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## **Yunfeng Financial Group Limited**

雲鋒金融集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 376)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020**

The board of directors (the “**Board**”) of Yunfeng Financial Group Limited (the “**Company**”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019. The unaudited condensed consolidated interim results have been reviewed by the Company’s audit committee and the Company’s independent auditor.

## Corporate information

### Board of Directors

#### **Chairman**

Mr. Yu Feng (*Non-Executive Director*)

#### **Executive Directors**

Ms. Hai Olivia Ou (*Interim Chief Executive Officer*)

Mr. Huang Xin

#### **Non-Executive Directors**

Mr. Adnan Omar Ahmed

Mr. Michael James O' Connor

#### **Independent Non-Executive Directors**

Mr. Qi Daqing

Mr. Chu Chung Yue, Howard

Mr. Xiao Feng

#### **Audit committee**

Mr. Chu Chung Yue, Howard (*Chairman*)

Mr. Qi Daqing

Mr. Xiao Feng

### Remuneration committee

Mr. Qi Daqing (*Chairman*)

Mr. Huang Xin

Mr. Chu Chung Yue, Howard

Mr. Xiao Feng

### Nomination committee

Mr. Yu Feng (*Chairman*)

Mr. Qi Daqing

Mr. Chu Chung Yue, Howard

### Authorised representatives

Ms. Hai Olivia Ou

Mr. Chan Man Ko

### Company secretary

Mr. Chan Man Ko

### Auditor

KPMG

Certified Public Accountants

Public Interest Entity Auditor registered in

accordance with the Financial Reporting

Council Ordinance

**Bankers**

Bank of Communications  
China Construction Bank (Asia)  
Bank of China (Hong Kong)  
China Minsheng Banking Corporation  
Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

**Registered and principal office**

Suites 3201-3204  
One Exchange Square  
8 Connaught Place  
Hong Kong

**Share registrar**

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

**Website**

[www.yff.com](http://www.yff.com)

**Stock code**

376

## Management discussion and analysis

The board of directors (the “Board”) of Yunfeng Financial Group Limited (the “Company”) submit herewith the unaudited condensed consolidated interim results and financial position of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020 (the “First Half of 2020” or the “Period”), together with the comparative figures for the corresponding period in 2019 (the “Prior Period”).

### Overview

In the First Half of 2020, Hong Kong’s economy was affected by, amongst others, the global trade conflict and the outbreak of COVID-19 and financial markets continued to face uncertainties and challenges. Despite this difficult period, the Company has remained steadfast in providing its customers with comprehensive insurance and financial services, while maintaining business operation and development. At the same time, China’s economy has first shown significant signs of recovery amid the global pandemic. The Group will take this opportunity to achieve breakthroughs and sustainable development in its business.

The Group’s sources of revenue includes life insurance premium income and other financial businesses including subscription fees and management fees for products launched by the Group, platform fees for distribution of third-parties products, administration fee for employees stock ownership plan management services, brokerage commission income and corporate advisory fee income etc. For the Period, the Group’s revenue amounted to HK\$2,865.7 million, representing an increase of 20% compared to that of HK\$2,392.4 million for the Prior Period. The revenue included HK\$2,852.2 million premiums and fee income, representing an increase of 20% compared to that of HK\$2,381.8 million for the Prior Period, and HK\$13.5 million of income from other financial services, representing an increase of 26% compared to that of HK\$10.7 million for the Prior Period. The adjusted operating profit is approximately HK\$392.6 million, representing an increase of 22% compared to that of HK\$322.7 million for the Prior Period. The Group’s consolidated profit amounted to HK\$262.2 million, representing an increase of 11% compared to that of HK\$236.9 million for the Prior Period. The net profit attributable to equity shareholders of the Company amounted to HK\$109.2 million, representing an increase of 12% compared to that of HK\$97.4 million for the Prior Period. The improvement of the Group’s results is mainly due to the growth of the business of YF Life Insurance International Limited (“YF Life”), increase in investment scale and improvement in claims experience together with the improvement of operation result of other financial business in terms of income growth and cost reduction.

## Financial result review

### Significant financial information

Consolidated profit and loss analysis for the period ended 30 June, HK\$ million

<b>Income</b>	<i>2020</i>	<i>2019</i> (Restated) (Note 3)	<i>Change %</i>
Premiums and fee income	<u>2,852.2</u>	<u>2,381.8</u>	20
Total operating profit	<u>392.6</u>	<u>322.6</u>	22
Net profit attributable to the owners	<u>109.2</u>	<u>97.4</u>	12
Basic earnings per share (HK\$) (Note 1)	<u>0.03</u>	<u>0.03</u>	-
Interim dividend proposed per share	<u>-</u>	<u>-</u>	-

Consolidated financial position analysis, HK\$ million

	<i>At</i> <i>30 June</i> <i>2020</i>	<i>At</i> <i>31 December</i> <i>2019</i>	<i>Change %</i>
Total assets	<u>79,156</u>	<u>75,327</u>	5
Total equity	<u>15,760</u>	<u>15,463</u>	2
Owner's equity	<u>10,231</u>	<u>10,103</u>	1
Owner's equity per share (HK\$) (Note 2)	<u>3.17</u>	<u>3.13</u>	1

*Note 1: The denominator is weighted average number of ordinary shares of the Company*

*Note 2: The denominator is total issued shares*

*Note 3: Certain comparative figure is restated based on the finalised purchase price allocation of prior year acquisition of YF Life*

**Analysis on profit for six months period ended 30 June, HK\$ million**

	2020	2019 (Restated) (Note 4)	Change %
<b>YF Life segment operating profit</b>	443.3	401.8	10
<b>Other financial services and corporate segment operating loss</b>	(50.7)	(79.2)	(36)
Total operating profit	392.6	322.6	22
Adjust for the following profit or loss and expenses impact:			
– Investment income from disposal, fair value changes of risk hedging derivatives and fair value change and impairment of certain investments	(107.7)	(56.7)	90
– Staff share award amortisation reversal	9.8	3.7	1.6 times
– Legal and professional fee and other expenses for acquisition of YF Life	(2.0)	(16.1)	(88)
– Finance cost (Note 1)	(72.0)	(29.6)	1.4 times
– One-off adjustment (Note 2)	(0.5)	-	NA
– Consolidation adjustments (Note 3)	42.0	12.9	2.3 times
<b>Profit for the period</b>	262.2	236.8	11
Less: non-controlling interests	(153.0)	(139.4)	10
Net profit attributable to the owners	109.2	97.4	12

Note 1: The amount includes bank interest expenses and other finance expenses incurred for the capital required in the Group's strategic investment.

Note 2: One-off adjustments represent the impact of professional consultancy fees incurred for non-recurring project expense.

Note 3: The consolidation adjustments represent the financial impact arising from the consolidation of YF Life.

Note 4: Certain comparative figure is restated based on the finalised purchase price allocation of acquisition of YF Life and market value fluctuation and realized gain or loss related to certain investments.

## Changes in owner's equity

HK\$ million

	2020
Balance at 1 January	15,463
Share based payment transaction	(10)
Profit for the Period	262
Others comprehensive income and others	45
	15,760
Balance at 30 June	15,760
<b>Attributable to:</b>	
– Equity shareholders of the Company	10,231
– Non-controlling interests	5,529
	15,760
Total equity	15,760

## Business review

### Insurance business review

To facilitate a more thorough and comprehensive review of the insurance business, YF Life, related financial data below is presented on a half year basis and excluded the fair value accounting adjustments made on the acquisition, intragroup consolidation adjustment and transaction elimination. Such basis is considered being able to provide reader with more relevant information on the business performance of the insurance business segment operating results.

### Overview

During the First Half of 2020, our insurance business remained as authorized insurer licensed to carry on life and annuity, linked long term, permanent health, and retirement scheme management long term insurance businesses in Hong Kong. It also operates in Macau through a branch office and is licensed to sell life insurance products in Macau.

Our insurance business division maintained diversified product suite includes four flagship products: (i) the “FLEXI-ULife Prime Saver”, an enhanced universal life insurance plan; (ii) the “MY Lifetime Annuity”, a plan providing guaranteed lifetime annuity income to act as a safety net during the customer’s retirement; (iii) the “Infinity Saver 2”, a flexible insurance savings plan allowing customers to accumulate capital with potentially higher return; and (iv) the “PrimeHealth” series which are critical illness products covering a wide range of illnesses.

As of 30 June 2020, the tied agency force consisted of approximately 3,052 (31 December 2019: 2,973) agents in Hong Kong and Macau. In addition to tied agency force, we also utilize brokers and agency intermediaries as well as banks and other financial institutions to distribute insurance products. The insurance business division has approximately 482 (31 December 2019: 442) employees and more than 496,000 (31 December 2019: 491,000) in-force individual policies.

During the First Half of 2020, our insurance division continues to develop its tied agency, brokerage and agency intermediary and bancassurance distribution channels to increase penetration in the market, to broaden its access to potential customers and to meet the evolving preferences of existing customers. Tied agency is the most significant distribution channel in terms of premium and fee income contribution and we plan to continue to steadily grow its tied agency force. We also seek to expand our brokerage and agency intermediary distribution channel to serve sophisticated customers who we believe are more receptive to independent advice. For bancassurance distribution channel, we will aim to strengthen partnering relationships with existing banks and financial institutions. Furthermore, our insurance division has been exploring to re-formulate overall strategy of online sales channel.

In addition, our insurance division aim to optimize product mix by developing and promoting products with higher margins, such as refundable critical illness products. To further improve the information capability and usage of digital platforms to match the preferences of potential and existing customers, our insurance division is actively developing virtual-face-to-face solicitation tools and continues to enhance online customer servicing tool.

### **Total premium and fee income**

Total premium and fee income (“TPI”) measures its business volumes by referring to the total TPI reported under the Insurance Ordinance (Cap. 41 of the Laws of Hong Kong) (“IO”). TPI consists of full amount of single premium, first year regular premium and renewal regular premium before reinsurance, and includes deposits and contributions for contracts. In preparing the financial statements in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), YF Life chooses to unbundle the deposit component of insurance contracts from TPI and such deposit component is credited directly to the policyholders’ deposit upon receipt. Therefore, the revenue recognized in the financial statements prepared under HKFRS is less than TPI before intra-group transaction eliminations.

	<i>For the six months period ended</i>	
	<i>30 June</i>	
	<i>2020</i>	<i>2019</i>
	HK\$ million	HK\$ million
Total premium and fee income reported under the IO	3,960	3,713
Less: Premium deposits separated out from insurance contracts and recognition of fee income	(1,107)	(1,331)
Premium and fee income recognized in the income statements of HKFRS	2,853	2,382

Management considers TPI as one of the important measures of the Group’s operating performance and believes that they are frequently used by analysts, investors and other interested parties in the evaluation of insurance companies. The management also uses TPI as additional measurement tools for the purposes of business decision-making. TPI is not measures of operating performance under HKFRS and should not be considered as a substitute for, or superior to, profit before tax in accordance with HKFRS.



## Business Volume

The tables below set forth the TPI of the insurance business by (i) geographical region, (ii) distribution channel and (iii) product type based on internal records.

### (i) By geographical region

	<i>For the six months period ended 30 June</i>			
	2020		2019	
	HK\$ million	%	HK\$ million	%
Hong Kong	3,095	78	3,139	85
Macau	865	22	574	15
	<u>3,960</u>	<u>100</u>	<u>3,713</u>	<u>100</u>

### (ii) By distribution channel

	<i>For the six months period ended 30 June</i>					
	2020			2019		
	HK\$ million			HK\$ million		
	Hong Kong	Macau	Total	Hong Kong	Macau	Total
Tied agency	1,937	516	2,453	1,922	514	2,436
Brokers and non-tied agency	874	7	881	955	11	966
Banks and other financial institutions	284	342	626	262	49	311
	<u>3,095</u>	<u>865</u>	<u>3,960</u>	<u>3,139</u>	<u>574</u>	<u>3,713</u>

### (iii) By product type

	<i>For the six months period ended 30 June</i>					
	2020			2019		
	HK\$ million			HK\$ million		
	Hong Kong	Macau	Total	Hong Kong	Macau	Total
Regular premium-First year	351	360	711	366	106	472
Regular premium-Renewal	2,617	486	3,103	2,497	440	2,937
Single premium	126	18	144	275	27	302
Fee income	1	1	2	1	1	2
	<u>3,095</u>	<u>865</u>	<u>3,960</u>	<u>3,139</u>	<u>574</u>	<u>3,713</u>

Embedded value and value of new business

The Embedded Value method is a commonly adopted alternative method of measuring the value and profitability of a life insurance company. Embedded Value is an actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business. Value of New Business represents an actuarially determined estimate of the economic value arising from new life insurance business issued in the relevant 12-month period.

We adopted a traditional deterministic discounted cash flow methodology to determine the components of embedded value. This methodology makes implicit allowance for the time value of options and guarantees and other risks associated with the realisation of the expected future distributable earnings through the use of a risk adjusted discount rate and is consistent with the industry practice in the market.

The embedded value of the insurance business as at 30 June 2020 is HK\$15,538 million (31 December 2019: HK\$16,351 million) with breakdown as below.

HK\$ million

	<i>As at 30 June 2020</i>	<i>As at 31 December 2019</i>	<i>Change %</i>
Adjusted Net Worth (“ANW”) (note 1)	4,154	5,989	(31)
Value of in-force (“VIF”) business after CoC (note 2)	<u>11,384</u>	<u>10,362</u>	<u>10</u>
Embedded value	<u><u>15,538</u></u>	<u><u>16,351</u></u>	<u><u>(5)</u></u>

Note 1 The ANW represents the net asset value on Hong Kong statutory basis, with marked-to-market adjustment to certain assets. The ANW change is mainly driven by increase in liabilities arising from market interest rate drop.

