The unaudited financial information relating to the year ended 31 December 2018 and the financial information relating to the year ended 31 December 2017 included in this announcement do not constitute the statutory annual consolidated financial statements of the Group for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The financial statements for the year ended 31 December 2018 have yet to be reported on by the Group's auditor and will be delivered to the Registrar of Companies in due course.

The Group has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to the Companies Ordinance.

The Group's auditor has reported on the consolidated financial statements for the year ended 31 December 2017. 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 sections 406(2), 407(2) or (3) of the Companies Ordinance.

Yunfeng Financial Group Limited
雲鋒金融集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors of Yunfeng Financial Group Limited announces herewith the consolidated financial results of the Company and its subsidiaries for the year ended 31 December 2018 as follows:

Corporate Information

Board of directors

Chairman

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

Executive Directors

Ms. Li Ting *(Chief Executive Officer)*
Mr. Huang Xin

Non-Executive Directors

Mr. Adnan Omar Ahmed
Ms. Hai Olivia Ou
Mr. Gareth Ross

Independent Non-Executive Directors

Mr. Lin Lijun
Mr. Qi Daqing
Mr. Chu Chung Yue, Howard

Audit committee

Mr. Chu Chung Yue, Howard *(Chairman)*
Mr. Lin Lijun
Mr. Qi Daqing

Remuneration committee

Mr. Lin Lijun *(Chairman)*
Mr. Qi Daqing
Mr. Huang Xin
Mr. Chu Chung Yue, Howard

Nomination committee

Mr. Yu Feng *(Chairman)*
Mr. Lin Lijun
Mr. Qi Daqing
Mr. Chu Chung Yue, Howard

Authorised representatives

Ms. Li Ting
Mr. Chan Man Ko

Company secretary

Mr. Chan Man Ko

Auditor

KPMG
Certified Public Accountants

Corporate Information

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

Share registrar

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

Registered and principal office

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

Website

www.yff.com

Stock code

376

CEO's Statement

In 2018, affected by the Sino-US trade war, the global financial markets experienced drastic fluctuation, with almost all asset classes recording negative return. While the financial industry was impacted to some extent, Yunfeng Financial Group Limited ("Yunfeng Financial Group" or "the Company") faced challenges, took advantage of the trend, and grasped opportunities to promote the Company's sustainable and steady development.

On 16 November 2018, the Company completed the acquisition of YF Life Insurance International Limited ("YF Life") (formerly known as MassMutual Asia Limited), which expanded the Company's business scope and formed an ecosystem covering multiple financial products and services. In the meantime, the Company actively strengthened its financial technology capabilities and developed the core competencies.

REVIEW OF BUSINESS SEGMENT

For asset management business, in 2018, the Company strengthened the optimization and integration of the investment team. Based on the good foundation established in 2017, the Company actively carried out asset management related business and was committed to reasonable asset allocation on a global scale for customers. The three private equity fund "Majik" series products with alternative credits in developed markets as the main investment category have completed all fundraising in 2018, and have been actively subscribed by institutional investors and high-net-worth customers. Despite the sharp market fluctuation in 2018, they achieved stable returns, received high recognition from the customers and established a good reputation in the market. The "Youyu Note" product series with large and medium-sized Chinese bank loans as the underlying assets has gradually gained recognition in the market. The Company's comprehensive capabilities such as asset evaluation and investment capabilities, product structure building capabilities and customer service have been demonstrated. In 2018, the Company actively captured investment opportunities in Hong Kong's capital market, issued fund products with new shares as investment targets, and won the favor of institutional investors and high-net-worth customers. While enriching the Company's asset management product line, it also further demonstrated the Company's ability to actively innovate. In terms of proprietary investment, based on the overall development strategic target of the Company, robust investment principle and overall judgment on the market throughout the year, the Company started to gradually adjust the asset allocation for proprietary investment at the beginning of 2018 and greatly cut back its investment in equity type assets in favorable market conditions. By the end of 2018, it has allocated most of the investments to cash and the asset classes with lower risks, effectively mitigating the investment risks in connection with the sharp market fluctuation of the year.

For brokerage business, in 2018, the total trading volume of brokerage business more than tripled compared to 2017. The overall revenue of the brokerage business tripled compared to 2017. The overall ranking of its trading volume of Hong Kong stocks on the Hong Kong Stock Exchange rose by more than 100 places. On the basis of 2017, the brokerage line continued to develop retail business. In the meantime, it developed institutional brokerage business, and added new financing business, providing customers with a full range of financial services. In 2018, the release version of "Youyu Stock" was updated 15 times. While enhancing the user experience, it added new distinctive features including stock recognition by photo, abnormal change in stock price, information recommendation, stock price alert, and intelligent customer service, which provided more effective tools for investors' decision making. Based on the improved web version, "Youyu Stock" launched a PC version to provide more convenient and professional services to experienced investors.

For employee stock ownership plan administration (ESOP) business, as an important strategic business, the popularity of "Youyu ekeeper" has been further enhanced and gradually recognized by the market. New customers came online in succession in 2018. "Youyu ekeeper" mainly served Hong Kong listed companies and continued to successfully demonstrate synergy over other business lines during the period. In the securities business, the net value of assets of institutions and their employees under management almost doubled compared to 2017. In the past year, "Youyu ekeeper" also provided the management of idle funds for institutional customers and their employees through Youyu E-Cash, which became an important differentiated function and continued to create additional benefits for the Company. The ESOP team actively expanded its network in 2018, having more sales and marketing activities. In terms of channels, it has been supported by different trust institutions and share registration companies which accurately recommended customers with high potential to promote business, and to jointly seize the huge opportunities brought about by the reform of the listing regime.

For the corporate finance business, corporate finance team also provided advisory services to 19 corporate customers in addition to providing financial advisory services on the Company's acquisition of the share capital of YF Life. In 2018, the Company's revenue from corporate financial advisory services recorded an ideal growth. With its expertise and experience, the Company's corporate finance team was focused on providing one-stop integrated financial advisory services for customers to help them move globally and meet growing capital needs. The team also contributed to the Company's business development by providing internal support to other business units of the Company.

For insurance business, 2018 was an important milestone for the cooperation between Yunfeng Financial Group and YF Life. With the completion of the acquisition, the Group will enhance the support to the insurance businesses of YF Life and the mutual support and collaboration for other business lines, continuing to leverage on the multi-channel distribution strategy, with the exclusive agents serving as the core distribution channels, supporting distributors, including independent brokerage companies, agency companies and bank partners, and maintaining steady performance growth. In terms of products, the annuity scheme, the new business flagship product of the year, was provided by YF Life which was one of the few insurance companies that offered guaranteed lifetime distribution annuity schemes in Hong Kong. In the meantime, the insurance brokerage team of Yunfeng Financial Group was established in early 2018 and has obtained relevant business scope licenses. After the formal launch of the service in the second half of the year, it has begun to generate revenue for the Company, covering both personal and corporate customers. The Company is actively putting resources to improve the professionalism of the frontline team and striving to assist customers in comprehensively analyzing the different needs of their lives, providing customers with the most professional and quality risk management and wealth management services.

For the investment research business, in 2018, in terms of research content and operation, the Research and Strategy Department deeply studied the topics and combined with hotspots, expanded its market presence. The regional review series for the 40th anniversary of the reform and opening up received overwhelming responses on multiple platforms, which facilitated the cooperation between the Company and the external platforms. In terms of asset allocation strategy, it launched the weekly market review, and actively participated in the Company's customer strategy meeting and roadshow, in order to provide comprehensive research report services for the customers.

FUTURE PROSPECTS AND STRATEGIES

With the publication of the Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area by the Central Committee of the Communist Party of China and the State Council on 18 February 2019, Hong Kong fully leveraged the advantages of the global offshore Renminbi business hub and the international asset management center, and "Shanghai-Hong Kong Stock Connect" and "Shenzhen-Hong Kong Stock Connect" actively strengthened the interconnection mechanism with the mainland financial market, which further promoted the activities of the financial markets and insurance businesses in Guangdong, Hong Kong and Macau. Looking forward to the future, the Company's position is based on Hong Kong, grasping the opportunities in the Greater Bay Area, connecting China and foreign countries, and using technology to enable financial institutions, to create an one-stop professional financial platform.

As far as financial technology development is concerned, the difference in the user experience of financial technology platforms between China and overseas, or the gap in relation to technology platforms between the traditional large financial institutions and internet brokers, has prompted financial institutions to embrace technology to bridge the gap. In line with the ardent demands of the market, the "Fintech Business Department" was established by the Group to improve the Group's independent innovation capability on the one hand, and enhance the independence of technology solutions on the other hand. In addition to directly reaching To-C customers, it expands To-B cooperation and directly provides financial technology solutions. Other existing business lines will explore new business opportunities, and leverage its own technological advantages to provide better financial services to the investors.

In summary, the total population of the Guangdong-Hong Kong-Macao Greater Bay Area is approximately 70 million, with an economic aggregate of RMB10 trillion. It is the most economically powerful region in China. The Company is ready to grasp the opportunities brought by the development of the Greater Bay Area and welcome the opportunity of the opening of the capital market. Looking forward to the future, the Company will continue to forge itself as the best overseas investment platform, develop To-B cooperation as a supplement to the existing To-C business, and create synergistic effect. The Company and YF Life jointly cooperate online and offline to establish a stronger sales network and business, and offer a greater variety of products and more convenient businesses.

