

Nomination Committee

The Nomination Committee was set up with specific terms of reference which are available on the websites of the Company and the Stock Exchange. The Nomination Committee comprises 5 members, four of whom are INEDs. The Nomination Committee meets at least once each year and reports to the Board on their decisions or recommendations following each meeting.

The Nomination Committee is responsible for making recommendations to the Board on nominations, appointments and re-appointments of directors in accordance with the Company's Nomination Policy. The Nomination Committee considers and reviews, among other things, the structure, size and composition of the Board, the balance of skills, knowledge and experience of the candidates, independence of INEDs, re-election of retiring directors, term of appointment of NEDs and the membership of respective board committees. The Nomination Committee is also responsible for reviewing the Board Diversity Policy to ensure its effectiveness. The Nomination Committee may seek independent professional advice, at the Company's expense, to perform its responsibilities.

In year 2017, the Nomination Committee held four meetings. The attendance record of each member is set out below:

Name of member	Number of meeting attended/held	Attendance rate
CHOW Suk Han Anna (<i>Chairperson</i>)	4/4	100%
MA Andrew Chiu Cheung	4/4	100%
LAI KO Wing Yee Rebecca	4/4	100%
SHUEN LEUNG Lai Sheung Loretta**	1/1	100%
CHAN Bernard Charnwut	3/4	75%

** *Appointed on 16th August, 2017*

During the year 2017, the Nomination Committee had performed the following works:

- reviewed, assessed and confirmed the independence of all the INEDs;
- nominated directors who are required to retire from office by rotation to stand for re-election by shareholders at the Company's 2017 AGM;
- reviewed the structure, size, composition and diversity of the Board;
- reviewed and recommended for the Board's approval the re-appointments of retired members of certain board committees;
- reviewed and recommended the nomination of two candidates as the Chief Compliance Officer and the Chief Risk Officer of the Group;
- reviewed and recommended the nomination of Mrs. SHUEN LEUNG Lai Sheung Loretta as an INED;
- reviewed and recommended the nomination of Mr. SOPHONPANICH Chote as a NED; and
- submitted summary reports on the resolved issues and recommendations to the Board.

Delegation by the Board (cont'd)

Compliance Committee

The Compliance Committee was set up with specific terms of reference which are available on the websites of the Company and the Stock Exchange. The Compliance Committee comprises 6 members, four of whom are INEDs. The Compliance Committee meets at least twice each year and reports to the Board on their decisions or recommendations following each meeting.

The Compliance Committee is responsible for reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements. The Board has delegated the responsibility of overseeing the corporate governance functions to the Compliance Committee to ensure that the Company implements sound corporate governance practices and procedures.

In year 2017, the Compliance Committee held three meetings. The attendance record of each member is set out below:

Name of member	Number of meeting attended/held	Attendance rate
CHOW Suk Han Anna (<i>Chairperson</i>)	3/3	100%
MA Andrew Chiu Cheung	3/3	100%
SIAO Chi Lam Kenneth [#]	1/1	100%
LAI KO Wing Yee Rebecca	3/3	100%
SHUEN LEUNG Lai Sheung Loretta ^{**}	1/1	100%
TAN Stephen	3/3	100%
CHAN Bernard Charnwut	3/3	100%

[#] Resigned on 10th August, 2017

^{**} Appointed on 16th August, 2017

During the year 2017, the Compliance Committee had performed the following works:

- reviewed and monitored the reports and works done by Internal Audit and Compliance Department on the Group's compliance with legal and regulatory requirements;
- reviewed and approved the revised Terms of Reference of the Compliance Committee for the Board's endorsement;
- reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report;
- reviewed the Company's compliance with the Environmental, Social and Governance ("ESG") Reporting Guide and disclosure in the ESG Report;
- reviewed the training records of all the directors and the Company Secretary;
- reviewed the complaint cases by the complaint officer of Asia Insurance;
- reviewed and recommended for the Board's approval the re-appointment of retired member of the Compliance Committee;

Delegation by the Board (cont'd)

Compliance Committee (cont'd)

- reviewed the works done by the Chief Compliance Officer;
- submitted compliance reports to the Audit Committee; and
- submitted summary reports to the Board on the resolved issues and recommendations.

Audit Committee

The Audit Committee was set up with specific terms of reference which are available on the websites of the Company and the Stock Exchange. All four members of the Audit Committee are INEDs. The Audit Committee meets at least three times each year and has a separate meeting with the external auditors in the absence of management to discuss any audit issues.

The Audit Committee is responsible for reviewing, among other things, the Group's financial reporting, the nature and scope of audit, the effectiveness of the systems of internal control and risk management, and compliance relating to financial reporting. The Audit Committee is also responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the Group's external auditors. The Audit Committee reports to the Board following each Audit Committee meeting, drawing the Board's attention to significant issues or matters of which the Board should be aware of, identifying any matters in respect of which it considers that action or improvement is needed, and make relevant recommendations.

The Audit Committee has the overall responsibility for overseeing, monitoring and reviewing the operation of the Company's Whistleblowing Policy. This policy is devised to provide a channel through which all staff members may report incidents of improprieties in a secured and confidential manner such that reporting employees are assured of protection against unfair dismissal, victimization or unwarranted disciplinary actions if they acted in good faith and exercised due care.

In year 2017, the Audit Committee held three meetings. The attendance record of each member is set out below:

Name of member	Number of meeting attended/held	Attendance rate
MA Andrew Chiu Cheung (<i>Chairman</i>)	3/3	100%
SIAO Chi Lam Kenneth [#]	1/1	100%
CHOW Suk Han Anna	3/3	100%
LAI KO Wing Yee Rebecca	3/3	100%
SHUEN LEUNG Lai Sheung Loretta ^{**}	1/1	100%

[#] Resigned on 10th August, 2017

^{**} Appointed on 16th August, 2017

Delegation by the Board (cont'd)

Audit Committee (cont'd)

During the year 2017, the Audit Committee had performed the following works:

- reviewed the Group's interim and annual financial statements with respect to their truth and fairness, and agreed with the external auditors' work;
- reviewed the changes in accounting standards and their impacts on the Group's financial statements;
- reviewed the report from the external auditors;
- reviewed and recommended for approval by the Board the audit fees payable to the external auditors;
- reviewed and approved the internal audit co-sourcing arrangement with external consultant and recommended for approval by the Board the professional fee payable to the external consultant;
- reviewed and approved the Group's internal and external audit plans;
- reviewed the effectiveness of the Group's internal control systems covering the controls for financial, operational, compliance and risk management;
- reviewed the reports on internal audit findings and recommendations of both the internal auditor and the external consultant and the responses from the management;
- submitted summary reports on the resolved internal audit issues and internal control recommendations to the Board;
- reviewed the compliance reports from the Compliance Committee to monitor the Group's compliance with regulatory and statutory requirements;
- reviewed and recommended for the Board's approval of the re-appointment of retired member of the Audit Committee; and
- reviewed the independence and objectivity of the external auditors and recommended for the Board's endorsement the re-appointment of the external auditors subject to the shareholders' approval at the Company's 2017 AGM.

Risk Committee

The Risk Committee was set up during the year with specific terms of reference which are available on the websites of the Company and the Stock Exchange. The Risk Committee comprises 5 members, four of whom are INEDs. The Risk Committee meets at least two times each year and reports to the Board on their decisions or recommendations following each meeting.

The Risk Committee is responsible for assisting the Board to oversee the effectiveness of the Group's risk management system and framework, to review and develop risk management policy, manual and guideline, and to advise the Board on the appropriateness and effectiveness of risk controls and mitigation tools.

Delegation by the Board (cont'd)

Risk Committee (cont'd)

In year 2017, the Risk Committee held one meeting. The attendance record of each member is set out below:

Name of member	Number of meeting attended/held	Attendance rate
LAI KO Wing Yee Rebecca (<i>Chairperson</i>)	1/1	100%
CHOW Suk Han Anna	1/1	100%
MA Andrew Chiu Cheung	1/1	100%
SHUEN LEUNG Lai Sheung Loretta	1/1	100%
CHAN Bernard Charnwut	1/1	100%

During the year 2017, the Risk Committee had performed the following works:

- reviewed and concurred the revised Risk Management Policy for the Board's approval; and
- reviewed the works done by the Chief Risk Officer.

Auditors' Remuneration

During the year under review, the fees paid/payable to the Company's external auditors, Ernst & Young, Hong Kong, are as follows:

Services rendered	Fees paid/payable <i>HK\$'000</i>
Audit services	3,295
Non-audit services*	1,472
Total:	4,767

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

Accountability and Audit

Financial Reporting

Directors are responsible for overseeing the preparation of consolidated financial statements of each financial period which give a true and fair view of the financial position of the Company and its subsidiaries as at the end of the reporting period and of their financial performance and cash flows for that period then ended. In preparing the consolidated financial statements for the year ended 31st December, 2017, the directors selected suitable accounting policies and applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and prepared the accounts on the going concern basis.

Accountability and Audit (cont'd)

Financial Reporting (cont'd)

The consolidated financial statements of the Company and its subsidiaries for the year ended 31st December, 2017 have been audited by the external auditors, Ernst & Young, and reviewed by the Audit Committee. The directors acknowledged their responsibility for preparing the consolidated financial statements which were prepared in accordance with statutory requirements and applicable accounting standards. As at 31st December, 2017, the directors were not aware of any material uncertainties relating to events or conditions which might cast significant doubt upon the Company's ability to continue as a going concern.

The responsibilities of the external auditors with respect to the audit of the consolidated financial statements of the Company and its subsidiaries for the year ended 31st December, 2017 are set out in the "Independent Auditor's Report" on pages 58 and 62 of this annual report.

Risk Management and Internal Control

The Board acknowledged the responsibility for maintaining and overseeing an appropriate and effective risk management and internal control systems. These systems will monitor the material aspects of the Group's business and operations and also to safeguard its assets. The risk management and internal control systems of the Group comprises a well-established organisational structure and the internal policies, procedures and guidelines. Such systems are designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss, and to manage and minimize risks of failure in operational systems.

The Board delegates operational duties and responsibilities to the management, which comprises senior staff and operating heads of different business units/departments. The management oversees the daily business operations, identifies potential opportunities and inherent risks so that the identified risks can be well-understood, managed and/or mitigated. Appropriate operation policies, standards and procedures are in place in different business units/departments and being exercised accordingly, and their efficiency and effectiveness are monitored by the head of each business unit/department to ensure effective segregation of duties.

The Board has adopted the Risk Management Policy which covers the Group's risk appetite and risk management framework at strategic and operation levels in identifying, measuring, monitoring and controlling risks including credit risk, liquidity risk, interest rate risk, foreign exchange risk, equity price risk, market risk, insurance risk, capital management, operational risk, compliance risk, technology risk, human resources risk, investment risk and cyber risk.

The Board has established the Risk Committee during the year 2017 to assist the Board to oversee the effectiveness of the Group's risk management system with the assistance of the Chief Risk Officer who takes up the risk management functions and developed the Risk Register and the Enterprise Risk Management Manual for implementing risk management and internal control practices. The Chief Risk Officer is also responsible for reviewing the risk management status in the Group, to monitor and review the execution of and compliance with the established risk control policies and measures. Regular audits or reviews are conducted to provide assurance that the risk controls are in place in business and operational units of the Group. The Chief Risk Officer presents reports to the members of the Risk Committee on the effectiveness of risk management/control system.

Accountability and Audit (cont'd)

Risk Management and Internal Control (cont'd)

The Board also delegates the responsibility of reviewing the effectiveness of the Group's internal control systems to the Audit Committee. The Audit Committee monitors the Group's risk management processes and internal control systems through the Internal Audit and Compliance Department ("IACD"). IACD performs ongoing assessments and regular independent reviews of all material controls of the Group, checks for compliance with policies and standards and evaluates the effectiveness of internal control structures across the Group.

To complement the in-house internal audit team, the Company also engaged an external consultant during the year to assist in performing periodic internal audits and reviews on certain departments and business units across the Group. IACD and the external consultant presented the internal audit reports to the members of the Audit Committee and also the compliance reports to the members of the Compliance Committee. The reports were then followed up to ensure corrective actions have been taken in respect of any finding previously identified and they have been properly resolved.

Using a risk-and-control based audit approach, IACD and the external consultant plan their respective internal audit schedules and reviews annually with audit resources being focused on higher risk areas. Their internal audit plan for each financial year are discussed with and submitted to the Audit Committee for review and approved before the end of the preceding year.

The Audit Committee reviewed the effectiveness of the Group's internal control systems covering all material controls, including financial, operational, compliance, and risk management functions during the year and the resources allocated to internal control operations. The Audit Committee reported the review result to the Board following each Audit Committee meeting. The Board reviewed, considered and satisfied that the Group's internal control systems and risk management functions are effective, adequate and in compliance with the risk management and internal control code provisions of the CG Code.

The Board has adopted the Inside Information Disclosure Policy which sets out the approach, procedures and internal controls for the handling and dissemination of inside information of the Group to ensure the inside information is maintained confidentially or to be disseminated to the public in timely and accurate manner in accordance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Listing Rules and all other applicable rules and regulations. The Inside Information Disclosure Policy will be reviewed, as appropriate, and any amendment to such policy shall be approved by the Board to ensure its continued effectiveness from time to time.

Professional Training of Company Secretary

The Company Secretary, Mr. LAU Chi Tak, is an employee of the Company and has day-to-day knowledge of the Company's affairs. He reports to the Chairman and the President. All directors have direct access to the advice and service of the Company Secretary to ensure that board procedures, and applicable laws, rules and regulations are followed. The Company Secretary confirmed that he has taken no less than 15 hours of relevant professional training during the year 2017.

Remuneration of Directors and Senior Management

The Remuneration Policy of the Company is to maintain fair and competitive packages based on business needs and industry practice. The overall remuneration package of each individual director and senior management is determined based on the market level of similar positions in comparable companies and by reference to factors including director's working positions, qualifications, experience, level of responsibilities as well as the Group's performance and profitability.

During the year, the level of fees and emoluments paid to directors and senior management depends on their respective contractual terms under employment contracts or letters of appointments, if any, and as recommended by the Remuneration Committee and approved by the Board or shareholders at the Company's AGM.

Information relating to the remuneration of directors on a named basis for the year ended 31st December, 2017 is set out in note 7 to the financial statements.

Constitutional Documents

There was no change to the Company's Memorandum of Association and Bye-laws during the year ended 31st December, 2017. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is available on the websites of the Company and the Stock Exchange.

Communications with Shareholders

The Board recognises the importance of good communications with all shareholders. The Company has established the Shareholders Communication Policy and posted it on its website. The policy sets out the processes to provide the shareholders with ready, equal, timely and understandable information on the Company in order to enable them to exercise their rights in an informed manner.

The Company is committed to maintaining a policy of open and timely disclosure of relevant information on its attributes to shareholders and other stakeholders through the publication of interim and annual reports, public announcements and other public circulars, all of which are available on the websites of the Company and the Stock Exchange. The Company usually conducts post-results press conferences, with executive directors and senior management present to answer questions. Meetings with institutional investors and financial analysts are also conducted upon such requests being received.

The AGM provides a useful forum for shareholders to exchange views with the Board. Shareholders are encouraged to attend the AGM for which at least 20 clear business days prior notice is given. The Chairman as well as chairmen of the Audit Committee, the Compliance Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee (or in their absence, other members of such committees) together with the external auditors are available to answer shareholders' questions at the meeting. The Chairman also advised all other directors to attend the AGM in order to develop a balanced understanding of the views of shareholders. All resolutions proposed at the AGM must be decided on a poll, which the Company's branch share registrar in Hong Kong will conduct as scrutineer for the vote-taking and the results of the poll will be published on the websites of the Company and the Stock Exchange.

The Company's last AGM was held at its principal place of business, 16th Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong on Wednesday, 24th May, 2017. All the resolutions proposed at that meeting were approved by the shareholders by poll voting. Details of the poll results are available on both the Company's and Stock Exchange's websites.

The next AGM will be held on Wednesday, 16th May, 2018, the notice of which will be set out in the circular to shareholders to be sent together with this annual report on or about 13th April, 2018.

Shareholders' Rights

Convening a Special General Meeting

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

The written request should be deposited at the Company's principal place of business for the attention of the Company Secretary.

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

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

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

Making Proposals at Shareholders' Meeting

Shareholder can send a written request to the Board or the Secretary of the Company to make proposal(s) at a shareholders' meeting. The written request must state the resolution(s), accompanied by a statement of the matters referred in the proposed resolution(s) and signed by the shareholder concerned.

The written request should be deposited with the Company at its principal place of business at least fourteen (14) clear days before the date of the shareholders' meeting.