Note 2 The VIF is the present value of future estimated after-tax statutory profits from in-force business, discounted at the risk discount rate. The VIF growth is driven by new business acquired and favourable actual experience, partly offset by future economic assumption update.

For further detailed discussion of embedded value of insurance division, please refer to the Embedded Value section.

## Key financial data of insurance business segment

The key financial data of insurance segment is presented under HKFRS on a half year basis before any fair value adjustment arising from the acquisition accounting policy and intra-group eliminations:

	<i>For the six months period ended 30 June</i>		<i>Change %</i>
	2020 HK\$ million	2019 HK\$ million	
<b>Income</b>			
Premiums and fee income (note a)	2,853	2,382	20
Premiums ceded to reinsurer (note a)	<u>(618)</u>	<u>(323)</u>	91
Net premium and fee income	2,235	2,059	9
Change in unearned revenue liability	<u>(304)</u>	<u>(360)</u>	(16)
Net earned premium and fee income	1,931	1,699	14
Net investment and other income (note b)	1,274	1,759	(28)
Reinsurance commission and profit	21	16	31
<b>Benefits, losses and expenses</b>			
Net policyholders benefit (note c)	833	1,760	(53)
Commission and related expenses	561	536	5
Deferral and amortisation of deferred acquisition costs (note d)	(246)	(423)	(42)
Management and other expenses	355	348	2
Change in future policyholder benefits (note e)	<u>1,236</u>	<u>893</u>	38
Profit before taxation	487	360	35
Taxation	<u>24</u>	<u>24</u>	-
Profit after taxation	<u><u>463</u></u>	<u><u>336</u></u>	38

Note a: The increase of the balance mainly arises from the newly launched short-term endowment product, other new business and natural growth of inforce portfolio.

Note b: The balance includes net investment and other income, interest income from bank deposits and other operating income. The decrease of the balance mainly arises from less investment gain from investment-linked policies.

Note c: The balance includes net claims, policy benefits and surrenders, interest credited to policyholders' deposits and dividends to policyholders. The decrease of the balance mainly arises from less investment gain passing to the policyholders of investment-linked policies.

Note d: The smaller increase of the balance is mainly due to higher amortisation.

Note e: The balance includes change in future policyholders' benefits to both insurance and investment contracts. The increase of the balance mainly arises from the newly launched short-term endowment product, other new business and natural growth of inforce portfolio.

### Operating Profit

For management decision making and internal performance management purpose, the Group refers to the operating profit which excludes the investment income from disposal, fair value changes of risk hedging derivatives and impairment loss of investments. The operating profit for the Period grew by 10.2% to HK\$443 million.

	<i>For the six months period ended 30 June</i>		<i>Change %</i>
	<i>2020</i> HK\$ million	<i>2019</i> HK\$ million	
<b>Operating profit (note 1)</b>	<u>443</u>	<u>402</u>	10
Adjust for the following profit or loss and expenses impact:			
– Investment income from disposal, fair value changes of risk hedging derivatives and impairment loss of investments	<u>20</u>	<u>(66)</u>	NA
<b>Profit for the period</b>	<u><u>463</u></u>	<u><u>336</u></u>	38

Note 1: Operating profit represents profit generated from core business activities.

## Assets and Liabilities

The following table sets out the key financial information with respect to the assets and liabilities employed by the insurance division before any fair value adjustment arising from the acquisition accounting policy and intra-group eliminations.

	<i>As at</i> 30 June 2020 HK\$ million	<i>As at</i> 31 December 2019 HK\$ million
Investments	56,995	54,187
Cash and deposits	2,363	2,253
Deferred acquisition costs	7,708	8,208
Other assets	4,771	4,170
<b>Total assets</b>	<b>71,837</b>	<b>68,818</b>
Insurance contract provisions	49,734	47,957
Investment contract liabilities	4,678	4,613
Other payable	3,969	3,382
<b>Total liabilities</b>	<b>58,381</b>	<b>55,952</b>
<b>Net assets</b>	<b>13,456</b>	<b>12,866</b>

## Investment assets

The table below sets forth the asset allocation of the investment portfolio of the insurance division based on the classification in conformity with the reports provided to the management of the Company to measure the performance of the investment portfolio which can be reconciled to the total carrying amount of investments in the above table for the six months period ended 30 June 2020 and year ended 31 December 2019.

	<i>As at</i> 30 June 2020 HK\$ million	<i>As at</i> 31 December 2019 HK\$ million
Debt securities	41,776	38,370
Mortgage loans	6,809	7,023
Equity securities	1,519	1,332
Cash for investment	473	1,082
	50,577	47,807
Unit trusts and investment policyholder plans related securities	6,764	7,150
	57,341	54,957

Note: Certain comparatives have been adjusted to conform with current period end presentation.

As at 30 June 2020, 92.5% (31 December 2019: 93.0%) of the debt securities invested have Standard and Poor's rating of BBB- or above or equivalent rating from other reputable rating agencies. As at 30 June 2020, 97.1% (31 December 2019: 96.3%) of the mortgage loans have internal rating equivalent to Standard and Poor's ratings of BBB or above or equivalent ratings from other reputable rating agencies.

The table below sets forth the total investment income based on internal records:

	<i>For the six months period ended</i>	
	<i>30 June</i>	
	<i>2020</i>	<i>2019</i>
	HK\$ million	HK\$ million
Interest income and others	959	812
Dividend income	61	26
	<u>          </u>	<u>          </u>

The investment income excludes income arising from investment-linked products.

### **Key operational data of the insurance division**

The table below sets forth certain other key operational data of the insurance division.

	<i>As at</i>	<i>As at</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2020</i>	<i>2019</i>
Number of employees		
- <i>Hong Kong</i>	460	421
- <i>Macau</i>	22	21
Number of tied agents		
- <i>Hong Kong</i>	2,066	2,003
- <i>Macau</i>	986	970
Number of brokers and non-tied agents	516	502
Number of bancassurance partners	5	5

## **Financial strength and solvency margin**

During the period ended 30 June 2020, our insurance business has strictly adhered to the regulatory minimum capital requirement as determined at the relevant time in accordance with the IO and maintain sufficient available capital for operation purpose.

## **Other financial service business**

### **Brokerage Business**

During the Period, the turnover of brokerage business amounted to HK\$8,926.8 million (Prior Period: HK\$4,228.7 million), representing an increase of 111%. Through striving to expand, transform and promote vitality in various aspects such as financing, customer experience and operation support in private placement bonds and IPO financing business, it has driven overall brokerage business growth. We will continue to enhance customer experience by improving the development of infrastructure including system implementation, business procedures and financing, comply with laws and regulations and maintain the stability of existing business.

### **Employee Stock Ownership Plan Administration**

During the Period, the business volume, revenue from service fees and related commission income of the employee stock ownership plan (the “ESOP”) administration service division have remained stable. The team continued to assist a number of corporate clients to complete the implementation of the employee stock ownership plans and enhance the quality of ESOP administration system and securities trading mobile application to satisfy our customers’ needs. The introduction of new online features provides business potential to attract and expand customers base. The team will also strive to further strengthen its efforts to provide an upgraded integrated plan administration system aiming to attract more corporate clients listed in Hong Kong and the United States. The ESOP administration service will continue to play a key role in the long-term development of the Group’s securities brokerage and wealth management businesses.

### **Financial Technology**

Regarding the financial technology business, fintech solutions promoted more in-depth co-sharing of all major market data targeted for institutions were launched to the market. The fintech division will continue to strive for breakthroughs and enhance its frontline products including those related to our insurance business segment. Looking forward, the fintech division will progressively establish a series of highly effective and compliant project management systems in its pursuit of reformation and innovation so as to consolidate the Group’s technology-led position in the financial sector.

## **Asset Management**

In the First Half of 2020, the Youyu Wealth platform focused on strengthening cooperation with PRC-based fund houses. By the end of the Period, the Youyu Wealth platform launched a variety of online public funds offered by several globally renowned fund houses. The Group will continue to focus on diversifying the fund product offerings across the platform, particularly the fund products offered by outstanding PRC fund managers. At the same time, the Group will continue to optimise the features, enhance competitive advantages and improve customer experience across the platform. Under the premise of effective risk management, the asset management division will introduce new asset management products as and when appropriate to provide better asset management and wealth management services with more choices for high-net-worth customers and institutional clients.

## **Prospect**

Faced with the challenges from the market and the economy, the Group will remain cautiously optimistic in the second half of 2020 and continue to assess the impact of COVID-19 on its operational and financial conditions. The Group will continue to provide customers with high-quality products and services through online channels. Through the combination of the existing fintech service and traditional insurance business, the Group endeavours to enhance the competitiveness of YF Life and other business segments during this atypical period with a view to generate growth to the integrated financial business of the Group and become a sustainable financial group.

## **Liquidity and financial resources**

As at 30 June 2020, the Group had fixed bank deposits with original maturity over 3 months and cash and cash equivalents amounting to HK\$3,218 million (31 December 2019: HK\$2,555 million). As at 30 June 2020, the Group has HK\$2,103 million (31 December 2019: HK\$1,499 million) bank borrowing outstanding and HK\$1,561 million (31 December 2019: HK\$1,561 million) shareholder's loan outstanding. The Group's gearing ratio was 18.86% (31 December 2019: 16.52%), which was measured as total debt excluding those operation related liabilities to total debt excluding those operation related liabilities plus equity.

## **Capital structure**

Details of movements in share capital of the Company during the Period are set out in the statement of changes in equity to the condensed consolidated interim financial statements.

## **Foreign exchange risk**

The Group has assets and liabilities denominated in currencies other than Hong Kong dollar and that are subject to fluctuation in foreign exchange amounts in the different currencies. The Group is exposed to currency risk arising from various currency exposures mainly to the extent of its investments and bank balances in multi currencies. Management of the Group monitors the foreign exchange exposure and will hedge significant foreign currency exposure should the need arise as set out in note 4 to the condensed consolidated interim financial statements.



## **Material acquisitions and disposals of subsidiaries and associates**

The Group did not have any material acquisitions or disposals of subsidiaries and associates during the Period.

## **Charge on assets**

At the end of the Period, the Group did not have any charges on assets, other than a security deposit of HK\$300,000 (31 December 2019: HK\$300,000) for banking facilities, HK\$6,153,586,000 of investments together with HK\$309,648,000 of fixed bank deposit (31 December 2019: HK\$5,609,487,000 of investments together with HK\$269,250,000 of fixed bank deposits) in favour of Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.

## **Commitments**

Details of commitments are set out in note 29 to the condensed consolidated interim financial statements.

## **Contingent liabilities**

The Group did not have any significant contingent liabilities as at 30 June 2020 and 31 December 2019.

## **Staffing and remuneration**

As at 30 June 2020, the Group employed 669 (31 December 2019: 654) full-time employees mainly located in Hong Kong, Macau and the People's Republic of China and stringently abided by the relevant labour laws and regulations. To foster a motivated and skilled working team, the Group provides on-the-job training and competitive remuneration packages including salaries and discretionary bonuses for employees.

The remuneration policy and package, including the share options and share awards (if any), of the Group's employees are maintained at market level and are reviewed annually by the management. There have been no significant changes in the employment, training or development policies of the Group since the publication of the annual report for the year ended 31 December 2019.

## **Dividend**

The board did not declare the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

## **Events after reporting period**

Details of events after reporting period are set out in note 34 to the condensed consolidated interim financial statements.

## Embedded Value

### 1. **Background**

The Group mainly consists of two major segments including life insurance business and other financial services in the areas of investment holding, asset management, pensions, other businesses and corporate services. Life insurance business is operated by YF Life, a 69.8% owned subsidiary, which is the most significant part of the Group in terms of total asset and profitability. To provide additional information of the insurance business of the Group, the Group disclosed the Embedded Value (“EV”) of the segment.

### 2. **Basis of preparation**

We adopted a traditional deterministic discounted cash flow methodology to determine the components of Embedded Value and the New Business Value. This methodology makes implicit allowance for the time value of options and guarantees and other risks associated with the realisation of the expected future distributable earnings through the use of a risk adjusted discount rate and is consistent with the industry practice in the market.

The Group has appointed PricewaterhouseCoopers (“PwC”), an international firm of consulting actuaries, to examine whether the methodology and assumptions used by us in the preparation of the Embedded Value as at 30 June 2020 are consistent with standards generally adopted by insurance companies in Hong Kong and the preparation basis adopted for the Embedded Value as at 31 December 2019.

### 3. **Cautionary statement**

The calculations of Embedded Value and the New Business Value of insurance business segment are based on certain assumptions with respect to future experience. Thus, the actual results could differ significantly from what is envisioned when these calculations were made. In addition, the insurance business segment is held through a 69.8% owned subsidiary of the Group. With the Embedded Value and the New Business Value of the insurance business being presented on a 100% basis below, the related value assessment should be considered accordingly.

