



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

Incorporated in Bermuda with limited liability

(Stock Code: 662)

INTERIM REPORT

For the six months ended 30th June, 2016

	<i>Pages</i>
Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	4
Interim Results Highlights	7
Condensed Consolidated Statement of Profit or Loss (Unaudited)	8
Condensed Consolidated Statement of Comprehensive Income (Unaudited)	10
Condensed Consolidated Statement of Financial Position (Unaudited)	11
Condensed Consolidated Statement of Changes in Equity (Unaudited)	12
Condensed Consolidated Statement of Cash Flows (Unaudited)	14
Notes to the Interim Financial Statements (Unaudited)	16
Supplementary Financial Information	31
Other Information	35

Board of Directors

Executive Directors

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

Non-Executive Directors

SOPHONPANICH Choedchu
CHAN Yeow Toh
TANAKA Junichi
YAMAMOTO Takao

Independent Non-Executive Directors

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

Audit Committee

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

Compliance Committee

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

Remuneration Committee

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

Nomination Committee

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

Auditors

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

Registered Office

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Church Street
Hamilton HM 11
Bermuda

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Principal Registrar and Transfer Office

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Branch Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

Company Secretary

LAU Chi Tak

Share Listing

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

Asia Financial Holdings Limited ("Asia Financial") recorded net profit attributable to shareholders of HK\$129.4 million in the first half of 2016, a 50.3% decline over the same period in 2015. This reflected realised and unrealised losses in the value of portfolio investments and weaker returns from some of our joint ventures and associates. At the same time, we enjoyed a healthy increase in underwriting profits. Our expenses remained under control and in line with inflation.

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

Economic Background

Much of the world economy generally slower, Hong Kong saw declining economic growth in the first half of 2016. Mainland China continued to experience weakening overseas demand and gradual sectoral rebalancing, although stimulus helped to limit the impacts. Hong Kong saw slowing tourist numbers and retail sales, but the labour market remained tight. Overall, the Hong Kong domestic economy continued to provide a positive environment for Asia Financial's insurance operations.

Markets generally performed weakly in the first half of 2016, though part of this at the end of the reporting period was due to the markets' short-term reaction to the UK vote to leave the European Union. This impacted our net profit. The Hang Seng Index fell around 5% in the year to mid-2016 and H-Shares fell around 10%, while the main US indices gained around 3%. Bond yields generally declined.

Management Approach and Future Prospects

The global outlook at mid-2016 looks uncertain. The world in general continues to face over-capacity and low inflation. Weakness in developed economies threatens to reduce demand for producers in China and elsewhere in Asia. Along with China's gradual structural readjustment, this is likely to continue affecting global demand for commodities and Hong Kong services exports. US, Chinese and other leading economies' monetary policies, with major potential impacts on asset prices, remain unclear. In the background are "Brexit", potential banking and other problems in the Euro zone, and very mixed outlooks for developing economies.

Medium-term prospects for insurance operations remain positive, with our strong distribution network and market positioning helping us to perform well despite a crowded market. We will actively continue to anticipate changes in the insurance market by reviewing and optimizing our mix of business segments and our distribution network. We are also monitoring possible future progress in the expansion of private health coverage in Hong Kong.

The longer-term outlook gives us continued cause for optimism. China's leadership seems determined to continue structural adjustment through increased consumption, urbanization and financial and other reforms – although it is inevitably a gradual and challenging process. Other parts of East Asia are continuing their own long-term reforms and development. The region is in the midst of a major transformation involving the rise of large middle classes, gradually aging societies and greater use of market-based solutions to demographic and other policy challenges.

This is the long-term environment on which Asia Financial's management focuses. We will continue to build on our interests in livelihood-related service industries such as insurance, retirement, health and property development, focused on Greater China and elsewhere in Asia. Our existing range of investments fits well with our traditional expertise and networks of clients and partners, and is well-positioned to benefit from long-term economic and social trends. In considering ways to build upon this base, we will adhere to this fundamental approach and exercise patience and caution.

CHAN Yau Hing Robin

Chairman

Hong Kong, 18th August, 2016

Management Discussion and Analysis

Business Review

Insurance

Wholly owned subsidiary, Asia Insurance Company, Limited (“Asia Insurance”) achieved profit attributable to shareholders of HK\$87.4 million in the first half of 2016, a 61.8% decrease compared with the same period in 2015.

Turnover increased by a healthy 18.3%. This was partly helped by market consolidated in some segments following a period of intense competition in pricing. More broadly, this improvement reflected more focused marketing and distribution efforts. These efforts helped support margins, contributing to a 9.5% growth in underwriting profit (all the above figures are before elimination of intergroup transactions). This was helped by an absence of exposure to major catastrophes in the period, and also by expansion in our distribution capacity.

The growth in turnover and underwriting profit reflects Asia Insurance’s continued status as a leader in Hong Kong’s general insurance market with a very sound reputation and a loyal client base.

Unrealised losses in investments resulted in a decline in investment returns. The fall reflected general market weakness and the year-on-year decline in the value of certain strategic holdings. Dividend income was steady, while the fall in interest income reflected lower returns on bonds and a shift away to conservative, lower-yield holdings. Other income reflected foreign exchange loss.

Asia Insurance kept costs in line with inflation and market trends in pay.

The outlook for Asia Insurance’s core underwriting activities looks reasonable for the second half of 2016 and beyond. The main potential threat would be a major downturn in the Chinese and regional economy. We will continue to utilize our risk management expertise to focus on quality business and optimize the mix of business segments, especially in our core market of Hong Kong. This strength plays an important role in ensuring healthy underwriting profitability.

We have also entered new partnerships that will help us to further expand our distribution network. We continue to liaise with industry and other parties about the potential to expand personal health insurance coverage in the Hong Kong community.