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

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

Nomination of Person for Director Election

A shareholder who wishes to nominate a person to stand for election as a director at the Company's AGM should send a written notice to the Company Secretary at the Company's principal place of business within the period of at least seven (7) days as determined by the Company. Such lodgement period will commence no earlier than the day after dispatch of the notice of AGM and end no later than seven (7) days prior to the date of AGM.

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

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

Shareholders' Rights (cont'd)

Nomination of Person for Director Election (cont'd)

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

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

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

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

Sending Enquiries

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

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

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

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed amount of public float during the year 2017 and up to the date of this annual report as required by the Listing Rules.

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31st December, 2017.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in detail in note 39 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Business Review

A discussion and analysis of the activities of the Group as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the Group's business; a description of the principal risks and uncertainties facing the Group; particulars of important events affecting the Group that have occurred since the end of the financial year 2017; an indication of likely future development in the Group's business; an analysis of the Group's performance using financial key performance indicators; a discussion on the Group's environmental policies and performance; the Group's compliance with the relevant laws and regulations that have a significant impact on the Group; and an account of the key relationships with its stakeholders that have a significant impact on the Group and on which the Group's success depends, are provided in the "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report", and "Environmental, Social and Governance Report" set out on pages 3 to 44 of this annual report.

Results and Dividends

The Group's profit for the year ended 31st December, 2017 and the Group's financial position at that date are set out in the financial statements on pages 63 to 148.

An interim dividend of HK4.0 cents per ordinary share, totalling approximately HK\$39,139,000, was paid on 27th September, 2017.

The directors recommend the payment of a final dividend of HK7.5 cents per ordinary share, totalling approximately HK\$73,386,000 in respect of the year, which will be payable on or about 5th June, 2018 in cash to shareholders on the register of members of the Company on 28th May, 2018. This recommendation has been incorporated into the financial statements as an allocation of the retained profits within the equity section in the Group's statement of financial position. Further details of this accounting treatment are set out in note 10 to the financial statements.

Share Capital

There were no movements in the Company's share capital during the year.

Equity-linked Agreements

There were no equity-linked agreements entered into by the Group during the year or subsisting at the end of the year.

Report of the Directors

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Distributable Reserves

At 31st December, 2017, the Company's reserves available for cash distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981, amounted to HK\$2,827,488,000, of which HK\$73,386,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account and capital reserve, in the amount of HK\$620,591,000 in aggregate, may be distributed in the form of fully paid bonus shares.

Five Years Financial Summary

The results and assets, liabilities and non-controlling interests of the Group for the last five years, as extracted from the published audited financial statements as appropriate, are summarised below:

Results

	Year ended 31st December,				
	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
Revenue	<u>1,294,323</u>	<u>1,287,457</u>	<u>1,173,510</u>	<u>1,279,625</u>	<u>1,448,080</u>
Profit for the year	<u>469,880</u>	<u>369,038</u>	<u>187,638</u>	<u>373,653</u>	<u>275,207</u>
Profit for the year attributable to:					
Equity holders of the Company	<u>468,187</u>	<u>367,271</u>	<u>186,063</u>	<u>365,507</u>	<u>270,731</u>
Non-controlling interests	<u>1,693</u>	<u>1,767</u>	<u>1,575</u>	<u>8,146</u>	<u>4,476</u>
	<u>469,880</u>	<u>369,038</u>	<u>187,638</u>	<u>373,653</u>	<u>275,207</u>

Assets, liabilities and non-controlling interests

	31st December,				
	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
Total assets	<u>11,982,746</u>	<u>10,259,709</u>	<u>10,164,022</u>	<u>9,961,152</u>	<u>9,245,573</u>
Total liabilities	<u>(3,960,612)</u>	<u>(3,180,105)</u>	<u>(3,104,093)</u>	<u>(3,014,259)</u>	<u>(2,970,153)</u>
Non-controlling interests	<u>(45,689)</u>	<u>(43,090)</u>	<u>(40,312)</u>	<u>(38,391)</u>	<u>(30,520)</u>
	<u>7,976,445</u>	<u>7,036,514</u>	<u>7,019,617</u>	<u>6,908,502</u>	<u>6,244,900</u>

Major Customers

During the year, the Group derived less than 30% of its total income from its five largest customers.

As far as the directors are aware, none of the directors of the Company, or any of their associates and shareholders, which, to the knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers.

Major Suppliers

The Group's major subsidiary is an insurance company, which is exempted from disclosing the particulars of suppliers. Accordingly, no such information has been disclosed.

Directors

The directors of the Company during the year and up to the date of the report were:

CHAN Yau Hing Robin*, G.B.S., LL.D., J.P.

CHAN Bernard Charnwut*, G.B.S., J.P.

TAN Stephen*

WONG Kok Ho*

SOPHONPANICH Choedchu

(Resigned on 9th June, 2017)

SOPHONPANICH Chote

(Appointed on 6th December, 2017)

YAMAMOTO Takao

TANAKA Junichi

CHAN Yeow Toh

CHOW Suk Han Anna**

MA Andrew Chiu Cheung**

SIAO Chi Lam Kenneth**

(Resigned on 10th August, 2017)

WONG Yu Hong Philip**, G.B.S.

(Resigned on 9th June, 2017)

LAI KO Wing Yee Rebecca**, J.P.

SHUEN LEUNG Lai Sheung Loretta**

(Appointed on 16th August, 2017)

* *Executive directors*

** *Independent non-executive directors*

In accordance with Bye-law 87(2) of the Company's Bye-laws, Dr. CHAN Yau Hing Robin, Mr. WONG Kok Ho and Mr. YAMAMOTO Takao will retire by rotation at the forthcoming annual general meeting (the "2018 AGM") and all of them, being eligible, will offer themselves for re-election except Mr. Yamamoto who will not offer himself for re-election and will retire as non-executive director of the Company with effect from the conclusion of the 2018 AGM.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mrs. SHUEN LEUNG Lai Sheung Loretta holds office only until the 2018 AGM and, being eligible, will offer herself for re-election at the meeting. Mr. SOPHONPANICH Chote who also holds office until the 2018 AGM and, being eligible, will not offer himself for re-election. He will retire as non-executive director of the Company with effect from the conclusion of the 2018 AGM.

Report of the Directors

Directors (cont'd)

Moreover, Mr. TANAKA Junichi and Ms. CHAN Yeow Toh have tendered their resignations as non-executive directors of the Company due to their job relocation and other commitments. Mr. Tanaka's resignation will be effective from 23rd March, 2018 and Ms. Chan's resignation will be effective from 31st March, 2018. The Board has approved to appoint Mr. KAWAUCHI Yuji as a non-executive director of the Company to be effective on 23rd March, 2018 and Mr. Kawauchi will hold office only until the 2018 AGM and shall then be eligible for re-election at that meeting.

The Company has received from each independent non-executive director an annual independence confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company still considers that all of them are independent.

Directors' Service Contracts

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 31st December, 2017, the interests of the directors and chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules 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 31st December, 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.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares (cont'd)

In addition to the above, Dr. CHAN Yau Hing Robin and Mr. WONG Kok Ho have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

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

Directors' Rights to Acquire Shares or Debentures

At no time during the year there were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31st December, 2017, the following persons (other than the directors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or as otherwise notified to the Company:

Name of shareholder	<i>Notes</i>	Number of ordinary shares held	Percentage of the Company's issued share capital ⁽¹⁾
Cosmos Investments Inc.	(2), (3)	569,999,712	58.25
Claremont Capital Holdings Ltd	(2)	566,069,712	57.85
Bangkok Bank Public Company Limited		95,488,236	9.76
Sompo Holdings, Inc.	(4)	87,465,753	8.94
Sompo Japan Nipponkoa Insurance Inc.	(4)	87,465,753	8.94
Aioi Nissay Dowa Insurance Company, Limited		52,550,175	5.37

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares (cont'd)

Notes:

- (1) Based on 978,478,000 shares in issue as at 31st December, 2017.
- (2) These shares have been included in the interest disclosure of Dr. CHAN Yau Hing Robin as set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above.
- (3) 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.
- (4) 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 31st December, 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.

Directors' Interests in Transactions, Arrangements or Contracts

Save as disclosed in note 34(a) to the financial statements, no director nor a connected entity of a director had a material beneficial interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or any of the Company's subsidiaries was a party during the year.

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company and the Company's subsidiaries were entered into or existed during the year.

No right to subscribe for equity or debt securities of the Company has been granted by the Company to, or have any such rights been exercised by, any person during the year ended 31st December, 2017.

Permitted Indemnity Provision

The Company's Bye-laws provides that all directors or other officers of the Company shall be entitled to be indemnified out of the Company's assets against all losses or liabilities which he or she may incur or sustain in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its directors and officers.

Directors' Interests in Competing Businesses

During the year and up to the date of this report, the following directors are considered to have interests in the following businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group, pursuant to the Listing Rules, as set out below:

Name of director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of the businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the director in the entity
CHAN Yau Hing Robin	The People's Insurance Company of China (Hong Kong), Limited	General insurance	Director
CHAN Bernard Charnwut	The People's Insurance Company of China (Hong Kong), Limited	General insurance	Director
	Sompo Japan Nipponkoa Insurance (China) Company Limited	General insurance	Director
WONG Kok Ho	Sompo Japan Nipponkoa Insurance (Hong Kong) Company Limited	General insurance	Director

Although the companies listed above operate in similar fields to certain operations of the Group, the board believes that the directors concerned are able to manage any potential conflicts of interest arising from their respective directorships and/or interests in such companies.

As the board of directors of the Company is independent from the boards of directors of these companies, the Group is capable of carrying on its businesses independently of, and at an arm's length from, the businesses of these companies.

Brief Biographical Details of Directors and Senior Management Staff

Executive Directors:

Dr. CHAN Yau Hing Robin, G.B.S., LL.D., J.P., aged 85, is the Chairman and an executive director of the Company and Asia Insurance Company, Limited (“Asia Insurance”), a wholly-owned subsidiary of the Company. Dr. Chan has been working for the Group for over 60 years. He is also a director of several other subsidiaries of the Company and a director of Claremont Capital Holdings Ltd, the controlling shareholder of the Company. Dr. Chan was awarded the Knight Commander (Second Class) of the Most Noble Order of the Crown of Thailand by His Majesty, the King of Thailand and the Gold Bauhinia Star by the Government of the HKSAR in 2000. He was also conferred with the Honorary University Fellowships by Hong Kong Baptist University and the University of Hong Kong in 2010 and 2011 respectively, and the Honorary Fellowship by The Hong Kong University of Science and Technology in 2013. Dr. Chan is the Life Honorary Chairman of The Chinese General Chamber of Commerce and the Vice Chairman of the All-China Federation of Returned Overseas Chinese. He is also the Founding Chairman and President of the Hong Kong Federation of Overseas Chinese Associations Limited, the Honorary Chairman of both the China Federation of Overseas Chinese Entrepreneurs and Federation of HK Chiu Chow Community Organizations Limited, and an adviser of the China Overseas Chinese Entrepreneurs Association. Dr. Chan had been a Deputy to The National People’s Congress of the People’s Republic of China from March 1988 to February 2008. He has extensive experience in the banking industry and acts as an adviser to numerous other companies. Dr. Chan is also an independent non-executive director of K. Wah International Holdings Limited and Keck Seng Investments (Hong Kong) Limited, both of which are listed on the Stock Exchange. Dr. Chan is the father of Mr. TAN Stephen and Mr. CHAN Bernard Charnwut and is the brother of Mr. SOPHONPANICH Chote.

Mr. CHAN Bernard Charnwut, G.B.S., J.P., aged 53, is an executive director and the President of the Company and Asia Insurance. Mr. Chan is a member of the remuneration committee, the nomination committee, the compliance committee and the risk committee of the Company and also the Chairman of AFH Charitable Foundation Limited. Mr. Chan has been working for the Group for 28 years. He is the son of Dr. CHAN Yau Hing Robin, the brother of Mr. TAN Stephen and the nephew of Mr. SOPHONPANICH Chote. He graduated from Pomona College in California, U.S.A. In addition to directorships in other subsidiaries of the Company, Mr. Chan is an independent non-executive director of Yau Lee Holdings Limited, Chen Hsong Holdings Limited and China Resources Beer (Holdings) Company Limited, all of which are listed on the Stock Exchange. In October 2017, Mr. Chan has been appointed as a director of Bumrungrad Hospital Public Company Limited which is a company listed in Thailand. He resigned as a non-executive director of City e-Solutions Limited (now known as China Tian Yuan Health Care Group Limited) on 9th September, 2016 which is a listed company in Hong Kong. Mr. Chan is currently a director of PICC Life Insurance Company Limited, a director of Claremont Capital Holdings Ltd which is the controlling shareholder of the Company, the Chairman of Hong Kong-Thailand Business Council and an adviser to Bangkok Bank (China) Company Limited. Mr. Chan has been elected a Deputy to The National People’s Congress of the People’s Republic of China since January 2008. He has also been appointed as the Convenor among the Non-official Members of the Executive Council of the HKSAR since 1st July, 2017. Mr. Chan is a member of Hong Kong Monetary Authority Exchange Fund Advisory Committee. He is also a trustee of Pomona College, California U.S.A. and serves as the Chairperson of The Hong Kong Council of Social Service.

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

Executive Directors: (cont'd)

Mr. TAN Stephen, aged 64, has been an executive director of the Company since 30th May, 2006 and has been working for the Group for 31 years. He is a member of the compliance committee of the Company. In addition to directorships in other subsidiaries of the Company, Mr. Tan sits on the boards of AFH Charitable Foundation Limited, Bank Consortium Trust Company Limited and Hong Kong Life Insurance Limited. He is also an independent non-executive director of Pioneer Global Group Limited and China Motor Bus Company, Limited, both of which are listed on the Stock Exchange. Mr. Tan serves as a Standing Committee Member of The Chinese General Chamber of Commerce, the Vice President of Hong Kong Chiu Chow Chamber of Commerce, the Incumbent Honorary President of Chiu Yang Residents Association of Hong Kong Limited and the Manager of Chiu Yang Primary School of Hong Kong. Mr. Tan is a voting member of Tung Wah Group of Hospitals Advisory Board, a founding member of both Hong Kong-Thailand Business Council and Hong Kong-Korea Business Council, a trustee of Outward Bound Trust of Hong Kong, a charter member of The Rotary Club of The Peak and a founding member of Opera Hong Kong Limited. Mr. Tan is also a member of the Board of Governors of Hong Kong Sinfonietta Limited and the honorary adviser of the Hong Kong Baseball Association. Mr. Tan was educated in the U.S.A. and holds a bachelor's degree in Business Administration from Rutgers University, and a master's degree in Business Administration from St. John's University. He is the son of Dr. CHAN Yau Hing Robin, the brother of Mr. CHAN Bernard Charnwut and the nephew of Mr. SOPHONPANICH Chote.

Mr. WONG Kok Ho, aged 70, has been an executive director of the Company since 2nd May, 2007 and has served the Group for over 40 years. Mr. Wong is an executive director of Asia Insurance and a director of several other subsidiaries of the Company. Mr. Wong was the Chief Executive Officer of Asia Insurance until October 2016 and has extensive experience in the insurance industry. He sits on the boards of AFH Charitable Foundation Limited, AR Consultant Service (HK) Limited, Professional Liability Underwriting Services Limited and Asia Insurance (Philippines) Corporation. Mr. Wong is also an independent non-executive director of Sompo Japan Nipponkoa Insurance (Hong Kong) Company Limited, and an adviser to both BE Reinsurance Limited and BC Reinsurance Limited. Mr. Wong was educated in Hong Kong and Deakin University, Melbourne, Australia and is a fellow member of The Chartered Insurance Institute, London. Mr. Wong is currently a member of the insurance subsector of the Election Committee 2018. He had served as the Chairman and a councillor of the Employees Compensation Insurer Insolvency Bureau, the General Insurance Council of the Hong Kong Federation of Insurers (HKFI) and the Council of Motor Insurers' Bureau of Hong Kong. He had also been a member of the General Committee of the Insurance Claims Complaints Bureau, the Governing Committee of the HKFI and the President of the Insurance Institute of Hong Kong.