I would like to express my gratitude to our shareholders for their strong support, and would also like to express my gratitude to our partners and customers for their support and trust.

Management Discussion and Analysis

Material event

As disclosed in the announcement of the Company dated 16 November 2018, the Company has complete the acquisition of 60% of the issued share capital of YF Life. The portion of the consideration paid by the Company is HK$7,926 million of which HK$5,264 million is satisfied by the issue of an aggregate of 800,000,000 shares of the Company at the share market price of HK$6.58 per share representing approximately 24.8% of the issued share capital of the Company as enlarged by the issue of the shares and the remainder is settled by cash.

The long term vision of the Group is to leverage its fintech capabilities to develop a financial services ecosystem comprising information technology and online and offline platforms that offer a broad range of financial services and products along with high quality expert advice. This transaction is a milestone for the Group's integration of existing financial technology services and traditional insurance business to realise the growth into a sustainable financial group.

Overview

The Group's major sources of revenue includes those insurance related 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. With the acquisition of YF Life, the Group has consolidated the YF Life's financial result for the period from 16 November 2018 to 31 December 2018. With the insurance business becoming dominant in the Group's financial result and the other Group's businesses remains in the stage of building up customer base and size of asset under management, the Group's financial result for the year 2018 is considered not directly comparable to that of year 2017 and readers are reminded to take this into consideration while reading through the announcement.

For the year 2018, the Group's main income stream amounted to HK$791 million including HK$761 million premiums and fee income and HK$30 million service income from other financial services. The overall income (after premiums ceded to reinsurer and change in unearned revenue liability) was HK$1.02 billion including net investment income of HK$336.3 million, representing an overall increase in total income of 27.3 times and an increase of 30.8 times compared to the prior year respectively. The insurance business contributed a total income of HK$878.5 million including net investment income of HK$233.1 million. Excluding the insurance related business, the Group's total income including the net investment income were HK$140.5 million and HK$103.2 million respectively, representing an increase of 4.8 times and 8.7 times compared to the prior year respectively. The increase of total income excluding insurance business was mainly attributable to the increase of financial service income, the rising interest rate economic environment and decrease of investment loss of financial instruments.

The increase in overall operating expense is mainly caused by the consolidation of YF Life and amortisation expense in relation to Pool B share awards granted by the Company in 2018. If the financial impact in relation to the YF Life acquisition, the amortization expense in relation to share awards and other one-off adjustments are excluded, the net loss attributable to equity shareholders of the Company for the year would be HK$174.8 million (prior year: HK$275.3 million) representing a significant decrease of HK$100.5 million or 36% compared to the prior year. Taking into account the newly acquired insurance business, amortisation expense of share awards and one-off adjustments, the loss attributable to equity shareholders of the Company for the Year is HK$204.4 million compared to HK$379.0 million in prior year, representing a significant decrease of HK$174.7 million or 46% compared to the prior year.

Consolidated financial results review

The financial highlights of the Group were as follows:

Consolidated financial result analysis

For the year ended 31 December, HK$ million

Income	*2018*	*2017*	*Change %*
Premiums and fee income	761.7	-	NA
Loss after taxation	(154.2)	(379.3)	-59.3
Net loss attributable to the owners	(204.4)	(379.0)	-46.1
Basic loss per share (HK$) (Note 1)	(0.08)	(0.16)	-50.0

At 31 December, HK$ million

	2018	*2017*	*Change %*
Total assets	63,033.4	5,203.0	11.1 times
Total equity	15,329.7	4,139.3	2.7 times
Owner's equity	9,220.8	4,139.3	1.2 times
Owner's equity per share (HK$) (Note 2)	2.86	1.71	67.3

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

Note 2: the denominator is total issued shares as of 31 December of the respective years

Analysis on loss for the year, HK$ million

	2018	*2017*	*Change %*
YF Life segment operating profit	126.5	-	NA
Other financial services and corporate segment operating loss	(174.8)	(275.3)	-36.5
Total operating loss	(48.3)	(275.3)	-82.5
Adjust for the following profit or loss and expenses impact:			
– Realised capital gain/loss and short-term derivatives market value fluctuation	21.7	-	NA
– Staff share award amortisation expense	(119.3)	(56.7)	1.1 time
– Legal and professional fee and other expenses for acquisition of YF Life	(16.3)	(47.3)	-65.5
– Finance cost (Note 1)	(10.6)	-	NA
– One-off adjustments (Note 2)	41.2	-	NA
– Consolidation adjustments (Note 3)	(22.6)	-	NA
Loss for the year	(154.2)	(379.3)	-59.3
Less: non-controlling interests	(50.2)	0.2	NA
Net loss attributable to the owners	(204.4)	(379.1)	-46.1

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 net impact of professional consultancy fees incurred for non-recurring project expense and a tax provision reversal.

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

Changes in owner's equity

HK$ million	*2018*	*2017*
Balance at 1 January	4,139.3	4,444.1
Adoption of new accounting standard	(3.1)	-
Share based payment transaction	9.1	56.4
Acquisition of and capital injection to YF Life	11,304.0	-
Loss for the year	(154.2)	(379.3)
Other comprehensive income and others	34.6	18.1
Balance at 31 December	15,329.7	4,139.3
Attributable to:		
– equity shareholders of the Company	9,220.8	4,139.3
– non-controlling interests	6,108.9	-
Total equity	15,329.7	4,139.3

The Group's total shareholders' equity amounted to approximately HK$15,329.7 million as at 31 December 2018 as compared to the total shareholders' equity of HK$4,139.3 million reported at the end of last year. The increase is mainly due to the completion of YF Life acquisition and the decrease in net loss for the year.

Insurance business review

To facilitate a more thorough and comprehensive review of the insurance business, YF Life, the related financial data below is presented on a full year basis and excludes the fair value accounting adjustments made on the acquisition. Management considers the full year operation and financial data excluding fair value accounting is able to provide reader with more relevant information on the business performance of the newly acquired insurance business segment operating results of which approximately one and a half months have been consolidated and reflected in the Group's consolidated financial statements.

Overview

During the year 2018, 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 three 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; and (iii) the PrimeHealth series which are critical illiness products covering more than 100 illnesses.

The tied agency force consisted of approximately 2,701 (2017: 2,966) agents in Hong Kong and Macau as of 31 December 2018. In addition to the tied agency force, we also utilise brokers and agency intermediaries as well as banks and other financial institutions to distribute insurance products. As of 31 December 2018, the insurance business division has approximately 379 (2017: 358) employees and more than 470,000 (2017: 450,000) in-force individual policies.

In the year 2019 and coming period, our insurance division will continue 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 plans to continue to steadily grow its tied agency force. We also seek to expand its brokerage and agency intermediary distribution channel to serve sophisticated customers who we believe are more receptive to independent advice. In order to expand the bancassurance distribution channel, we will aim to establish new partnerships with suitable banks and financial institutions. Furthermore, we aim to develop products with higher margins by optimizing the product mix by developing and promoting products, such as refundable critical illness products and improve the information capability and usage of digital platforms to match the preferences of the customers. By a carefully planned and thorough step-by-step integration, management is confident that the insurance division will greatly contribute to the Group's financial services ecosystem vision to provide wider range of products and services to the customer base and provide significant crossing-selling opportunities.

Total premium and fee income

Total premium and fee income measures its business volumes by referring to the total TPI reported under the Insurance Companies Ordinance ("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 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.

	For the year ended 31 December	
	2018	*2017*
	HK$ million	HK$ million
Total premium and fee income reported under the IO	7,456	6,793
Less: Premium deposits separated out from insurance contracts and recognition of fee income	(3,194)	(2,948)
Premium and fee income recognized in the income statements of HKFRS	4,262	3,845

Management considers TPI as one of the important measures of the Group's operating performance and believe they are frequently used by analysts, investors and other interested parties in the evaluation of insurance companies. The management also uses TPI as an additional measurement tool for the purposes of business decision-making. TPI is not a measure 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

	For the year ended 31 December			
	2018		*2017*	
	HK$ million	%	HK$ million	%
Hong Kong	6,350	85	5,799	85
Macau	1,106	15	994	15
	7,456	100	6,793	100

(ii) By distribution channel

	For the year ended 31 December					
	2018 HK$ million			*2017* HK$ million		
	Hong Kong	Macau	Total	Hong Kong	Macau	Total
Tied agency	3,984	979	4,963	3,762	866	4,628
Brokers and non-tied agency	1,886	28	1,914	1,638	38	1,676
Banks and other financial institution	480	99	579	399	90	489
	6,350	1,106	7,456	5,799	994	6,793

(iii) By product type

	For the year ended 31 December					
	2018 HK$ million			*2017* HK$ million		
	Hong Kong	Macau	Total	Hong Kong	Macau	Total
Regular premium -First year	842	216	1,058	939	239	1,178
Regular premium-Renewal	5,093	822	5,915	4,529	682	5,211
Single premium	412	67	479	329	71	400
Fee income	3	1	4	2	2	4
	6,350	1,106	7,456	5,799	994	6,793

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 31 December 2018 is HK$15,131 million (31 December 2017 is HK$12,071 million) with breakdown as below.

HK$ million

	31 December 2018	*31 December 2017*	*Change %*
Adjusted Net Worth (“ANW”) (note 1)	5,825	3,208	82
Value of in-force (“VIF”) business after CoC (note 2)	9,306	8,863	5
Embedded value	15,131	12,071	25

Note 1: The ANW represents the net asset value on Hong Kong statutory basis, with marked-to-market adjustment to certain assets. The ANW growth is driven by strong growth in retained earnings and capital injection of HK$2,000 million from YF Life’s shareholders completed on 23 November 2018.