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

Joint ventures and associates in the insurance segment delivered generally weaker results in the first half of 2016. BC Reinsurance Limited suffered a fall in investment returns despite stable underwriting performance. The People’s Insurance Company of China (Hong Kong) Limited recorded decrease in profit. Hong Kong Life Insurance Limited also saw weaker returns from fixed income investments. Professional Liability Underwriting Services Limited continued to deliver steady results.

PICC Life Insurance Company Limited (“PICC Life”), in which Asia Financial has a 5% stake, continues to take advantage of its opportunities as a company with a nationwide licence. PICC Life reported RMB81.9 billion in premium income for the first half of 2016, a 22.2% increase over the same period in 2015. All other business performance and risk control indicators showed positive and healthy figures. PICC Life’s insurance liability reserves and solvency ratio were maintained at high levels in line with the business volume. This stake is Asia Financial’s single biggest external holding, accounting for 14.9% of our total assets.



Business Review (continued)

Other Portfolio Investment

Trading investments showed realised and unrealised losses in the first half of 2016. This particularly reflected weaker Hong Kong and China markets and lower values of particular strategic holdings. Returns from non-traded investments saw a very healthy rise owing to strong growth in dividend income. Net interest income weakened in line with yields.

Our portfolio investment approach will remain long-term and not simply focused on year-on-year fluctuations in market valuations. We will continue to place the highest priority on preservation of core shareholder wealth. At the same time, we will remain alert to strategic and long-term opportunities arising from structural changes in the international environment.

Health Care and Wellness

Our 3.6% holding in Bumrungrad Hospital Public Company Limited (“Bumrungrad”) in Bangkok remains one of our most solid investments, though the stock market valuation declined in the first half of the year. Bumrungrad’s success in attracting patients internationally through the delivery of high-quality medical services looks likely to continue. The company is also exploring new opportunities, and has obtained a licence to open a clinic in Myanmar.

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

The Kinnet, our wholly owned Hong Kong wellness centre aimed at healthy aging, reported a somewhat smaller loss than in the same period last year. The number of cardholders has been growing, and feedback from them is very positive. We are exploring ways to expand revenue streams from the facilities with a view to growing long-term operating income and Asia Financial’s investment base.

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

Pension and Asset Management

The Group’s holding in Bank Consortium Holding Limited (“BCH”), one of our joint ventures, continued to generate satisfactory returns in the first half of 2016 owing to organic growth. Bank Consortium Trust Company Limited (“BCT”), a wholly owned subsidiary of BCH, remains one of the top five providers of Mandatory Provident Fund services in Hong Kong.

Property Development

The Group’s interests in real estate are focused on Shanghai and represent 3.1% of our total assets. The main project is a residential and commercial complex in Jiading in Shanghai, in which we have a 27.5% stake. Foundation work has started on Phase 3 of the project, and construction should begin by end-2016, with sales hopefully starting one year later.

Meanwhile, work on a smaller plot has been completed, and occupation permits issued, enabling handovers to begin. Owing to the high quality of the development, sales have been strong and profits should be booked in the second half of this year.

Prospects for China’s residential property market and future policy are subjects of considerable discussion. We are confident that where financing is concerned, existing capital and cash flow are fully sufficient. Demand remains strong among middle-class end-users in this attractive locality. We will consider new possible opportunities in this sector.

Management Discussion and Analysis

Business Review (continued)

Property Development (continued)

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

Liquidity, Financial Resources and Gearing Ratio

The Group's cash and cash equivalents as at 30th June, 2016 amounted to HK\$2,255,756,000 (31st December, 2015: HK\$2,162,868,000).

The Group had a bank borrowing of HK\$150,000,000 as at 30th June, 2016 (31st December, 2015: HK\$150,000,000), which was secured by certain Hong Kong listed shares, repayable on or before 27th January, 2017 and charged at 1.25% over the 3-month Hong Kong Interbank Offered Rate per annum.

No gearing ratio was calculated as the Group had no net debt as at 30th June, 2016. The gearing ratio was based on net debt divided by total capital plus net debt. Net debt includes insurance contract liabilities, insurance payables, amounts due to a joint venture and associates, interest-bearing bank borrowing and other liabilities, less cash and cash equivalents and securities measured at fair value through profit or loss. Capital represents equity attributable to equity holders of the Company.

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

Charge on Assets

As at 30th June, 2016, Asia Insurance charged assets with a carrying value of HK\$120,231,000 (31st December, 2015: HK\$120,504,000) in favour of a cedant to secure the performance of Asia Insurance's obligations to the cedant under certain pecuniary loss reinsurance contracts.

The Group also pledged certain equity securities listed in Hong Kong classified as available-for-sale securities and securities measured at fair value through profit or loss with fair value of not less than HK\$150,000,000 (31st December, 2015: HK\$150,000,000) to a bank to secure the interest-bearing bank borrowing of HK\$150,000,000 (31st December, 2015: HK\$150,000,000).

Contingent Liabilities

As at 30th June, 2016, the Group had no material contingent liabilities.

Employees and Remuneration Policy

The total number of employees of the Group as at 30th June, 2016 was 296 (31st December, 2015: 295). Employees were remunerated on the basis of their performance, experience and prevailing industry practice. Remuneration of the employees includes salary and discretionary bonus which is based on the Group's results and individual performance. Medical and retirement benefit schemes are made available to all levels of personnel. There was no share option scheme in operation during the six months ended 30th June, 2016. The Group also offers various training and induction programmes to its employees.

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

The board of directors (the “Board”) of Asia Financial Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2016 as follows:

Profit attributable to equity holders of the Company:	HK\$129.4 million	–50.3%
Earnings per share:	HK12.7 cents	–50.2%
Interim dividend per share:	HK2.5 cents	–30.6%

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

Review of Interim Financial Statements

The Audit Committee of the Company has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30th June, 2016 and recommended it for the Board’s approval.

Interim Dividend

The Board has resolved to declare an interim cash dividend of HK2.5 cents (2015: HK3.6 cents) per ordinary share for the six months ended 30th June, 2016 payable on or about Wednesday, 28th September, 2016 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 20th September, 2016.