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

Non-Executive Directors:

Mr. SOPHONPANICH Chote, aged 75, has been a non-executive director of the Company since 6th December, 2017. Mr. Sophonpanich is chairman of Green Spot Co., Ltd. and Krungdhep Sophon Public Company Limited which is listed on the Stock Exchange of Thailand. He is also a director of Watana Chote Co., Ltd. He is the brother of Dr. CHAN Yau Hing Robin, the uncle of both Mr. TAN Stephen and Mr. CHAN Bernard Charnwut. Mr. Sophonpanich attended Knox Grammar School at Wahroonga, Sydney and graduated in Economics at University of Sydney in 1964. He had served on various positions in Bangkok Bank Public Company Limited (“Bangkok Bank”) including London branch manager & European Representative, Asian Regional manager at Hong Kong and senior Executive Vice President. He was also a member of the board of directors of Bangkok Bank. During his term at Bangkok Bank, Mr. Sophonpanich served as President of the Asian Pacific Bankers Club whose members consisted of the leading banks in Asia and as chairman of ASEAN Finance Corporation at Singapore. Mr. Sophonpanich was also a director of Stelux Holdings International Limited and had served as chairman of Capital Nomura Securities Finance Ltd., United Palm Oil Plc., Tuntex (Thailand) Plc., Bangkok Fund Co., Ltd. and CS Capital Co., Ltd. Mr. Sophonpanich was also a director of Shangri-La Hotel (Thailand) Plc. and Crown Seal Plc. Mr. Sophonpanich also served on the Board of the following charities/non-profit organizations: Foundation for the welfare of needy schoolchildren under Royal Patronage of Her Majesty the Queen, Pol. Gen. Pow Sarasin Foundation, Chin Sophonpanich Foundation, Vudhivithu Vudhijaya (Maag) Foundation, Board of Trustees, Thailand Management Association, Thai Public Policy Foundation and Navamindradhiraj University Council.

Mr. TANAKA Junichi, aged 56, has been a non-executive director of the Company since 7th May, 2014. Mr. Tanaka is currently the Managing Executive Officer of both Sampo Holdings, Inc. (a company listed in Japan) and its wholly-owned subsidiary, Sampo Japan Nipponkoa Insurance Inc. (“Sampo Japan Nipponkoa”). He has been appointed as a non-executive director of Endurance Specialty Holdings Limited on 28th March, 2017 when it was acquired by Sampo Japan Nipponkoa and delisted from the New York Stock Exchange. Mr. Tanaka graduated from Japan’s Keio University, Faculty of Law in 1984 and joined The Yasuda Fire and Marine Insurance Company Limited (“Yasuda”) in the same year. Yasuda subsequently merged with other insurance companies in 2002 and 2014 respectively and became Sampo Japan Nipponkoa which currently holds 8.94% of the Company’s issued share capital.

Mr. YAMAMOTO Takao, aged 60, has been a non-executive director of the Company since 19th May, 2016. Mr. Yamamoto is an employee of Aioi Nissay Dowa Insurance Company, Limited (“Aioi Insurance”) and his current position is the General Manager of Overseas Commercial & Marine Insurance Promotion Division and Corporate & Financial Business Promotion Department. He was conferred the Degree of Political Science and Economics from Nihon University, Japan in 1982 and joined Chiyoda Fire & Marine Insurance Company, Limited (present known as Aioi Insurance) in the same year. Aioi Insurance currently holds 5.37% of the Company’s issued share capital.

Ms. CHAN Yeow Toh, aged 62, has been a non-executive director of the Company and Asia Insurance since 28th June, 2007. Ms. Chan is currently a director of IMC Development & Management Limited and a director of a number of other companies in Hong Kong and overseas. She is a fellow member of The Institute of Chartered Secretaries & Administrators, the United Kingdom, and The Malaysian Association of Company Secretaries. Ms. Chan was the Company Secretary of IMC Holdings Limited from 1990 until 2002 when it was delisted from the Stock Exchange. She was also the Chairman of Suntec City Management Pte. Ltd. from July 2005 to December 2009.

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

Independent Non-Executive Directors:

Ms. CHOW Suk Han Anna, aged 70, has been an independent non-executive director of the Company since 27th September, 2004. Ms. Chow is the chairperson of both the nomination committee and the compliance committee, and a member of the audit committee, the remuneration committee and the risk committee of the Company. She is also an independent non-executive director of Asia Insurance. Ms. Chow was admitted as a solicitor of the Supreme Court of England and of Hong Kong respectively in 1973 and she has been in legal practice in Hong Kong since 1973. Ms. Chow was a partner of Messrs. Peter C. Wong, Chow and Chow from 1st April, 1989 to 30th September, 2012 and has since 1st October, 2012 become a consultant of the firm. The firm has since 1st February, 2016, changed its name to Guantao and Chow. She was appointed as a Notary Public by the Faculty Office of Archbishop of Canterbury in 1984 and as a China-Appointed Attesting Officer by the Ministry of Justice, The People's Republic of China in 1991 and has been practicing as a Notary Public and an attesting officer since the said years respectively. Ms. Chow was appointed as a chairperson and a member of a number of public services committees of the Government of the HKSAR. She was a chairperson of the Appeal Tribunal under Building Ordinance (Cap.123) and the Railway Objections Hearing Panel under the Transport Bureau respectively. She was a member of the Vetting Committee for the Professional Services Development Assistance Scheme under the Commerce and Economic Development Bureau, ICAC Complaints Committee, the Administrative Appeals Board, Inland Revenue Review Board, the Criminal Injuries Compensation Board and the Law Enforcement Injuries Compensation Board respectively. She served on the Inland Revenue Review Board as a deputy chairman from 1998 to 2007. She had also been a member of the Solicitors Disciplinary Tribunal Panel of the Law Society. Ms. Chow is also a director of a number of charitable organizations, namely Chi Lin Nunnery, Poh Yea Ching Shea Limited and Chi Hong Ching Yuen Limited. She was a trustee of The D.H. Chen Foundation from 1st December, 1998 and became the honorary secretary of The D.H. Chen Foundation on 1st January, 2010. She resigned as both a trustee and the honorary secretary of the foundation on 1st June, 2012. Ms. Chow is the honorary legal advisor to The Federation of Medical Societies of Hong Kong, and a director and the honorary secretary to the Association of China-Appointed Attesting Officers Limited.

Mr. MA Andrew Chiu Cheung, aged 76, has been an independent non-executive director of the Company since 3rd September, 2004. Mr. Ma is the chairman of the audit committee and a member of the remuneration committee, the nomination committee, the compliance committee and the risk committee of the Company. He is also an independent non-executive director of Asia Insurance. Mr. Ma is a founder and former director of AMA CPA Limited (formerly known as Andrew Ma DFK (CPA) Limited) and a director of Mayee Management Limited. Mr. Ma has more than 40 years' experience in the fields of accounting, auditing and finance. He received his bachelor's degree in economics from the London School of Economics and Political Science (University of London) in England. Mr. Ma is a fellow member of The Institute of Chartered Accountants in England & Wales, The Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong. He is currently an independent non-executive director of several other listed companies in Hong Kong, including Asiaray Media Group Limited, China Resources Power Holdings Company Limited, Chong Hing Bank Limited, C.P. Pokphand Co. Ltd. and C-MER Eye Care Holdings Limited. Mr. Ma resigned as an independent non-executive director of Tanrich Financial Holdings Limited on 27th January, 2015, a company listed on the Stock Exchange.

Mrs. LAI KO Wing Yee Rebecca, J.P., aged 59, has been an independent non-executive director of the Company since 3rd December 2012. Mrs. Lai is the chairperson of both the remuneration committee and the risk committee, and a member of the audit committee, the nomination committee and the compliance committee of the Company. She is also an independent non-executive director of Asia Insurance. Mrs. Lai is the Director of Education Initiatives of China Graduate School of Theology. She obtained her Bachelor of Arts (Hons) degree from University of Hong Kong, Master of Business Administration from the Chinese University of Hong Kong and Master of Christian Studies (Counselling) from China Graduate School of Theology. Mrs. Lai has over 25 years' experience in the civil service. Her last position with the Government of the HKSAR in 2006 was the Permanent Secretary for the Civil Service. Mrs. Lai currently is a Court member of City University of Hong Kong.

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

Independent Non-Executive Directors: (cont'd)

Mrs. SHUEN LEUNG Lai Sheung Loretta, aged 63, has been an independent non-executive director of the Company since 16th August, 2017. Mrs. Shuen is a member of the audit committee, the nomination committee, the compliance committee, the remuneration committee and the risk committee of the Company. She is also a director of Evolut Foundation Limited and an independent non-executive director of BE Reinsurance Limited. Mrs. Shuen is currently a fellow member of CPA Australia and Hong Kong Institute of Certified Public Accountants. She received her Bachelor of Social Sciences (Hon) degree from the University of Hong Kong and Master degree in Accounting Studies from the University of New England, Australia. Mrs. Shuen is a former partner of Ernst & Young and has over 20 years of experience in serving clients in a wide range of industries in Hong Kong, China and Asia Pacific region. She had over 15 years of experience in civil services and had served in an investment bank before settling in Ernst & Young. Mrs. Shuen is an appointed member of the Council of the Lingnan University (the "University"). She now served as the Treasurer to the Council of the University, the Chairman of the Finance Committee, the Chairman of the Investment Subcommittee, a member of the Accounting Advisory Board, and a member of the Risk and Insurance Advisory Board of the University.

Employees and Remuneration Policy

The total number of employees of the Group was 274 at the end of the reporting period (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 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.

Donations

During the year, the Group made charitable donations totalling HK\$8,972,000 (2016: HK\$3,322,000).

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company believes that the percentage of shares of the Company which were in the hands of the public was above the relevant prescribed minimum percentage as at the date of this report.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Corporate Governance

Details of the Company's corporate governance practices are set out in the Corporate Governance Report in this annual report.

Auditor

The financial statements for the year ended 31st December, 2017 have been audited by Ernst & Young who retire and a resolution for the reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

CHAN Yau Hing Robin

Chairman

Hong Kong, 22nd March, 2018

Independent Auditor's Report



To the shareholders of Asia Financial Holdings Limited

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Asia Financial Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 63 to 148, which comprise the consolidated statement of financial position as at 31st December, 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matters (cont'd)

Key audit matter

How our audit addressed the key audit matter

Estimation of insurance contracts liabilities

As at 31st December, 2017, the Group had insurance contracts liabilities for reported claims and incurred but not reported claims for the general insurance business of HK\$2,396 million in aggregate, representing 61% of the Group's total liabilities.

The estimation of insurance contracts liabilities requires significant judgement and it may take a significant period of time before the ultimate cost of the claims can be established with certainty. The primary techniques adopted by management in estimating the cost of the ultimate claims included using the past claim settlement trends to predict the future claims settlement trends combined with actuarial and statistical projection techniques; referencing to benchmarks of companies in a similar industry sector; and the assessment by loss adjusters.

Related disclosures are included in notes 2.5, 26 and 35 to the financial statements.

We involved our internal actuarial specialists to assist us in performing our audit procedures, which included among others: understanding the Group's methodologies for calculating the insurance contracts liabilities; evaluating the assumptions used in the valuation of the insurance contracts liabilities, by comparing to historical and market data; and assessing the validity of liability adequacy tests by evaluating the assumptions adopted in the context of the Group and industry experience data and taking into account the features of the specific insurance products.

Impairment of unlisted available-for-sale securities

As at 31st December, 2017, included in the Group's available-for-sale securities of HK\$3,616 million were investments in unlisted securities of HK\$1,595 million, representing 13% of the Group's total assets. These unlisted securities are stated at cost less impairment. At the end of each reporting period, management assesses whether there is any objective evidence that the unlisted available-for-sale securities are impaired. When there is objective evidence that the unlisted available-for-sale securities are impaired, management makes assumptions about the decline in value to determine the amount of the impairment loss to be recognised in the statement of profit or loss. The assessment on whether the unlisted available-for-sale securities are impaired requires significant management judgement.

Related disclosures are included in notes 2.5 and 18 to the financial statements.

Our audit procedures included evaluating management's impairment assessment of the unlisted available-for-sale securities, with reference to the financial information and business plans of the respective investee companies, performing analytical procedures on the financial information of significant investee companies and reviewing relevant market and industry information for any potential impairment indicators.

Independent Auditor's Report

Key Audit Matters (cont'd)

Key audit matter

How our audit addressed the key audit matter

Fair value measurement of securities measured at fair value through profit or loss and available-for-sale securities

As at 31st December, 2017, the Group had investments in various securities, of which HK\$3,758 million representing 31% of the Group's total asset, are stated at fair value and classified as "securities measured at fair value through profit or loss" or "available-for-sale securities". Fair value measurement can be a subjective area, especially for securities with model based valuation or with weak liquidity and price discovery. Valuation techniques for securities without active markets can be subjective in nature and involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could lead to significantly different estimates of fair value. Specific areas of focus include the valuation of fair value of Level 2 assets where valuation techniques are applied in which observable inputs are used.

We reviewed management's assessment of fair value and performed independent price verification using external quotes for liquid positions. In addition, we performed additional procedures for areas of higher risk and estimation with the assistance of our internal valuation specialists. These included evaluating the pricing model methodologies and assumptions of selected securities, and assessing the accuracy of the key inputs to the models by comparing them with appropriate benchmarks and pricing sources. We also assessed the adequacy of the disclosures relating to the securities.

Related disclosures are included in notes 2.5, 18, 20 and 36 to the financial statements.

Other Information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (cont'd)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chung Yuk Man.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

22nd March, 2018

Consolidated Statement of Profit or Loss

Year ended 31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
REVENUE	4	1,294,323	1,287,457
Gross premiums	27(a)	1,293,680	1,276,956
Reinsurers' share of gross premiums	27(b)	(448,091)	(427,240)
Net insurance contracts premiums revenue		845,589	849,716
Gross claims paid	28(a)	(603,271)	(477,493)
Reinsurers' share of gross claims paid	28(b)	191,838	156,973
Gross change in outstanding claims	28(c)	(690,542)	(30,347)
Reinsurers' share of gross change in outstanding claims	28(d)	627,140	(17,899)
Net claims incurred		(474,835)	(368,766)
Commission income		92,014	86,819
Commission expense		(305,891)	(295,721)
Net commission expense		(213,877)	(208,902)
Management expenses for underwriting business		(77,743)	(65,554)
Underwriting profit		79,134	206,494
Dividend income		114,114	135,994
Realised gain on investments		121,636	9,909
Unrealised gain on investments		176,698	2,413
Interest income		65,885	60,576
Other income and gains, net		21,975	1,711
		579,442	417,097
Operating expenses		(139,796)	(126,857)
Finance costs	5	(3,170)	(2,761)
		436,476	287,479
Share of profits and losses of joint ventures		48,246	36,857
Share of profits and losses of associates		19,310	76,558
PROFIT BEFORE TAX	6	504,032	400,894
Income tax expense	9	(34,152)	(31,856)
PROFIT FOR THE YEAR		469,880	369,038

...cont'd

Consolidated Statement of Profit or Loss

Year ended 31st December, 2017

	<i>Notes</i>	2017 HK\$'000	2016 <i>HK\$'000</i>
Attributable to:			
Equity holders of the Company		468,187	367,271
Non-controlling interests		1,693	1,767
		469,880	369,038
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	<i>11</i>		
Basic			
– For profit for the year		HK47.8 cents	HK36.8 cents
Diluted			
– For profit for the year		N/A	N/A

Consolidated Statement of Comprehensive Income

Year ended 31st December, 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
PROFIT FOR THE YEAR		<u>469,880</u>	<u>369,038</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale securities:			
Changes in fair value		496,362	(107,849)
Reclassification adjustment for gain on disposal included in the consolidated statement of profit or loss		<u>(51,963)</u>	<u>–</u>
		444,399	(107,849)
Share of other comprehensive income of joint ventures		5,359	2,978
Share of other comprehensive income/(expense) of associates		30,283	(27,313)
Exchange differences on translation of foreign operations		<u>114</u>	<u>63</u>
Net other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods		<u>480,155</u>	<u>(132,121)</u>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Asset revaluation reserve:			
Gain on property revaluation	13	<u>85,450</u>	<u>–</u>
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		<u>85,450</u>	<u>–</u>
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX		<u>565,605</u>	<u>(132,121)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>1,035,485</u></u>	<u><u>236,917</u></u>
ATTRIBUTABLE TO:			
Equity holders of the Company		1,032,886	234,139
Non-controlling interests		<u>2,599</u>	<u>2,778</u>
		<u><u>1,035,485</u></u>	<u><u>236,917</u></u>

Consolidated Statement of Financial Position

31st December, 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
ASSETS			
Property, plant and equipment	<i>13</i>	176,450	335,487
Investment properties	<i>14</i>	280,200	28,200
Interests in joint ventures	<i>15</i>	208,734	280,104
Loans to a joint venture	<i>15</i>	54,000	56,500
Interests in associates	<i>16</i>	436,700	357,817
Due from associates	<i>16</i>	256,140	200,765
Held-to-maturity securities	<i>17</i>	725,558	651,969
Available-for-sale securities	<i>18</i>	3,616,130	3,321,596
Pledged deposits	<i>23</i>	206,488	158,915
Loans and advances and other assets	<i>19</i>	117,335	129,352
Securities measured at fair value through profit or loss	<i>20</i>	1,736,186	1,524,770
Insurance receivables	<i>21</i>	225,162	197,465
Reinsurance assets	<i>22</i>	1,211,355	583,379
Cash and cash equivalents	<i>23</i>	2,627,224	2,433,390
		11,877,662	10,259,709
Assets of a disposal group classified as held for sale	<i>12</i>	105,084	–
Total assets		11,982,746	10,259,709