#### 4. Embedded value of YF Life

##### 4.1 Embedded value

	<i>As at 30 June 2020 HK\$ million</i>	<i>As at 31 December 2019 HK\$ million</i>
Adjusted Net Worth	4,154	5,989
Value of in-force business before cost of capital	13,539	12,386
Cost of capital	<u>(2,155)</u>	<u>(2,024)</u>
Embedded value	<u>15,538</u>	<u>16,351</u>
Attributable to:		
Owners of the Company	10,845	11,413
Non-controlling interests	<u>4,693</u>	<u>4,938</u>
Embedded value	<u>15,538</u>	<u>16,351</u>

##### 4.2 New business value

	<i>For the past 6 months as of 30 June 2020 HK\$ million</i>	<i>For the past 6 months as of 30 June 2019 HK\$ million</i>
New Business Value after cost of capital	<u>218</u>	<u>226</u>

## Other Information

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 June 2020, the interests and short positions of each director of Yunfeng Financial Group Limited (the "Company") (the "Director") and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, or known to the Company, were as follows:

#### Long positions in the ordinary shares of the Company ("Shares") and the underlying Shares:

Name of Director	Capacity/Nature of interests	Number of Shares held	
		Long position	Percentage of shareholding
Mr. Yu Feng ( <i>note</i> )	Held by controlled corporation/Corporate interest	1,342,976,000	41.66%

#### Note:

Mr. Yu Feng, Chairman of the Group and non-executive Director, was interested in 1,342,976,000 Shares through Jade Passion Limited ("Jade Passion"), a company which is owned as to 73.21% of its issued share capital by Key Imagination Limited ("Key Imagination"). 91% of the issued share capital of Key Imagination is owned by Yunfeng Financial Holdings Limited ("YFHL"), the issued share capital of which in turn, is owned as to 70.15% by Mr. Yu Feng.

**Long positions in the shares and the underlying shares of associated corporations:**

Name of Associated Corporation	Name of Director	Capacity/ Nature of Interests	Number of Shares held in Associated Corporation	
			Long position	Percentage of shareholding
Yunfeng Financial Holdings Limited	Mr. Yu Feng	Beneficial owner/Beneficial interest	94	70.15%
Key Imagination Limited	Mr. Yu Feng (Note 1)	Held by controlled corporation/Corporate interest	9,100	91%
	Mr. Huang Xin (Note 2)	Held by controlled corporation/Corporate interest	900	9%
Jade Passion Limited	Mr. Yu Feng (Note 1)	Held by controlled corporation/Corporate interest	7,321	73.21%

*Notes:*

- (1) Mr. Yu Feng, Chairman of the Group and non-executive Director, was interested in 9,100 shares, representing 91% of equity interest in Key Imagination through YFHL, the substantial shareholder of the Company. Mr. Yu Feng was also interested in 7,321 shares, representing 73.21% of equity interest in Jade Passion through Key Imagination. Both Key Imagination and Jade Passion are substantial shareholders of the Company.
- (2) Mr. Huang Xin, an executive Director, is the sole shareholder of Perfect Merit Limited which owns 900 shares, representing 9% of the equity interest in Key Imagination.

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executive of the Company and/or any of their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company.

## **LONG-TERM INCENTIVE SCHEMES**

The Company has adopted the share option scheme and share award schemes to recognise the contributions of certain employees or Directors and help to retain them for the Group's operations and further development.

### **Share Option Scheme**

The share option scheme (the "Share Option Scheme") was adopted by the Company on 21 July 2011 with a useful life of ten years from the date of adoption. Summary of the Share Option Scheme is set out in the 2019 annual report.

During the six months ended 30 June 2020, no share options were granted and as at 30 June 2020, no share options were outstanding.

### **Share Award Schemes**

The Board had approved the adoption of two share award schemes respectively on 30 October 2014 (the "2014 Share Award Scheme") and on 12 December 2016 (the "2016 Share Award Scheme").

The maximum number of shares that can be issued or purchased under the 2016 Share Award Scheme and the 2014 Share Award Scheme is 10% of the Shares in issue from time to time (i.e. 322,332,639 Shares, representing 10% of total issued Shares as at the date of this announcement).

#### **2014 Share Award Scheme**

Since the date of adoption of 2014 Share Award Scheme (i.e. 30 October 2014) (the "2014 Adoption Date") and up to the date of this announcement, a total of 9,330,239 Shares have been awarded under the 2014 Share Award Scheme, representing about 2.09% of the total number of Shares in issue as at the 2014 Adoption Date and about 0.29% of the total issued Shares as at the date of this announcement.

During the six months ended 30 June 2020, no Shares had been awarded under the 2014 Share Award Scheme and as at 30 June 2020, 26,667 Shares were held by the trustee under the 2014 Share Award Scheme. There was no movement in the number of shares awarded under the 2014 Share Award Scheme during the Period.

#### **2016 Share Award Scheme**

Since the date of adoption of 2016 Share Award Scheme (i.e. 12 December 2016) (the "2016 Adoption Date") and up to the date of this announcement, 9,330,239 Shares have been awarded pursuant to the 2014 Share Award Scheme while 43,040,000 Shares have been awarded pursuant to the 2016 Share Award Scheme, representing in aggregate about 2.18% of the total number of Shares in issue as at the 2016 Adoption Date and about 1.62% of the total issued shares as at the date of this announcement.

During the six months ended 30 June 2020, no Shares had been awarded under the 2016 Share Award Scheme. As at 30 June 2020, 15,395,000 Shares were held by the trustee under the 2016 Share Award Scheme. Details of movements in the number of shares awarded under the 2016 Share Award Scheme are disclosed in note 27 to the condensed consolidated interim financial statements.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in this announcement, at no time during the six months ended 30 June 2020 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors (including their respective spouses and children under the age of 18) to acquire benefits by means of the acquisition of the shares or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 30 June 2020, the Company had been notified of the following substantial shareholders' and other persons' interests, being 5% or more of the Company's issued shares that are recorded in the register under Section 336 of the SFO.

Name of Substantial Shareholder	Capacity/ Nature of interests	Number of Shares held	
		Long position	Percentage of shareholding
Mr. Yu Feng ( <i>Note 1</i> )	Held by controlled corporation/Corporate interest	1,342,976,000	41.66%
Yunfeng Financial Holdings Limited ( <i>Note 1</i> )	Held by controlled corporation/Corporate interest	1,342,976,000	41.66%
Key Imagination Limited ( <i>Note 1</i> )	Held by controlled corporation/Corporate interest	1,342,976,000	41.66%
Jade Passion Limited ( <i>Note 1</i> )	Beneficial owner/Beneficial interest	1,342,976,000	41.66%
Massachusetts Mutual Life Insurance Company ( <i>Note 2</i> )	Held by controlled corporation/Corporate interest	800,000,000	24.82%
MassMutual International LLC ( <i>Note 2</i> )	Beneficial owner/Beneficial interest	800,000,000	24.82%
Ms. Lian Yi ( <i>Note 3</i> )	Held by controlled corporation/Corporate interest	167,872,000	5.21%
Clear Expert Limited ( <i>Note 3</i> )	Held by controlled corporation/Corporate interest	167,872,000	5.21%
Violet Passion Holdings Limited ( <i>Note 3</i> )	Beneficial owner/Beneficial interest	167,872,000	5.21%

*Notes:*

- (1) Mr. Yu Feng, Chairman of the Group and a non-executive Director, was interested in 1,342,976,000 Shares through Jade Passion, a company which is owned as to 73.21% of its issued share capital by Key Imagination. 91% of the issued share capital of Key Imagination is owned by YFHL, the issued share capital of which in turn, is owned as to 70.15% by Mr. Yu Feng.
- (2) Massachusetts Mutual Life Insurance Company was interested in 800,000,000 Shares through its 100% controlled corporation "MassMutual International LLC".
- (3) Ms. Lian Yi was interested in 167,872,000 Shares through Violet Passion Holdings Limited, a wholly-owned subsidiary of Clear Expert Limited, which in turn is a company wholly-owned by Ms. Lian Yi.

Save as disclosed above, as at 30 June 2020, there were no other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under divisions 2 and 3 of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

#### **PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY**

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

#### **CORPORATE GOVERNANCE**

During the six months ended 30 June 2020, the Company has complied with the applicable code provisions of the Corporate Governance Code (the “CG Code”), as set out in Appendix 14 to the Listing Rules, except for a deviation which is summarised below:

##### Code Provision A.4.1

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from this provision because the non-executive Directors and independent non-executive Directors do not currently have specific terms of appointment. However, the articles of association of the Company states that one-third of the Directors for the time being or, if the number is not a multiple of three, then, the number nearest to but not less than one-third, shall retire from office by rotation, provided that every Directors shall be subject to retirement by rotation at least once every three years at each annual general meeting, and offer themselves for re-election. As such, the Board considers that sufficient measures have been put in place to ensure the Company’s corporate governance practice in this aspect provides sufficient protection for the interests of Shareholders to a standard commensurate with that of the CG Code.



## **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS**

The Company has adopted the code of conduct regarding director's securities transactions with terms no less exacting than the required standard set out in the Model Code. Following specific enquiry by the Company, all the Directors have confirmed that they have complied with the required standards as stated in the Model Code throughout the six months ended 30 June 2020.

## **AUDIT COMMITTEE**

The audit committee of the Company is chaired by Mr. Chu Chung Yue, Howard, with members of Mr. Qi Daqing and Mr. Xiao Feng. The audit committee of the Company has adopted the terms of reference which are in line with the CG Code.

This unaudited condensed consolidated interim financial results and report of the Group for the six months ended 30 June 2020 have been reviewed by the audit committee of the Company.

## **CHANGES OF DIRECTORS' INFORMATION**

The Change of directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Mr. Michael James O'Connor was appointed as a manager of MassMutual International LLC, a substantial shareholder of the Company with effect from August 4, 2020.

Save as disclosed above, the Company is not aware of other changes in the directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## Condensed consolidated income statement for the six months ended 30 June 2020 (Expressed in Hong Kong dollars)

	<i>Six months ended 30 June</i>	
<i>Note</i>	<i>2020</i>	<i>2019</i>
	(Unaudited)	(Unaudited)
		(Restated)
		(Note)
	HK\$'000	HK\$'000
<b>Income</b>		
Premiums and fee income	2,852,246	2,381,792
Premiums ceded to reinsurer	<u>(617,522)</u>	<u>(323,445)</u>
Net premium and fee income	2,234,724	2,058,347
Change in unearned revenue liability	<u>(318,291)</u>	<u>(377,534)</u>
Net earned premium and fee income	1,916,433	1,680,813
Brokerage commission, interest and other service income	11,348	4,126
Subscription, management and rebate fee income	2,147	5,837
Consultancy and advisory income	-	687
Net investment income	5(a) 441,512	1,755,726
Overlay adjustment	239,075	(101,838)
Other income	5(b) 464,652	159,554
Reinsurance commission and profit	<u>20,599</u>	<u>15,592</u>
Total income	<u>3,095,766</u>	<u>3,520,497</u>

## Condensed consolidated income statement for the six months ended 30 June 2020 (continued)

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) (Restated) (Note) HK\$'000
<b>Benefits, losses and expenses</b>			
Net policyholders benefit	6	(833,106)	(1,760,475)
Commission and related expenses		(560,216)	(533,641)
Deferral and amortisation of deferred acquisition costs and value of business acquired		326,070	432,370
Management and other expenses		(431,416)	(468,807)
Change in future policyholder benefits		<u>(1,243,440)</u>	<u>(905,834)</u>
Total benefits, losses and expenses		<u>(2,742,108)</u>	<u>(3,236,387)</u>
Finance cost		(88,553)	(46,988)
Share of result in an associate		<u>(1,567)</u>	<u>(1,114)</u>
Profit before taxation	7	263,538	236,008
Tax (expenses)/credit	8	<u>(1,383)</u>	<u>809</u>
Profit after taxation		<u>262,155</u>	<u>236,817</u>
Profit for the period attributable to:			
– Equity shareholders of the Company		109,181	97,365
– Non-controlling interests		<u>152,974</u>	<u>139,452</u>
		<u>262,155</u>	<u>236,817</u>
<b>Earnings per share attributable to equity shareholders of the Company</b>			
Basic (HK\$)	9	0.03	0.03
Diluted (HK\$)	9	<u>0.03</u>	<u>0.03</u>

Note: The comparative information in respect of the period ended 30 June 2019 has been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 2(b)(i).

The accompanying notes form an integral part of this condensed consolidated interim financial statements.

Condensed consolidated statement of  
comprehensive income  
for the six months ended 30 June 2020  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) (Restated) (Note) HK\$'000
<b>Profit for the period after taxation</b>		262,155	236,817
<b>Other comprehensive income for the period</b>			
Item that will not be reclassified subsequently to profit or loss:			
Equity investment at fair value through other comprehensive income-net movement in fair value reserve (non- recycling)		(435)	3,044
Items that may be reclassified subsequently to profit or loss:			
Net movement in the fair value reserve during the period recognised in other comprehensive income		370,563	867,722
Financial asset at fair value through profit or loss under overlay adjustment		(239,075)	101,838
Exchange differences arising on translation of results of foreign operations		(5,177)	(2,244)
Unrealised loss related to amortisation of deferred acquisition costs		(206,818)	(778,830)
Unrealised gain related to amortisation of unearned revenue liability — Insurance contract provisions		111,151	353,290
Unrealised gain related to amortisation of unearned revenue liability — Investment contract liabilities		14,225	47,936
		44,434	592,756
<b>Total comprehensive income for the period</b>		<b>306,589</b>	<b>829,573</b>

Condensed consolidated statement of  
comprehensive income  
for the six months ended 30 June 2020 (continued)  
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited) (Restated) (Note)
	HK\$'000	HK\$'000
<b>Total comprehensive income for the period attributable to:</b>		
– Equity shareholders of the Company	138,502	453,339
– Non-controlling interests	168,087	376,234
	<u>306,589</u>	<u>829,573</u>

Note: The comparative information in respect of the period ended 30 June 2019 has been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 2(b)(i).