Closure of Register of Members

The Register of Members of the Company will be closed from Thursday, 15th September, 2016 to Tuesday, 20th September, 2016, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong Branch Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 14th September, 2016.



Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30th June, 2016

	Notes	Six months ended 30th June,	
		2016 HK\$'000	2015 HK\$'000
REVENUE	3	718,766	608,847
Gross premiums		718,766	608,847
Reinsurers' share of gross premiums		(259,265)	(176,996)
Change in unearned premiums reserve		(22,920)	24,320
Change in life reserve		(10,552)	(5,826)
Net insurance contracts premiums revenue		426,029	450,345
Gross claims paid		(258,998)	(198,419)
Reinsurers' share of gross claims paid		97,256	47,165
Gross change in outstanding claims		18,181	(106,089)
Reinsurers' share of gross change in outstanding claims		(30,504)	31,629
Net claims incurred		(174,065)	(225,714)
Commission income		44,611	31,014
Commission expense		(161,160)	(125,934)
Net commission expense		(116,549)	(94,920)
Management expenses for underwriting business		(26,125)	(28,441)
Underwriting profit		109,290	101,270
Dividend income		97,388	50,831
Realised gain/(loss) on investments		(16,345)	33,333
Unrealised gain/(loss) on investments		(38,779)	77,825
Interest income		30,535	35,328
Other income and gains, net		2,208	(16)
		184,297	298,571
Operating expenses		(59,762)	(59,316)
Finance costs	4	(1,376)	(1,203)
		123,159	238,052
Share of profits and losses of joint ventures		10,032	37,619
Share of profits and losses of associates		10,772	17,427
PROFIT BEFORE TAX	5	143,963	293,098

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Condensed Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30th June, 2016

	Notes	Six months ended 30th June,	
		2016	2015
		HK\$'000	HK\$'000
PROFIT BEFORE TAX	5	143,963	293,098
Income tax expense	6	(14,541)	(27,950)
PROFIT FOR THE PERIOD		129,422	265,148
Attributable to:			
Equity holders of the Company		129,366	260,051
Non-controlling interests		56	5,097
		129,422	265,148
INTERIM DIVIDEND	7	24,576	36,691
INTERIM DIVIDEND PER SHARE	7	HK2.5 cents	HK3.6 cents
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic – For profit for the period		HK12.7 cents	HK25.5 cents
Diluted – For profit for the period		N/A	N/A



Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30th June, 2016

	Six months ended 30th June,	
	2016	2015
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	129,422	265,148
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale securities:		
Changes in fair value	(63,677)	127,405
Share of other comprehensive income/(expense) of joint ventures	(870)	561
Share of other comprehensive income/(expense) of associates	258	(1,308)
Exchange differences on translation of foreign operations	(40)	23
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD, NET OF TAX	(64,329)	126,681
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	65,093	391,829
ATTRIBUTABLE TO:		
Equity holders of the Company	62,548	386,744
Non-controlling interests	2,545	5,085
	65,093	391,829



Condensed Consolidated Statement of Financial Position (Unaudited)

30th June, 2016

	Notes	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
ASSETS			
Property, plant and equipment		337,869	324,262
Investment properties		23,100	23,100
Interests in joint ventures		263,731	257,719
Loans to joint ventures		46,500	33,335
Interests in associates		323,793	314,140
Due from an associate		168,390	168,390
Deferred tax assets		245	1,913
Held-to-maturity securities	9	621,364	587,886
Available-for-sale securities	10	3,365,523	3,426,715
Pledged deposits	14	158,915	148,236
Loans and advances and other assets	11	175,547	92,942
Securities measured at fair value through profit or loss	12	1,643,060	1,853,696
Insurance receivables	13	250,797	201,622
Reinsurance assets		590,579	567,198
Cash and cash equivalents	14	2,255,756	2,162,868
		<u>10,225,169</u>	<u>10,164,022</u>
Total assets			
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Issued capital	15	996,368	1,019,200
Reserves		5,946,433	5,990,225
Proposed dividend		24,576	10,192
		<u>6,967,377</u>	<u>7,019,617</u>
Non-controlling interests		42,857	40,312
		<u>7,010,234</u>	<u>7,059,929</u>
Total equity			
Liabilities			
Insurance contracts liabilities		2,524,926	2,455,748
Insurance payables		191,931	154,323
Due to a joint venture		25,368	24,532
Due to associates		4,222	4,222
Other liabilities		265,424	275,077
Interest-bearing bank borrowing	16	150,000	150,000
Tax payable		41,255	28,382
Deferred tax liabilities		11,809	11,809
		<u>3,214,935</u>	<u>3,104,093</u>
Total liabilities			
Total equity and liabilities		<u>10,225,169</u>	<u>10,164,022</u>

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30th June, 2016

Attributable to equity holders of the Company

	Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Contingency reserve HK\$'000	Available-for-sale investment reserve HK\$'000	Asset revaluation reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st January, 2016	1,019,200	-	560,531	64,436	1,232,943	56,120	12,425	2,427	513,240	38,821	3,509,282	10,192	7,019,617	40,312	7,059,929
Profit for the period	-	-	-	-	-	-	-	-	-	-	129,366	-	129,366	56	129,422
Other comprehensive income/(expense) for the period:															
Changes in fair value of available-for-sale securities	-	-	-	-	(63,677)	-	-	-	-	-	-	-	(63,677)	-	(63,677)
Share of other comprehensive income/(expense) of joint ventures	-	-	-	-	(1,721)	-	851	-	-	-	-	-	(870)	-	(870)
Share of other comprehensive income/(expense) of associates	-	-	-	-	5,724	-	(7,955)	-	-	-	-	-	(2,231)	2,489	258
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(40)	-	-	-	-	-	(40)	-	(40)
Total comprehensive income/(expense) for the period	-	-	-	-	(59,674)	-	(7,144)	-	-	-	129,366	-	62,548	2,545	65,093
Final 2015 dividend declared	-	-	-	-	-	-	-	-	-	-	86	(10,192)	(10,106)	-	(10,106)
Proposed interim 2016 dividend	-	-	-	-	-	-	-	-	-	-	(24,576)	24,576	-	-	-
Repurchase of shares (note 15)	(22,832)	(6,250)	-	-	-	-	-	-	-	-	(75,600)	-	(104,682)	-	(104,682)
Transfer to capital redemption reserve (note 15)	-	-	-	-	-	-	-	-	-	22,832	(22,832)	-	-	-	-
Transfer to contingency reserve	-	-	-	3,251	-	-	-	-	-	-	(3,251)	-	-	-	-
At 30th June, 2016	996,368	(6,250)*	560,531*	67,687*	1,173,269*	56,120*	5,281*	2,427*	513,240*	61,653*	3,512,475*	24,576	6,967,377	42,857	7,010,234