...cont'd

Consolidated Statement of Financial Position

31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital	24	978,478	978,478
Reserves	25	6,920,986	6,004,220
Proposed final dividend	10	73,386	53,816
		7,972,850	7,036,514
Reserve of a disposal group classified as held for sale	12	3,595	–
		7,976,445	7,036,514
Non-controlling interests		45,689	43,090
Total equity		8,022,134	7,079,604
Liabilities			
Insurance contracts liabilities	26	3,187,781	2,496,596
Insurance payables		181,949	157,233
Due to a joint venture	15	28,099	25,055
Due to associates	16	4,222	4,222
Other liabilities	29	348,521	281,111
Interest-bearing bank borrowing	30	150,000	150,000
Tax payable		46,414	53,649
Deferred tax liabilities	31	13,626	12,239
Total liabilities		3,960,612	3,180,105
Total equity and liabilities		11,982,746	10,259,709

CHAN Yau Hing Robin
Chairman

CHAN Bernard Charnwut
Executive Director & President

Consolidated Statement of Changes in Equity

Year ended 31st December, 2017

	Attributable to equity holders of the Company													
	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Contingency reserve <i>HK\$'000</i> <i>(note 25)</i>	Available-for-sale investment reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Statutory reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Proposed final dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non-controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 year	-	-	-	-	-	-	-	-	-	367,271	-	367,271	1,767	369,038
Other comprehensive income/(expense) for the year:														
Changes in fair value of available-for-sale securities <i>(note 18)</i>	-	-	-	(107,849)	-	-	-	-	-	-	-	(107,849)	-	(107,849)
Share of other comprehensive income of joint ventures <i>(note 15)</i>	-	-	-	2,733	-	245	-	-	-	-	-	2,978	-	2,978
Share of other comprehensive income/(expense) of associates <i>(note 16)</i>	-	-	-	2,351	-	(30,675)	-	-	-	-	-	(28,324)	1,011	(27,313)
Exchange differences on translation of foreign operations	-	-	-	-	-	63	-	-	-	-	-	63	-	63
Total comprehensive income/(expense) for the year	-	-	-	(102,765)	-	(30,367)	-	-	-	367,271	-	234,139	2,778	236,917
Final 2015 dividend declared	-	-	-	-	-	-	-	-	-	86	(10,192)	(10,106)	-	(10,106)
Interim 2016 dividend	-	-	-	-	-	-	-	-	-	(24,557)	-	(24,557)	-	(24,557)
Proposed final 2016 dividend <i>(note 10)</i>	-	-	-	-	-	-	-	-	-	(53,816)	53,816	-	-	-
Repurchase of shares <i>(note 24)</i>	(40,722)	-	-	-	-	-	-	-	-	(141,857)	-	(182,579)	-	(182,579)
Transfer to capital redemption reserve <i>(note 24)</i>	-	-	-	-	-	-	-	40,722	(40,722)	-	-	-	-	-
Transfer to contingency reserve	-	-	16,353	-	-	-	-	-	-	(16,353)	-	-	-	-
Release from contingency reserve	-	-	(9,175)	-	-	-	-	-	-	9,175	-	-	-	-
Share of changes in contingency reserve of a joint venture	-	-	163	-	-	-	-	-	-	(163)	-	-	-	-
At 31st December, 2016	978,478	560,531*	71,777*	1,130,178*	56,120*	(17,942)*	2,427*	513,240*	79,543*	3,608,346*	53,816	7,036,514	43,090	7,079,604

...cont'd

Consolidated Statement of Changes in Equity

Year ended 31st December, 2017

	Attributable to equity holders of the Company													Non-controlling interests	Total
	Issued capital	Share premium account	Contingency reserve	Available for-sale investment reserve	Asset revaluation reserve	Exchange reserve	Statutory reserve	Capital reserve	Capital redemption reserve	Retained profits	Proposed final dividend	Reserve of a disposal group held for sale	Total		
	HK\$'000	HK\$'000	HK\$'000 (note 25)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 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	-	7,036,514	43,090	7,079,604
Profit for the period	-	-	-	-	-	-	-	-	-	468,187	-	-	468,187	1,693	469,880
Other comprehensive income for the year:															
Investment revaluation reserve arising from changes in fair value of available-for-sale securities and reclassification adjustment for gain on disposal	-	-	-	444,399	-	-	-	-	-	-	-	-	444,399	-	444,399
Share of other comprehensive income of joint ventures (note 15)	-	-	-	1,933	-	3,426	-	-	-	-	-	-	5,359	-	5,359
Share of other comprehensive income of associates (note 16)	-	-	-	2,209	-	27,168	-	-	-	-	-	-	29,377	906	30,283
Exchange differences on translation of foreign operations	-	-	-	-	-	114	-	-	-	-	-	-	114	-	114
Gain on property valuation (note 13)	-	-	-	-	85,450	-	-	-	-	-	-	-	85,450	-	85,450
Total comprehensive income for the year	-	-	-	448,541	85,450	30,708	-	-	-	468,187	-	-	1,032,886	2,599	1,035,485
Final 2016 dividend declared (note 10)	-	-	-	-	-	-	-	-	-	-	(53,816)	-	(53,816)	-	(53,816)
Interim 2017 dividend (note 10)	-	-	-	-	-	-	-	-	-	(39,139)	-	-	(39,139)	-	(39,139)
Proposed final 2017 dividend (note 10)	-	-	-	-	-	-	-	-	-	(73,386)	73,386	-	-	-	-
Transfer to contingency reserve	-	-	16,820	-	-	-	-	-	-	(16,820)	-	-	-	-	-
Release from contingency reserve	-	-	(16,140)	-	-	-	-	-	-	16,140	-	-	-	-	-
Share of changes in contingency reserve of a joint venture	-	-	166	-	-	-	-	-	-	(166)	-	-	-	-	-
Reclassification for a disposal group classified as held for sale	-	-	-	(3,595)	-	-	-	-	-	-	-	3,595	-	-	-
At 31st December, 2017	978,478	560,531*	72,623*	1,575,124*	141,570*	12,766*	2,427*	513,240*	79,543*	3,963,162*	73,386	3,595	7,976,445	45,689	8,022,134

* These reserve accounts comprise the consolidated reserves of HK\$6,920,986,000 (2016: HK\$6,004,220,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31st December, 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		504,032	400,894
Adjustments for:			
Interest income	<i>6</i>	(65,885)	(60,576)
Finance costs	<i>5</i>	3,170	2,761
Dividend income from investments	<i>6</i>	(114,114)	(135,994)
Loss on redemption/call-back of held-to-maturity securities	<i>6</i>	88	80
Gain on disposal of available-for-sale securities	<i>6</i>	(52,238)	(115)
Depreciation	<i>6</i>	15,068	15,563
Changes in fair value of investment properties	<i>6</i>	(6,000)	(5,100)
Loss/(gain) on disposal/write-off of items of property, plant and equipment	<i>6</i>	7,390	(58)
Share of profits and losses of joint ventures		(48,246)	(36,857)
Share of profits and losses of associates		(19,310)	(76,558)
		223,955	104,040
Decrease/(increase) in loans and advances and other assets		12,017	(36,410)
Decrease/(increase) in securities measured at fair value through profit or loss		(211,416)	328,926
Decrease/(increase) in insurance receivables		(27,697)	4,157
Increase in reinsurance assets		(627,976)	(16,181)
Decrease in time deposits with original maturity of over three months		4,566	223,485
Increase in insurance contracts liabilities		691,185	40,848
Increase in insurance payables		24,716	2,910
Increase/(decrease) in other liabilities		(50,809)	6,097
Cash generated from operations		38,541	657,872
Hong Kong profits tax paid		(34,946)	(89)
Overseas taxes paid		(5,054)	(4,157)
Net cash flows from/(used in) operating activities		(1,459)	653,626

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Consolidated Statement of Cash Flows

Year ended 31st December, 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Net cash flows from/(used in) operating activities		(1,459)	653,626
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		65,885	60,576
Dividends received from investments		114,114	135,994
Dividends received from joint ventures	15	19,891	17,450
Dividends received from associates	16	5,714	5,878
Purchases of held-to-maturity securities		(151,913)	(83,275)
Purchases of available-for-sale securities		(1,024)	(2,730)
Proceeds from redemption/call back of held-to-maturity securities		78,236	19,112
Proceeds from disposal of available-for-sale securities		203,127	115
Purchases of items of property, plant and equipment	13	(25,154)	(26,980)
Proceeds from disposal of items of property, plant and equipment		1,183	250
Capital contribution to associates		(35,004)	(310)
Advances of loans to a joint venture		–	(29,000)
Repayment of a loan to a joint venture		2,500	5,835
Increase in an amount due to a joint venture		3,044	523
Increase in amounts due from associates		(55,375)	(32,375)
Increase in pledged deposits		(47,573)	(10,679)
Deposit received for a proposed disposal	12	118,333	–
Net cash flows from investing activities		295,984	60,384
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares		–	(182,579)
Dividends paid		(92,955)	(34,663)
Interest paid		(3,170)	(2,761)
Net cash flows used in financing activities		(96,125)	(220,003)
NET INCREASE IN CASH AND CASH EQUIVALENTS		198,400	494,007
Cash and cash equivalents at beginning of year		2,218,027	1,724,020
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,416,427	2,218,027

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Consolidated Statement of Cash Flows

Year ended 31st December, 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	182,880	168,772
Non-pledged time deposits with original maturity of over three months when acquired	23	210,797	215,363
Non-pledged time deposits with original maturity of less than three months when acquired	23	<u>2,233,547</u>	<u>2,049,255</u>
Cash and cash equivalents as stated in the consolidated statement of financial position		2,627,224	2,433,390
Less: Non-pledged time deposits with original maturity of over three months when acquired		<u>(210,797)</u>	<u>(215,363)</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows		<u><u>2,416,427</u></u>	<u><u>2,218,027</u></u>

1. Corporate and Group Information

Asia Financial Holdings Limited is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is located at 16th Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong.

The principal activities of the Group comprise the provision of underwriting of general and life insurance. There were no significant changes in the nature of the Group’s principal activities during the year. Particulars of the Company’s principal subsidiaries are detailed in note 39 to the financial statements.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Claremont Capital Holdings Ltd, which was incorporated in the British Virgin Islands.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, securities measured at fair value through profit or loss and certain available-for-sale securities which have been measured at fair value, and certain buildings classified as property, plant and equipment which were carried at 1990 valuation. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st December, 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Notes to Financial Statements

31st December, 2017

2.1 Basis of Preparation (cont'd)

Basis of consolidation (cont'd)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 Changes in Accounting Policies and Disclosures

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

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

Other than as explained below regarding the impact of amendments to HKAS 7 and HKFRS 12, the adoption of the above revised standards has had no significant financial effect on these financial statements.

2.2 Changes in Accounting Policies and Disclosures (cont'd)

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 32 to the financial statements.

Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. Disclosure for the Group's joint venture classified as a disposal group held for sale is provided in note 12 to the financial statements.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ¹
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> ¹
HKFRS 9	<i>Financial Instruments</i> ¹
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ²
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> ¹
HKFRS 16	<i>Leases</i> ²
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ²
Amendments to HKAS 40	<i>Transfers of Investment Property</i> ¹
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ²
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28 ¹
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to a number of HKFRSs ²

¹ Effective for annual periods beginning on or after 1st January, 2018

² Effective for annual periods beginning on or after 1st January, 2019

³ Effective for annual periods beginning on or after 1st January, 2021

⁴ No mandatory effective date yet determined but available for adoption

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

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of those standards, HKFRS 9 will be applicable for the Group's financial year ending 31st December, 2018 and is expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of the standard, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standard and the transitional provisions and policy options finally adopted.

Amendments to HKFRS 4, issued in January 2017, address issues arising from the different effective dates of HKFRS 9 and HKFRS 17. The amendments introduce two options for entities issuing contracts within the scope of HKFRS 4 upon adoption of HKFRS 9 and before the implementation of HKFRS 7, 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. The overlay approach allows entities applying HKFRS 9 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. The amendments are not applicable to the Group.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1st January, 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1st January, 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts are summarised as follows:

Upon adoption of HKFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The Group expects to continue measuring at fair value all financial assets currently held at fair value.

Equity investments of HK\$1,592,807,000 as at 31st December, 2017, that are currently held as available for sale at cost less impairment, will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised. Accordingly, the carrying amount of these equity investments will increase by HK\$2,223,457,000 with a corresponding related increase in reserve and deferred tax liabilities of HK\$2,008,039,000 and HK\$215,418,000, respectively, upon the initial adoption of the standard.

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

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 15, issued in July 2014, establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective application is required on the initial application of the standard. The Group will adopt HKFRS 15 from 1st January, 2018 and plan to adopt the modified retrospective application for revenue other than those generated from insurance contracts which are scoped out. The standard is not expected to have any significant impact on the Group's financial statements.

HKFRS 17, issued in January 2018, provides a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces HKFRS 4 *Insurance Contracts*. In contrast to the requirements in HKFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, HKFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice

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

- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the statement of profit or loss, but are recognised directly on the statement of financial position
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

HKFRS 17 is effective for annual reporting periods beginning on or after 1st January, 2021, with comparative figures required. Early application is permitted, provided the entity also applies HKFRS 9 and HKFRS 15 on or before the date it first applies HKFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Group plans to adopt the new standard for the annual reporting period beginning on 1st January, 2021. The Group expects that the new standard will result in an important change to the accounting policies for insurance contracts liabilities of the Group and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

2.4 Summary of Significant Accounting Policies

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) interest income, on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (ii) fees and commission income, when services are rendered;
- (iii) premiums from direct underwriting and reinsurance businesses, based on insurance policy contracts inception and advices received from the cedants during the financial year, respectively, and are recognised as income when risk coverage is provided to the insured or the cedants;
- (iv) rental income, on a time proportion basis over the lease terms; and
- (v) dividend income, when the shareholder's right to receive payment has been established.

2.4 Summary of Significant Accounting Policies (cont'd)

Commission expenses and other acquisition costs

Commission expenses and other acquisition costs relating to the underwriting business are not deferred and are charged to the statement of profit or loss as incurred.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's interests in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interests in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's interests in associates or joint ventures and is not individually tested for impairment.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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2.4 Summary of Significant Accounting Policies (cont'd)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31st December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 Summary of Significant Accounting Policies (cont'd)

Fair value measurement

The Group measures its investment properties, securities measured at fair value through profit or loss and certain available-for-sale securities at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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2.4 Summary of Significant Accounting Policies (cont'd)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, reinsurance assets, investment properties and a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Advantage has been taken of the transitional provision set out in paragraph 80A of HKAS 16 *Property, Plant and Equipment*, which grants an exemption from the requirement to continue making revaluations of the premises of the Group subsequent to 1995 and, accordingly, no revaluation of these premises has been carried out since then.

2.4 Summary of Significant Accounting Policies (cont'd)

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

Land and buildings with residual lease periods of not more than 50 years are depreciated in equal annual instalments over the terms of leases excluding any renewal period. Buildings with residual lease periods of more than 50 years are depreciated on a straight-line basis at 2% per annum.

Furniture, fixtures, equipment, yacht and motor vehicles are depreciated to write off the cost of each asset over their estimated useful lives of 3 to 10 years.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset. On disposal or retirement, any attributable revaluation surplus realised in respect of previous valuations is transferred directly to retained profits as a reserve movement.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

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

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as movements in the asset revaluation reserve.

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2.4 Summary of Significant Accounting Policies (cont'd)

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 sales 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. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

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. Property, plant and equipment classified as held for sale are not depreciated or amortised.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

2.4 Summary of Significant Accounting Policies (cont'd)

Investments and other financial assets (cont'd)

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" above.

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

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2.4 Summary of Significant Accounting Policies (cont'd)

Investments and other financial assets (cont'd)

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in gain or loss on investments, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment reserve to the statement of profit or loss in gain or loss on investments. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss in accordance with the policies set out for "Revenue recognition" above.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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

2.4 Summary of Significant Accounting Policies (cont'd)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Notes to Financial Statements

31st December, 2017

2.4 Summary of Significant Accounting Policies (cont'd)

Impairment of financial assets (cont'd)

Available-for-sale financial investments

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

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

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

2.4 Summary of Significant Accounting Policies (cont'd)

Derecognition of financial assets (cont'd)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include other liabilities, amounts due to a joint venture and associates, insurance payables and interest-bearing bank borrowing.