The accompanying notes form an integral part of this condensed consolidated interim financial statements.

## Condensed consolidated statement of financial position at 30 June 2020

(Expressed in Hong Kong dollars)

	Note	At 30 June 2020 (Unaudited)  HK\$'000	At 31 December 2019 (Audited)  HK\$'000
<b>Assets</b>			
Property and equipment	12	516,998	495,328
Statutory deposits		3,775	3,243
Deferred tax asset		142	44
Investments in associates		25,952	27,860
Goodwill and intangible assets	13	1,920,036	1,923,360
Value of business acquired	13	9,818,024	10,057,446
Deferred acquisition costs		1,487,654	1,128,980
Investments	14	57,240,292	54,822,243
Advance reinsurance premiums		1,743,460	1,455,458
Reinsurers' share of outstanding claims		58,957	48,349
Insurance and reinsurance receivables	15	1,748,234	1,579,543
Other accounts receivable and accrued income	16	179,617	124,446
Other receivables, deposits and prepayment	17	707,211	627,511
Bank balance - trust and segregated accounts	18	488,465	478,465
Fixed bank deposits with original maturity over 3 months	18	834,958	385,417
Cash and cash equivalents	18	2,382,967	2,169,751
		<u>79,156,742</u>	<u>75,327,444</u>

## Condensed consolidated statement of financial position at 30 June 2020 (continued)

(Expressed in Hong Kong dollars)

	Note	At 30 June 2020 (Unaudited)  HK\$'000	At 31 December 2019 (Audited)  HK\$'000
<b>Liabilities</b>			
Insurance contract provisions	19	48,707,163	46,455,874
Investment contract liabilities	20	4,466,010	4,364,600
Outstanding claims		184,476	161,913
Reinsurance premium payables		543,349	529,562
Other accounts payable	21	618,649	578,545
Other payables and accrued expense	22	3,040,302	2,436,967
Tax payable		23,224	52,086
Financial liabilities at fair value through profit or loss	23	612,595	630,569
Lease liabilities		292,340	326,584
Deferred tax liabilities		1,244,546	1,267,384
Bank borrowings	24	2,102,656	1,498,758
Shareholder's loan	25	1,561,444	1,561,444
		63,396,754	59,864,286
		15,759,988	15,463,158
<b>NET ASSETS</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	26	9,829,094	9,829,094
Reserves		402,347	273,604
		10,231,441	10,102,698
Non-controlling interests		5,528,547	5,360,460
		15,759,988	15,463,158
		15,759,988	15,463,158

The accompanying notes form an integral part of this condensed consolidated interim financial statements.

## Condensed consolidated statement of changes in equity for the six months ended 30 June 2020

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company									Non-controlling interests HK\$'000	Total HK\$'000	
	Share capital HK\$'000	Shares held by share award scheme HK\$'000	Share-based payment reserve HK\$'000	Asset revaluation reserve HK\$'000	Fair value reserve (recycling) HK\$'000	Fair value reserve (non-recycling) HK\$'000	Exchange reserve HK\$'000	Statutory and capital reserve HK\$'000	Accumulated loss HK\$'000			Sub-total HK\$'000
<b>Balance at 31 December 2018 (Restated)</b>	9,829,094	(83,230)	28,033	2,650	33,791	(4,456)	(6,486)	65,883	(629,887)	9,235,392	6,118,634	15,354,026
First adoption of HKFRS 16	-	-	-	-	-	-	-	-	(6,580)	(6,580)	(4,387)	(10,967)
<b>Adjusted balance at 1 January 2019 (Restated)</b>	9,829,094	(83,230)	28,033	2,650	33,791	(4,456)	(6,486)	65,883	(636,467)	9,228,812	6,114,247	15,343,059
<b>Changes in equity for the six months ended 30 June 2019:</b>												
Capital contribution to a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	-	-	328,000	328,000
Equity settled share-based transactions	-	-	(3,743)	-	-	-	-	-	-	(3,743)	-	(3,743)
Profit for the period (Restated)	-	-	-	-	-	-	-	-	97,365	97,365	139,452	236,817
Other comprehensive income for the period	-	-	-	-	355,174	3,044	(2,244)	-	-	355,974	236,782	592,756
Appropriation to statutory and capital reserve	-	-	-	-	-	-	-	200	(200)	-	-	-
<b>Balance at 30 June 2019 and 1 July 2019</b>	9,829,094	(83,230)	24,290	2,650	388,965	(1,412)	(8,730)	66,083	(539,302)	9,678,408	6,818,481	16,496,889
<b>Changes in equity for the six months ended 31 December 2019:</b>												
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	178,043	178,043	(1,739,487)	(1,561,444)
Equity settled share-based transactions	-	-	(2,798)	-	-	-	-	-	-	(2,798)	-	(2,798)
Profit/(loss) for the period	-	-	-	-	-	-	-	-	158,254	158,254	219,679	377,933
Other comprehensive income for the period	-	-	-	-	92,679	1,040	(2,928)	-	-	90,791	61,787	152,578
Retirement of revalued assets	-	-	-	(1,112)	-	-	-	-	1,112	-	-	-
Appropriation to statutory and capital reserve	-	-	-	-	-	-	-	382	(382)	-	-	-
<b>Balance at 31 December 2019 And 1 January 2020</b>	9,829,094	(83,230)	21,492	1,538	481,644	(372)	(11,658)	66,465	(202,275)	10,102,698	5,360,460	15,463,158
<b>Changes in equity for the six months ended 30 June 2020:</b>												
Equity settled share-based transactions	-	-	(9,759)	-	-	-	-	-	-	(9,759)	-	(9,759)
Profit for the period	-	-	-	-	-	-	-	-	109,181	109,181	152,974	262,155
Other comprehensive income for the period	-	-	-	-	34,933	(435)	(5,177)	-	-	29,321	15,113	44,434
Appropriation to statutory and capital reserve	-	-	-	-	-	-	-	202	(202)	-	-	-
<b>Balance at 30 June 2020</b>	9,829,094	(83,230)	11,733	1,538	516,577	(807)	(16,835)	66,667	(93,296)	10,231,441	5,528,547	15,759,988

Note: the comparative information in respect of 31 December 2018 and 1 January 2019 have been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 2(b)(i).

The accompanying notes form an integral part of this condensed consolidated interim financial statements.



## Condensed consolidated statement of cash flows for the six months ended 30 June 2020

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
<b>Net cash generated from operating activities</b>	1,575,178	786,359
Purchases of investments	(7,635,994)	(8,351,624)
Proceeds from disposal of investments	4,912,584	3,457,838
Fixed bank deposits with original maturity over 3 months	(449,541)	-
Other investing activities	(53,743)	18,272
<b>Net cash used in investing activities</b>	(3,226,694)	(4,875,514)
Bank loan drawdown	600,000	600,000
Capital injection from non-controlling interest to a subsidiary	-	328,000
Policyholders' account deposits	2,189,563	2,366,545
Policyholders' account withdrawals	(825,364)	(765,482)
Other financing activities	(99,063)	(6,351)
<b>Net cash generated from financing activities</b>	1,865,136	2,522,712
<b>Net increase/(decrease) in cash and cash equivalents</b>	213,620	(1,566,443)
Cash and cash equivalents at 1 January	2,169,751	5,184,229
Effect of foreign exchange rate changes	(404)	1,069
<b>Cash and cash equivalents at 30 June</b>	<u>2,382,967</u>	<u>3,618,855</u>

The accompanying notes form an integral part of this condensed consolidated interim financial statements.

# Notes to the condensed consolidated interim financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 General information

Yunfeng Financial Group Limited (the “Company”) is a limited liability company incorporated in Hong Kong, the shares of which are listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is Suites 3201-3204, One Exchange Square, 8 Connaught Place, Central, Hong Kong. The condensed consolidated interim financial statements for the period ended 30 June 2020 comprises the Company and its subsidiaries (collectively the “Group”) and the Group’s interest in associates and a joint venture.

The condensed consolidated interim financial statements is unaudited, but has been reviewed by the Company’s audit committee and the Company’s independent auditor, KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This condensed consolidated interim financial statements has been approved for issuance by the Board on 27 August 2020.

The financial information relating to the financial year ended 31 December 2019 that is included in the condensed consolidated interim financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

## 2 Basis of preparation

### (a) Statement of compliance

The condensed consolidated interim financial statements for the six months ended 30 June 2020 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the HKICPA. The condensed consolidated interim financial statements should be read in conjunction with the Group’s audited consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

**(b) Basis of preparation of the financial statements**

- (i) Restatement of prior year's financial statements as a result of finalised purchase price allocation of prior year acquisition

During the year ended 31 December 2018, the Company acquired 60% of the issued share capital of YF Life Insurance International Limited and its subsidiaries ("the Acquired Group") of which the valuations were not completed and the respective fair values of the identifiable net assets acquired and liabilities assumed and goodwill were determined provisionally. During the year ended 31 December 2019, the Group made certain fair value adjustments, with reference to the finalised valuation, to the carrying amounts of the identifiable assets and liabilities of the Acquired Group as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable net assets and liabilities assumed were made as if initial accounting had been completed on the acquisition date. The condensed consolidated income statement, condensed consolidated statement of comprehensive income for the period ended 30 June 2019 restated.

Restated condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period end 30 June 2019

	<i>As originally stated</i> HK\$'000	<i>Adjustments</i> HK\$'000	<i>As restated</i> HK\$'000
Profit after taxation	211,211	25,606	236,817
Total comprehensive income for the year	360,474	469,099	829,573

Details of the financial line items as restated in the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period ended 30 June 2019 include the following:

	<i>As originally stated</i> HK\$'000	<i>Adjustments</i> HK\$'000	<i>As restated</i> HK\$'000
Change in unearned revenue liability	(331,606)	(45,928)	(377,534)
Deferral and amortization of deferred acquisition costs and value of business acquired	352,697	79,673	432,370
Change in future policyholder benefits	(897,632)	(8,202)	(905,834)
Tax credit	746	63	809

**(c) Basis of measurement**

The measurement basis used in the preparation of the condensed consolidated interim financial statements is the historical cost basis except that investments in certain debt and equity securities and derivative financial instruments are stated at their fair values.

The condensed consolidated interim financial statements is presented in Hong Kong dollars (“HKD”), and all values are stated to the nearest thousand (HK\$’000s), unless otherwise stated.

**(d) Use of estimates and judgements**

The preparation of condensed consolidated interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**(e) Determination of consolidation scope**

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns.

An investor's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g. a change in the investee's returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed above or changes the overall relationship between a principal and an agent.

At the end of each reporting period, the Group assesses the variable returns arising from other equities and uses plenty of judgements, in combination with historical exposure to variable returns, to determine the consolidation scope.

**(f) Classification and Fair value of derivative and financial instruments**

Under HKFRS 9, classification of financial instruments depends on the contractual cashflow characteristics (the Solely Payment of Principal and Interest ("SPPI") criteria) and driven by the business model of the entity. A financial asset that does not meet the SPPI criterion is always measured at fair value through profit or loss ("FVPL"), unless it is an equity instrument for which an entity applies the election to measure at fair value through other comprehensive income ("FVOCI"). Management judgement is involved throughout the assessment.

The Group selects appropriate valuation techniques for financial instruments which are classified as level 2 and 3 investments in accordance with the Group's significant accounting policies. Note 4 provides detailed information about the key assumptions used in the determination of the fair value of material financial instruments.

**(g) Expected credit loss estimation**

The Group selects appropriate methodology and assumptions in accordance with the Group's significant accounting policies.

### 3 Significant accounting policies

The accounting policies applied in preparing the condensed consolidated interim financial statements are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2019, as disclosed in the annual report and financial statements for the year ended 31 December 2019.

### 4 Insurance and financial risk management

#### (a) *Risk management objectives and policies for mitigating insurance and financial risk*

The Group operates in a business environment which is subject to various risks and uncertainties. Such risks and uncertainties can be classified into two categories, insurance risks and financial risks.

##### (i) Insurance risks

The Group manages insurance risks through prudent pricing guidelines, reinsurance and underwriting management and monitoring internal and external emerging trends and issues.

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write in order to ensure appropriate risk selection within the portfolio. Adherence to the underwriting authorities is monitored through a scheduled underwriting audit. In addition, the Group has an Underwriting Committee to establish policies and procedures to supervise and assess the insurance risks and to periodically review and monitor the overall underwriting management process. The Group also has a Claims Settlement Committee to establish policies and procedures to supervise the claims settlement policy. The committee monitors the adequacy of the Group's reserves for the settlement of claims, reviews significant claims or major events, and investigates any fraudulent claims.

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses to avoid the risk of concentration and to protect capital resources. Such transfers of risks do not relieve the group of its primary liability and, as such, failure of reinsurers to honour their obligations could result in losses. The Group reduces this risk by evaluating the financial condition of reinsurers and monitoring for possible concentrations of credit risk. The Group has a Reinsurance Committee to establish policies and procedures to properly and regularly supervise and review proposed and existing reinsurance activities covering ceded risks to reinsurers. The committee also periodically reviews and monitors the financial stability of reinsurers.

(ii) Financial risks

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. These risks are limited by the Group's financial management policies and practices described below.

(1) Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- amounts due from issuers of debt securities;
- bank balances;
- insurance and reinsurance receivables;
- commercial and residential mortgage loans;
- other unsecured receivables; and
- derivative financial instruments.