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 and movement analysis of embedded value of insurance division from 31 December 2017 to 31 December 2018, please refer to the Embedded Value section.

Key financial data of insurance business segment

The key financial data of insurance segment is presented under Hong Kong Financial Reporting Standards ("HKFRS") on a full year basis before any fair value adjustment arising from the acquisition accounting policy and intra-group eliminations:

	2018 HK$ million	*2017* HK$ million	*Change %*
Income			
Premiums and fee income	4,262	3,845	11
Premiums ceded to reinsurer	(594)	(577)	3
Net premium and fee income	3,668	3,268	12
Change in unearned revenue liability	(574)	(507)	13
Net earned premium and fee income	3,094	2,761	12
Net investment and other income (note a)	937	3,240	-71
Reinsurance commission and profit	29	46	-37
Benefits, losses and expenses			
Net policyholders benefit (note b)	1,102	3,364	-67
Commission and related expenses	1,105	1,130	-2
Deferral and amortisation of deferred acquisition costs	(625)	(700)	-11
Management and other expenses (note c)	564	511	10
Change in future policyholder benefits (note d)	1,273	1,075	18
Profit before taxation before disposal of MM Japan	641	667	-4
Disposal gain of MM Japan	589	-	
Profit before taxation	1,230	667	85
Taxation	49	45	9
Profit after taxation	1,181	622	90

Note a: the balance includes net investment and other income, interest income from bank deposits and other operating income excluding the disposal gain of equity interest in MassMutual Life Insurance Company K.K. ("MM Japan"). The decrease of the balance mainly arises from less investment gain from investment-linked policies.

Note b: 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 c: the balance includes management expenses, investment management fee and other operating expense. The increase of the balance mainly arises from inflation, increase of supporting staff and promotion.

Note d: the balance includes both change in future policyholders' benefits to both insurance and investment contracts. The increase of the balance mainly arises from new business and natural growth of inforce portfolio.

	2018 HK$ million	*2017* HK$ million	*Change %*
Operating profit (note 1)	742	690	8
Adjust for the following profit or loss and expenses impact:			
– Realised capital gain/loss and short-term derivatives market value fluctuation	(150)	(68)	121
– One-off adjustments (Note 2)	589	-	NA
Profit for the year	1,181	622	90

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

Note 2: One-off adjustments represents the disposal gain of equity interest in MM Japan.

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.

	As at 31 December	
	2018	*2017*
	HK$ million	HK$ million
Investments (Note)	43,354	40,177
Cash and deposits	4,595	1,779
Deferred acquisition costs	9,640	8,009
Other assets	905	750
Total assets	58,494	50,715
Insurance contract provisions	42,652	38,151
Investment contract liabilities	4,479	4,048
Other payable	1,160	1,064
Total liabilities	48,291	43,263
Net assets	10,203	7,452

Note:

Includes investment in unlisted equity securities in MM Japan. As at 31 December 2017, the insurance division holds 10% equity interests in MM Japan, and the fair value of such equity interests amounted to HK$849 million and it was disposed during year 2018 before the completion of acquisition of YF Life.

Investment assets

The table below sets forth the asset allocation of the investment portfolio of insurance division for the years ended 31 December 2018 and 2017.

	As at 31 December	
	2018	*2017*
	HK$ million	HK$ million
Debt securities	27,679	24,197
Mortgage loans	7,358	6,052
Equity securities	1,499	1,834
Cash and deposits	4,595	1,779
	41,131	33,862
Unit trusts	6,818	8,094
	47,949	41,956

As at 31 December 2018, 90% (2017: 87%) of the debt securities invested have Standard and Poor's rating of BBB or above or equivalent rating from other reputable rating agencies.

The total amount of equity securities set out above includes investment in MM Japan, and the fair value of the 10% equity interests held by the YF Life in MM Japan as at 31 December 2017 amounted to HK$849 million. MM Japan was disposed during 2018.

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

	For the year ended 31 December	
	2018	*2017*
	HK$ million	HK$ million
Interest income and others	1,384	1,157
Dividend income	127	91

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.

	As at 31 December	
	2018	*2017*
Market position/share (by regular premium income)	12th / 1.5%	11th / 1.5%
Number of employees		
-*Hong Kong*	361	342
-*Macau*	18	16
Number of tied agents		
-*Hong Kong*	1,764	2,013
-*Macau*	937	953
Number of brokers and non-tied agents	472	459
Number of bancassurance partners	6	7
MDRT qualifiers *(Note 1)*	177	152
Expenses ratio *(Note 2)*	7.7%	7.6%

Notes:

1. Million Dollar Round Table (MDRT) is a global professional association of life insurance and financial services professionals that recognizes significant sales achievements and high service standards.

2. Expenses ratio is operating expenses expressed as a percentage of TPI.

Financial strength and solvency margin

The table below sets forth a summary of the total available capital and solvency ratio, the ratio expressed as a percentage, of the surplus to the required solvency margin of the legal entity carried out the insurance business related activities, as determined at the relevant time in accordance with the Insurance Companies Ordinance (Cap. 41 of the Laws of Hong Kong) or the Insurance Ordinance (Cap. 41 of the Laws of Hong Kong) ("IO"), as the case may be, as it may be amended from time to time,, and its subsidiary legislation and based on standards required by the IO and methodology consistently applied by our insurance division.

	As at 31 December	
	2018	*2017*
	HK$ million	HK$ million
Total available capital	5,574	3,556
Regulatory minimum capital	1,827	1,626
Solvency Ratio	305%	219%

The solvency ratio was 305% at 31 December 2018, up by 86 bps compared with 219 % at 31 December 2017. The higher solvency ratio was driven by capital injection and strong growth in retained earnings.

<u>Other businesses review</u>

Brokerage Business

In 2018, the Group launched fifteen version updates for "Youyu Stock" mobile application adding new features to help customers resolve investment problems encountered in different investment stages. The new features differentiated the Group from other competitors using artificial intelligence technological advantages including information intelligence recommendation function to retain and attract customers. Youyu Stock also enhanced the web based customer experience by providing easy access to market data and professional service to experienced investors trading through their desktop station at home. During the Year, the turnover of brokerage business amounted to HK$5,733 million, representing an increase of 2.72 times as compared with the prior year.

Corporate Finance Consultancy Service

The Group's corporate finance business provides financial consultancy service primarily to Hong Kong listed companies. In 2018, the Group has completed 27 financial consultancy projects. During the year, this business segment recorded an income derived from external customer of approximately HK$13 million, representing an increase of 18% as compared with the prior year.

Employee Stock Ownership Plan Administration

In 2018, Youyu employee stock ownership plan administration ("Youyu ESOP"), as an important strategic business, mainly serves Hong Kong listed companies, which brought in new brought new inflow of client assets to the Group and growth in client net assets value managed by the Group. Youyu ESOP creates synergy especially with Youyu Stock business through building stronger bonding with clients while enhancing revenue generating ability of the Group. Taking on the opportunities offered by listed company regulation reform, Youyu ESOP team proactively reached out to potential clients through various promotion campaign and sales activities through cooperation with different trustee entities.

Asset Management

During 2018, our asset and wealth management business has attracted institutional and high net worth professional investors and completed final closing of three offline fund products.

Name of offline fund products managed or jointly managed by the Group	Investment focus
Majik Access USD Fund 1 LP	Third-party managed private credit funds - directly or indirectly invest in credit and real estate-related debt market sectors
Majik Access USD Fund 2 LP	Third-party managed distressed assets funds - specialising in different distressed credit strategies
Majik Access USD Fund 3 LP	Third-party managed collateralised loan obligations - investing in senior secured first lien bank loans, second lien loans, unsecured loans, and other debt obligations

During the Year, we have successfully secured a handful of rare investment targets including credit linked note and distressed fund investment opportunities managed by top tier managers to facilitate further growth in the offline asset management operation. As of 31 December 2018, the total capital commitment of the three offline products amounted to approximately US$208 million. On the other hand, we have also launched a new fund product which invests in equity type financial investments to satisfy investors with different investment needs.

We have cooperated with banks and co-launched series of "Youyu Note" which are secured debt instruments with bank loans being the underlying asset, which demonstrates our ability in offering financial products tailored for different institutional investors. For the year 2018, the accumulated issue size of this series of products amounted to US$290 million

Prospects

With the publication of the Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area by the Central Committee of the Communist Party of China and the State Council on 18 February 2019, Hong Kong fully leveraged the advantages of the global offshore Renminbi business hub and the international asset management center, and "Shanghai-Hong Kong Stock Connect" and "Shenzhen-Hong Kong Stock Connect" actively strengthened the interconnection mechanism with the mainland financial market, which further promoted the activities of the financial markets and insurance businesses in Guangdong, Hong Kong and Macau. Looking forward to the future, the Company's position is based on Hong Kong, grasping the opportunities in the Greater Bay Area, connecting China and foreign countries, and using technology to enable financial institutions, to create an one-stop professional financial platform.

As far as financial technology development is concerned, the difference in the user experience of financial technology platforms between China and overseas, or the gap in relation to technology platforms between the traditional large financial institutions and internet brokers, has prompted financial institutions to embrace technology to bridge the gap. In line with the ardent demands of the market, the "Fintech Business Department" was established by the Group to improve the Group's independent innovation capability on the one hand, and enhance the independence of technology solutions on the other hand. In addition to directly reaching To-C customers, it expands To-B cooperation and directly provides financial technology solutions. Other existing business lines will explore new business opportunities, and leverage its own technological advantages to provide better financial services to the investors.