* These reserve accounts comprise the consolidated reserves of HK\$5,946,433,000 (31st December, 2015: HK\$5,990,225,000) in the unaudited condensed consolidated statement of financial position.

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Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30th June, 2016

Atributable to equity holders of the Company

	Issued capital HK\$'000	Treasury shares HK\$'000	Share premium account HK\$'000	Contingency reserve HK\$'000	Available-for-sale investment reserve HK\$'000	Asset revaluation reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1st January, 2015	1,019,200	-	560,531	52,725	1,211,075	46,071	32,343	2,427	513,240	38,821	3,381,109	50,960	6,908,502	38,391	6,946,893
Profit for the period	-	-	-	-	-	-	-	-	-	-	260,051	-	260,051	5,097	265,148
Other comprehensive income/(expense) for the period:															
Changes in fair value of available-for-sale securities	-	-	-	-	127,405	-	-	-	-	-	-	-	127,405	-	127,405
Share of other comprehensive income/(expense) of joint ventures	-	-	-	-	1,473	-	(912)	-	-	-	-	-	561	-	561
Share of other comprehensive income/(expense) of associates	-	-	-	-	(54)	-	(1,242)	-	-	-	-	-	(1,296)	(12)	(1,308)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	23	-	-	-	-	-	23	-	23
Total comprehensive income/(expense) for the period	-	-	-	-	128,824	-	(2,131)	-	-	-	260,051	-	386,744	5,085	391,829
Final 2014 dividend declared	-	-	-	-	-	-	-	-	-	-	-	(50,960)	(50,960)	-	(50,960)
Proposed interim 2015 dividend	-	-	-	-	-	-	-	-	-	-	(36,691)	36,691	-	-	-
Transfer to contingency reserve	-	-	-	5,335	-	-	-	-	-	-	(5,335)	-	-	-	-
At 30th June, 2015	1,019,200	-	560,531	58,060	1,339,899	46,071	30,212	2,427	513,240	38,821	3,599,134	36,691	7,244,286	43,476	7,287,762



Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30th June, 2016

	Six months ended 30th June,	
	2016 HK\$'000	2015 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	143,963	293,098
Adjustments for:		
Interest income	(30,535)	(35,328)
Finance costs	1,376	1,203
Dividend income from investments	(97,388)	(50,813)
Loss on redemption/call-back of held-to-maturity securities	-	14
Gain on disposal of available-for-sale securities	(57)	(54)
Write-back of impairment of insurance receivables	-	(1)
Depreciation	7,129	7,189
Gain on disposal of items of property, plant and equipment	(1)	(109)
Share of profits and losses of joint ventures	(10,032)	(37,619)
Share of profits and losses of associates	(10,772)	(17,427)
	3,683	160,153
Decrease/(increase) in loans and advances and other assets	(37,522)	28,353
Decrease/(increase) in securities measured at fair value through profit or loss	210,636	(390,276)
Increase in insurance receivables	(49,175)	(30,802)
Increase in reinsurance assets	(23,381)	(18,528)
Decrease in time deposits with original maturity of over three months	188,420	78,182
Increase in insurance contracts liabilities	69,178	74,495
Increase in insurance payables	37,608	23,267
Increase/(decrease) in other liabilities	(9,693)	5,154
	389,754	(70,002)
Cash generated from/(used in) operations	389,754	(70,002)
Overseas taxes paid	-	(29)
	389,754	(70,031)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	30,535	35,328
Dividends received from investments	52,305	50,813
Dividends received from joint ventures	3,150	3,150
Dividends received from associates	1,377	1,620
Purchases of held-to-maturity securities	(37,072)	(32,795)
Purchases of available-for-sale securities	(2,485)	-
Proceeds from redemption/call back of held-to-maturity securities	3,594	2,326
Proceeds from disposal of available-for-sale securities	57	54
Purchases of items of property, plant and equipment	(20,769)	(2,251)
Proceeds from disposal of items of property, plant and equipment	34	145
Advance of a loan to a joint venture	(19,000)	-
Repayment of a loan to a joint venture	5,835	-
Increase/(decrease) in an amount due to a joint venture	836	(524)
Increase in pledged deposits	(10,679)	(16,506)
	7,718	41,360

.....continued



Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30th June, 2016

	Six months ended 30th June,	
	2016	2015
	HK\$'000	HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	(104,682)	–
Dividends paid	(10,106)	(50,960)
Interest paid	(1,376)	(1,203)
Net cash flows used in financing activities	(116,164)	(52,163)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	281,308	(80,834)
Cash and cash equivalents at beginning of period	1,724,020	1,621,990
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,005,328	1,541,156
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	283,091	123,886
Non-pledged time deposits with original maturity of over three months when acquired	250,428	472,705
Non-pledged time deposits with original maturity of less than three months when acquired	1,722,237	1,417,270
Cash and cash equivalents as stated in the unaudited condensed consolidated statement of financial position	2,255,756	2,013,861
Less: Non-pledged time deposits with original maturity of over three months when acquired	(250,428)	(472,705)
Cash and cash equivalents as stated in the unaudited condensed consolidated statement of cash flows	2,005,328	1,541,156



Notes to the Interim Financial Statements (Unaudited)

1. Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard No. 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted are consistent with those adopted in the Company’s financial statements for the year ended 31st December, 2015 except for the adoption of the revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”), which are effective for accounting period beginning on or after 1st January, 2016 and the new accounting policy adopted by the Group during the period as disclosed below.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

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

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.