The Group manages its financial assets to limit credit risk by diversifying its portfolio among various security types and industry sectors. The Group has an Investment Committee to supervise and control investments and related financial matters. Investment policies and guidelines have to be approved by the committee. In addition, the committee periodically reviews investment strategies and investment performance.

At 30 June 2020, 0.10% (2019: 0.11%) of the Group's debt securities represented investments in asset-backed and mortgage-backed securities in the United States of America and People's Republic of China ("the PRC") which are exposed to sub-prime credit risks. The Group does not originate any residential mortgages but invests in residential mortgage loan pools which may contain mortgages of subprime credit quality. Residential mortgage loan pools are pools of homogeneous residential mortgage loans substantially backed by Federal Housing Administration and Veterans Administration guarantees.

In respect of bank balances, all of them are due from authorised institutions in Hong Kong, Macau, the PRC, the United Kingdom and the United States of America. Management periodically reviews the credit ratings of these authorised institutions.

With respect to the recoveries due from reinsurers, the Group is exposed to the credit risk that the amounts due under a reinsurance contract may not be paid. In respect of loans to policyholders, direct premium receivables and other loans to agents and staff, management monitors the repayment status on an ongoing basis. Other unsecured receivables mainly comprise accrued interest income on debt securities, where the credit risks are limited by the diversification of its investment portfolio as mentioned above.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

(2) *Liquidity risk*

The Group has to meet daily calls on its cash resources, notably from claims arising from its life insurance contracts. There is therefore a risk that cash will not be available to settle liabilities when due. The Group manages this risk by setting a minimum level of liquidity cash that will be available to cover claims maturities and surrenders.

(3) *Interest rate risk*

Interest rate risk is the potential for interest rates to change, which can cause fluctuations in the value of investments and in the amounts due to policyholders. To the extent that fluctuations in interest rates cause the duration of assets and liabilities to differ, the Group controls its exposure to this risk by, among other things, asset and liability matching techniques that account for the cash flow characteristics of the assets and liabilities.

(4) *Currency risk*

The Group's currency exchange risk is mainly related to certain policies that are not written in the United States dollars. However, most of the policies are denominated in the United States dollars. As the Group's investments are primarily made in the United States dollars, coupled with the fact that the Hong Kong dollars are pegged to the United States dollars, management does not believe that the currency risk is material. For investments made in non-United States dollars, the Group mitigates currency risk through the use of cross-currency swaps and forward contracts. Cross-currency swaps are used to minimize currency risk for certain non-United States dollar assets and liabilities through a prespecified exchange of interest and principal. Forward contracts are used to hedge movements in exchange rates.

(5) *Equity price risk*

The Group is exposed to equity price changes arising from equity investments classified as financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss held by the Group. Gains and losses arising from changes in the fair value of financial assets and financial liabilities at fair value through profit or loss are dealt with in condensed consolidated income statement.



The portfolio of unit trusts backing linked insurance contracts, which the Group carries on its condensed consolidated statement of financial position at fair value, has exposure to price risk. However, such price risk is fully borne by the policyholders as the benefits payable are linked to the price of the securities.

The portfolio of unit trusts backing non-linked insurance contracts, which the Group carries on its condensed consolidated statement of financial position at fair value, also has exposure to price risk. This risk is defined as the potential loss in market value resulting from an adverse change in prices.

For the other investment under fair value hierarchy level 2 and 3 that is either backing linked insurance contract and those that are not related to insurance contracts, their price risk impact on the Group's profit or total equity is further analysed under fair value measurement.

### **Fair value measurement**

#### **(1) Financial assets and liabilities measured at fair value**

##### *Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations:	Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
Level 2 valuations:	Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
Level 3 valuations:	Fair value measured using significant Unobservable inputs

The Group has established and maintained policies and guidelines that govern its valuation methodologies and their consistent application. These policies and guidelines address the use of inputs, price source hierarchies and provide controls around the valuation processes.

These controls include appropriate review and analysis of prices against market activity or indicators for reasonableness, approval of price source changes, price overrides, methodology changes and classification of fair value hierarchy levels. The valuation policies and guidelines are reviewed and updated as appropriate.

Annually, the Group conducts reviews of the primary pricing vendors to validate that the inputs used in that vendors' pricing process are deemed to be market observable as defined in the standard. While the Group was not provided access to proprietary models of the vendors, the reviews have included on-site walkthroughs of the pricing process, methodologies and control procedures for each asset class and level for which prices are provided. The review also included an examination of the underlying inputs and assumptions for a sample of individual securities across asset classes, credit rating levels and various durations, a process the Group continues to perform for each reporting period.

In addition, the pricing vendors have an established challenge process in place for all security valuations, which facilitates identification and resolution of prices that fall outside expected ranges. The Group believes that the prices received from the pricing vendors are representative of prices that would be received to sell the assets at the measurement date (exit prices) and are classified appropriately in the hierarchy.

The Group reviews the fair value hierarchy classification at each reporting period. Overall, reclassifications between levels occur when there are changes in the observability of inputs and market activity used in the valuation of a financial asset or liability. Such reclassifications are reported as transfers between levels at the beginning of the reporting period in which the changes occur. Given the types of assets classified as Level 1 (primarily equity securities and mutual fund investments), transfers between Level 1 and Level 2 measurement categories are expected to be infrequent. There were no such transfers during any period presented. Transfers into and out of Level 3 are summarized in the schedule of changes in Level 3 assets and liabilities.

The fair value of short-term debt instruments, maturity less than 30 days, is assumed to be equal to the book value. The Group generally uses unadjusted quotable market prices from independent brokers, when available, to determine the fair value of debt instruments with a maturity greater than 30 days.

*Yunfeng Financial Group Limited*  
*Interim Results Announcement for the Six Months Ended 30 June 2020*

	<i>Fair value measurements as at 30 June 2020 categorised into</i>			<i>Fair value measurements as at 31 December 2019 categorised into</i>		
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurement						
(Liabilities)/assets						
Financial assets at fair value through profit or loss:						
– Private credit and other trust product type funds	-	-	655,772	-	-	680,555
– Credit linked obligation note	-	-	-	-	-	26,813
– Listed equity	-	-	-	-	-	-
– Leveraged and structured note investment	-	2,426,385	10,450	-	2,531,873	12,559
– Unit trust	715,824	6,891,631	169,796	598,394	7,462,946	167,950
– Interest in a joint venture	-	-	92,293	-	-	100,273
– Insurance contract related partnership investment	-	-	1,621,947	-	-	1,569,168
– Mutual fund	-	257	-	160,936	272	-
Financial asset at fair value through other comprehensive income						
– Debt securities	-	13,559,824	4,565,416	-	11,590,267	4,450,348
– Perpetual capital measured at fair value	-	76,862	-	-	77,297	-
Financial liabilities designated at fair value through profit or loss						
– Preference share liability	-	-	(387,525)	-	-	(389,570)
– Third-party interests in consolidated funds	-	-	(225,070)	-	-	(240,999)
– Investment contract liabilities	-	(4,466,010)	-	-	(4,364,600)	-

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 except for those disclosed under the movement during the period in the balance of Level 3 fair value measurements. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

*Valuation techniques and inputs used in Level 2 and Level 3 fair value measurements for those insurance contract related assets and liabilities*

The Group determines the estimated fair value of its investments using primarily the market approach or the income approach. The use of quoted prices for identical assets and matrix pricing or other similar techniques are examples of market approaches, while the use of discounted cash flow methodologies is an example of the income approach. The Group attempts to maximise the use of observable inputs and minimise the use of unobservable inputs in selecting whether the market or the income approach is used.

The use of different assumptions or valuation methodologies may have a material impact on the estimated fair value amounts. For the periods presented, there were no significant changes to the Group's valuation techniques.

For level 2 debt securities, valuations are based primarily on quoted prices in markets that are not active, or using matrix pricing or other similar techniques using standard market observable inputs such as the benchmark U.S. Treasury yield curve, the spreads versus the U.S. Treasury curve for the identical security and comparable securities that are actively traded.

For level 2 corporate securities, valuations are based primarily on quoted prices in markets that are not active, broker quotes or using matrix pricing or other similar techniques that use standard market observable inputs such as benchmark yields, spreads versus benchmark yields, new issuances, issuer rating, duration, and trades of identical or comparable securities.

For level 2 unit trusts and equity securities, valuations are based on quoted market prices adjusted for certain factors, such as foreign market differential.

For level 2 derivative financial instrument, observable significant inputs to the valuation of derivative financial instruments include Overnight Indexed Swap and London InterBank Offered Rate basis curves, interest rate volatility, swap yield curve, currency spot rates, cross currency basis curves and dividend yield curves.

*Information about Level 3 fair value measurements*

	Valuation techniques HK\$'000	Significant unobservable inputs HK\$'000	Range		Weighted average HK\$'000
			Min HK\$'000	Max HK\$'000	
Financial assets:					
Financial asset at fair value through profit or loss under overlay adjustment					
– Partnership investment	Net asset value	Net asset value	NA	NA	NA
Financial asset at fair value through other comprehensive income:					
– Corporate securities	Matrix pricing and DCF	Credit spread	98BPS (2019: 66BPS)	958BPS (2019: 1,150BPS)	222BPS (2019: 146BPS)

A description of the sensitivity of the estimated fair value to changes in the significant unobservable inputs for the more significant Level 3 insurance contract related asset and liability classes is as follows:

*Partnership interest* - the fair value estimation is based on the net asset value attributable to the Group determined by the respective fund managers. If such net asset value attributable to the Group is not yet readily available, adjustments to the fair value of the funds are made based on the latest net asset value with adjustments based on subsequent contribution made and distribution received by the Group. As at 30 June 2020, it is estimated that with all other variables held constant, a decrease/increase in net asset value by 10% would have increased/decreased the Group's other comprehensive income by HK\$162,195,000 (31 December 2019: HK\$156,917,000) under the overlay approach.

*Corporate securities* - Internally-priced corporate securities classified in Level 3 include certain below investment grade watch list and distressed fixed maturity securities. For securities where discounted cash flows are used, the primary unobservable input is the internally-developed discount rate. Significant increases in the discount rate would result in a significantly lower fair value, with the opposite being true for decreases in the discount rate. In certain cases, the Group uses an estimated liquidation value of the borrower or underlying assets. The Group also applies market comparables, such as earnings before interest, taxes, depreciation and amortisation (EBITDA) multiples for certain securities. In isolation, an increase in the value of these inputs would result in an increase in fair value, with the opposite being true for decreases in the value of these inputs. As at 30 June 2020, it is estimated that with all other variables held constant, a decrease/increase in credit spread by 100 BPS would have increased/decreased the Group's other comprehensive income by HK\$291,825,000 (31 December 2019: HK\$106,738,000).

*Valuation techniques and inputs used in Level 2 and Level 3 fair value measurements for those non-insurance contract related assets and liabilities*

Level 2 perpetual capital investment is based on brokers quote for valuation purpose.

Information about Level 3 investment

Unlisted FVPL investment	Valuation technique	Significant unobservable inputs
Credit linked obligation note	Price quote	Price quote
Private credit funds and interest in a joint venture	Net asset value	Net asset value
Preference share liability	Discounted cashflow	Expected distribution from underlying fund investment per annum and net asset value of underlying fund investment
Third-party interests in consolidated funds	Net asset value	Net asset value

A description of the sensitivity of the estimated fair value to changes in the significant unobservable inputs for those non-insurance contract related level 3 asset and liability classes is as follows:

Fund investments - the fair value of private debt securities investment fund and interest in a joint venture holding is based on the net asset value attributable to the Group determined by the respective fund managers. If such net asset value attributable to the Group is not yet readily available, adjustments to the fair value of the funds are made based on the latest net asset value with adjustments based on subsequent contribution made and distribution received by the Group.

Credit-linked obligation note investment - the fair value is based on price quote provided by the arranger of the note.

Preference share liabilities and third parties interest in consolidated funds - the fair value of the financial liabilities are determined mainly based on the fair value of the fund investments and credit linked obligation as the principal investment of the consolidated funds and the effective interest of the third parties in those consolidated funds.