In summary, the total population of the Guangdong-Hong Kong-Macao Greater Bay Area is approximately 70 million, with an economic aggregate of RMB10 trillion. It is the most economically powerful region in China. The Company is ready to grasp the opportunities brought by the development of the Greater Bay Area and welcome the opportunity of the opening of the capital market. Looking forward to the future, the Company will continue to forge itself as the best overseas investment platform, develop To-B cooperation as a supplement to the existing To-C business, and create synergistic effect. The Company and YF Life jointly cooperate online and offline to establish a stronger sales network and business, and offer a greater variety of products and more convenient businesses.

Liquidity and Financial Resources

As at 31 December 2018, the Group had fixed bank deposits with original maturity over 3 months and cash and cash equivalents amounting to HK$5,443.5 million (31 December 2017: HK$3,762.7 million). As at 31 December 2018, the Group has HK$1,198.2 million bank borrowing outstanding. The Group's gearing ratio as at 31 December 2018 is 7.25% (31 December 2017: minimal), 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 year are set out in note 41 (e) to the financial statements.

Risk factors

In 2018, the Group carried out timely and complete identification and evaluation to manage the key risks. The identified risks are being monitored according to the risk appetite and also the related regulation by the board of directors and also the related committees assisting the board.

(i) Strategic Risk

Management recognised the importance of incorporating insurance business with the financial service ecosystem of the Group. On the other hand, management is keen on enhancing the business process and integration with financial technology to create values to all customers of the Group. The overall enhancement and integration process creates uncertainties and increase degree of difficulties on related risk management requirement. Management proactively devotes sufficient resources to support and enhance the ongoing process.

(ii) Insurance Risk

Management considers insurance risk mainly comprised

Product design risk – potential defects in the development of a particular insurance product. To mitigate the risk, each of the new products is required to go through pre-launch reviews by various departments, including product development, actuarial, legal and underwriting to ensure the risk being aligned with the Group's risk appetite.

Lapse Risk- the possibility of actual lapse experience that diverges from the anticipated experience assumed when products were priced as well as financial loss due to early termination of policies or contracts where the acquisition cost incurred may not be recoverable from future revenue. Management carries out regular studies of persistency experience which will be assimilated into new and in-force management and build in measures including surrender charges to manage the financial impact upon early termination by policyholders.

Pricing or underwriting risk- the possibility of product related income being inadequate to support future obligations arising from a product. Further details related to this risk and the related mitigation and monitoring measures is set out in Note 5 "Insurance, financial risk management" to the consolidated financial statements.

Claim risk – the possibility that the frequency or severity of claims arising from insurance products exceed the levels assumed when the product were priced. Further details related to this risk and the related mitigation and monitoring measures is set out in Note 5 "Insurance, financial risk management" to the consolidated financial statements.

(iii) Market Risk, Credit Risk, Foreign Exchange Risk and Liquidity Risk

The details of the market risk, credit risk, foreign exchange risk and liquidity risk identified and their related mitigation and monitoring measures are detailed in Note 5 "Insurance, financial risk management" to the consolidated financial statements.

(iv) Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, personnel and systems or from external events. The Group manages the risk primarily through risk and control self-assessment and reviews losses and fraud issues and provides guidance, training and assistance to relevant personnel for ongoing risk management purpose.

Risk and management control

Detailed risk and management control is set out in corporate governance report section in the announcement.

Material Acquisitions and Disposals of Subsidiaries and Associates

Except for those set out in note 22(c) and 22(d), the Group did not have any material acquisitions and disposals of subsidiaries and associates during the year ended 31 December 2018.

Charges on Assets

At the year ended December 2018, the Group did not have any charges on assets, other than a security deposit of HK$300,000 (2017: HK$30 million) for banking facilities, no bank deposit (2017: HK$78.1million) were deposited as collateral for performance linked note, a financial product, issued by the Group and HK$3,760,043,000 of investment together with HK$259,250,000 of fixed bank deposit 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 44 to the financial statements.

Segment information

Details of segments are set out in note 17 to the financial statements.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2018.

Staffing and Remunerations

As at 31 December 2018, the Group employed 609 (2017: 240) full time employees, 441 (2017: 96) of which were located in Hong Kong, 18 (2017: Nil) in Macau and 150 (2017: 142) in the People's Republic of China. The remuneration of employees includes salary retention package and discretionary bonus. The Group also adopted share option and share award schemes to provide an incentive to the employees.

The remuneration policy and package, including the share option and share awards, of the Group's employees are maintained at market level and reviewed annually by the management.

Use of net proceeds from subscription shares

The proceeds from subscription shares have been utilised subsequent to the subscription as set out under the section "Use of Proceeds" of the Company's circular dated 18 August 2015 (the "Circular") and subsequent adjustment in use of proceeds as set out in the announcement of the Company dated 18 October 2016. The table below sets out the proposed application of net proceeds after adjustments and usage up to 31 December 2018:

	Use of Proceeds after adjustments HK$million	*Unutilised Proceeds up to 31 December 2017 HK$million*	*Actual usage from 1 January 2017 to 31 December 2018 HK$million*	*Unutilised Proceeds up to 31 December 2018 HK$million*
Setting up new branches and IT infrastructure	333.2	210.7	114.1	96.6
Recruitment of professionals *(note 1)*	59.9	4.8	4.8	-
Establishment of a private wealth management platform *(note 2)*	179.0	136.3	29.2	107.1
Development of a financial services ecosystem *(note 3)*	135.0	108.8	24.3	84.5
General capital management *(note 4)*	2,970.9	2,141.5	2,141.5	-
Total:	3,678.0	2,602.1	2,313.9	288.2

Notes:

1. mainly utilised on the recruitment and employment of internet products and technology development professionals to assist on the expansion of retail brokerage businesses.

2. mainly utilised on recruitment and employment of professionals specialising in asset and wealth management.

3. mainly utilised on marketing and setting up of online sales platform.

4. mainly utilised on seed capital provided for financial product launched by the Group, capital to support securities brokerage and financing business, investment holding for capital management purpose including for the acquisition of YF Life.

Event after the Reporting Period

Details of event after the reporting period are set out in note 52 to the financial statements.

Embedded Value

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 both 31 December 2018 and 31 December 2017 are consistent with standards generally adopted by insurance companies in Hong Kong.

1. Background

The Group mainly consists of two major segments including life insurance business and 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 60% owned subsidiary, which is 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. Definition

EV is a measure of value of shareholders' interests in the earnings distributable ("distributable earnings") from assets allocated to the in-force business after sufficient allowance for the aggregate risks in the business.

The EV equals to:

- Adjusted Net Worth ("ANW"), plus
- Value of the in-force business before cost of capital ("VIF before CoC"), minus
- Cost of Capital ("CoC")

The ANW represents the net asset value on Hong Kong statutory basis, with marked-to-market adjustment to certain assets of our insurance business segment.

The VIF before CoC is the present value of future estimated after-tax statutory profits from in-force business, discounted at the risk discount rate as at 31 December 2018 and 31 December 2017 respectively. Cost of Capital is the difference between the amount of required capital as at 31 December 2018 and 31 December 2017 and the present value of future releases, allowing for future after-tax investment earnings on the capital.

Similarly, the new business value is calculated as the difference of new business value before CoC and CoC arising from new business sales in the period. The new business value before CoC is the present value, discounted at issue date, of future estimated after-tax statutory profits emerging from new business sales in the past 12 months, ie 1 January 2018 to 31 December 2018 and 1 January 2017 to 31 December 2017.

3. 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.

In determining the value of in-force business, our insurance segment's in-force policy databases as at 31 December 2017 and 31 December 2018 were used. New business volumes and mix were based on the actual business written by our insurance segment in the 12-month period from 1 January 2018 to 31 December 2018 and 1 January 2017 to 31 December 2017.

It should be noted that, in assessing the total value of a life insurance company, the value attributed to future new business can be determined as the product of the one-year new business value and a multiple which reflects an allowance for future new business sales and the risks associated with it at the assumed profit margin.

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 both 31 December 2018 and 31 December 2017 are consistent with standards generally adopted by insurance companies in Hong Kong.

4. 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 60% 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.

5. **Embedded value of YF Life**

5.1 Embedded value

	31 December 2018 HK$ million	*31 December 2017* HK$ million
Adjusted Net Worth	5,825	3,208
Value of in-force business before cost of capital	11,126	10,505
Cost of capital	(1,820)	(1,642)
Embedded value	15,131	12,071
Attributable to:		
Owners of the Company	9,079	7,243
Non-controlling interests	6,052	4,828
Embedded value	15,131	12,071

5.2 New Business value

	For the past 12 months as of 31 December 2018 HK$ million	*For the past 12 months as of 31 December 2017* HK$ million
New Business Value before cost of capital	618	614
Cost of capital	(110)	(120)
New Business Value after cost of capital	508	494

5.3 Movement analysis of embedded value

	Notes	*2018* HK$ million
Embedded Value as at 1 January		12,071
New business value	a	508
Expected return on Embedded value	b	1,096
Assumption and model changes	c	(349)
Investment return variance	d	(195)
ANW change for other business and capital injection	e	2,156
Other experience variance and exchange rate impact	f	(156)
Embedded Value as at 31 December		15,131

Note:

a) New business contribution from sales of new business in the past one-year

b) Return on value of in-force business plus expected interest on Adjusted Net Worth

c) Impact of assumption and model changes on the future distributable earnings of the in-force business

d) Differences between the actual investment returns and expected investment returns

e) Impact of capital injection and increase of retirement business

f) Differences between the actual experience and expected experience for mortality, morbidity, lapses, and expenses

5.4 Key assumptions

Our policies state that it adopts a best estimate approach in setting the assumptions which are used in the calculation of its Embedded Value and New Business Value. The assumptions were based on the actual experience of YF Life and certain industry experience.