2. Operating Segment Information

(a) Operating segments

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

	Insurance HK\$’000	Corporate HK\$’000	Eliminations HK\$’000	Consolidated HK\$’000
For the six months ended 30th June, 2016				
Segment revenue:				
External customers	718,766	–	–	718,766
Other revenue, income and gains, net	10,782	64,225	–	75,007
Intersegment	4,590	–	(4,590)	–
Total	734,138	64,225	(4,590)	793,773
Segment results	93,649	29,510	–	123,159
Share of profits and losses of:				
Joint ventures	827	9,205	–	10,032
Associates	435	10,337	–	10,772
Profit before tax				143,963
Income tax expense	(12,597)	(1,944)	–	(14,541)
Profit for the period				129,422



2. Operating Segment Information (continued)

(a) Operating segments (continued)

	Insurance HK\$'000	Corporate HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
For the six months ended 30th June, 2015				
Segment revenue:				
External customers	608,847	–	–	608,847
Other revenue, income and gains, net	134,833	62,468	–	197,301
Intersegment	6,059	–	(6,059)	–
Total	749,739	62,468	(6,059)	806,148
Segment results	208,762	29,290	–	238,052
Share of profits and losses of:				
Joint ventures	25,121	12,498	–	37,619
Associates	17,692	(265)	–	17,427
Profit before tax				293,098
Income tax expense	(24,107)	(3,843)	–	(27,950)
Profit for the period				265,148
	Insurance HK\$'000	Corporate HK\$'000	Consolidated HK\$'000	
30th June, 2016				
Segment assets	5,514,199	4,123,446		9,637,645
Interests in joint ventures	153,682	110,049		263,731
Interests in associates	149,158	174,635		323,793
Total assets	5,817,039	4,408,130		10,225,169
Segment liabilities	2,911,974	302,961		3,214,935
	Insurance HK\$'000	Corporate HK\$'000		Consolidated HK\$'000
31st December, 2015				
Segment assets	5,290,658	4,301,505		9,592,163
Interests in joint ventures	157,829	99,890		257,719
Interests in associates	141,777	172,363		314,140
Total assets	5,590,264	4,573,758		10,164,022
Segment liabilities	2,803,555	300,538		3,104,093

Notes to the Interim Financial Statements (Unaudited)

2. Operating Segment Information (continued)

(b) Geographical information

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

3. Revenue

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

4. Finance Costs

	Six months ended 30th June,	
	2016	2015
	HK\$'000	HK\$'000
Interest on a bank loan	1,376	1,203

5. Profit Before Tax

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

	Six months ended 30th June,	
	2016	2015
	HK\$'000	HK\$'000
Auditors' remuneration	(1,554)	(1,490)
Depreciation	(7,129)	(7,189)
Employee benefits expense (including directors' remuneration)	(59,710)	(59,936)
Minimum lease payments under operating leases	(719)	(556)
Realised gain/(loss) on:		
– disposal of securities measured at fair value through profit or loss (held for trading), net	(16,402)	33,293
– disposal of available-for-sale securities	57	54
– redemption/call back of held-to-maturity securities	–	(14)
Total realised gain/(loss) on investments	(16,345)	33,333
Unrealised gain/(loss) on securities measured at fair value through profit or loss (held for trading), net	(38,779)	77,825
Interest income	30,535	35,328
Gain on disposal of items of property, plant and equipment	1	109
Write-back of impairment of insurance receivables	–	1
Foreign exchange loss, net [#]	(2,994)	(2,582)
Dividend income from:		
– Listed investments	40,088	33,946
– Unlisted investments	57,300	16,885
Total dividend income	97,388	50,831

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



6. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

	Six months ended 30th June,	
	2016 HK\$'000	2015 HK\$'000
Current – Hong Kong		
Charge for the period	8,798	20,545
Current – Elsewhere		
Charge for the period	4,075	3,562
Deferred	1,668	3,843
Total tax charge for the period	14,541	27,950

7. Dividend

	Six months ended 30th June,	
	2016 HK\$'000	2015 HK\$'000
Proposed interim dividend:		
HK2.5 cents (2015: HK3.6 cents) per ordinary share	24,576	36,691

The Board has resolved to pay an interim dividend of HK2.5 cents per share (2015: HK3.6 cents), which will be paid in cash, for the six months ended 30th June, 2016 payable on or about 28th September, 2016 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 20th September, 2016.

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

The calculation of the basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$129,366,000 (2015: HK\$260,051,000) and the weighted average number of ordinary shares of 1,015,447,000 (2015: 1,019,200,000) in issue during the period, as adjusted to reflect the number of treasury shares of 1,348,000 held.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30th June, 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

Notes to the Interim Financial Statements (Unaudited)

9. Held-to-maturity Securities

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Listed debt securities in Hong Kong, at amortised cost	267,367	239,945
Listed debt securities outside Hong Kong, at amortised cost	184,003	174,146
Unlisted debt securities, at amortised cost	169,994	173,795
	<hr/>	<hr/>
Total held-to-maturity securities	621,364	587,886
	<hr/>	<hr/>
Fair value of listed and unlisted held-to-maturity securities	659,734	615,429
	<hr/>	<hr/>

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

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

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

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Public sector entities	–	3,594
Banks and other financial institutions	392,812	355,428
Corporate entities	228,552	228,864
	<hr/>	<hr/>
	621,364	587,886
	<hr/>	<hr/>

9. Held-to-maturity Securities (continued)

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

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
With a residual maturity of:		
Three months or less	–	3,594
One year or less but over three months	57,828	15,564
Five years or less but over one year	362,796	367,871
Over five years	200,740	200,857
	<u>621,364</u>	<u>587,886</u>

During the period, a cedant of certain pecuniary loss reinsurance contracts requested the Group to provide security in favour of the cedant to secure the performance of the Group's obligations to the cedant under those pecuniary loss reinsurance contracts. Accordingly, at 30th June, 2016, listed debt securities of the Group amounting to HK\$120,231,000 (31st December, 2015: HK\$120,504,000) were pledged.