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Notes to Financial Statements

31st December, 2017

2.4 Summary of Significant Accounting Policies (cont'd)

Offsetting of financial instruments

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

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 Summary of Significant Accounting Policies (cont'd)

Product classification – Insurance contracts

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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

Insurance payables

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

Derecognition of insurance payables

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

Insurance contracts liabilities

General insurance contracts liabilities

General insurance contracts liabilities include the outstanding claims provision and the provision for unearned premiums. The outstanding claims provision is based on estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with handling costs. Delays can be experienced in the notification and settlement of certain types of general insurance claims. Therefore, the ultimate cost of these cannot be known with certainty at the reporting date.

Outstanding claims

Full provision has been made for outstanding claims, including those incurred but not reported and incurred but not enough reported until after the end of the reporting period, and also for the related claims handling expenses estimated to be necessarily and directly incurred in the claims settlement process. This provision, although not a precise assessment, has been made in light of available information and after taking into account the direct claims handling expenses and possible recoveries from other parties. Claims provisions are not discounted for the time value of money and no estimate of inflationary adjustment is admitted until confirmed as necessary. The provisions are derecognised when they are discharged or settled.

Incurred but not reported outstanding claims are in respect of losses incurred prior to the end of the reporting period but reported only subsequent to the end of the reporting period. These outstanding claims have been estimated by reference to the historical pattern of claims settlement in respect of each major class of insurance portfolio. Any differences between the original claims provisions made in previous years and the subsequently revised or settled amount are included in the revenue account for the financial year in which the revision or settlement is made.

Notes to Financial Statements

31st December, 2017

2.4 Summary of Significant Accounting Policies (cont'd)

Insurance contracts liabilities (cont'd)

Unearned premiums

The provision for unearned premiums represents that portion of premium received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Life insurance contracts liabilities

Life insurance contracts liabilities are recognised when contracts are entered into and premiums are charged. The provision for life insurance contracts consists of outstanding claims and the life reserve.

Life reserve

Life reserve represents a reserve to cover unexpired risk of life insurance policies and is computed by reference to an actuarial valuation carried out annually.

Liability adequacy test

At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed in accordance with HKFRS to determine whether there is any overall excess of expected claims over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for premium deficiency.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in the paragraph "Derecognition of financial assets" above, have been met.

2.4 Summary of Significant Accounting Policies (cont'd)

Reinsurance

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

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

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

The Group also assumes reinsurance risk in the normal course of business for general and life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance was considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies, which are estimated in accordance with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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

Notes to Financial Statements

31st December, 2017

2.4 Summary of Significant Accounting Policies (cont'd)

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the jurisdictions in which the Group operates.

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all material deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 Summary of Significant Accounting Policies (cont'd)

Income tax (cont'd)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits and/or contributed surplus within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and by-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

31st December, 2017

2.4 Summary of Significant Accounting Policies (cont'd)

Foreign currencies (cont'd)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Employee benefits

The Group operates a defined contribution provident fund (the "Fund") and a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees. Contributions to the Fund and the MPF Scheme are charged to the statement of profit or loss as incurred. The amount of contributions by the Group is based on a specified percentage of the monthly relevant income of the eligible employees. Forfeited contributions of the Fund in respect of employees who leave before the contributions become fully vested are available to the Group to reduce its ongoing funding and retirement scheme costs. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully. The assets of the Fund and the MPF Scheme are held separately from those of the Group and placed in independently administered funds.

2.5 Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimates, assumptions and judgements are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of insurance contracts liabilities

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

The carrying value at the end of the reporting period for these general insurance contracts liabilities was HK\$2,396,266,000 (2016: HK\$1,705,595,000) (note 26(b)).

2.5 Significant Accounting Judgements and Estimates (cont'd)

Estimation uncertainty (cont'd)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised in the foreseeable future. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax asset relating to tax losses was recognised at 31st December, 2017 (2016: Nil). The amount of unrecognised tax losses at 31st December, 2017 was HK\$257,423,000 (2016: HK\$286,508,000). Further details are contained in note 31 to the financial statements.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their values are measured using valuation techniques or models. The inputs for these valuation techniques and models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. Further details are contained in notes 18, 20 and 36 to the financial statements.

Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when available-for-sale securities are impaired. This determination requires significant judgement. Management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. The net carrying amount of available-for-sale securities was HK\$3,616,130,000 (2016: HK\$3,321,596,000) (note 18).

3. Operating Segment Information

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

- (a) the insurance segment engages in the provision of underwriting of general and life insurance; and
- (b) the corporate segment engages in securities trading and holding and other businesses.

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

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

Notes to Financial Statements

31st December, 2017

3. Operating Segment Information (cont'd)

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's operating segments for the years ended 31st December, 2017 and 2016.

	Insurance		Corporate		Eliminations		Consolidated	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Segment revenue:								
External customers	1,294,323	1,287,457	-	-	-	-	1,294,323	1,287,457
Other revenue, income and gains, net	304,816	93,734	195,492	116,869	-	-	500,308	210,603
Intersegment	5,449	5,204	-	-	(5,449)	(5,204)	-	-
Total	<u>1,604,588</u>	<u>1,386,395</u>	<u>195,492</u>	<u>116,869</u>	<u>(5,449)</u>	<u>(5,204)</u>	<u>1,794,631</u>	<u>1,498,060</u>
Segment results	<u>318,747</u>	<u>241,870</u>	<u>117,729</u>	<u>45,609</u>	<u>-</u>	<u>-</u>	<u>436,476</u>	<u>287,479</u>
Share of profits and losses of:								
Joint ventures	23,184	18,922	25,062	17,935	-	-	48,246	36,857
Associates	23,878	6,248	(4,568)	70,310	-	-	19,310	76,558
Profit before tax							504,032	400,894
Income tax expense	(34,171)	(33,510)	19	1,654	-	-	(34,152)	(31,856)
Profit for the year							<u>469,880</u>	<u>369,038</u>

31st December, 2017

3. Operating Segment Information (cont'd)

	Insurance		Corporate		Consolidated	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Segment assets	6,738,621	5,564,830	4,493,607	4,056,958	11,232,228	9,621,788
Interests in joint ventures	93,124	176,330	115,610	103,774	208,734	280,104
Interests in associates	201,792	145,509	234,908	212,308	436,700	357,817
Assets of a disposal group classified as held for sale	105,084	—	—	—	105,084	—
Total assets	<u>7,138,621</u>	<u>5,886,669</u>	<u>4,844,125</u>	<u>4,373,040</u>	<u>11,982,746</u>	<u>10,259,709</u>
Segment liabilities	<u>3,715,391</u>	<u>2,891,449</u>	<u>245,221</u>	<u>288,656</u>	<u>3,960,612</u>	<u>3,180,105</u>
Other segment information:						
Depreciation charges	7,397	6,266	7,671	9,297	15,068	15,563
Loss/(gain) on disposal/write-off of items of property, plant and equipment	352	44	7,038	(102)	7,390	(58)
Gain on change in fair value of investment properties	(5,000)	(5,100)	(1,000)	—	(6,000)	(5,100)
Capital expenditure	<u>21,774</u>	<u>25,444</u>	<u>3,380</u>	<u>1,536</u>	<u>25,154</u>	<u>26,980</u>

Geographical information

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

4. Revenue

Revenue represents gross premiums net of discounts, from the direct and reinsurance businesses underwritten during the year.

5. Finance Costs

	2017 HK\$'000	2016 HK\$'000
Interest on a bank loan	<u>3,170</u>	<u>2,761</u>

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31st December, 2017

6. Profit Before Tax

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

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Auditor's remuneration		(3,295)	(3,751)
Depreciation	13	(15,068)	(15,563)
Employee benefit expense (including directors' remuneration, note 7):			
Wages and salaries		(140,703)	(125,060)
Pension scheme contributions		(6,041)	(5,714)
Less: Forfeited contributions		38	7
Net pension scheme contributions		(6,003)	(5,707)
Total employee benefit expense		(146,706)	(130,767)
Minimum lease payments under operating leases		(1,578)	(1,486)
Realised gain/(loss) on:			
– disposal of securities measured at fair value through profit or loss (held for trading), net		69,486	9,874
– disposal of available-for-sale securities		52,238	115
– redemption/call-back of held-to-maturity securities		(88)	(80)
Total realised gain on investments		121,636	9,909
Unrealised gain on securities measured at fair value through profit or loss (held for trading), net		176,698	2,413
Interest income		65,885	60,576
Gain/(loss) on disposal/write-off of items of property, plant and equipment		(7,390)	58
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		(170)	–
Change in fair value of investment properties*	14	6,000	5,100
Foreign exchange gain/(loss), net*		13,807	(15,474)
Dividend income from:			
Listed investments		68,874	67,265
Unlisted investments		45,240	68,729
Total dividend income		114,114	135,994

* Such amount was included in "Other income and gains, net" in the consolidated statement of profit or loss.

31st December, 2017

7. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

2017	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:					
CHAN Yau Hing Robin	120	1,836	3,800	72	5,828
CHAN Bernard Charnwut ¹	168	4,736	1,350	218	6,472
TAN Stephen	80	3,143	1,100	122	4,445
WONG Kok Ho	100	2,674	650	123	3,547
	<u>468</u>	<u>12,389</u>	<u>6,900</u>	<u>535</u>	<u>20,292</u>
Non-executive directors:					
SOPHONPANICH Choedchu ²	44	-	200	-	244
SOPHONPANICH Chote ³	4	-	-	-	4
CHAN Yeow Toh	100	-	-	-	100
YAMAMOTO Takao ⁴	60	-	-	-	60
TANAKA Junichi ⁵	60	-	-	-	60
	<u>268</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>468</u>
Independent non-executive directors:					
MA Andrew Chiu Cheung	198	-	-	-	198
CHOW Suk Han Anna	208	-	-	-	208
SIAO Chi Lam Kenneth ²	61	-	-	-	61
WONG Yu Hong Philip ²	44	-	-	-	44
LAI KO Wing Yee Rebecca	201	-	-	-	201
SHUEN LEUNG Lai Sheung Loretta ³	60	-	-	-	60
	<u>772</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>772</u>
	<u>1,508</u>	<u>12,389</u>	<u>7,100</u>	<u>535</u>	<u>21,532</u>

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

² Resigned during the year ended 31st December, 2017.

³ Appointed during the year ended 31st December, 2017.

⁴ The directorship of Mr. YAMAMOTO Takao was nominated by Aioi Nissay Dowa Insurance Company, Limited ("Aioi Insurance"). As per Aioi Insurance's instruction, the director's fee in total of HK\$60,000 for the year ended 31st December, 2017 was paid directly to Aioi Insurance.

⁵ The directorship of Mr. TANAKA Junichi was nominated by Sompo Japan Nipponkoa Insurance Inc. As per Mr. TANAKA Junichi's instruction, his director's fee of HK\$60,000 for the year ended 31st December, 2017 was paid to "Sompo Japan Nipponkoa Insurance Inc – HK Rep Office" directly.

Notes to Financial Statements

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7. Directors' Remuneration (cont'd)

2016	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
Executive directors:					
CHAN Yau Hing Robin	120	1,836	3,450	72	5,478
CHAN Bernard Charnwut ¹	160	4,546	1,000	209	5,915
TAN Stephen	80	2,941	800	117	3,938
WONG Kok Ho	100	3,144	650	145	4,039
	<u>460</u>	<u>12,467</u>	<u>5,900</u>	<u>543</u>	<u>19,370</u>
Non-executive directors:					
SOPHONPANICH Choedchu	100	12	150	–	262
NG Song Hin ²	28	–	–	–	28
CHAN Yeow Toh	100	–	–	–	100
YAMAGUCHI Yoshihiro ^{2, 4}	23	–	–	–	23
YAMAMOTO Takao ^{3, 4}	37	–	–	–	37
TANAKA Junichi ⁵	60	–	–	–	60
	<u>348</u>	<u>12</u>	<u>150</u>	<u>–</u>	<u>510</u>
Independent non-executive directors:					
MA Andrew Chiu Cheung	190	–	–	–	190
CHOW Suk Han Anna	200	–	–	–	200
SIAO Chi Lam Kenneth	100	–	–	–	100
WONG Yu Hong Philip	100	–	–	–	100
LAI KO Wing Yee Rebecca	190	–	–	–	190
	<u>780</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>780</u>
	<u>1,588</u>	<u>12,479</u>	<u>6,050</u>	<u>543</u>	<u>20,660</u>

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

² Resigned/retired during the year ended 31st December, 2016.

³ Appointed during the year ended 31st December, 2016.

⁴ The directorship of Mr. YAMAGUCHI Yoshihiro and Mr. YAMAMOTO Takao was nominated by Aioi Nissay Dowa Insurance Company, Limited ("Aioi Insurance"). As per Aioi Insurance's instruction, the director's fee in total of HK\$60,000 for the year ended 31st December, 2016 was paid directly to Aioi Insurance.

⁵ The directorship of Mr. TANAKA Junichi was nominated by Sompo Japan Nipponkoa Insurance Inc. As per Mr. TANAKA Junichi's instruction, his director's fee of HK\$60,000 for the year ended 31st December, 2016 was paid to "Sompo Japan Nipponkoa Insurance Inc – HK Rep Office" directly.

31st December, 2017

8. Five Highest Paid Employees

The five highest paid employees during the year included four (2016: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining one (2016: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries, commission, allowances and benefits in kind	3,749	3,610
Discretionary bonuses	400	–
Pension scheme contributions	164	12
	4,313	3,622

The remuneration of the remaining one (2016: one) non-director, highest paid employee fell within the band of HK\$4,000,001 to HK\$4,500,000 (2016: HK\$3,500,001 to HK\$4,000,000).

9. Income Tax

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 year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

	2017 HK\$'000	2016 HK\$'000
Current – Hong Kong		
Charge for the year	31,045	28,044
Overprovision in prior years	(78)	(4,551)
Current – Elsewhere		
Charge for the year	2,367	5,733
Under/(over) provision in prior years	(569)	287
Deferred (note 31)	1,387	2,343
Total tax charge for the year	34,152	31,856

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9. Income Tax (cont'd)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

2017

	Hong Kong HK\$'000	Macau HK\$'000	Total HK\$'000
Profit before tax	481,231	22,801	504,032
Tax at the statutory tax rates	79,403	2,736	82,139
Share of profits and losses attributable to joint ventures and associates	(11,147)	–	(11,147)
Adjustments in respect of current tax of previous periods	(78)	(569)	(647)
Income not subject to tax	(44,031)	(86)	(44,117)
Expenses not deductible for tax	11,191	1,532	12,723
Tax losses from previous periods utilised	(7,676)	–	(7,676)
Tax losses not recognised	2,877	–	2,877
Tax charge at the Group's effective rate	30,539	3,613	34,152

2016

	Hong Kong HK\$'000	Macau HK\$'000	Total HK\$'000
Profit before tax	349,658	51,236	400,894
Tax at the statutory tax rates	57,694	6,148	63,842
Share of profits and losses attributable to joint ventures and associates	(18,713)	–	(18,713)
Adjustments in respect of current tax of previous periods	(4,551)	287	(4,264)
Income not subject to tax	(25,539)	–	(25,539)
Expenses not deductible for tax	12,665	454	13,119
Tax losses from previous periods utilised	(3,499)	–	(3,499)
Tax losses not recognised	6,910	–	6,910
Tax charge at the Group's effective rate	24,967	6,889	31,856

9. Income Tax (cont'd)

The share of tax attributable to joint ventures amounting to HK\$7,161,000 (2016: HK\$5,481,000) is included in "Share of profits and losses of joint ventures" in the consolidated statement of profit or loss. The share of tax attributable to associates and the effect of withholding tax on the distributable profits of the Group's associate in the People's Republic of China amounting to HK\$5,678,000 (2016: HK\$15,936,000) and HK\$41,000 (2016: HK\$2,953,000), respectively, are included in "Share of profits and losses of associates" in the consolidated statement of profit or loss.

10. Dividends

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interim – HK4.0 cents (2016: HK2.5 cents) per ordinary share	39,139	24,576
Proposed final – HK7.5 cents (2016: HK5.5 cents) per ordinary share	73,386	53,816
	112,525	78,392

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.

11. 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\$468,187,000 (2016: HK\$367,271,000) and the weighted average number of ordinary shares of 978,478,000 (2016: 997,454,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31st December, 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31st December, 2017 and 2016.

12. 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. The Group has received a non-refundable deposit of HK\$118,333,000, being 10% of the consideration. Completion of the transaction is subject to certain conditions including obtaining the necessary approvals from the relevant authorities. As at 31st December, 2017, the approval process for the disposal of the relevant authorities was in progress and the Group's interests in Hong Kong Life Insurance Limited was classified as a disposal group held for sale. Deposit of HK\$118,333,000 (2016: Nil) was included in other liabilities. Further details of the transaction were disclosed in the Company's announcements dated 20th March, 2017 and 15th March, 2018 and circular dated 31st May, 2017.