Change in the relevant equity price risk variable:	<u>30 June 2020</u>		<u>31 December 2019</u>	
	%	<i>Effect on profit after tax and retained profit</i> HK\$'000	%	<i>Effect on profit after tax and retained profit</i> HK\$'000
Trust type fund products				
Increase	5	1,139	5	1,153
Decrease	(5)	(1,139)	(5)	(1,153)
Joint controlled entity				
Increase	10	9,229	10	10,027
Decrease	(10)	(9,229)	(10)	(10,027)
Private credit funds				
Increase	10	62,539	10	64,980
Decrease	(10)	(62,539)	(10)	(64,980)
Credit linked note				
Increase	NA	-	10	2,681
Decrease	NA	-	(10)	(2,681)
Preference share liability				
Increase	10	-	10	-
Decrease	(10)	-	(10)	-
Third party interest in consolidated fund				
Increase	10	(21,263)	10	(22,916)
Decrease	(10)	21,263	(10)	22,916

The movement during the period in the balance of Level 3 fair value measurements is as follows:

**Financial assets at fair value through profit or loss**

	2020 HK\$'000	2019 HK\$'000
At 1 January	807,641	721,200
Capital injection/purchase	173,973	125,021
Net realised (loss) gain	(16,257)	4,636
Settlement on disposal	(40,635)	(83,299)
Exchange alignment	(3,596)	(1,473)
Fair value change of investment	(173,061)	12,799
	<u>748,065</u>	<u>778,884</u>
At 30 June	<u>748,065</u>	<u>778,884</u>

**Financial assets at fair value through other comprehensive income (debt securities)**

	2020 HK\$'000	2019 HK\$'000
At 1 January	4,450,348	3,626,407
Purchase	161,340	245,476
Settlements	(118,250)	(54,425)
Net realised loss to profit or loss	(135)	(278)
Net unrealised gain to other comprehensive income	72,113	253,304
	<u>4,565,416</u>	<u>4,070,484</u>
At 30 June	<u>4,565,416</u>	<u>4,070,484</u>



**Financial assets at fair value through profit or loss under overlay adjustments**

	2020 HK\$'000	2019 HK\$'000
At 1 January	1,749,677	1,403,208
Cost of investment purchased	152,572	185,724
Distribution received	(82,892)	(118,506)
Earnings reinvested	42,816	31,737
Net realised gain	216	930
Settlement	(4,528)	(3,802)
Net unrealised loss to other comprehensive income	(55,740)	(1,195)
Foreign exchange impact	72	(81)
Transfer into level 3	-	5,119
Transfer out of level 3	-	(12,796)
	<u>1,802,193</u>	<u>1,490,338</u>
At 30 June	<u>1,802,193</u>	<u>1,490,338</u>

**Financial liabilities at fair value through profit or loss**

	2020 HK\$'000	2019 HK\$'000
At 1 January	630,569	503,130
Share issued/contribution received	37,657	131,787
Distribution to third party investor	(1,519)	(10,670)
Fair value change	(54,112)	9,674
	<u>612,595</u>	<u>633,921</u>
At 30 June	<u>612,595</u>	<u>633,921</u>

(2) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2019 and 30 June 2020 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	<u>2020</u>		<i>Fair value measurements as at 30 June 2020 categorised into</i>		
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Debt securities	19,776,137	23,448,322	-	20,685,556	2,762,766
Mortgage loans	<u>6,677,698</u>	<u>7,005,034</u>	<u>-</u>	<u>-</u>	<u>7,005,034</u>

	<u>2019</u>		<i>Fair value measurements as at 31 December 2019 categorised into</i>		
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Debt securities	18,511,569	20,811,021	-	18,037,374	2,773,647
Mortgage loans	<u>6,881,023</u>	<u>7,240,918</u>	<u>-</u>	<u>-</u>	<u>7,240,918</u>

Mortgage loans - The fair value of mortgage loans is established using a discounted cash flow method based on credit rating, maturity and future income. The fair value for impaired mortgage loans is based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. A significant increase/(decrease) in the discount rate would result in a significant decrease/(increase) to the fair value.

## 5(a) Net investment income

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	HK\$'000	HK\$'000
Interest income from unlisted debt securities and mortgage loans	986,207	862,314
Bank and other interest income	9,261	22,036
Net realised gain on disposal of securities designated at fair value through profit or loss	65,221	107,699
Net unrealised (loss)/gain on financial asset and financial liabilities designated at fair value through profit or loss	(451,642)	687,265
Net realised gain (loss) on fair value through other comprehensive income and amortised cost debt securities	16,045	(5,160)
Impairment loss (made) reversal of amortised cost debt securities	(50,748)	11,778
Impairment loss of fair value through other comprehensive income debt securities	(95,125)	(40,447)
Dividend income	110,756	61,339
Net derivative gain/(loss)	90,612	(52,936)
Net unrealised (loss) /gain of fair value through profit or loss financial assets under overlay approach	<u>(239,075)</u>	<u>101,838</u>
	<u>441,512</u>	<u>1,755,726</u>

Total interest income on financial assets not at fair value through profit or loss amounted to HK\$986,271,000 for the period ended 30 June 2020 (for the period ended 30 June 2019: HK\$865,456,000).

## 5(b) Other income

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	HK\$'000	HK\$'000
Net gain on disposal of subsidiaries and deemed partial disposal of associates/consolidated funds	-	208
Trustee fee income	13,064	12,993
Income from modified coinsurance	398,651	124,995
Other income	<u>52,937</u>	<u>21,358</u>
	<u>464,652</u>	<u>159,554</u>

## 6 Net policyholders benefit

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	HK\$'000	HK\$'000
Net claims, policy benefits and surrenders	201,632	231,915
Interest credited to policyholders' deposits	598,736	1,525,940
Dividends to policyholders	32,738	2,620
	<u>833,106</u>	<u>1,760,475</u>

## 7 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	HK\$'000	HK\$'000
Staff costs	<u>223,008</u>	<u>237,340</u>

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	HK\$'000	HK\$'000 (Restated)
Other operating items		
Auditors' remuneration	4,945	5,779
Legal and professional costs	7,211	4,014
Lease payments - property rentals	2,460	5,715
Amortisation of value of business acquired	98,617	31,501
Amortisation of deferred acquisition cost	200,334	127,095
Depreciation and amortisation on property and equipment and other intangible assets	75,918	67,715
Impairment loss (reversal) on:		
– Other accounts receivable	(550)	24
Information, data and communication expenses	11,800	12,710
Net exchange (gain)/loss	<u>(4,206)</u>	<u>24,096</u>

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	HK\$'000	HK\$'000
<b>Finance costs</b>		
Bank loan interest	32,333	29,621
Lease liabilities	4,727	5,283
Preference share liability	11,583	11,425
Other interest expense	202	659
Shareholder's loan interest	39,708	-
	<u>88,553</u>	<u>46,988</u>

## 8 Income tax in the consolidated income statement

### (a) Taxation in the consolidated income statement represents:

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	HK\$'000	HK\$'000 (Restated)
<b>Current tax</b>		
<u>Hong Kong</u>		
Provision for the year	23,664	23,606
<u>Overseas</u>		
Provision for the year	554	263
Under-provision in respect of prior years	101	213
	<u>24,319</u>	<u>24,082</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(22,936)	(24,891)
	<u>1,383</u>	<u>(809)</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2019: 16.5%) to the six months ended 30 June 2020, except for one subsidiary of the group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2019.

Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

## **9 Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the period ended 30 June 2020 of HK\$109,181,000 (six months ended 30 June 2019 (restated): HK\$97,365,000), and the weighted average number of shares in issue during the period ended 30 June 2020 of 3,207,904,727 (30 June 2019: 3,207,904,727).

There were no potential dilutive ordinary shares for the six months ended 30 June 2020 therefore basic earnings per share equals to diluted earnings per share six months ended 30 June 2019: basic loss per share equals to diluted loss per share.

## **10 Dividend**

The Board did not declare the payment of an interim dividend in respect of six months ended 30 June 2020 (2019: Nil).

## **11 Segment reporting**

The operating segments have been determined based on the reports reviewed by the executive directors of the Company that are used for performance assessment and to make strategic decisions. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns different from those of other operating segments.

As disclosed in the 2019 annual report, the Group is largely dominated by the insurance business after the completion of the YF Life acquisition. As a result, management decided to streamline and regroup the operating segments. Insurance business is considered as an operating segment and other operating segments that existed prior to the acquisition are consolidated as other financial services and corporate to reflect the long term business development focus.

Consequently, the Group currently has two operating segments:

- (i) Insurance business — engage in the writing of long term insurance business
- (ii) Other financial services and corporate includes
  - a) Securities brokerage - engages in securities brokerage and provision of custodian and other services;
  - b) Asset management - provision of fund and asset management services as well as financing and investing solution for clients;
  - c) Consultancy and advisory services - provision of corporate advisory, placing and underwriting advisory services to clients;
  - d) Principal investment – utilise capital 1) to provide funding on developing financial products and the funds managed by wealth management team and 2) to improve returns on the Group’s capital and cash flow management based on treasury management model that may involve (but shall not be limited to) holding fixed income instruments, high quality equity instruments and other financial investments;
  - e) Financial technology – provision of technology business solution including system setup, upgrade and enhancement to clients; and
  - f) Corporate service includes central administrative and financing functions to support other operating segments.

The accounting policies of the reportable segments are the same as those followed by the Group in the last annual financial statements.

Segment revenue represents the revenue generated by each operating segment from external customers. Inter-segment revenue represents inter-segment services which were transacted with reference to the normal commercial price made to third parties at the then prevailing market prices.

Segment results represent specific operating performance of the reported segments by allocating all specific and related operating and finance costs, excluding other corporate, general administrative, and financial expenses, taxation and non-operating costs. This is the measure reported to the chief operating decision maker, at the relevant times, for the purposes of resource allocation and performance assessment.

**(a) Segment revenue and results**

**For the period ended 30 June 2020**

	<i>Insurance business</i> HK\$'000	<i>Other financial services and corporate</i> HK\$'000	<i>Total</i> HK\$'000
Premiums and fee income	2,852,246	-	2,852,246
Premiums ceded to reinsurer	(617,522)	-	(617,522)
Net premium and fee income	2,234,724	-	2,234,724
Change in unearned revenue liability	(318,291)	-	(318,291)
Brokerage commission, interest and other service income	-	11,348	11,348
Subscription, management and rebate fee income	-	2,147	2,147
Consultancy and advisory income	-	-	-
Revenue from external party	1,916,433	13,495	1,929,928
Inter-segment income	866	4,595	5,461
Reportable segment revenue	1,917,299	18,090	1,935,389
Allocated net investment income, other operating income and gains	1,257,897	(92,059)	1,165,838
Share of result of associates	-	(1,567)	(1,567)
Allocated operating costs	(2,664,056)	(79,850)	(2,743,906)
Allocated finance cost	(3,776)	(12,674)	(16,450)
Reportable segment profit/(loss)	507,364	(168,060)	339,304
Elimination of inter-segment profit			(1,200)
Reportable segment profit derived from Group's external customers			338,104
Unallocated legal and professional and other operating expenses			(2,462)
Unallocated finance cost			(72,104)
Taxation			(1,383)
Profit for the period			<u>262,155</u>
 As at 30 June 2020			
Reportable assets	74,934,064	2,483,701	77,417,765
Reportable liabilities	(58,364,048)	(5,088,011)	(63,452,059)
 As at 31 December 2019			
Reportable assets	71,464,563	2,100,893	73,565,456
Reportable liabilities	(55,422,342)	(4,446,476)	(59,868,818)



**For the period ended 30 June 2019**

	<i>Insurance business</i> HK\$'000 (Restated)	<i>Other financial services and corporate</i> HK\$'000	<i>Total</i> HK\$'000 (Restated)
Premiums and fee income	2,381,792	-	2,381,792
Premiums ceded to reinsurer	(323,445)	-	(323,445)
Net premium and fee income	2,058,347	-	2,058,347
Change in unearned revenue liability	(377,534)	-	(377,534)
Brokerage commission, interest and other service income	-	4,126	4,126
Subscription, management and rebate fee income	-	5,837	5,837
Consultancy and advisory income	-	687	687
Revenue from external party	1,680,813	10,650	1,691,463
Inter-segment income	907	2,014	2,921
Reportable segment revenue	1,681,720	12,664	1,694,384
Allocated net investment income, other operating income and gains	1,783,262	45,772	1,829,034
Share of result of associates	-	(1,114)	(1,114)
Allocated operating costs	(3,113,722)	(109,515)	(3,223,237)
Allocated finance cost	(3,916)	(13,446)	(17,362)
Reportable segment profit/(loss)	347,344	(65,639)	281,705
Elimination of inter-segment (loss)/profit			-
Reportable segment profit derived from Group's external customers			281,705
Unallocated legal and professional and other operating expenses			(45,697)
Taxation			809
Profit for the period			<u>236,817</u>

**(b) Geographical segment information**

The Group's customers, operation and administration are mainly located in Hong Kong and Macau. Research and development for financial technologies divisions are located in PRC.

**(c) Information about major customers**

No customer account for more than 10% of the total revenue of the Group for the period ended 30 June 2020.

**12 Property and equipment**

During the six months ended, 30 June 2020, the Group acquired approximately HK\$9 million of property and equipment and HK\$57.8 million of computer equipment.

**13 Goodwill and value of business acquired**

During 2019, the Group has completed the valuation of the value of business acquired ("VOBA") of the acquisition for YF Life in accordance with HKFRS 3. The adjustments to the fair values at the acquisition date of the goodwill and value of business acquired were made as if initial accounting had been completed on the acquisition date as set out in note 2(b)(i).