10. Available-for-sale Securities

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Listed equity in Hong Kong, at fair value	181,724	178,596
Listed equity outside Hong Kong, at fair value	1,589,380	1,655,312
Total listed available-for-sale securities	<u>1,771,104</u>	<u>1,833,908</u>
Unlisted equity, at cost	1,624,863	1,624,863
Less: Impairment	(32,056)	(32,056)
	<u>1,592,807</u>	<u>1,592,807</u>
Unlisted debt, at cost	7,825	6,213
Less: Impairment	(6,213)	(6,213)
	<u>1,612</u>	<u>–</u>
Total unlisted available-for-sale securities	<u>1,594,419</u>	<u>1,592,807</u>
Total available-for-sale securities	<u>3,365,523</u>	<u>3,426,715</u>

Notes to the Interim Financial Statements (Unaudited)

10. Available-for-sale Securities (continued)

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

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Banks and other financial institutions	2,227,920	2,182,757
Corporate entities	1,137,603	1,243,958
	3,365,523	3,426,715

During the period, the gross loss in respect of the Group's available-for-sale listed investments recognised in other comprehensive income amounted to HK\$63,677,000 (30th June, 2015: gross gain of HK\$127,405,000).

The fair values of listed equity investments are based on quoted market prices. The unlisted available-for-sale equity investments of the Group with carrying amounts of HK\$1,592,807,000 (31st December, 2015: HK\$1,592,807,000) are measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

As at 30th June, 2016, the Group's bank loan is secured by the pledge of certain equity securities listed in Hong Kong classified as available-for-sale securities and securities measured at fair value through profit or loss with fair value of not less than HK\$150,000,000 (31st December, 2015: HK\$150,000,000) (note 16).

11. Loans and Advances and Other Assets

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Loans and advances	16,977	19,002
Dividend receivable	45,083	–
Accrued interest and other assets	113,487	73,940
	175,547	92,942

The Group's accrued interest and other assets are current in nature. None of the loans and advances and other assets is either past due or impaired. The financial assets included in the loans and advances and other assets relate to receivables for which there was no recent history of default.

11. Loans and Advances and Other Assets (continued)

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

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Repayable on demand	–	–
With a residual maturity of:		
Three months or less	469	458
One year or less but over three months	1,422	1,390
Five years or less but over one year	6,256	6,420
Over five years	8,830	10,734
	16,977	19,002

12. Securities Measured at Fair Value through Profit or Loss

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Debt securities:		
– listed in Hong Kong, at fair value	82,351	100,188
– listed outside Hong Kong, at fair value	133,551	146,392
– unlisted, at quoted market price	17,143	28,770
	233,045	275,350
Equity securities at fair value:		
– listed in Hong Kong	347,338	442,212
– listed outside Hong Kong	516,805	490,233
	864,143	932,445
Investment funds:		
– unlisted, at quoted price	545,872	645,901
Total	1,643,060	1,853,696

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

The securities measured at fair value through profit or loss as at the end of the reporting period, analysed by the sector of the issuers, are as follows:

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Public sector entities	17,986	23,610
Banks and other financial institutions	372,192	420,159
Corporate entities	1,252,882	1,409,927
	1,643,060	1,853,696

Securities measured at fair value through profit or loss at 30th June, 2016 and 31st December, 2015 were classified as held for trading.

As at 30th June, 2016, the Group's bank loan is secured by the pledge of certain equity securities listed in Hong Kong classified as available-for-sale securities and securities measured at fair value through profit or loss with fair value of not less than HK\$150,000,000 (31st December, 2015: HK\$150,000,000) (note 16).

13. Insurance Receivables

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Amounts due in respect of:		
Direct underwriting	166,930	99,914
Reinsurance accepted	83,867	101,708
	250,797	201,622

The Group grants credit terms of three months to six months on billed policies. The past settlement history of these receivables indicates that certain debtors settle in arrears subsequent to the credit period, which may also involve settlement subsequent to the 12 months from the end of the reporting period.

The Group's insurance receivables relate to a large number of diversified customers and therefore there is no significant concentration of credit risk. Insurance receivables are non-interest-bearing.

13. Insurance Receivables (continued)

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

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Three months or less	228,772	189,021
Six months or less but over three months	24,377	14,582
One year or less but over six months	167	22
Over one year	246	762
	253,562	204,387
Less: Impairment allowances	(2,765)	(2,765)
	250,797	201,622

14. Cash and Cash Equivalents and Pledged Deposits

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Cash and bank balances	283,091	149,641
Time deposits with original maturity of over three months	250,428	438,848
Time deposits with original maturity of less than three months	1,722,237	1,574,379
	2,255,756	2,162,868
Pledged deposits	158,915	148,236
	2,414,671	2,311,104

Notes to the Interim Financial Statements (Unaudited)

15. Share Capital

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Authorised:		
1,500,000,000 ordinary shares of HK\$1 each	1,500,000	1,500,000
Issued and fully paid:		
996,368,000 (2015: 1,019,200,000) ordinary shares of HK\$1 each	996,368	1,019,200

During the period ended 30th June, 2016, the Group repurchased 24,180,000 ordinary shares of the Company of HK\$1 each from the market at prices ranging from HK\$3.00 to HK\$4.80 per share at a total amount of HK\$104,682,000 (including transaction cost). Out of which, 22,832,000 repurchased shares were cancelled. The premium of HK\$75,600,000 paid on the repurchase of such cancelled shares was debited to the retained profits account and an amount of HK\$22,832,000 was transferred from retained profits of the Company to the capital redemption reserve.