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31st December, 2017

12. Assets of a Disposal Group Classified as held for Sale (cont'd)

Particulars of the disposal group held for sale of the Group as at 31st December, 2017 are as follows:

Name	Business structure	Place of incorporation	Issued ordinary share capital	Percentage of equity directly held by the Company	Principal activity
Hong Kong Life Insurance Limited	Corporate	Hong Kong	HK\$420,000,000	16.67	Life insurance

The major classes of assets and reserve classified as held for sale as at 31st December, 2017 are as follows:

	2017 HK\$'000	2016 HK\$'000
<i>Assets</i>		
Interests in a joint venture	105,084	–
Assets of a disposal group classified as held for sale and net assets directly associated with the disposal group	105,084	–
<i>Reserve</i>		
Investment revaluation reserve	3,595	–
Reserve of a disposal group classified as held for sale	3,595	–

31st December, 2017

13. Property, Plant and Equipment

31st December, 2017

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures, equipment, yacht and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:			
At beginning of year	397,707	89,584	487,291
Additions	12,552	12,602	25,154
Disposals/write-off	–	(23,390)	(23,390)
Transfer to investment properties (note 14)	(173,600)	–	(173,600)
At 31st December, 2017	<u>236,659</u>	<u>78,796</u>	<u>315,455</u>
Accumulated depreciation and impairment:			
At beginning of year	81,200	70,604	151,804
Charge for the year	7,871	7,197	15,068
Disposals/write-off	–	(14,817)	(14,817)
Transfer to investment properties (note 14)	(13,050)	–	(13,050)
At 31st December, 2017	<u>76,021</u>	<u>62,984</u>	<u>139,005</u>
Net book value:			
At 31st December, 2017	<u><u>160,638</u></u>	<u><u>15,812</u></u>	<u><u>176,450</u></u>
At 31st December, 2016	<u><u>316,507</u></u>	<u><u>18,980</u></u>	<u><u>335,487</u></u>

Notes to Financial Statements

31st December, 2017

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

31st December, 2016

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures, equipment, yacht and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:			
At beginning of year	375,626	87,941	463,567
Additions	22,081	4,899	26,980
Disposals/write-off	—	(3,256)	(3,256)
At 31st December, 2016	<u>397,707</u>	<u>89,584</u>	<u>487,291</u>
Accumulated depreciation and impairment:			
At beginning of year	73,291	66,014	139,305
Charge for the year	7,909	7,654	15,563
Disposals/write-off	—	(3,064)	(3,064)
At 31st December, 2016	<u>81,200</u>	<u>70,604</u>	<u>151,804</u>
Net book value:			
At 31st December, 2016	<u><u>316,507</u></u>	<u><u>18,980</u></u>	<u><u>335,487</u></u>
At 31st December, 2015	<u><u>302,335</u></u>	<u><u>21,927</u></u>	<u><u>324,262</u></u>

During the year ended 31st December, 2017, certain land and buildings were transferred to investment properties at fair value of HK\$246,000,000 (2016: Nil) based on valuation by Memfus Wong Surveyors Limited, an independent firm of professionally qualified valuers (note 14). Accordingly, an asset revaluation reserve of HK\$85,450,000 (2016: Nil) was credited to other comprehensive income.

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14. Investment Properties

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Carrying amount at 1st January	28,200	23,100
Change in fair value (note 6)	6,000	5,100
Transfer from property, plant and equipment (note 13)	246,000	–
Carrying amount at 31st December	280,200	28,200

The Group's investment properties were revalued at 31st December, 2017 based on valuations performed by Memfus Wong Surveyors Limited and AA Property Services Limited, independent firms of professionally qualified valuers, at HK\$247,000,000 (2016: HK\$14,200,000) and HK\$33,200,000 (2016: HK\$14,000,000), respectively. The Group decides to appoint which external valuer to be responsible for the external valuation of the Group's properties based on selection criteria including market knowledge, reputation, independence and whether professional standards are maintained. The management of the Group has discussions with the valuers on the valuation assumptions and valuation results annually when the valuation is performed for financial reporting. The investment properties are leased to third parties under operating leases.

As at 31st December, 2017 and 2016, the fair value measurement of the Group's investment properties is categorised in Level 3 of the fair value hierarchy (i.e., fair value measurement using significant unobservable inputs).

During the years ended 31st December, 2017 and 2016, there were no transfers into or out of Level 3.

Notes to Financial Statements

31st December, 2017

14. Investment Properties (cont'd)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties in Hong Kong HK\$'000	Commercial properties in Macau HK\$'000	Total HK\$'000
Carrying amount at 1st January, 2016	13,500	9,600	23,100
Change in fair value of investment properties	700	4,400	5,100
Carrying amount at 31st December, 2016 and 1st January, 2017	14,200	14,000	28,200
Transfer from property, plant and equipment (note 13)	246,000	–	246,000
Change in fair value of investment properties	3,300	2,700	6,000
Carrying amount at 31st December, 2017	263,500	16,700	280,200

Below is a summary of the valuation techniques used and the key inputs to the valuation inputs of the investment properties:

	Valuation techniques	Significant unobservable inputs	Range or weighted average	
			2017	2016
Commercial properties in Macau	Income capitalisation approach	Monthly rent per square feet Capitalisation rate	HK\$19 to HK\$26 2.15% to 3%	HK\$18 to HK\$26 2.5% to 3.5%
Commercial properties in Hong Kong	Direct comparison plus term and reversion approach	Unit rate per square feet	HK\$16,000 to HK\$26,000	HK\$22,000

A significant increase/(decrease) in the monthly rent and unit rate per square feet in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the capitalisation rate in isolation would result in a significant decrease/(increase) in the fair value of the investment properties.

31st December, 2017

15. Interests In Joint Ventures

	<i>Notes</i>	2017 HK\$'000	2016 <i>HK\$'000</i>
Share of net assets		208,734	280,104
Goodwill on acquisition		16,655	16,655
		225,389	296,759
Less: Impairment	<i>(i)</i>	(16,655)	(16,655)
		208,734	280,104
Loans to a joint venture	<i>(ii)</i>	54,000	56,500
Due to a joint venture	<i>(iii)</i>	(28,099)	(25,055)

Notes:

- (i) At 31st December, 2017, an impairment of HK\$16,655,000 (2016: HK\$16,655,000) was recognised for an interest in a joint venture with a carrying amount of HK\$52,257,000 (2016: HK\$48,319,000) (before deducting the impairment loss) because this joint venture had become inactive.
- (ii) At 31st December, 2017, the loans to a joint venture amounting to HK\$54,000,000 (2016: HK\$56,500,000) are unsecured, bear interest at 2% (2016: 2%) per annum and have no fixed terms of repayment.
- (iii) Except for an amount due to a joint venture of HK\$26,183,000 (2016: HK\$23,640,000) which bears interest at 1.25% (2016: 1.375%) per annum, the amounts due to a joint venture are unsecured, interest-free and repayable on demand.

Notes to Financial Statements

31st December, 2017

15. Interests in Joint Ventures (cont'd)

Particulars of the joint ventures of the Group as at 31st December, 2017 are as follows:

Name	Business structure	Place of incorporation and operation	Percentage of ownership interest and profit sharing	Voting power	Principal activities
Bank Consortium Holding Limited*	Corporate	Hong Kong	13.3	1 out of 7 [#]	Provision of mandatory provident fund scheme services
BC Reinsurance Limited	Corporate	Hong Kong	21	2 out of 10 [#]	Reinsurance underwriting
Bumrungrad International Limited	Corporate	Thailand	19.5	1 out of 5 [#]	Provision of health care services
Super Win Limited*	Corporate	Hong Kong	50	2 out of 4 [#]	Property investment

Notes:

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

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

During the year ended 31st December, 2017, interest in a joint venture, Hong Kong Life Insurance Limited, was reclassified as a disposal group held for sale (note 12).

During the year, the Group received dividend income amounting to HK\$19,891,000 (2016: HK\$17,450,000) from the joint ventures.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2017 HK\$'000	2016 HK\$'000
Share of the joint ventures' profit for the year	48,246	36,857
Share of the joint ventures' other comprehensive income	5,359	2,978
Share of the joint ventures' total comprehensive income	53,605	39,835
Aggregate carrying amount of the Group's interests in the joint ventures	<u>208,734</u>	<u>280,104</u>

Notes to Financial Statements

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16. Interests in Associates

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Share of net assets	430,971	352,088
Goodwill on acquisition	5,729	5,729
	436,700	357,817

Particulars of the associates of the Group as at 31st December, 2017, which are all corporate entities, are as follows:

Name	Place of incorporation/ establishment and operation	Percentage of equity indirectly held by the Company	Issued ordinary/registered share capital	Principal activities
APIC Holdings, Inc.*	Philippines	50	Peso23,241,700	Investment holding
Asian Insurance International (Holding) Limited	Bermuda	25	US\$5,740,000	Investment holding
Professional Liability Underwriting Services Limited	Hong Kong	27	HK\$3,000,000	Insurance agent
The People's Insurance Company of China (Hong Kong), Limited* ("PICC (HK)")	Hong Kong	17.375#	HK\$500,000,000 (2016: HK\$360,000,000)	Insurance underwriting
Key Apex Limited*	British Virgin Islands	27.5	US\$1,000	Investment holding
Excellent Star Development Limited	Hong Kong	27.5	HK\$1	Investment holding
上海盤谷房地產有限公司*	The People's Republic of China	27.5	RMB570,870,560	Property development
Health Horizons Enterprises Pte. Limited* ("HHE")	Singapore	20	US\$16,849,422	Investment holding
Bangkok Insurance (Lao) Company Limited*	Lao	27.5	LAK16,000,000,000	Insurance
Glory Standard Limited* (Note (a))	Hong Kong	45	HK\$10,000	Property investment

Notes:

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

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

Notes to Financial Statements

31st December, 2017

16. Interests in Associates (cont'd)

Notes: (cont'd)

- (a) During the year ended 31st December 2016, the Group subscribed 45% equity interest in Glory Standard Limited at a cash consideration of approximately HK\$5,000.

The Group received dividend income amounting to HK\$5,714,000 (2016: HK\$5,878,000) from the associates during the year.

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, an amount due from an associate of HK\$168,390,000 (2016: HK\$168,390,000) is considered as part of the Group's investment in the associate.

The amounts due to associates are classified as financial liabilities at amortised cost, and are unsecured, interest-free and have no fixed terms of repayment.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Share of the associates' profit for the year	19,310	76,558
Share of the associates' other comprehensive income/(expenses)	30,283	(27,313)
Share of the associates' total comprehensive income	49,593	49,245
Aggregate carrying amount of the Group's interests in the associates	<u>436,700</u>	<u>357,817</u>

17. Held-to-Maturity Securities

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Listed debt securities in Hong Kong, at amortised cost	376,960	298,467
Listed debt securities outside Hong Kong, at amortised cost	184,210	183,723
Unlisted debt securities, at amortised cost	<u>164,388</u>	<u>169,779</u>
Total held-to-maturity securities	<u>725,558</u>	<u>651,969</u>

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.

31st December, 2017

17. Held-to-maturity Securities (cont'd)

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 issuer as at the end of the reporting period are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Banks and other financial institutions	573,680	439,343
Corporate entities	151,878	212,626
	725,558	651,969

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
With a residual maturity of:		
Three months or less	75,153	11,699
One year or less but over three months	66,105	79,789
Five years or less but over one year	258,076	313,351
Over five years	326,224	247,130
	725,558	651,969

At the end of the reporting period, the Group invested in the held-to-maturity securities with investment grade and non-investment grade amounting to HK\$644,407,000 (2016: HK\$523,872,000) and HK\$81,151,000 (2016: HK\$128,097,000), respectively.

During the year, a cedant of certain pecuniary loss reinsurance contracts requested the Group to provide security in favour of the cedant to secure the performance of the Group's obligations to the cedant under those pecuniary loss reinsurance contracts. Accordingly, at 31st December, 2017, listed debt securities of the Group amounting to HK\$119,409,000 (2016: HK\$119,956,000) were pledged.

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18. Available-for-sale Securities

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Listed equities in Hong Kong, at fair value	–	176,787
Listed equities outside Hong Kong, at fair value	<u>2,021,466</u>	<u>1,550,145</u>
Total listed available-for-sale securities	<u>2,021,466</u>	<u>1,726,932</u>
Unlisted equities, at cost	<u>1,624,863</u>	1,624,863
Less: Impairment	<u>(32,056)</u>	<u>(32,056)</u>
	<u>1,592,807</u>	<u>1,592,807</u>
Unlisted debt, at cost	<u>8,070</u>	8,070
Less: Impairment	<u>(6,213)</u>	<u>(6,213)</u>
	<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><u>3,616,130</u></u>	<u><u>3,321,596</u></u>

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Banks and other financial institutions	<u>2,516,365</u>	2,230,363
Corporate entities	<u>1,099,765</u>	<u>1,091,233</u>
	<u><u>3,616,130</u></u>	<u><u>3,321,596</u></u>

During the year, the gross gain in respect of the Group's available-for-sale listed investments recognised in other comprehensive income amounted to HK\$496,362,000 (2016: loss of HK\$107,849,000).

The fair values of listed equity investments are based on quoted market prices. Certain unlisted available-for-sale equity investments of the Group with a carrying amount of HK\$1,592,807,000 (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.

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18. Available-for-sale Securities (cont'd)

As at 31st December, 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 (2016: HK\$150,000,000) (note 30).

19. Loans and Advances and Other Assets

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loans and advances	12,796	14,517
Accrued interest and other assets	104,539	114,835
Gross loans and advances and other assets	117,335	129,352

The Group's accrued interest and other assets were current in nature as at 31st December, 2017 and 2016. None of the loans and advances and other assets is either past due or impaired. The financial assets included in the loans and advances and other assets relate to receivables for which there was no recent history of default.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Repayable on demand	-	-
With a residual maturity of:		
Three months or less	392	442
One year or less but over three months	1,129	1,279
Five years or less but over one year	8,396	5,486
Over five years	2,879	7,310
	12,796	14,517

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20. Securities Measured at Fair Value Through Profit or Loss

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Debt securities:		
– listed in Hong Kong, at fair value	59,471	79,552
– listed outside Hong Kong, at fair value	62,380	110,244
– unlisted, at quoted price	15,731	15,792
	<u>137,582</u>	<u>205,588</u>
Equity securities at fair value:		
– listed in Hong Kong	435,505	321,166
– listed outside Hong Kong	465,185	467,569
	<u>900,690</u>	<u>788,735</u>
Investment funds:		
– listed outside Hong Kong, at fair value	16,207	–
– unlisted, at quoted price	681,707	530,447
	<u>697,914</u>	<u>530,447</u>
Total	<u><u>1,736,186</u></u>	<u><u>1,524,770</u></u>

The fair values of the listed and unlisted securities measured at fair value through profit or loss are based on quoted market prices and quoted prices from brokers and fund managers, respectively.

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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Public sector entities	45,427	22,028
Banks and other financial institutions	209,258	268,601
Corporate entities	1,481,501	1,234,141
	<u>1,736,186</u>	<u>1,524,770</u>

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

As at 31st December, 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 (2016: HK\$150,000,000) (note 30).

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21. Insurance Receivables

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Amounts due in respect of:		
Direct underwriting	104,436	102,296
Reinsurance accepted	120,726	95,169
	225,162	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.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Three months or less	196,550	183,907
Six months or less but over three months	28,890	15,922
One year or less but over six months	2,120	–
Over one year	367	401
	227,927	200,230
Less: Impairment allowances	(2,765)	(2,765)
	225,162	197,465

Included in the provision for impairment of insurance receivables at 31st December, 2017 was a provision for an individually impaired insurance receivable of HK\$488,000 (2016: HK\$488,000) with a gross carrying amount of HK\$488,000 (2016: HK\$488,000). The individually impaired insurance receivable related to a customer that was in financial difficulties. The Group does not hold any collateral or other credit enhancements over the balance.

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21. Insurance Receivables (cont'd)

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Not past due	171,042	183,907
Less than one month past due	25,508	13,558
Over one month past due	28,612	–
	<u>225,162</u>	<u>197,465</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no material provision for impairment is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. Reinsurance Assets

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Reinsurers' share of insurance contracts liabilities (<i>note 26</i>)	<u>1,211,355</u>	<u>583,379</u>

23. Cash and Cash Equivalents and Pledged Deposits

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cash and bank balances	182,880	168,772
Time deposits with original maturity of over three months	210,797	215,363
Time deposits with original maturity of less than three months	2,233,547	2,049,255
	<u>2,627,224</u>	<u>2,433,390</u>
Pledged deposits	206,488	158,915
	<u>2,833,712</u>	<u>2,592,305</u>

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23. Cash and Cash Equivalents and Pledged Deposits (cont'd)

The pledged deposits are pledged in favour of Autoridade Monetaria e Cambial de Macau as security for the outstanding claims provision and unearned premiums reserve of a subsidiary operating in Macau as required under the applicable laws of Macau.