The basis and assumptions used in the calculations are summarised below. These assumptions have been made on a "going concern" basis.

Risk discount rate

The risk discount rate represents the long-term post-tax cost of capital of the hypothetical investor for whom the valuation is made, together with an allowance for risk, taking into account factors such as the political and economic environment in Hong Kong.

Currently, we use a risk discount rate of 9% for 2018 and 2017 as the base scenario assumption for both in-force and new business.

Investment returns

Future investment returns have been calculated as the weighted average of the investment returns on existing assets and new assets.

The investment returns on existing assets and new assets have been determined by book yield, the forward rate yields available on US government bonds and credit spreads that reflects the allowance for risk of default of underlying assets respectively.

Credit rate

The crediting rates for universal life business have been set to reflect regulatory and contractual requirements, policyholders' reasonable expectations and earn rate assumptions. The crediting rates were worked out as earn rate less crediting rate spread.

Mortality

The mortality assumption is based on both emerging experience and industry experience, reflecting its expectation of how experience will emerge.

The experience mortality rates have been set as a percentage of HKA93 mortality table with an adjustment of increased mortality at older ages ("Adj. HKA93"). There were also adjustment factor for non-smoker and smoker.

Morbidity

Morbidity rate assumptions have been set as a percentage of the reinsurance rates due to the lack of credible claims experience.

Lapse

The lapse assumptions were based on YF Life's experience and adjusted to reflect the results of its recent experience. The assumptions have been set with reference to pricing assumptions where credible experience data is not available.

The lapse assumptions vary by products and policy duration.

Operating expenses

Operating expenses have been projected based on unit expense assumption. Projected excess or saving of expense compared with unit expense assumption has not been included in VIF or new business value. The historical excess or saving of actual expense compared with unit expense assumption has been included in ANW component of EV.

Inflation rate

Future inflation rate was assumed to be 2% per annum for 2018 and 2017. This assumption is based on expectations of long-term consumer price and salary inflation.

Taxation

A tax rate of 0.825% of net premium income has been assumed for 2018 and 2017 respectively.

Required capital

The embedded value projections assume that it maintains required capital at 150% of minimum solvency margin.

Statutory valuation

The distributable earnings are based on statutory reserve in accordance with the Hong Kong reserving regulations.

Reinsurance

The cost of the financial reinsurance is modelled based on reinsurance contract terms. The cost of surplus reinsurance contract is not material and has not been explicitly modelled, but reflected in the margins added to the mortality and morbidity rates.

5.5 Sensitivity testing

We performed sensitivity analysis on the value of in-force business and the new business value as at 31 December 2018, by independently varying certain assumptions regarding future experience. Specifically, the following changes in assumptions have been considered.

- New money yields increased by 100 basis points per annum
- New money yields decreased by 100 basis points per annum
- Risk discount rate increased by 50 basis points
- Risk discount rate decreased by 50 basis points
- 10% increase in lapse rate and skip premium rates (i.e. 110% of the central assumptions)
- 10% decrease in lapse rate and skip premium rates (i.e. 90% of the central assumptions)
- 10% increase in mortality and morbidity rates and loss ratios (i.e. 110% of the central assumptions)
- 10% decrease in mortality and morbidity rates and loss ratios (i.e. 90% of the central assumptions)
- 10% increase in acquisition and maintenance expenses (i.e. 110% of the central assumptions)
- 10% decrease in acquisition and maintenance expenses (i.e. 90% of the central assumptions)

For the year 2018 Assumptions	*Value of in-force business after cost of capital* HK$ million	*New business value after cost of capital* HK$ million
Base scenario	9,306	508
New money yields increased by 100 basis points per annum	10,181	592
New money yields decreased by 100 basis points per annum	7,609	428
Risk discount rate increased by 50 basis points	8,639	457
Risk discount rate decreased by 50 basis points	10,049	566
10% increase in lapse rate and skip premium rates	9,213	504
10% decrease in lapse rate and skip premium rates	9,409	512
10% increase in mortality and morbidity rates and loss ratios	8,400	452
10% decrease in mortality and morbidity rates and loss ratios	10,223	565
10% increase in acquisition and maintenance expenses	9,175	476
10% decrease in acquisition and maintenance expenses	9,437	541

Biographical Details of Directors and Senior Management

Chairman

Mr. Yu Feng, aged 55, was appointed as the Chairman and a non-executive Director and the chairman of the Nomination Committee in November 2015. Mr. Yu is the co-founder and chairman of Yunfeng Capital, a private equity firm founded by Mr. Yu together with other entrepreneurs in 2010.

Mr. Yu is a director of YFHL, Key Imagination and Jade Passion. YFHL, Key Imagination and Jade Passion are substantial shareholders of the Company.

Mr. Yu obtained an EMBA degree from China Europe International Business School, the PRC in March 2001 and a master of arts degree in philosophy from Fudan University, the PRC in July 1991.

Executive Directors

Ms. Li Ting, aged 46, was appointed as an executive Director in November 2015. Ms. Li is currently the Chief Executive Officer of the Company. Ms. Li has over 20 years of experience in the financial industry, including fixed income and derivatives analytics, risk management, portfolio management, sales and market developments, and strategic planning and execution, in the U.S.A., the PRC and Hong Kong. Prior to joining the Group, Ms. Li was a senior managing director and head of Asia ex-Japan of State Street Global Advisors.

Ms. Li holds a bachelor's degree in finance from Nankai University, the PRC, and a master's degree in finance from Boston College, the U.S.A..

Mr. Huang Xin, aged 43, was appointed as an executive Director and a member of the Remuneration Committee in November 2015. Mr. Huang is a partner and a member of the investment committee of Yunfeng Capital. Mr. Huang served as vice president of Shanghai Kaituo Capital Limited from 2006 to 2010, where he was in charge of various investments. Mr. Huang was vice president of finance at Target Media Holdings Limited from 2005 to 2006, where Mr. Huang managed its daily financial operations and led its equity financing and merger and integration with Focus Media Holding Limited. Mr. Huang worked at General Electric Company from 1997 to 2005.

Mr. Huang is a director of Jade Passion, the substantial shareholder of the Company.

Mr. Huang obtained a master of business administration degree from China Europe International Business School, the PRC in October 2011 and a bachelor's degree in accounting from Fudan University, the PRC in July 1997.

Non-Executive Directors

Mr. Adnan Omar Ahmed, aged 51, was appointed as a non-executive Director on 16 November 2018. Mr. Ahmed is also a director of YF Life. Mr. Ahmed is the chairman, president and chief executive officer of MMI. Mr. Ahmed joined MassMutual in October 2015 as executive vice president and chief human resources officer. Mr. Ahmed brings with him an impressive history of more than 20 years of global financial services and leadership experience, ranging from operating to human resources roles. He joined MassMutual from Citigroup, Inc. in London where he was managing director and head of human resources for Europe, Middle East and Africa as well as the global head of recruitment for the firm. Previously, he led global shared services in the operations and technology division for all of Citigroup employees.

Prior to joining Citigroup in 2010, Mr. Ahmed began his career at Mitsubishi UFJ Financial Group, rotating through various roles including corporate finance, operations, credit and human resources. He then spent 17 years at Morgan Stanley in New York, Tokyo, Sydney and Hong Kong, during which time he held a range of roles including chief administrative officer and head of human resources, Asia.

Mr. Ahmed is a non-executive director on the board of directors of Nippon Wealth in Japan, a subsidiary of Nippon Life. Additionally, he serves on the board of directors of the Human Capital Leadership Institute in Singapore. Prior to the current board directorships, Mr. Ahmed also served on the board of directors of Temasek Management Services, Singapore between 2010-2018, and Bank Handlowy, Poland and Citibank Turkey, both between 2012-2015.

Mr. Ahmed holds a bachelor of science degree in computer science, a bachelor of arts degree in international relations, and a master’s degree in business administration, all from Tulane University. He is based in Hong Kong.

Ms. Hai, Olivia Ou, aged 39, was appointed as a non-executive Director in November 2015. Ms. Hai is a managing director of Yunfeng Capital and specialises in investments related to the financial services industry. Prior to joining Yunfeng Capital, Ms. Hai was an actuarial partner at Deloitte China from 2012, and was engaged in the provision of consulting services to overseas and domestic insurance companies. Ms. Hai has also worked at HSBC Insurance (Asia) Limited in Hong Kong from 2010 to 2012 and PricewaterhouseCoopers LLP in the United Kingdom from 2002 to 2010.

Ms. Hai is a qualified fellow member of the Institute and Faculty of Actuaries in the United Kingdom and is a board representative of both the Life Board and the Education Board of the Institute and Faculty of Actuaries in the United Kingdom. She is also a fellow member of the China Association of Actuaries.