The remaining 1,348,000 shares with cost of HK\$6,250,000 were classified as treasury shares at 30th June, 2016 and were subsequently cancelled in July 2016.

Subsequent to the end of the reporting period, the Group repurchased and cancelled 11,970,000 ordinary shares of the Company from the market at prices ranging from HK\$4.65 to HK\$4.82 per share at a total amount of HK\$57,564,000 (including transaction cost). As at the date of this report, the number of issued shares of the Company is 983,050,000 shares.

16. Interest-bearing Bank Borrowing

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Interest-bearing bank loan, secured	150,000	150,000

The bank loan bears interest at 1.25% (31st December, 2015: 1.25%) over the 3-month Hong Kong Interbank Offered Rate per annum, is repayable on or before 27th January, 2017, and is secured by the pledge of certain equity securities listed in Hong Kong classified as available-for-sale securities and securities measured at fair value through profit or loss with fair value of not less than HK\$150,000,000 (31st December, 2015: HK\$150,000,000) (notes 10 and 12).

17. Commitments

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

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Contracted, but not provided for	—	7,769

18. Related Party Transactions

(a)

	30th June, 2016		31st December, 2015	
	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	—	1,665	—	52
Interbank activities:				
Deposits placed	—	712,600	—	737,069

18. Related Party Transactions (continued)

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

	30th June, 2016 HK\$'000	31st December, 2015 HK\$'000
Loans and advances granted:		
Aggregate balance at the end of the reporting period	168,390	168,390
Loans and advances received:		
Aggregate balance at the end of the reporting period	4,222	4,222
	Six months ended 30th June, 2016 HK\$'000	2015 HK\$'000
Reinsurance premium ceded	91	78
Commission expense paid	5,158	3,003

19. Fair Value Hierarchy of Financial Instruments

Assets measured at fair value:

	Fair value measurement using		
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Total HK\$'000
At 30th June, 2016			
Available-for-sale securities:			
Equity investments	858,528	912,576	1,771,104
Securities measured at fair value through profit or loss	929,863	713,197	1,643,060
	1,788,391	1,625,773	3,414,164

Notes to the Interim Financial Statements (Unaudited)

19. Fair Value Hierarchy of Financial Instruments (continued)

	Fair value measurement using		
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Total HK\$'000
At 31st December, 2015			
Available-for-sale securities:			
Equity investments	806,893	1,027,015	1,833,908
Securities measured at fair value through profit or loss	1,010,010	843,686	1,853,696
	<u>1,816,903</u>	<u>1,870,701</u>	<u>3,687,604</u>

As at 30th June, 2016 and 31st December, 2015, the Group had no financial instruments measured at fair value under Level 3 for both financial assets and financial liabilities.

During the periods ended 30th June, 2016 and 30th June, 2015, there were no transfers of fair value measurements between Level 1 and Level 2 for both financial assets and financial liabilities.

During the periods ended 30th June, 2016 and 30th June, 2015, there were no transfers of fair value measurements into or out of Level 3 for both financial assets and financial liabilities.

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

Financial Risk Management Objectives and Policies

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

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

(1) Internal control environment

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

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

(2) Credit risk management

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

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

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

(3) Liquidity risk management

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

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

Financial Risk Management Objectives and Policies (continued)

(4) Capital management

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

The Group manages its capital requirements by assessing any shortfalls between the reported and required Relevant Amount, as defined in section 10 of the Hong Kong Insurance 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 required Relevant Amount is determined by the application of a formula that contains variables for premiums and claims, expenses and reserve items. It also takes into account distribution of assets and investment returns.

In addition, the Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes insurance contracts liabilities, insurance payables, amounts due to a joint venture and associates, interest-bearing bank borrowing and other liabilities, less cash and cash equivalents and securities measured at fair value through profit or loss. Capital represents equity attributable to equity holders of the Company. As at 30th June, 2016, the Group has no net debt.

(5) Interest rate risk management

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

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

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

(6) Foreign exchange risk management

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

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

Financial Risk Management Objectives and Policies (continued)

(7) Insurance risk management

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

The Group also has limited its exposure to a certain level by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, such as hurricanes, earthquakes and flood damages. The purpose of these underwriting and reinsurance strategies is to limit the exposure to catastrophes to a pre-determined maximum amount based on the Group's risk appetite as decided by management. For a single realistic catastrophic event, this maximum amount is less than 5% of the shareholders' equity of the wholly-owned subsidiary, Asia Insurance Company, Limited, on a net basis. In the event of such a catastrophe, counterparty exposure to a single reinsurer is estimated not to exceed 5% of the shareholders' equity of the wholly-owned subsidiary, Asia Insurance Company, Limited.

Financial Risk Management Objectives and Policies (continued)

(8) Operational risk management

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

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

(9) Equity price risk management

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as securities measured at fair value through profit or loss and available-for-sale securities as at 30th June, 2016. The Group's listed investments are mainly listed on the stock exchanges of Hong Kong, the United States, and Thailand and are valued at quoted market prices at the end of the reporting period.

The Group monitors market risk by establishing limits for transactions, open positions and stop-loss. These limits are reviewed and approved by the Investment Committee periodically and are monitored on a daily basis.

Directors' Interests in Shares

As at 30th June, 2016, the interests of the Company's directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Name of director	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital ⁽¹⁾
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
CHAN Yau Hing Robin	–	–	578,829,712 ⁽²⁾	578,829,712	58.09
CHAN Bernard Charnwut	1,382,334	–	–	1,382,334	0.14
WONG Kok Ho	810,000	430,000	–	1,240,000	0.12
SOPHONPANICH Choedchu	1,055,107	–	–	1,055,107	0.11
CHOW Suk Han Anna	41,559	–	–	41,559	0.00

Notes:

(1) Based on 996,368,000 shares in issue as at 30th June, 2016.