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

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

	2017 HK\$'000	2016 HK\$'000
With a residual maturity of:		
Three months or less	2,518,173	2,478,503
Over three months but less than one year	315,539	113,802
	<u>2,833,712</u>	<u>2,592,305</u>

24. Share Capital

	2017 HK\$'000	2016 HK\$'000
Authorised:		
1,500,000,000 ordinary shares of HK\$1 each	<u>1,500,000</u>	<u>1,500,000</u>
Issued and fully paid:		
978,478,000 ordinary shares of HK\$1 each	<u>978,478</u>	<u>978,478</u>

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK\$'000
At 1st January, 2016	1,019,200,000	1,019,200
Shares repurchased (<i>Note</i>)	(40,722,000)	(40,722)
At 31st December, 2016, 1st January, 2017 and 31st December, 2017	<u>978,478,000</u>	<u>978,478</u>

Notes to Financial Statements

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24. Share Capital (cont'd)

Note:

During the year ended 31st December, 2016, a subsidiary of the Company repurchased and cancelled 40,722,000 ordinary shares of the Company of HK\$1 each on the Stock Exchange at prices ranging from HK\$3.00 to HK\$4.82 per share at a total consideration of HK\$182,579,000 (including expenses of HK\$497,000).

The premium of HK\$141,857,000 paid on the repurchase of such shares was debited to the retained profits account and an amount of HK\$40,722,000 was transferred from retained profits of the Company to the capital redemption reserve, as set out in the consolidated statement of changes in equity.

25. Reserves

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

In accordance with the Macau Commercial Codes, a branch (the "Branch") of Asia Insurance Company, Limited, a wholly-owned subsidiary of the Company, whose principal operation is conducted in Macau, is required to appropriate annually not less than 25% of its profit after tax to a statutory reserve, until the balance of the reserve reaches 50% of the entity's capital fund, which was achieved in prior years. The statutory reserve may be utilised by the Branch for certain restricted purposes including offsetting against the accumulated losses, if any, arising under certain specified circumstances.

Contingency reserve ("CR") represents a reserve established in accordance with *Guideline on Reserving for Mortgage Guarantee Business* ("GL6") issued by the Insurance Authority. In respect of mortgage guarantee business entered into before 1st January, 2011, an amount equals to 50% of the net earned premium income derived from mortgage guarantee business shall be assigned to the CR in each year and maintained for a period of seven years. In respect of mortgage guarantee business entered into on or after 1st January, 2011, an amount equals to 50% of the net earned premium income derived from mortgage guarantee business, except for direct non-standard mortgage guarantee business of which the amount is equal to 75% of the net earned premium, shall be assigned to the CR in each year and maintained for a period of ten years. In accordance with GL6, withdrawals may be made where the claims incurred in any year exceed 35% of the net earned premium income in that year, and any such withdrawals shall only be made on a first-in-first-out basis and recognised directly in equity.

At the end of the seventh year for mortgage guarantee business entered into before 1st January, 2011, or the tenth year for mortgage guarantee business entered into on or after 1st January, 2011, the amount assigned to the CR in respect of a year may, to the extent that it has not already been depleted by prior withdrawals, be released. Changes in CR are recognised directly in equity.

No withdrawal was made to the CR during the year ended 31st December, 2017 (2016: Nil).

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26. Insurance Contracts Liabilities

	Notes	2017			2016		
		Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000
Life insurance contracts	(a)	66,581	–	66,581	55,775	–	55,775
General insurance contracts	(b)	3,121,200	(1,211,355)	1,909,845	2,440,821	(583,379)	1,857,442
Total insurance contracts liabilities		<u>3,187,781</u>	<u>(1,211,355)</u>	<u>1,976,426</u>	<u>2,496,596</u>	<u>(583,379)</u>	<u>1,913,217</u>
			(note 22)			(note 22)	

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

	Notes	2017			2016		
		Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000
Life reserve	(1)	59,821	–	59,821	48,886	–	48,886
Provision for claims	(2)	6,760	–	6,760	6,889	–	6,889
		<u>66,581</u>	<u>–</u>	<u>66,581</u>	<u>55,775</u>	<u>–</u>	<u>55,775</u>

(1) Life reserve is analysed as follows:

	2017 HK\$'000	2016 HK\$'000
At 1st January	48,886	45,823
Increase in the year	10,935	3,063
At 31st December	<u>59,821</u>	<u>48,886</u>

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

	2017			2016		
	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000
At 1st January	6,889	–	6,889	4,985	–	4,985
Claims incurred during the year	20,437	(8,402)	12,035	17,666	(5,774)	11,892
Claims paid during the year	(20,566)	8,402	(12,164)	(15,762)	5,774	(9,988)
At 31st December	<u>6,760</u>	<u>–</u>	<u>6,760</u>	<u>6,889</u>	<u>–</u>	<u>6,889</u>

Notes to Financial Statements

31st December, 2017

26. Insurance Contracts Liabilities (cont'd)

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

Notes	2017			2016		
	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000
Provision for claims reported by policyholders	1,472,962	(846,483)	626,479	790,093	(208,443)	581,650
Provision for claims incurred but not reported ("IBNR")	923,304	(102,400)	820,904	915,502	(113,300)	802,202
Total claims reported and IBNR	2,396,266	(948,883)	1,447,383	1,705,595	(321,743)	1,383,852
Provision for unearned premiums	724,934	(262,472)	462,462	735,226	(261,636)	473,590
Total general insurance contract liabilities	3,121,200	(1,211,355)	1,909,845	2,440,821	(583,379)	1,857,442

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

	2017			2016		
	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000
At 1st January	1,705,595	(321,743)	1,383,852	1,677,152	(339,642)	1,337,510
Claims incurred during the year	1,273,376	(810,576)	462,800	490,174	(133,300)	356,874
Claims paid during the year	(582,705)	183,436	(399,269)	(461,731)	151,199	(310,532)
At 31st December	2,396,266	(948,883)	1,447,383	1,705,595	(321,743)	1,383,852

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

	2017			2016		
	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000
At 1st January	735,226	(261,636)	473,590	727,788	(227,556)	500,232
Premiums written during the year	1,242,456	(427,142)	815,314	1,248,117	(443,778)	804,339
Premiums earned during the year	(1,252,748)	426,306	(826,442)	(1,240,679)	409,698	(830,981)
At 31st December	724,934	(262,472)	462,462	735,226	(261,636)	473,590

Notes to Financial Statements

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27. Net Premiums

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
(a) Gross premiums on insurance contracts			
Gross general insurance premiums:			
Direct underwriting		832,146	840,825
Reinsurance accepted		410,310	407,292
Total gross general insurance premiums	<i>26(b)(2)</i>	1,242,456	1,248,117
Gross life insurance premiums		51,867	39,340
Change in gross unearned premiums		10,292	(7,438)
Change in life reserve	<i>26(a)(1)</i>	(10,935)	(3,063)
Total gross premiums		1,293,680	1,276,956
(b) Reinsurers' share of gross premiums on insurance contracts			
Gross general insurance premiums:			
Direct underwriting		(250,129)	(283,154)
Reinsurance accepted		(177,013)	(160,624)
Total gross general insurance premiums	<i>26(b)(2)</i>	(427,142)	(443,778)
Gross life insurance premiums		(21,785)	(17,542)
Change in unearned premiums		836	34,080
Total reinsurers' share of gross premiums		(448,091)	(427,240)

Notes to Financial Statements

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28. Net Claims Incurred

	Notes	2017 HK\$'000	2016 HK\$'000
(a) Gross claims paid			
Life insurance contracts claims paid	26(a)(2)	(20,566)	(15,762)
General insurance contracts claims paid	26(b)(1)	(582,705)	(461,731)
Total gross claims paid		<u>(603,271)</u>	<u>(477,493)</u>
(b) Reinsurers' share of gross claims paid			
Life insurance contracts claims paid	26(a)(2)	8,402	5,774
General insurance contracts claims paid	26(b)(1)	183,436	151,199
Total reinsurers' share of gross claims paid		<u>191,838</u>	<u>156,973</u>
(c) Gross change in outstanding claims			
Change in life insurance outstanding claims		129	(1,904)
Change in general insurance outstanding claims		(690,671)	(28,443)
Total gross change in outstanding claims		<u>(690,542)</u>	<u>(30,347)</u>
(d) Reinsurers' share of gross change in outstanding claims			
General insurance outstanding claims		<u>627,140</u>	<u>(17,899)</u>

29. Other Liabilities

	2017 HK\$'000	2016 HK\$'000
Accruals and other payables	230,188	281,111
Deposit received (note 12)	118,333	–
	<u>348,521</u>	<u>281,111</u>

The Group's other liabilities were current in nature as at 31st December, 2017 and 2016.

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30. Interest-Bearing Bank Borrowing

	2017			2016		
	Effective interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Bank loan – secured	HIBOR+1.25	2018	150,000	HIBOR+1.25	2017	150,000

The Group's bank loan is denominated in Hong Kong dollars and 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 (2016: HK\$150,000,000) (notes 18 and 20).

31. Deferred Tax

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of buildings HK\$'000	Total HK\$'000
Gross deferred tax liabilities at 1st January, 2016, 31st December, 2016 and 1st January, 2017	430	11,809	12,239
Deferred tax charged/(credited) to statement of profit or loss during the year (note 9)	(430)	1,817	1,387
Gross deferred tax liabilities at 31st December, 2017	–	13,626	13,626

Deferred tax assets

	Losses available for offsetting against future taxable profits HK\$'000
At 1st January, 2016	2,343
Deferred tax charged to the statement of profit or loss during the year (note 9)	(2,343)
Gross deferred tax assets at 31st December, 2016, 1st January, 2017 and 31st December, 2017	–

The Group has tax losses arising in Hong Kong of HK\$257,423,000 (2016: HK\$286,508,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have mainly arisen in subsidiaries of which the principal activities are securities trading and investment holding and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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32. Note To The Consolidated Statement Of Cash Flows

Changes in liabilities arising from financing activities

	Bank borrowing HK\$'000
At 1st January, 2017	150,000
Changes from financing cash flows	–
At 31st December, 2017	150,000

33. Commitments

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

	2017 HK\$'000	2016 HK\$'000
Contracted, but not provided for	–	2,025

34. Related Party Transactions

(a)

	2017		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	–	1,916	–	1,910
Interbank activities:				
Deposits placed	–	958,816	–	846,604
Interest income	–	8,918	–	5,535
Premium income:				
Gross premiums written	200	4,499	196	7,412
Commission expense, net	–	2,085	–	1,929

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34. Related Party Transactions (cont'd)

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loans and advances granted:		
Aggregate balance as at the end of the reporting period	54,000	56,500
Interest income	1,116	943
Loan and advance received:		
Aggregate balance as at the end of the reporting period	26,183	23,640
Interest expenses	1,916	1,415
Reinsurance premium ceded	6	6

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loans and advances granted:		
Aggregate balance at the end of the reporting period	256,140	200,765
Interest income	1,606	–
Commission expense paid	12,710	15,037

(d) During the year ended 31st December, 2016, a subsidiary of the Company repurchased 11,571,827 shares of the Company's issued ordinary shares at a cash consideration of HK\$55,544,770 from a company controlled by a former director, who resigned during the year ended 31st December, 2016. Further details of the transaction are set out in the Company's announcements dated 8th July, 2016 and 11th July, 2016. The transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

(e) Details of the Group's advances to its joint ventures and associates as at the end of the reporting period are included in notes 15 and 16 to the financial statements, respectively.

(f) Details of compensation for key management personnel, who are the directors of the Company, and post-employment benefits of the Group, are included in notes 7 and 6 to the financial statements, respectively.

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35. Insurance Contracts Liabilities and Reinsurance Assets – Terms, Assumptions and Sensitivities

General insurance contracts

(1) Terms and conditions

The major classes of general insurance written by the Group include property damage, ships, goods in transit, pecuniary loss, accident and health, general liability, employees' compensation and motor insurances. Risks under these policies usually cover a 12-month duration.

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

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

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the end of the reporting period.

The provisions are refined regularly as part of an ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The measurement process primarily includes projection of future claims costs through a combination of actuarial and statistical projection techniques like the Chain Ladder and Bornheutter Ferguson method calculated by an external actuary. In certain cases, where there is a lack of reliable historical data to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analysed by class of business. In addition, larger claims are usually separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide the best estimate of the most likely or expected outcome.

(2) Assumptions

The principal assumption underlying the estimates is the Group's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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

General insurance contracts (cont'd)

(3) Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions, e.g., legislative change and uncertainty in the estimation process, etc., is not possible to quantify. Furthermore, because of the delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provision is not known with certainty at the end of the reporting period.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognised in subsequent financial statements.

(4) Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net basis.

The tables show the estimates of cumulative incurred claims, including both notified and IBNR claims, for each successive accident year at the end of each reporting period, together with cumulative claims as at 31st December, 2017.

Gross general insurance claims

	2008 and before	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accident year	2,802,213	355,504	408,407	549,509	587,258	688,871	681,583	638,217	597,487	1,365,990	
One year later	2,756,900	355,887	431,873	655,470	615,036	666,854	636,204	613,689	654,702		-
Two years later	2,697,875	373,022	475,282	721,217	622,608	669,691	634,304	583,101			-
Three years later	2,755,305	348,747	482,670	728,873	627,162	635,890	583,263				-
Four years later	2,751,768	343,134	484,380	745,399	622,446	629,147					-
Five years later	2,735,671	336,706	482,058	723,872	616,856						-
Six years later	2,713,829	325,240	477,927	675,857							-
Seven years later	2,697,636	325,383	475,479								-
Eight years later	2,687,310	323,982									-
Nine years later	2,669,781										-
Current estimate of cumulative gross claims	2,669,781	323,982	475,479	675,857	616,856	629,147	583,263	583,101	654,702	1,365,990	8,578,158
Cumulative gross payments to date	(2,639,797)	(310,833)	(443,467)	(634,608)	(494,708)	(476,036)	(396,602)	(315,368)	(247,171)	(223,302)	(6,181,892)
Total gross general insurance outstanding claims provision per the consolidated statement of financial position	29,984	13,149	32,012	41,249	122,148	153,111	186,661	267,733	407,531	1,142,688	2,396,266

(Note 26(b))

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

General insurance contracts (cont'd)

(4) Loss development triangle (cont'd)

Net general insurance claims

	2008 and before	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accident year	1,684,546	302,613	331,523	451,474	453,795	548,608	558,328	498,393	457,531	613,420	
One year later	1,839,842	285,137	344,740	530,070	484,725	538,786	542,235	513,819	471,457	-	
Two years later	1,893,241	279,614	376,135	567,032	482,317	532,089	509,374	495,951	-	-	
Three years later	1,903,553	259,463	362,799	574,023	483,368	500,027	453,512	-	-	-	
Four years later	1,885,113	254,038	361,891	579,055	476,998	484,101	-	-	-	-	
Five years later	1,863,629	249,595	360,396	553,024	467,149	-	-	-	-	-	
Six years later	1,847,487	242,501	356,385	500,018	-	-	-	-	-	-	
Seven years later	1,829,578	242,717	351,588	-	-	-	-	-	-	-	
Eight years later	1,820,985	240,476	-	-	-	-	-	-	-	-	
Nine years later	1,802,378	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative net claims	1,802,378	240,476	351,588	500,018	467,149	484,101	453,512	495,951	471,457	613,420	5,880,050
Cumulative net payments to date	(1,775,566)	(229,179)	(325,503)	(472,964)	(365,538)	(367,217)	(292,479)	(262,814)	(159,613)	(181,794)	(4,432,667)
Total net general insurance outstanding claims provision per the consolidated statement of financial position	26,812	11,297	26,085	27,054	101,611	116,884	161,033	233,137	311,844	431,626	1,447,383

(Note 26(b))

36. Fair Value Hierarchy of Financial Instruments

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, loans to a joint venture, an amount due from an associate, financial assets included in loans and advances and other assets, insurance receivables, insurance payables, amounts due to a joint venture and associates, other liabilities and interest-bearing bank borrowing approximate to their carrying amounts.