## 14 Investments

	<i>At fair value through other comprehensive income HK\$'000</i>	<i>At fair value through profit or loss HK\$'000</i>	<i>Amortised cost HK\$'000</i>	<i>Total HK\$'000</i>
<b>At 30 June 2020</b>				
Debt securities:				
– Unlisted	18,125,240	2,436,835	19,776,137	40,338,212
Mortgage loans	-	-	6,677,698	6,677,698
	<u>18,125,240</u>	<u>2,436,835</u>	<u>26,453,835</u>	<u>47,015,910</u>
Equity securities:				
– Unlisted	76,862	-	-	76,862
Fund Investment and others:				
– Unlisted (note (a))	-	2,370,269	-	2,370,269
Unit trusts:				
– Unlisted	-	7,777,251	-	7,777,251
<b>Total</b>	<u><u>18,202,102</u></u>	<u><u>12,584,355</u></u>	<u><u>26,453,835</u></u>	<u><u>57,240,292</u></u>

Yunfeng Financial Group Limited  
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<b>At 31 December 2019</b>	<i>At fair value through other comprehensive income</i> HK\$'000	<i>At fair value through profit or loss</i> HK\$'000	<i>Amortised cost</i> HK\$'000	<i>Total</i> HK\$'000
Debt securities:				
– Unlisted	16,040,615	2,571,245	18,511,569	37,123,429
Mortgage loans	-	-	6,881,023	6,881,023
	<u>16,040,615</u>	<u>2,571,245</u>	<u>25,392,592</u>	<u>44,004,452</u>
Equity securities:				
– Unlisted	77,297	-	-	77,297
Fund Investment and others:				
– Unlisted (note (a))	-	2,511,204	-	2,511,204
Unit trusts:				
– Unlisted	-	8,229,290	-	8,229,290
<b>Total</b>	<u><u>16,117,912</u></u>	<u><u>13,311,739</u></u>	<u><u>25,392,592</u></u>	<u><u>54,822,243</u></u>

Notes:

- (a) On 28 February 2018, the Group has entered a strategic fund management agreement with another well-established financial institution. By sharing the operating and financing decision making power through the agreement, the Group is no longer considered to be the principal of Majik Access USD Fund 2 LP. After the deconsolidation, the Group elects to measure its 34.04% investment holding in Majik Access USD Fund 2 LP held through a venture capital organisation, an indirect wholly owned subsidiary, at fair value through profit or loss as management measures the performance of this jointly controlled entity on a fair value basis and considered to be exempted from applying the equity method. The valuation process and fair value information for the joint venture measured at fair value through profit or loss set out in note 4. As of 30 June 2020, the carrying value of the jointly controlled entity amounted to HK\$92 million. (31 December 2019: HK\$100 million).

- (b) Investments of HK\$6,153,586,000 (31 December 2019: HK\$5,609,487,000) have been pledged in favour of Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.
- (c) The portion of the investments that is expected to be recoverable within one year is HK\$10,381,406,000 (31 December 2019: HK\$8,030,003,000) and the portion that is expected to be recoverable after more than one year is HK\$46,858,886,000 (31 December 2019: HK\$46,792,240,000).
- (d) As at 30 June 2020, the investments were determined to be impaired on the basis of expected credit losses model. Impairment losses on these investments were recognised in the condensed consolidated income statements in accordance with the Group accounting policy.
- (e) The maturity profile of the Group's debt securities and amortised cost investment is as follows:

	<i>At 30 June</i>	<i>At</i>
	<i>2020</i>	<i>31 December</i>
	HK\$'000	HK\$'000
 Fixed maturities due in		
– 1 year or less	565,816	328,884
– 1 to 5 years	5,082,708	4,207,276
– 5 to 10 years	10,934,369	11,157,433
– More than 10 years	<u>23,755,319</u>	<u>21,429,836</u>
	<u>40,338,212</u>	<u>37,123,429</u>
 Mortgage loans due in		
– 1 year	385,759	243,807
– 2 years	285,727	308,762
– 3 years	406,220	202,481
– 4 years	520,668	800,110
– 5 years	626,834	364,593
– More than 5 years	<u>4,452,490</u>	<u>4,961,270</u>
	<u>6,677,698</u>	<u>6,881,023</u>

(f) Interests in collective investment schemes

- (i) Included in financial assets designated at fair value through profit or loss on the condensed consolidated statement of financial position are certain investments in collective investment schemes which have been designed so that voting or similar rights are not the dominant factor in deciding who controls these schemes. These collective investment schemes include investments in unit trusts and limited liability partnership established by third parties. These schemes provide the Group with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated equity price risk (see note 4) and the capital commitments. The maximum exposure to loss, which represents the maximum loss that the Group could be required to report as a result of its involvement with these collective investment schemes regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments.

- (ii) In addition, the Group's subsidiary, YF Life Trustees Limited is the sponsor of Mass Mandatory Provident Fund scheme ('MPF scheme') as specified in the respective trust deeds. Management fee and trustee fee income that the Group recognised in profit or loss in return for the administration services provided to MPF Scheme that the Group sponsored amounted to HK\$4,184,986 (for six month period ended 30 June 2019: HK\$14,865,000).

The policyholders invest directly into such MPF scheme, as such, the Group did not transfer any of its own assets into these schemes during the reporting period. Management actively monitor the compliance with the respective regulation requirements in order to minimize losses arising from reputational risk and regulatory compliance risk.

## 15 Insurance and reinsurance receivables

	<i>At 30 June</i>	<i>At</i>
	<i>2020</i>	<i>31 December</i>
	HK\$'000	2019
		HK\$'000
Loans to policyholders	2,253	2,014
Direct premium receivables	10,277	4,743
Reinsurance recoverable	1,735,704	1,572,786
	1,748,234	1,579,543

At 30 June 2020 and 31 December 2019, none of the insurance and reinsurance receivables were past due or impaired.

At 30 June 2020, the amount of insurance and reinsurance receivables expected to be settled after more than one year is HK\$1,508,659,000 (31 December 2019: HK\$1,231,388,000).

## 16 Other accounts receivable and accrued income

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Other accounts receivable arising from securities brokerage:		
– Cash clients	40,628	50,200
– Margin clients	7,318	11,386
– Clients for subscription of new shares in IPO	29,997	949
– Clearing house, brokers, fund managers and dealers	98,808	52,908
	176,751	115,443
Other accounts receivable arising from consultancy and advisory and other services fee receivables	4,502	11,746
	181,253	127,189
Less: allowance for credit losses	(1,636)	(2,743)
	179,617	124,446

The fair value of other accounts receivable approximates its carrying amount.

### (a) Ageing analysis of other accounts receivable

The ageing analysis of other accounts receivable net of credit losses as of the end of the reporting period is as follows:

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Current	177,869	121,976
Less than 1 month past due	1,748	1,796
1 to 3 months past due	-	74
More than 3 months past due	-	600
Amounts past due	1,748	2,470
	179,617	124,446

The Group has procedures and policies to assess the client's credit quality and defines credit limits for each client. All client acceptance and credit limit are approved by designated approvers according to the client's credit worthiness. During the period, the movement in allowance for credit losses represents HK\$550,000 (for six month period ended 30 June 2019: HK\$24,000 credit losses made) allowance for credit losses recovered and HK\$557,000 other accounts receivable written off (for six month period ended 30 June 2019: Nil).

**(b) Balance with related parties**

At 30 June 2020, the balance of other service fee receivables includes fund management fee of approximately HK\$1,281,000 (2019: HK\$1,409,000) due from a joint venture of the Group.

**17 Other receivables, deposits and prepayment**

	<i>At 30 June</i>	<i>At</i>
	<i>2020</i>	<i>31 December</i>
	HK\$'000	HK\$'000
Utility and rental deposits	42,302	42,662
Loans to agents and staff	20,984	32,379
Accrued investment income	444,028	421,719
Prepayment and other deposit	128,352	107,744
Other receivable from non-controlling shareholders of a subsidiary	18,634	18,634
Derivative financial instruments	61,043	12,605
	715,343	635,743
Less: allowance for credit losses	(8,132)	(8,232)
	707,211	627,511

Notes:

- (i) The amount of utility and rental deposits expected to be recovered after more than one year is HK\$37,665,000 (2019: HK\$35,155,000).
- (ii) Except for those mentioned above in (i), all of the other receivables are expected to be recovered within one year.
- (iii) During the period, there was HK\$100,000 foreign exchange adjustment to allowance for credit losses (for six month period ended 30 June 2019: HK\$743,000 other receivables written off).



**18 Cash and cash equivalents, fixed bank deposits with original maturity over 3 months and bank balance – trust and segregated accounts**

	Note	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Bank balance — trust and segregated accounts			
Deposit with bank	(i)	488,619	478,619
Less: impairment allowance		<u>(154)</u>	<u>(154)</u>
		<u>488,465</u>	<u>478,465</u>
Fixed bank deposits with original maturity over 3 months			
Deposit with bank	(iii)	834,958	385,417
Less: impairment allowance		<u>-</u>	<u>-</u>
		<u>834,958</u>	<u>385,417</u>
Cash and cash equivalent			
Deposit with bank	(ii)	300	300
Fixed bank deposits with original maturity less than 3 months		131,541	524,567
Cash at bank and in hand		2,251,240	1,644,998
Less: impairment allowance		<u>(114)</u>	<u>(114)</u>
Cash and cash equivalent in the statement of financial position		<u>2,382,967</u>	<u>2,169,751</u>

Notes:

- (i) The Group maintains segregated accounts with authorised institutions to hold clients' money arising from its normal course of business of the regulated activities. The cash held on behalf of clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.
- (ii) The Group has made deposit with a bank as security deposit for bank overdraft facilities.
- (iii) As of 30 June 2020, the Group has pledged fixed deposits of HK\$309,648,000 (2019: HK\$269,250,000) to banks in favour of the Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.

## 19 Insurance contract provisions

	<i>At 30 June</i> 2020 HK\$'000	<i>At</i> <i>31 December</i> 2019 HK\$'000
Policyholders' deposits	38,384,682	37,556,895
Future policyholders' benefits	9,878,476	8,639,426
Unearned revenue liability	444,005	259,553
	<u>48,707,163</u>	<u>46,455,874</u>

## 20 Investment contract liabilities

	<i>At 30 June</i> 2020 HK\$'000	<i>At</i> <i>31 December</i> 2019 HK\$'000
Policyholders' deposits	4,407,003	4,318,445
Future policyholders' benefits	61,046	56,656
Unearned revenue liability	(2,039)	(10,501)
	<u>4,466,010</u>	<u>4,364,600</u>

## 21 Other accounts payable

	<i>At 30 June</i> 2020 HK\$'000	<i>At</i> <i>31 December</i> 2019 HK\$'000
Accounts payable		
– Cash and margin clients	588,062	554,471
– Clearing house, fund managers, brokers and dealers	30,587	24,074
	<u>618,649</u>	<u>578,545</u>

Included in accounts payable are amounts payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of conducting regulated activities, which amount to HK\$473,438,000 (31 December 2019: HK\$496,572,000). All of the accounts payable are aged and due within one month or on demand.

### Balance with related parties

At 30 June 2020, accounts payable of approximately HK\$31,000 (31 December 2019: HK\$15,549,000) are payable to certain key management personnel of the Company and their related companies on normal terms of brokerage and wealth management business of the Group.

## 22 Other payables and accrued expenses

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
Accrued staff costs	51,537	106,125
Commission payables	117,305	204,791
Derivative financial instruments	83,686	20,366
Premium received in advance	1,919,093	1,583,983
Other payables and accruals	868,681	521,702
	<u>3,040,302</u>	<u>2,436,967</u>

All of the commission and other payables and derivative liabilities are expected to be settled within one year.

Premium received in advance is expected to be settled within one year or on demand.

### Balance with related parties

At 30 June 2020, amount of approximately HK\$22,294,000 (31 December 2019: HK\$22,299,000) are payable to MassMutual International LLC who is a substantial shareholder of the Company and its affiliates.

At 30 June 2020, interest accrual of approximately HK\$42,326,000 (31 December 2019: HK\$2,618,000) is due to Key Imagination Limited who is the controlling shareholder of the Company.

## 23 Financial liabilities at fair value through profit or loss

	At 30 June 2020 HK\$'000	At 31 December 2019 HK\$'000
<b>Designated at fair value through profit or loss</b>		
Preference share liability ( <i>note 1</i> )	387,525	389,570
Third-party interests in consolidated funds ( <i>note 2</i> )	225,070	240,999
	<u>612,595</u>	<u>630,569</u>

Notes:

1. The total number of preference shares that can be issued under the agreement is 500,000 shares for a total proceed of US\$50,000,000. The subsidiary is obliged to redeem all issued preference shares in 5 years starting from the initial issuance date of the preference shares. At liquidation, after all creditors' claim is satisfied, the asset of the subsidiary should be first distributed to preference shareholders by redeeming all issued shares together with any unpaid preferred share dividends. The preference shares are due for settlement after more than a year from 30 June 2020. The proceed obtained from the issue of preference shares by a subsidiary of the Group with the proceed being used to fulfil capital contribution to a consolidated fund managed by the Group.
2. The third party interests in consolidated fund consist of third-party unit holders' interest in the consolidated fund which is reflected as a liability as the fund is to be dissolved and return all capital to investor in seventh or eighth anniversary of the respective final closing date of the respective funds. The end of term of the consolidated funds are more than a year from 30 June 2020.

## 24 Bank borrowings

The bank loan was unsecured and repayable as follows:

	<i>At 30 June 2020</i>	<i>At 31 December 2019</i>
	HK\$'000	HK\$'000
Within 1 year	2,102,656	-
After 1 year but within 2 years	-	1,498,758

## 25 Shareholder's loan

The loan is due within one year from 30 June 2020 and the Group has an unconditional extension right to extend the due date for another year at the interest rate to be reset based on prevailing market condition at the time of exercising the right.