(2) Out of the 578,829,712 shares, (i) 566,069,712 shares were held through Claremont Capital Holdings Ltd ("Claremont Capital"), (ii) 8,830,000 shares were held through Robinson Enterprise Limited, (iii) 3,097,000 shares were held through Asia Panich Investment Company (Hong Kong) Limited ("Asia Panich") and (iv) 833,000 shares were held through Man Tong Company Limited ("Man Tong"). More than one third of the issued share capital of Claremont Capital, Asia Panich and Man Tong are held by Cosmos Investments Inc. These corporations or their directors are accustomed to act in accordance with the directions or instructions of Dr. CHAN Yau Hing Robin.

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

Save as disclosed above, as at 30th June, 2016, 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.

Other Information

Substantial Shareholders' and Other Persons' Interests in Shares

As at 30th June, 2016, the following persons (other than the directors or chief executive of the Company) had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or as otherwise notified to the Company:

Name of shareholder	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital ^(a)
Cosmos Investments Inc.	(b), (c)	569,999,712	57.21
Claremont Capital Holdings Ltd	(b)	566,069,712	56.81
Bangkok Bank Public Company Limited		95,488,236	9.58
Sompo Japan Nipponkoa Insurance Inc.		52,563,020	5.28
Aioi Nissay Dowa Insurance Company, Limited		52,550,175	5.27

Notes:

- (a) Based on 996,368,000 shares in issue as at 30th June, 2016.
- (b) These shares have been included in the interest disclosure of Dr. CHAN Yau Hing Robin as set out in the section "Directors' Interests in Shares" above.
- (c) Cosmos Investments Inc. was deemed to be interested in 569,999,712 shares in which 566,069,712 shares were held by Claremont Capital, 3,097,000 shares were held by Asia Panich and 833,000 shares were held by Man Tong since Cosmos Investments Inc. holds more than one-third of the issued share capital of Claremont Capital, Asia Panich and Man Tong, respectively.

Save as disclosed above, as at 30th June, 2016, 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.

The Code for Securities Transactions by Directors

The Company has adopted a code for securities transactions by directors (the "Code of Conduct") on terms no less exacting than the required standard in the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Code of Conduct and the Model Code throughout the six months ended 30th June, 2016.



Purchase, Sale or Redemption of the Company's Shares

During the six months ended 30th June, 2016, the Group repurchased a total of 24,180,000 ordinary shares of the Company on the Stock Exchange at an aggregate purchase price of approximately HK\$104,390,000 (excluding expenses) and approximately HK\$104,682,000 (including expenses). Such repurchased shares were cancelled during the reporting period and July 2016. Details of the ordinary shares repurchased on the Stock Exchange during the reporting period are as follows:

Month of repurchase	Number of ordinary shares repurchased	Highest purchase price per share HK\$	Lowest purchase price per share HK\$	Aggregate purchase price (excluding expenses) HK\$'000
March 2016	502,000	3.25	3.00	1,527
April 2016	3,832,000	4.16	3.32	14,395
May 2016	7,962,000	4.50	3.91	33,577
June 2016	11,884,000	4.80	4.45	54,891
	<u>24,180,000</u>			<u>104,390</u>

Subsequent to the end of the reporting period and up to the date of this report, the Group repurchased a total of 11,970,000 ordinary shares of the Company on the Stock Exchange at an aggregate purchase price of approximately HK\$57,416,000 (excluding expenses) and approximately HK\$57,564,000 (including expenses). Such repurchased shares were cancelled on 14th July, 2016. Details of the ordinary shares repurchased on the Stock Exchange after the end of the reporting period are as follows:

Month of repurchase	Number of ordinary shares repurchased	Highest purchase price per share HK\$	Lowest purchase price per share HK\$	Aggregate purchase price (excluding expenses) HK\$'000
July 2016	11,970,000	4.82	4.65	57,416

As a result of the above share repurchases, the issued share capital of the Company was accordingly reduced by the par value of the aforesaid repurchased ordinary shares upon their cancellation during the reporting period and after the end of the reporting period. As at the date of this report, the number of issued shares of the Company is 983,050,000 shares.

The directors believe that the above share repurchases were exercised in the best interests of the Company and its shareholders and that such share repurchases would lead to an enhancement of the net assets value and/or earnings per share of the Company.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's ordinary shares during the six months ended 30th June, 2016 and up to the date of this report.

Corporate Governance Code

The Company has applied the principles and complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2016, except for certain deviations as specified and explained below with considered reasons for such deviations:

A.6.7 – Mr. YAMAGUCHI Yoshihiro, a non-executive director, was unable to attend the annual general meeting (“AGM”) of the Company held on 19th May, 2016 as he would not offer himself for re-election as a director at the AGM and retired immediately after the AGM due to other commitment.

E.1.2 – Dr. CHAN Yau Hing Robin, the Chairman of the Board, was absent from the Company’s AGM held on 19th May, 2016 as he was on medical leave. The AGM was chaired by the President of the Company, Mr. CHAN Bernard Charnwut, with the consent of the members present.

Changes in Directors’ Information

There have been changes in the information of some of the Directors since the date of the Company’s 2015 Annual Report. Details of the changes as required to be disclosed under Rule 13.51B(1) of the Listing Rules are as follows:

1. Mr. CHAN Bernard Charnwut, G.B.S., J.P., an executive director and the President of the Company, stepped down as the Chairman of The Advisory Committee on Revitalisation of Historic Buildings effective on 15th May, 2016.
2. Mr. YAMAGUCHI Yoshihiro retired by rotation as a non-executive director of the Company on 19th May, 2016.
3. Mr. YAMAMOTO Takao was elected as the non-executive director of the Company on 19th May, 2016.
4. Mr. NG Song Hin resigned as the non-executive director of the Company effective on 22nd June, 2016.