Management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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36. Fair Value Hierarchy of Financial Instruments (cont'd)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using		
	Quoted prices in active markets (Level 1) <i>HK\$'000</i>	Significant observable inputs (Level 2) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31st December, 2017			
Available-for-sale securities:			
Equity investments	994,355	1,027,111	2,021,466
Securities measured at fair value through profit or loss	869,717	866,469	1,736,186
	<u>1,864,072</u>	<u>1,893,580</u>	<u>3,757,652</u>

	Fair value measurement using		
	Quoted prices in active markets (Level 1) <i>HK\$'000</i>	Significant observable inputs (Level 2) <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 31st December, 2017 and 2016, the Group had no financial instruments measured at fair value under Level 3 for both financial assets and financial liabilities.

During the years ended 31st December, 2017 and 2016, there were no transfers of fair value measurements between Level 1 and Level 2 for both financial assets and financial liabilities.

During the years ended 31st December, 2017 and 2016, there were no transfers of fair value measurements into or out of Level 3 for both financial assets and financial liabilities.

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36. Fair Value Hierarchy of Financial Instruments (cont'd)

Assets for which fair values are disclosed:

As at 31st December, 2017	Fair value measurement using		
	Quoted prices in active markets (Level 1) <i>HK\$'000</i>	Significant observable inputs (Level 2) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Held-to-maturity securities	<u>566,021</u>	<u>185,820</u>	<u>751,841</u>

As at 31st December, 2016	Fair value measurement using		
	Quoted prices in active markets (Level 1) <i>HK\$'000</i>	Significant observable inputs (Level 2) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Held-to-maturity securities	<u>485,559</u>	<u>189,742</u>	<u>675,301</u>

37. Financial Risk Management Objectives and Policies

The Group has established policies and procedures for identifying, evaluating, monitoring and controlling the various types of risks pertaining to the Group's businesses, which are approved and endorsed by the board of directors and reviewed regularly by the Group's management, executive committee, investment committee, fund management committee and other designated committees or working groups. Material risks are identified and measured by designated committees and/or working groups before the launch of new products or business activities, and monitored, documented and controlled against applicable risk limits after the introduction of new products or services or implementation of new business activities. Internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures. The key risks include credit risk, liquidity risk, capital management risk, interest rate risk, foreign exchange risk, insurance risk, operational risk and equity price risk.

The overall internal control environment and the management policies for the major types of risks are as follows:

(1) Internal control environment

The internal control framework of the Group comprises comprehensive control policies and standards. The areas of responsibilities of each business and operational unit are clearly defined. Internal control procedures have been established based on the risk inherent in the individual business unit.

The internal audit department plays an important role in the Group's internal control framework. It monitors the effectiveness of the internal control procedures and ensures compliance with the policies and standards across the whole group. A direct reporting line to the audit committee under the board of directors safeguards its independence. The audit committee meets periodically to review and discuss financial performance, internal control, compliance issues and matters raised by the external auditors to ensure that all audit recommendations are implemented.

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

(2) Credit risk management

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the credit terms which extend to clients, intermediates and reinsurers, and other activities undertaken by the Group. To manage credit risk, the Group has considered the underlying security and the long-established business relationship with the counterparty.

There are no significant concentrations of credit risk within the Group as the customer bases of the Group's insurance receivables are widely dispersed in different intermediates and direct customers from different sectors and industries.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, held-to-maturity securities, available-for-sale securities, loans and advances and other assets, loans to a joint venture and amounts due from associates, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from loans to a joint venture, amounts due from associates, held-to-maturity securities, available-for-sale securities, loans and advances and other assets, and insurance receivables are disclosed in notes 15, 16, 17, 18, 19 and 21 to the financial statements.

(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.

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

(3) Liquidity risk management (cont'd)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2017			
	On demand and less than 1 year <i>HK\$'000</i>	1 to 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
Provision for claims reported by policyholders	236,756	1,242,966	–	1,479,722
IBNR	147,729	775,575	–	923,304
Insurance payables	181,949	–	–	181,949
Due to a joint venture	28,099	–	–	28,099
Due to associates	4,222	–	–	4,222
Other liabilities	348,521	–	–	348,521
Interest-bearing bank borrowing	150,270	–	–	150,270
	1,097,546	2,018,541	–	3,116,087

	2016			
	On demand and less than 1 year <i>HK\$'000</i>	1 to 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
Provision for claims reported by policyholders	135,487	661,495	–	796,982
IBNR	155,635	759,867	–	915,502
Insurance payables	157,233	–	–	157,233
Due to a joint venture	25,055	–	–	25,055
Due to associates	4,222	–	–	4,222
Other liabilities	281,111	–	–	281,111
Interest-bearing bank borrowing	150,216	–	–	150,216
	908,959	1,421,362	–	2,330,321

31st December, 2017

37. Financial Risk Management Objectives and Policies (cont'd)**(3) Liquidity risk management (cont'd)**

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

31st December, 2017	Current* HK\$'000	Non-current HK\$'000	Total HK\$'000
Property, plant and equipment	–	176,450	176,450
Investment properties	–	280,200	280,200
Interests in joint ventures	–	208,734	208,734
Loans to a joint venture	54,000	–	54,000
Interests in associates	–	436,700	436,700
Due from associates	87,750	168,390	256,140
Held-to-maturity securities	141,258	584,300	725,558
Available-for-sale securities	–	3,616,130	3,616,130
Pledged deposits	206,488	–	206,488
Loans and advances and other assets	106,060	11,275	117,335
Securities measured at fair value through profit or loss	1,736,186	–	1,736,186
Insurance receivables	225,162	–	225,162
Reinsurance assets	1,211,355	–	1,211,355
Cash and cash equivalents	2,627,224	–	2,627,224
Assets of a disposal group classified as held for sale	105,084	–	105,084
Total assets	6,500,567	5,482,179	11,982,746

31st December, 2016	Current* HK\$'000	Non-current HK\$'000	Total HK\$'000
Property, plant and equipment	–	335,487	335,487
Investment properties	–	28,200	28,200
Interests in joint ventures	–	280,104	280,104
Loans to a joint venture	56,500	–	56,500
Interests in associates	–	357,817	357,817
Due from associates	32,375	168,390	200,765
Held-to-maturity securities	91,488	560,481	651,969
Available-for-sale securities	–	3,321,596	3,321,596
Pledged deposits	158,915	–	158,915
Loans and advances and other assets	116,556	12,796	129,352
Securities measured at fair value through profit or loss	1,524,770	–	1,524,770
Insurance receivables	197,465	–	197,465
Reinsurance assets	583,379	–	583,379
Cash and cash equivalents	2,433,390	–	2,433,390
Total assets	5,194,838	5,064,871	10,259,709

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

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

(4) Capital management

Externally imposed capital requirements are mainly set and regulated by the Hong Kong Insurance Authority. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders' value.

The Group manages its capital requirements by assessing any shortfalls between the reported and required Relevant Amount, as defined in section 10 of the Hong Kong Insurance Companies Ordinance, on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid or return capital to ordinary shareholders.

The Group fully complied with the externally imposed requirements of 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 table below summarises the required Relevant Amount across the Group.

	Life insurance HK\$'000	Non-life insurance HK\$'000
2017 required Relevant Amount	24,039	164,738
2016 required Relevant Amount	21,812	158,385

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 31st December, 2017, the Group had no net debt.

37. Financial Risk Management Objectives and Policies (cont'd)**(5) Interest rate risk management**

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

Floating rate instruments expose the Group to cash flow interest rate risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk.

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets. Interest on floating rate instruments is repriced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instruments and is fixed until maturity.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, for securities measured at fair value through profit or loss, interest-bearing bank deposits, loans and advances and other assets, loans to joint ventures, an amount due to a joint venture and interest-bearing bank borrowing showing the pre-tax impact on profit and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

	Change in interest rate	2017		2016	
		Increase/(decrease) in profit HK\$'000	in equity* HK\$'000	Increase/(decrease) in profit HK\$'000	in equity* HK\$'000
Securities measured at fair value through profit or loss	+50 basis points	(856)	–	(1,552)	–
	–50 basis points	856	–	1,552	–
Interest-bearing bank deposits	+50 basis points	13,779	–	12,715	–
	–50 basis points	(13,779)	–	(12,715)	–
Loans and advances and other assets	+50 basis points	64	–	73	–
	–50 basis points	(64)	–	(73)	–
Due to a joint venture	+50 basis points	(131)	–	(118)	–
	–50 basis points	131	–	118	–
Interest-bearing bank borrowing	+50 basis points	(750)	–	(750)	–
	–50 basis points	750	–	750	–

* Excluding retained profits

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

(6) Foreign exchange risk management

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

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

	Change in exchange rate %	Decrease in profit before tax HK\$'000	Decrease in equity* HK\$'000
2017			
If Thai Baht weakens against Hong Kong dollar	-5%	(11,293)	(101,073)
If Japanese Yen weakens against Hong Kong dollar	-8%	(2,632)	-
If Renminbi weakens against Hong Kong dollar	-7%	(5,800)	(7)
2016			
If Thai Baht weakens against Hong Kong dollar	-5%	(9,629)	(77,507)
If Japanese Yen weakens against Hong Kong dollar	-8%	(2,671)	-
If Renminbi weakens against Hong Kong dollar	-7%	(12,030)	(7)

* Excluding retained profits

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

(7) Insurance risk management

The business of the Group comprises both life and general insurance contracts, and general insurance contracts represent 96% 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.

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

(7) Insurance risk management (cont'd)

The Group also has limited its exposure to a certain level by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, such as hurricanes, earthquakes and flood damages. The purpose of these underwriting and reinsurance strategies is to limit the exposure to catastrophes to a pre-determined maximum amount based on the Group's risk appetite as decided by management. For a single realistic catastrophic event, this maximum amount is less than 5% of the shareholders' equity 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.

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

	2017			2016		
	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000	Insurance contracts liabilities HK\$'000	Reinsurers' share of liabilities HK\$'000	Net HK\$'000
Employees' compensation	877,966	(106,484)	771,482	817,746	(94,824)	722,922
Property damage	1,180,573	(792,650)	387,923	550,226	(193,102)	357,124
General liability	433,539	(170,154)	263,385	466,785	(164,538)	302,247
Motor vehicle	352,947	(63,810)	289,137	327,954	(44,440)	283,514
Others	276,175	(78,257)	197,918	278,110	(86,475)	191,635
Total general insurance	<u>3,121,200</u>	<u>(1,211,355)</u>	<u>1,909,845</u>	<u>2,440,821</u>	<u>(583,379)</u>	<u>1,857,442</u>

As at 31st December, 2017, over 90% (2016: 90%) of the general insurance contracts liabilities were related to the business written in Hong Kong, Macau and Mainland China.

(8) Operational risk management

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

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

37. Financial Risk Management Objectives and Policies (cont'd)**(9) Equity price risk management**

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as securities measured at fair value through profit or loss (note 20) and available-for-sale securities (note 18) as at 31st December, 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 following table demonstrates the sensitivity to every change of 15%, 10%, 5% and 10% in the fair values of the securities listed in Hong Kong, the United States, Thailand and all other areas, respectively, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, the impact for the available-for-sale securities is deemed to be on the available-for-sale investment reserve and no account is given for factors such as impairment which might impact on the statement of profit or loss.

	Change in sensitivity %	Carrying amount of securities HK\$'000	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2017				
Equity investments in:				
Hong Kong				
– Listed securities measured at fair value through profit or loss	+15% –15%	435,505 435,505	65,326 (65,326)	– –
United States				
– Listed securities measured at fair value through profit or loss	+10% –10%	213,248 213,248	21,325 (21,325)	– –
Thailand				
– Available-for-sale securities	+5% –5%	2,021,466 2,021,466	– –	101,073 (101,073)
– Listed securities measured at fair value through profit or loss	+5% –5%	221,973 221,973	11,099 (11,099)	– –
All other areas				
– Listed securities measured at fair value through profit or loss	+10% –10%	29,964 29,964	2,996 (2,996)	– –

* Excluding retained profits

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

(9) Equity price risk management (cont'd)

	Change in sensitivity %	Carrying amount of securities <i>HK\$'000</i>	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity* <i>HK\$'000</i>
2016				
Equity investments in:				
Hong Kong				
– Available-for-sale securities	+15%	176,787	–	26,518
	–15%	176,787	–	(26,518)
– Listed securities measured at fair value through profit or loss	+15%	321,166	48,175	–
	–15%	321,166	(48,175)	–
United States				
– Listed securities measured at fair value through profit or loss	+10%	266,015	26,602	–
	–10%	266,015	(26,602)	–
Thailand				
– Available-for-sale securities	+5%	1,550,145	–	77,507
	–5%	1,550,145	–	(77,507)
– Listed securities measured at fair value through profit or loss	+5%	191,081	9,554	–
	–5%	191,081	(9,554)	–
All other areas				
– Listed securities measured at fair value through profit or loss	+10%	10,473	1,047	–
	–10%	10,473	(1,047)	–

* Excluding retained profits

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38. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
ASSETS		
Property, plant and equipment	–	–
Interests in subsidiaries	1,721,957	1,741,457
Due from subsidiaries	1,031,688	1,140,272
Interest in a joint venture	–	–
Available-for-sale securities	1,524,085	1,524,085
Loans and advances and other assets	9,205	9,002
Cash and cash equivalents	298,783	231,360
Total assets	4,585,718	4,646,176
EQUITY AND LIABILITIES		
Equity		
Issued capital	978,478	978,478
Reserves (<i>note</i>)	3,454,236	3,496,743
Proposed final dividend	73,386	53,816
Total equity	4,506,100	4,529,037
Liabilities		
Other liabilities	10,131	7,642
Due to subsidiaries	69,487	109,497
Total liabilities	79,618	117,139
Total equity and liabilities	4,585,718	4,646,176

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38. Statement of Financial Position of the Company (cont'd)

Note:

A summary of the Company's reserves is as follows:

	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2016	560,531	60,060	38,821	2,961,157	3,620,569
Profit for the year and total comprehensive income for the year	-	-	-	96,318	96,318
Final 2015 dividend	-	-	-	86	86
Interim 2016 dividend	-	-	-	(24,557)	(24,557)
Repurchase of shares	-	-	-	(141,857)	(141,857)
Transfer to capital redemption reserve	-	-	40,722	(40,722)	-
Proposed final 2016 dividend	-	-	-	(53,816)	(53,816)
At 31st December, 2016 and at 1st January, 2017	560,531	60,060	79,543	2,796,609	3,496,743
Profit for the year and total comprehensive income for the year	-	-	-	70,018	70,018
Interim 2017 dividend	-	-	-	(39,139)	(39,139)
Proposed final 2017 dividend	-	-	-	(73,386)	(73,386)
At 31st December, 2017	560,531	60,060	79,543	2,754,102	3,454,236

31st December, 2017

39. Particulars of Principal Subsidiaries

Particulars of the Company's principal subsidiaries as at 31st December, 2017 are as follows:

Name	Place of incorporation and operation	Percentage of equity attributable to the Company		Issued share capital	Principal activities
		Direct	Indirect		
Asia Insurance Company, Limited	Hong Kong	100	–	HK\$2,000,000,000	Insurance
Asia Investment Services Limited	British Virgin Islands	100	–	HK\$10,000,000	Investment holding
AFH Investments (BVI) Limited	British Virgin Islands	100	–	US\$1,000,000	Investment holding
Asia Insurance (Finance) Limited	Hong Kong	–	100	HK\$25,000,000	Mortgage loan financing
Chamberlain Investment Limited	Republic of Liberia	–	100	US\$100	Investment holding
Progressive Investment Company Limited	Hong Kong	–	100	HK\$10,000,000	Property investment
Bedales Investment Limited	Republic of Liberia	–	100	Ordinary US\$100 Preference US\$3,000,000	Investment holding
Asia Investment Services (HK) Limited	Hong Kong	–	100	HK\$10,000	Investment holding
Asia Insurance (Investments) Limited	Hong Kong	–	69.5	HK\$78,000,000	Investment holding
Asia Financial (Nominees) Limited	Hong Kong	–	100	HK\$2	Provision of nominee services
AFH Investment Company Limited	Hong Kong	–	100	HK\$1	Investment holding
AFH Realty Investment Company Limited	Hong Kong	–	100	HK\$1	Investment holding
AFH International Company Limited	Hong Kong	–	100	HK\$1	Investment holding

Notes to Financial Statements

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39. Particulars of Principal Subsidiaries (cont'd)

Particulars of the Company's principal subsidiaries as at 31st December, 2017 are as follows: (cont'd)

Name	Place of incorporation and operation	Percentage of equity attributable to the Company		Issued share capital	Principal activities
		Direct	Indirect		
AFH Health Care Services Limited	Hong Kong	–	100	HK\$1	Provision of health care services
Top Hover Limited	British Virgin Islands	–	100	US\$1	Investment holding
AFH Health Care Investment Limited	Hong Kong	100	–	HK\$25,700,000	Investment holding
Wellness Realty Limited	Hong Kong	100	–	HK\$10,000	Property investment

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

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

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 22nd March, 2018.