Mr. Gareth Ross, aged 43, was appointed as a non-executive Director on 16 November 2018. Mr. Ross has been an executive team member, head of digital and customer experience and senior vice president of advanced analytics and target markets of MMLIC since May 2014. At MMLIC, he was previously vice president of sales and distribution strategy from January 2011 to May 2014, vice president of strategy from June 2009 to December 2010 and vice president of financial planning analysis from April 2008 to June 2009. In addition, he has been a director of each of Society of Grownups since October 2017, MMI since June 2016 and Coverpath Inc. (now known as Haven Life Insurance Agency, LLC) since March 2014. Prior to joining MMLIC, he worked at Capmark Financial Inc. from 2006 to 2008. He worked at General Motors Company from 2004 to 2006.

Mr. Ross received a master of business administration degree in finance and accounting and a masters degree in international studies from The Wharton School and The Joseph Lauder Institute of the University of Pennsylvania in the U.S.A. in May 2004. He obtained a bachelor of science degree in business administration from Washington University in St. Louis in the U.S.A. in December 1997.

Independent Non-Executive Directors

Mr. Lin Lijun, aged 45, was appointed as an independent non-executive Director and a member of the Audit Committee and Nomination Committee and the chairman of the Remuneration Committee in November 2015. Mr. Lin was the founder of China Universal Asset Management Co., Ltd., an award-winning and diverse asset management company founded by Mr. Lin in April 2004 and at which he had served as chief executive officer until April 2015. Mr. Lin has extensive experience in investment management as well as risk management. Mr. Lin is currently founder and partner of Loyal Valley Capital, a leading PE fund in China.

Mr. Lin was appointed as a non-executive director of Shanghai Junshi Biosciences Co., Limited (Stock code: 01877) on 24 June 2018, a company listed on the Stock Exchange. Currently, Mr. Lin serves as a non-executive director of Wenzhou Kangning Hospital Co., Ltd (Stock code: 02120) and an independent non-executive director of TANSH Global Food Group Co., Ltd (Stock code: 03666), both companies are listed on the Stock Exchange.

Mr. Lin obtained a bachelor's degree and a master's degree in economics from Fudan University, the PRC, in 1994 and 1997 respectively, and a master of business administration degree from Harvard University, the U.S.A. in 2003.

Mr. Qi Daqing, aged 54, was appointed as an independent non-executive Director, and a member of the Audit Committee, Nomination Committee and Remuneration Committee in February 2016. Mr. Qi is currently a professor of Cheung Kong Graduate School of Business. He previously served as director and associate dean of the executive master of business administration department. Mr. Qi's research interests primarily focus on financial accounting, financial reporting and their impact on corporate business strategy. Mr. Qi has published many articles in accounting and finance journals. Mr. Qi worked at The Chinese University of Hong Kong and the Feature Syndicate of the Department of Home News for Overseas, Xinhua News Agency prior to joining Cheung Kong Graduate School of Business in 2002.

Mr. Qi was appointed as an independent non-executive director of Haidilao International Holdings Limited (stock code: 06862) on 2 May 2018, a company listed on the Stock Exchange. Currently Mr. Qi serves as independent director of Sohu.com Inc. (NASDAQ: SOHU) and Momo Inc. (NASDAQ: MOMO), all of which are listed on NASDAQ; and independent non-executive director of Bison Finance Group Limited (Stock code: 00888), SinoMedia Holding Limited (stock code: 00623) and Jutal Offshore Oil Services Limited (stock code: 03303), all of which are listed on the Stock Exchange. Mr. Qi served as an independent non-executive director of Honghua Group Limited (stock code: 00196) from 18 January 2008 to 1 January 2018, a company listed on the Stock Exchange, and an independent non-executive director of Dalian Wanda Commercial Properties Co., Ltd. (stock code: 03699) from 29 January 2016 to 20 September 2016, a company delisted from the Stock Exchange on 20 September 2016. Mr. Qi had also been an independent director of Focus Media Holding Limited (NASDAQ: FMCN) and AutoNavi Holdings Ltd. (NASDAQ: AMAP), all of which were listed on NASDAQ, an independent director of Bona Film Group Limited and iKang Healthcare Group, Inc. which were listed on NASDAQ and ceased to be public companies, and an independent director of China Vanke Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000002; and listed on the Stock Exchange, stock code: 02202).

Mr. Qi graduated with a doctoral degree in accounting from The Eli Broad Graduate School of Management of Michigan State University in the U.S.A. in 1996. He also obtained a master's degree in management from University of Hawaii in the U.S.A in 1992 and dual bachelor's degrees (in biophysics and international news) from Fudan University in 1985 and 1987 respectively.

Mr. Chu Chung Yue, Howard, aged 70, was appointed as an independent non-executive Director, the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee in August 2011.

Mr. Chu was the vice president, Asia and chief representative, China of Teck Resources Limited. Mr. Chu was responsible for the development of an Asian strategy for the company, monitoring China's economic performance and promoting business development opportunities in China. Mr. Chu held various positions including corporate controller for Teck Resources Limited from 1978 to 2007 and was the vice president, Asia and chief representative, China from 2007 to April 2011.

Mr. Chu was appointed as an independent non-executive director of Grandshores Technology Group Limited (stock code: 01647) on 30 June 2018, a company listed on the Stock Exchange.

Mr. Chu holds a bachelor degree in commerce from University of British Columbia and was a member of the Chartered Professional Accountants of Canada.

Senior Management

Mr. Cai Junyi, aged 35, joined the Group in December 2015, is the general manager of the Fintech Business of the Group. Mr. Cai is a Fintech product expert with over 10 years of experience in product design and team management. Mr. Cai took up employment with internet giants Sina and Tencent and was the chief technical editor of Sina Finance and deputy director of Tencent Financial Product Center. During his employment with Tencent, Mr. Cai served as a chief product manager and led the team to develop the Zixuangu" （"自選股"） APP.

Mr. Chan Man Ko, aged 44, joined the Group in November 2015, is the Chief Financial Officer, Company Secretary and a Senior Managing Director of the Group, and the Executive Director and Senior Vice President of YF Life. Before joining the Group, Mr. Chan worked for China Taiping Insurance Holdings Company Limited (stock code: 00966) for over 11 years and had served several positions including deputy general manager of finance department, chief financial officer and company secretary. Prior to this, he worked for Deloitte Touche Tohmatsu for 7 years.

Mr. Chan is an associate member of Institute of Chartered Accountants in England and Wales, and associate member and practicing member of Hong Kong Institute of Certified Public Accountants.

Mr. He Shiqiang, aged 48, joined the Group in September 2015, is the Head of I.T. and Operations of the Group. Prior to joining the Group, Mr. He was the head of operations of Shanghai-based Pacific Asset Management Co. from 2013 to 2015. Before that, Mr. He worked, from 2009 to 2013, for Shanghai-based BNY Mellon Western Fund Management Co. as CTO, CRO and COO and served on the company supervisory board. Prior to moving to Shanghai, Mr. He worked in various technology and consulting roles in the U.S.A., including software architect for Maple Securities and senior consultant in PA Consulting Group.

Mr. He received a B.S. degree from Peking University and a master degree from Massachusetts Institute of Technology.

Ms. Qin Li, aged 45, joined the Group in June 2017, is a Senior Managing Director of the Group. With nearly two decades of experience working in the PRC banking industry, Ms. Qin took up employment with China Investment Bank and China CITIC Bank respectively and took part in foreign government loans, custody, retailing, private banking and bank financial management businesses in their chronological order, thereby enjoying a wealth of experience in wealth management and asset management. Prior to joining the Group, Ms. Qin was an assistant to the general manager of the department of financial management business at the headquarter of China CITIC Bank, tasked with product development and investment management for the bank's financial management business and leading a team with a portfolio of assets in excess of RMB 600 billion with the scope of investments covering debentures, stocks, derivatives, and alternative assets.

Ms. Qin graduated from Nankai University in the PRC with a bachelor's degree in finance and received her master's degree in business administration from the University of Wyoming in the U.S.A..

Mr. Tang Hui, aged 48, joined the Group in March 2016, is the Chief Risk Officer of the Group. Mr. Tang has near two decades experience in financial industry with exposures to both overseas and domestic Chinese markets.

Previously, Mr. Tang worked with financial institutions such as Bank of America, Merrill Lynch and a large multi strategy hedge fund as well as a Chinese securities firm among others in various risk management positions.

Mr. Tang holds a bachelor degree from Beijing Institute of Technology, master's degree in business administration from International University of Japan and master degree in Computational Finance from Carnegie Mellon University.

Mr. Tay Keng Puang, aged 62, joined the Group in November 2018, is the Vice President of the Group, and managing director and the chief executive officer of YF Life. He is a member of various committees, including the investment committee, the reinsurance committee and the risk management committee of YF Life. Mr. Tay has over 38 years of experience in the life insurance industry. He joined the YF Life Group in December 1996 and was appointed to his current position in June 2009. From December 1996 to October 2009, he was the president of MassMutual Trustee Company Limited, a subsidiary of YF Life operating the YF Life Group's MPF business. During this period, he also served as senior vice president of YF Life, with responsibility for Employee Benefits Administration and Management Information Systems.

Mr. Tay graduated from Newport University in the U.S.A. with a master's degree in business administration in December 1992. He received a postgraduate diploma in statistics and operational research from University of Essex in the United Kingdom in July 1980 and his bachelor's degree in economics from University of Portsmouth in the United Kingdom in July 1978. Mr. Tay was designated as a fellow member of the Life Management Institute (FLMI) by Life Office Management Association (LOMA) in September 1989.