## 26 Share capital

Movements of the Company's ordinary shares are set out below:

	<i>At 30 June 2020</i>		<i>At 31 December 2019</i>	
	<i>Number of shares</i>	<i>Amount HK\$'000</i>	<i>Number of shares</i>	<i>Amount HK\$'000</i>
Issued and fully paid:	3,223,326,394	9,829,094	3,223,326,394	9,829,094

## 27 Employee share-based arrangements

- (i) Details of the 2016 Share Award Scheme vested, cancelled and modification of service condition to Group A Grantee

### Grant date on 24 January 2017

Vesting date	Number of awarded shares awarded A	Number of awarded shares vested B	Number of awarded shares cancelled and forfeited C	Number of awarded share remains outstanding F = A - B - C
As of 31 December 2018	20,190,000	7,882,500	5,962,500	6,345,000
Movement for the year 2019				
4 May 2017	-	-	-	
4 May 2018	-	-	-	
4 May 2019	-	-	1,662,500	
4 May 2020	-	-	1,637,500	
4 May 2017	5,047,500	4,510,000	537,500	-
4 May 2018	5,047,500	3,372,500	1,675,000	-
4 May 2019	5,047,500	-	3,537,500	1,510,000
4 May 2020	5,047,500	-	3,512,500	1,535,000
As of 31 December 2019	20,190,000	7,882,500	9,262,500	3,045,000
Movement for the period				
4 May 2017	-	-	-	
4 May 2018	-	-	-	
4 May 2019	-	-	1,025,000	
4 May 2020	-	-	1,050,000	
4 May 2017	5,047,500	4,510,000	537,500	-
4 May 2018	5,047,500	3,372,500	1,675,000	-
4 May 2019	5,047,500	-	4,562,500	485,000
4 May 2020	5,047,500	-	4,562,500	485,000
As of 30 June 2020	<u>20,190,000</u>	<u>7,882,500</u>	<u>11,337,500</u>	<u>970,000</u>

The awarded share remains outstanding due to service condition modification.

**Grant date on 25 April 2018**

Vesting date	Number of awarded shares awarded	Number of awarded shares vested	Number of awarded shares cancelled and forfeited	Number of awarded share remains outstanding
As of 31 December 2018	2,850,000	712,500	37,500	2,100,000
Movement for the period				
4 May 2018	-	-	-	
4 May 2019	-	-	-	
4 May 2020	-	-	-	
4 May 2021	-	-	-	
4 May 2018	712,500	712,500	-	-
4 May 2019	712,500	-	12,500	700,000
4 May 2020	712,500	-	12,500	700,000
4 May 2021	712,500	-	12,500	700,000
As of 31 December 2019	2,850,000	712,500	37,500	2,100,000
Movement for the period				
4 May 2018	-	-	-	
4 May 2019	-	-	50,000	
4 May 2020	-	-	50,000	
4 May 2021	-	-	50,000	
4 May 2018	712,500	712,500	-	-
4 May 2019	712,500	-	62,500	650,000
4 May 2020	712,500	-	62,500	650,000
4 May 2021	712,500	-	62,500	650,000
As of 30 June 2020	2,850,000	712,500	187,500	1,950,000

## 28 Interests in structured entities

### Interest in consolidated structure entities

The Group had consolidated certain structured entities, mainly funds related to wealth management operation. For those structured entities where the Group is involved as manager or as investor, the Group assesses the extent of controlling power according to relevant group accounting policies.

As at 30 June 2020, the net assets of consolidated fund entities amounted to HK\$658 million (31 December 2019: HK\$706 million) with net carrying interest held by the Group being HK\$433 million (31 December 2019: HK\$464 million).

Interests held by other investors in these consolidated structured entities, mainly fund entities were classified as financial liabilities at fair value through profit or loss on the condensed consolidated statements of financial position with fair value change of financial liability at fair value through profit or loss presented in the condensed consolidated income statements.

At period end, the Group reassessed the control of structured entities and decided whether the Group is still a principal.

### **Interest in unconsolidated structure entities**

Among those structured entities held by the Group where the Group directly or indirectly involves as investment manager or in equivalent capacity, the Group regularly assesses and determines whether:

- the Group is acting as an agent or a principal in these investment funds;
- substantive removal rights held by other parties may remove the Group as an investment fund manager; and
- the investment interests held together with its remuneration from servicing and managing these structured entities create significant exposure to variability of returns in these investment funds.

In the opinion of the directors, the variable returns that the Group exposes to these structured entities are not significant and the Group is primarily acting as an agent. Therefore, the Group did not consolidate these structured entities.

## **29 Commitments**

### **(a) Capital commitments**

As at 30 June 2020, the Group has a total of HK\$20.5 million (31 December 2019: HK\$30.7 million) capital commitment contracted but not provided for.

### **(b) Investment commitments**

- (i) In the normal course of business, the Group enters into commitments to purchase certain investments and capital contribution commitments to third party managed fund investment. As at 30 June 2020, the Group has investment commitments contracted for amounted to HK\$1,929,911,000 (31 December 2019: HK\$1,575,509,000).
- (ii) As at 30 June 2020, the Group has capital commitment to a joint venture for an amount of US\$20 million with US\$12.7 million (31 December 2019: US\$20 million with US\$12.7 million) has been contributed.

- (iii) As disclosed in the announcement of the Company dated 4 February 2016, Yunfeng Financial Market Limited (“YFM”) (formerly known as Reorient Financial Markets Limited), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Giant Investment Co., Ltd., and Jiangsu YuWell Technology Development Co., Ltd. (“Jiangsu Limited”) on that day. As disclosed in the circular of the Company dated 29 April 2016, the joint venture agreement was superseded and replaced by the amended and restated joint venture agreement entered among YFM, Hangzhou Dr. Herbs Electronics Commerce Company Limited and Jiangsu Limited on 13 April 2016. Upon establishment of the joint venture company after obtaining all necessary approval as defined and disclosed in the circular, YFM is committed to contribute RMB1,290,000,000 of the registered capital of the joint venture company.

### 30 Material related party transactions

	<i>Six months ended 30 June</i>	
	<i>2020</i>	<i>2019</i>
	HK\$'000	HK\$'000
Investment management fee paid ( <i>note (i)</i> )	40,729	33,680
Transitional services fee paid ( <i>note (ii)</i> )	7,880	5,813
Policy endorsement fee paid ( <i>note (iii)</i> )	2,615	2,675
	412,224	322,978

- (i) The Group paid an investment management fee to an affiliate of a substantial shareholder who appointed a director to the board of the Company, for management service provided to YF Life’s investment portfolio.
- (ii) The fee is paid to a substantial shareholder, who appointed a director to the board of the Company, for certain treasury and financial reporting services relating to investment or portfolio management and other information technology related services to YF Life.
- (iii) The fee is paid to an affiliate of a substantial shareholder, who appointed a director to the board of the Company, for the provision of claims payment endorsement to certain outstanding life insurance policies of YF Life until such policies mature.

Except for those disclosed in this announcement, there is no other significant related party transactions during the period.



## 31 Reconciliation between HKFRSs and US GAAP

The condensed consolidated financial statements are prepared in accordance with HKFRSs, which differ from certain aspects from US GAAP. The effects of material differences between the financial statements of the Group prepared under HKFRSs and US GAAP are as follows:

Condensed consolidated statement of financial position	As at 30 June 2020			Amounts under US GAAP
	HKFRSs adjustments			HK\$'000
	Insurance-related balances reclassification <sup>[1]</sup>	Other difference in accounting <sup>[2]</sup>	Difference in impairment basis <sup>[3]</sup>	
<b>Assets</b>				
Property and equipment		7,315		524,313
Statutory deposits				3,775
Deferred tax assets			78	220
Investments in associates				25,952
Goodwill and Intangible assets				1,920,036
Deferred acquisition costs and value of business acquired	267,178			11,572,856
Investments		126,677	37,066	57,404,035
Advance reinsurance premiums				1,743,460
Reinsurers' share of outstanding claims				58,957
Insurance and reinsurance receivables	(53,067)			1,695,167
Other account receivable and accrued income				179,617
Other receivables, deposit and prepayment	(1,714)		22	705,519
Bank balance - trust and segregated accounts			155	488,620
Fixed bank deposits with original maturity over 3 months				834,958
Cash and cash equivalents			115	2,383,082
<b>Total assets</b>				<b>79,540,567</b>
<b>Liabilities</b>				
Insurance contract provisions	4,381,185			53,088,348
Investment contract liabilities	(4,466,010)			-
Outstanding claims				184,476
Reinsurance premium payables				543,349
Financial liability at fair value through profit or loss, other account payable and lease obligation				1,523,584
Other payables and accrued expense	322,799			3,363,101
Tax payable				23,224
Deferred tax liabilities				1,244,546
Bank borrowings				2,102,656
Shareholder's loan				1,561,444
<b>Total liabilities</b>				<b>63,634,728</b>
<b>Net assets</b>				<b>15,905,839</b>
<b>Capital and reserves</b>				
Share capital				9,829,094
Reserves	(21,924)	99,128	25,016	504,567
Non-controlling interest	(3,653)	34,864	12,420	5,572,178
<b>Total equity</b>				<b>15,905,839</b>

Yunfeng Financial Group Limited  
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Condensed consolidated income statement	As at 30 June 2020			Amounts under US GAAP
	<i>HKFRSs adjustments</i>			HK\$'000
	<i>Insurance-related balances reclassification<sup>[1]</sup></i>	<i>Other difference in accounting<sup>[2]</sup></i>	<i>Difference in impairment basis<sup>[3]</sup></i>	
<b>Income</b>				
Premiums and fee income				2,852,246
Premiums ceded to reinsurer	157,817			<u>(459,705)</u>
Net premium and fee income				2,392,541
Change in unearned revenue liability	7,135			<u>(311,156)</u>
Net earned premium and fee income				2,081,385
Brokerage commission, interest and other service income				11,348
Subscription, management and rebate fee income				2,147
Consultancy and advisory income				-
Net investment and other (loss)/income	(188,354)	233,918	77,449	1,029,177
Overlay adjustment		(239,075)		-
Reinsurance commission and profit	(5,229)			<u>15,370</u>
Total income				<u>3,139,427</u>
<b>Benefits, losses and expenses</b>				
Net policyholders benefit	(8,083)			(841,189)
Commission and related expenses	-			(560,216)
Management and other expenses	(8,236)	(1,342)		(440,994)
Change in future policyholder benefits and deferral and amortisation of deferred acquisition costs and value of business acquired	(17,217)			<u>(934,587)</u>
Total benefits, losses and expenses				<u>(2,776,986)</u>
Finance cost				(88,553)
Share of result of an associate				<u>(1,567)</u>
<b>Profit before taxation</b>				272,321
Tax expenses				<u>(1,383)</u>
<b>Profit after taxation</b>				<u>270,938</u>
<b>Profit attributable to:</b>				
Owners of the Company	(43,392)	(4,621)	54,059	115,227
Non-controlling interests	(18,775)	(1,878)	23,390	<u>155,711</u>
				<u>270,938</u>

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*Interim Results Announcement for the Six Months Ended 30 June 2020*

Condensed consolidated income statement	<i>For the period ended 30 June 2019 (restated)</i>			<i>Amounts under US GAAP</i>
	<i>HKFRSs adjustments</i>			HK\$'000
	<i>Insurance-related balances reclassification<sup>[1]</sup></i>	<i>Other difference in accounting<sup>[2]</sup></i>	<i>Difference in impairment basis<sup>[3]</sup></i>	HK\$'000
<b>Income</b>				
Premiums and fee income				2,381,792
Premiums ceded to reinsurer	159,458			(163,987)
Net premium and fee income				2,217,805
Change in unearned revenue liability	10,936			(366,598)
Net earned premium and fee income				1,851,207
Brokerage commission, interest and other service income				4,126
Subscription, management and rebate fee income				5,837
Consultancy and advisory income				687
Net investment and other (loss)/income	(91,297)	(98,794)	35,762	1,760,951
Overlay adjustment		101,838		-
Reinsurance commission and profit	(5,276)			10,316
Total income				3,633,124
<b>Benefits, losses and expenses</b>				
Net policyholders benefit	(6,634)			(1,767,109)
Commission and related expenses				(533,641)
Management and other expenses	(8,149)	(1,117)		(478,073)
Change in future policyholder benefits and deferral and amortisation of deferred acquisition costs and value of business acquired	(25,575)			(499,039)
Total benefits, losses and expenses				(3,277,862)
Finance cost				(46,988)
Share of result of an associate				(1,114)
<b>Profit before taxation</b>				307,160
Tax credit				809
<b>Profit after taxation</b>				307,969
<b>Profit attributable to:</b>				
Owners of the Company	20,078	2,576	21,457	141,476
Non-controlling interests	13,385	(649)	14,305	166,493
				307,969

Notes:

- [1] Major differences in relation to insurance-related balances are summarised as follows: financial reinsurance adjustments arising from different classification of reinsurance contracts under HKFRS and US GAAP; difference in value of business acquired recognised under HKFRS and US GAAP and corresponding differences on insurance contract provisions; difference in measurement of deferred acquisition costs and unearned revenue liability due to different amortisation under HKFRS and US GAAP; other miscellaneous differences due to different accounting principles under HKFRS and US GAAP.
- [2] Difference arises from classification and measurement of investments and lease accounting.
- [3] Difference arises from different impairment methodology and basis (expected credit loss model vs. incurred loss model) under HKFRS and US GAAP.

### **32 Comparative figures**

Other than those comparative information in respect of the period ended 30 June 2019 have been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 2(b)(i), certain comparative disclosure notes have been adjusted to conform with current period presentation.

### **33 Contingent liabilities**

The Group did not have any significant contingent liabilities as at 30 June 2020 and 31 December 2019.

### **34 Non-adjusting events after the reporting period**

There is no material non-adjusting event after the reporting period.

By Order of the Board  
**Yunfeng Financial Group Limited**  
**Hai Olivia Ou**  
*Executive Director and Interim Chief Executive Officer*

Hong Kong, 27 August 2020

As at the date of this announcement, the Board comprises Mr. Yu Feng (who is Chairman and non-executive director), Ms. Hai Olivia Ou and Mr. Huang Xin (who are executive directors), Mr. Adnan Omar Ahmed and Mr. Michael James O'Connor (who are non-executive directors), and Mr. Qi Daqing, Mr. Chu Chung Yue, Howard and Mr. Xiao Feng (who are independent non-executive directors).