Corporate Governance Report

The Board of Yunfeng Financial Group Limited is committed to maintaining high standards of corporate governance. It believes that a high standard of corporate governance provides a framework and solid foundation for attracting and retaining high calibre and talented management, promoting high standards of accountability and transparency and meeting the expectations of all the Shareholders.

The principles of corporate governance adopted by the Group stress the importance of a quality board, sound internal controls, and transparency and accountability to all the Shareholders.

Throughout the Year, the Company has complied with the applicable code provisions of the CG Code, except for the following 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 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 Year.

The Board

The Board is responsible for the formulation of the Group's strategies, policies and business plans, regulating and reviewing risk management and internal control systems, formulating the Group's corporate governance policy, and supervising the management of the business operations of the Group to ensure that its business objectives are met. The Board also ensures adequacy of resources, qualifications and experience of the Board members. The senior management of the Group is responsible for the day-to-day operations of the Group and accountable to the Board.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Group. As at the date of this annoucement, the Board comprises the following Directors:

Chairman

Mr. Yu Feng (Non-executive Director)

Executive Directors

Ms. Li Ting (Chief Executive Officer)
Mr. Huang Xin

Non-executive Directors

Mr. Adnan Omar Ahmed
Ms. Hai Olivia Ou
Mr. Gareth Ross

Independent non-executive Directors

Mr. Lin Lijun
Mr. Qi Daqing
Mr. Chu Chung Yue, Howard

The current Directors and their brief biographical details are set out in the section headed "Biographical Details of Directors and Senior Management" of this announcement.

There are no financial, business, family or other material/relevant relationships between Board members and between the Chairman and the CEO.

The Company has been maintaining the number of independent non-executive Directors at not less than one-third of the number of the Board members and has ensured that at least one of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise as required by the Listing Rules. The participation of independent non-executive Directors in the Board brings independent judgement to ensure the interests of all Shareholders have been duly considered.

For a Director to be considered independent, that Director should not have any direct or indirect material interest in the Group. In determining the independence of Directors, the Board follows the requirement set out in the Listing Rules. The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules in respect of the year ended 31 December 2018 and the Company considers that they are independent.

The roles of the Chairman and the CEO are complementary, but importantly they are distinct and separate with a clear and well established division of responsibilities.

The Chairman (assumed by Mr. Yu Feng) is responsible for setting strategic targets, providing leadership to the Board, monitoring Board effectiveness and fostering constructive relationship between Directors.

The CEO (assumed by Ms. Li Ting) is responsible for managing the business of the Group, attending to the formulation and implementation of Group's policies, and assuming full accountability for the Group's operations. Acting as the principal manager of the Group's business, the CEO develops a strategic operating plan that reflects the long-term objectives and priorities established by the Board, and is directly responsible for maintaining the operational performance of the Group. Working with the senior management and the Board, the CEO ensures that the funding requirements of the business are met and closely monitors the operating and financial results against the plans. The CEO also takes remedial actions when necessary and advises the Board of any significant developments and issues of the Group.

The Board meets regularly and at least 4 times a year. Between scheduled meetings, senior management of the Group provides to the Directors the information on the activities and developments in the businesses of the Group on a timely basis and, when required, additional Board meetings are held. In addition, the Directors have full access to the information of the Group and to independent professional advice whenever should they consider necessary. During the Year, a total of 4 Board meetings and 2 general meetings, including the annual general meeting were held and the attendance of each Director is set out below:

	Number of meetings attended in the year ended 31 December 2018 / Number of meeting eligible to attend					
	Board	NC	RC	AC	AGM	EGM
Chairman						
Mr. Yu Feng	4/4	1/1	-	-	1/1	0/1
Executive Directors						
Ms. Li Ting	4/4	-	-	-	1/1	1/1
Mr. Huang Xin	3/4	-	1/1	-	1/1	1/1
Non-executive Directors						
Mr. Ko Chun Shun, Johnson (resigned on 16 November 2018)	3/3	-	-	-	1/1	1/1
Mr. Adnan Omar Ahmed (appointed on 16 November 2018)	-	-	-	-	-	-
Ms. Hai Olivia Ou	4/4	-	-	-	1/1	1/1
Mr. Huang Youlong (resigned on 11 January 2018)	-	-	-	-	-	0/1
Mr. Gareth Ross (appointed on 16 November 2018)	-	-	-	-	-	-
Independent non-executive Directors						
Mr. Lin Lijun	0/4	0/1	0/1	0/2	0/1	0/1
Mr. Qi Daqing	4/4	1/1	1/1	2/2	1/1	0/1
Mr. Chu Chung Yue, Howard	4/4	1/1	1/1	2/2	1/1	1/1

Note:

NC – Nomination Committee

RC – Remuneration Committee

AC – Audit Committee

AGM – annual general meeting held on 22 June 2018

EGM – extraordinary general meeting held on 10 January 2018

Professional Training for Directors

All Directors, including independent non-executive Directors, should always know their collective responsibilities as Directors and of the businesses and activities of the Group. Each newly appointed Director would receive an induction package covering the Group's businesses and the statutory and regulatory obligations of a director of a listed company.

During the Year, all Directors have received the following trainings:

Directors	**Training on corporate governance, regulatory development and other relevant topics**
Chairman	
Mr. Yu Feng	✓
Executive Directors	
Ms. Li Ting	✓
Mr. Huang Xin	✓
Non-executive Directors	
Mr. Ko Chun Shun, Johnson (resigned on 16 November 2018)	✓
Mr. Adnan Omar Ahmed (appointed on 16 November 2018)	✓
Ms. Hai Olivia Ou	✓
Mr. Huang Youlong (resigned on 11 January 2018)	N/A
Mr. Gareth Ross (appointed on 16 November 2018)	✓
Independent non-executive Directors	
Mr. Lin Lijun	✓
Mr. Qi Daqing	✓
Mr. Chu Chung Yue, Howard	✓

Board Diversity Policy

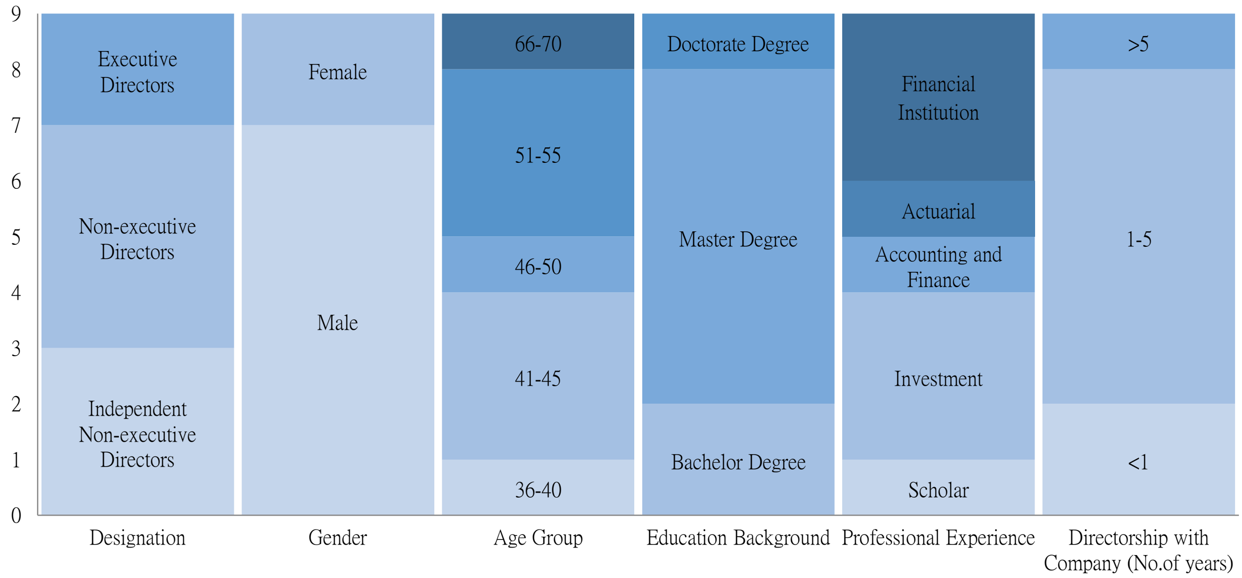
The Company has adopted a board diversity policy in October 2013 which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises the benefits of a Board that possesses an appropriate balance and levels of skills, experience, expertise and diversity of perspectives essential to support the execution of its corporate and business strategies and to enhance the quality and effectiveness of its performance. Board diversity will strengthen the Company's strategic objectives in driving business results; enhancing good corporate governance and reputation; and attracting and retaining talent for the Board.

Board Diversity Policy

The Company seeks to achieve Board diversity through the consideration of a number of factors, including professional qualifications and experience, cultural and educational background, race and ethnicity, gender, age and length of service. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

As at the date of this announcement, the Board composition under major criteria for diversity was summarised as follows:



The Board considers that the current board composition is diverse and meets the criteria of the board diversity policy. Accordingly, no measurable objectives have been set for implementing the said policy. The Board will review the policy from time to time to ensure that the board diversity policy is complied with.

A copy of the board diversity policy is published on the Company's website for public information.

Board Committees

Regarding the corporate governance function, during the year ended 31 December 2018, the Board has reviewed and monitored the training and continuous professional development of Directors and senior management. The Board has also reviewed and ensured compliance of the relevant legal and regulatory requirements, the code of conducts, corporate governance policies and practices and the disclosure in the Corporate Governance Report. Besides, the Company has set up three committees including, the Nomination Committee, the Remuneration Committee and the Audit Committee. Each committee has its specific terms of reference with reference to the CG Code.

Remuneration Committee

The Remuneration Committee was chaired by Mr. Lin Lijun with existing members of Mr. Huang Xin, Mr. Chu Chung Yue, Howard and Mr. Qi Daqing. The Remuneration Committee is responsible to make recommendation to the Board on the remuneration packages of Directors and senior management of the Group. In addition, the Remuneration Committee shall meet as and when required to consider remuneration related matters such as making recommendations to the Board on the Group's policy and structure for the remuneration of Directors and senior management, and to assist the Group in the administration of the fair and transparent procedure for setting policies on the remuneration of Directors and senior management of the Group. The written terms of reference of the Remuneration Committee are posted on the websites of the Company and the Stock Exchange. Code provision B.1.2(c)(ii) was adopted by the Remuneration Committee.

During the Year, the Remuneration Committee held 1 meeting. The Remuneration Committee reviewed the remuneration packages for Directors and senior management of the Group by assessing their performance.

Details of the remuneration of the Directors during the Year are set out in note 14 to the financial statements. The remuneration of the senior management during the Year falls within the following bands:

	Number of Individual
HK$2,000,001-HK$3,000,000	2
HK$7,000,001-HK$8,000,000	1
HK$8,000,001-HK$9,000,000	1
HK$9,000,000- HK$10,000,000	2

Nomination Committee

The Nomination Committee was chaired by Mr. Yu Feng with existing members of Mr. Lin Lijun, Mr. Chu Chung Yue, Howard and Mr. Qi Daqing. The terms of reference of the Nomination Committee have been determined with reference to the CG Code and posted on the websites of the Company and the Stock Exchange.

The roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board at least once every year, making recommendations on any proposed changes to the Board to complement the Group's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the independent non-executive Directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the CEO. In considering the nomination of new directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates.

The Nomination Committee is also responsible for the review of the board diversity policy (summary is disclosed above), considering factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of Board members, and review the measurable objectives that the Board has set for implementing the board diversity policy (if any), and monitor the progress on achieving the measurable objectives (if any).

The Company has adopted a nomination policy on 1 January 2019 (the "Nomination Policy"). The objective of the Nomination Policy is to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The Nomination Policy sets out formal procedures for selection, appointment and re-appointment of Directors. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall include but not limited to his or her integrity, accomplishment and experience, in particular, in the industry of the Group's businesses, commitment in respect of available time and ability to contribute to the diversity of the Board.

During the Year, the Nomination Committee held 1 meeting. The committee considered the re-election of the retiring Directors and reviewed the board's diversity policy as well as assessed the independence of each independent non-executive Director.

Mr. Adnan Omar Ahmed and Mr. Gareth Ross were appointed during the Year. Their nomination for appointment were reviewed and recommended by the Nomination Committee in 2017. Such nomination had been disclosed in the corporate governance report included in the 2017 annual report.

Audit Committee

The Audit Committee is chaired by Mr. Chu Chung Yue, Howard, with existing members of Mr. Lin Lijun and Mr. Qi Daqing.

Mr. Chu holds a bachelor's degree in commerce from University of British Columbia and was a member of the Chartered Professional Accountants of Canada. Mr. Chu has appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit Committee are in line with the CG Code and are posted on the websites of the Company and the Stock Exchange. The Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim results and annual results and to monitor the integrity of the financial statements of the Group, to review the scope, extent and effectiveness of the Company's financial controls, risk management and internal control systems, internal audit and to review the Group's financial and accounting policies.

The Audit Committee held 2 meetings during the Year. There is no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors. The Audit Committee has reviewed, inter alia, the accounting principles and practices adopted by the Group and discussed internal controls, financial reporting and risk management matters of the Group. The Audit Committee has also reviewed, and had discussions with external auditors, on the interim and annual consolidated financial statements of the Group.

Auditor's Remuneration

A summary of fees for audit and non-audit services is as follows:

Nature of services	31 December 2018	31 December 2017
	HK$'000	HK$'000
Audit services	13,126	2,220
Non-audit services	4,229	6,340
Total	17,355	8,560

Responsibilities for Preparing the Financial Statements

The directors acknowledge that it is their responsibility for preparing financial statements which give a true and fair view.

Risk Management and Internal Control

While the Group pursues growth in business, it also recognises the importance of effectively managing various risks associated with its operations. The Group aims to achieve a good balance between risks and growth by implementing appropriate risk management and internal control.

Organisation

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining sound and effective risk management and internal control systems (including reviewing their effectiveness) to safeguard Shareholders' investment and the Group's assets. To this end, management continues to allocate resources for a risk management and internal control systems to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The corporate governance committee of the Group (the "Corporate Governance Committee") is made up of the CEO and members who represent each of the key departments or business units, including finance, technology, risk management, operations, legal, compliance and project management with the responsibility to oversee the Group's overall risk management and internal control systems and has the ultimate responsibility for the establishment and implementation of risk governance framework, appetite / tolerances, strategies, policies and procedures. The compliance manual sets out the guidelines on reporting and disseminating inside information, and the Corporate Governance Committee is delegated with the continuing responsibility to monitor adherence and compliance with all significant legal and regulatory requirements. The Risk Oversight Committee ("ROC") is a sub-committee under the Corporate Governance Committee, responsible for the risk management and internal control.

The ROC comprises business heads, head of legal, head of compliance and head of risk management and is chaired by the CEO. Authority is delegated from the Corporate Governance Committee and the function of the committee is risk governance for the Group.

The Chief Risk Officer is responsible for maintaining the effectiveness of the risk management framework and for supervision of daily operation of the risk management department.

Risk Management and Internal Control Systems

Based on industry practice, the Group adopts the industry standard "Three Lines of Defense" for the management of risks, comprising the following elements:

(1) 1st Line of Defence: The business which owns and manages its risks;

(2) 2nd Line of Defence: The risk management and operation function, which defines and co-ordinates the operational risk strategy and framework; and

(3) 3rd Line of Defence: Internal and external audit, who provide independent assurance.

Each of the Group's departments conducts risk management and internal control that responds to the risk profile and size of each business in accordance with basic policies. Risk management department, together with other concerned management functions, monitor and communicate the risk exposures and issues to the management. Critical issues will be escalated to different committees according to pre-set rules, discussions will be held and resolutions will be found by responsible committees. The process used to identify, evaluate and manage significant risks is set out in the Report of the Directors of this announcement.

Risk Management and Internal Control Review

Risk management department, led by the Chief Risk Officer, working under the guidance of risk management policies, has developed various procedures to manage, monitor and report identified risk factors that the Group's might encounter on a daily basis. Apart from periodic risk reports that are sent out to major management members and stakeholders, communications are also conducted through regular Corporate Governance Committee meetings. Ad hoc risk reports would also be produced, whenever there are risk issues that need to be addressed immediately.

2018 has been a successful year in terms of risk management under the current control framework built in the past years, focusing on identifying potential risks, risk reporting as well as improving and fixing procedures. The internal audit function was put in place during the Year. As of the time when the annual review is composed, there are no any risk incidents that have caused significant financial losses to the Group due to control failures.

The review of the effectiveness of the Group's risk management and internal control systems has been conducted annually. During the Year, the Audit Committee, through the Corporate Governance Committee, has reviewed the adequacy and effectiveness of the Group's risk management and internal control systems and considered that the risk management and internal control systems are effective and adequate. The Group's Risk Management and Internal Control Report for 2018 was compiled to cover (i) the key risks of the Group; (ii) developments in business and extent of the risks in 2018, and responses to changes in its business and the external environment; (iii) associated action plans and controls designated to mitigate the key risks, where applicable, at appropriate level; (iv) the adequacy of resources, qualifications and experience, training programs and budget of accounting, financial reporting and internal audit functions; and (v) the compliance with relevant laws and regulations that have a significant impact on the business and operation of the Group. The Risk Management and Internal Control Report was presented to the Audit Committee for review in March 2019.

Dissemination of Inside Information

The Company is committed to a consistent practice of timely, accurate and sufficiently details disclosure of material information about the Group. With the guidelines of the Company regarding the disclosure of inside information, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is well aware of its obligations under the SFO, the Listing Rules and the overriding principle that information which is considered as inside information should be announced promptly when it is the subject of a decision
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the SFC
- informs all Directors, senior management and related staff of the latest regulations and requirements according to the letters issued or announcements published by the SFC and the Stock Exchange
- has developed procedures and mechanisms for the disclosure of inside information
- has included in its Compliance Manual a strict prohibition on the unauthorised use of confidential, sensitive or inside information, and has communicated this to all staff
- has established and implemented procedures for responding to external enquiries about the Company's affairs. Only directors and delegated management of the Company can act as the Company's spokespersons and respond to enquiries on designated areas

Company Secretary

All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to the Board, and is responsible for ensuring that Board procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and the management.

Mr. Chan Man Ko, the company secretary of the Company, has complied with the training requirement of the Listing Rules during the Year.

Shareholders' Right

How Shareholders Can Convene an Extraordinary General Meeting ("EGM")

An EGM may be convened by the Directors on requisition of Shareholders holding not less than one-twentieth (5%) of the total voting rights of all Shareholders or by such Shareholder(s) who made the requisition (as the case may be) pursuant to section 566 to 568 of the Companies Ordinance and the articles of association of the Company. The objects of the meeting must be stated in the requisition which must be signed by the requisitionist(s) and deposited at the registered office of the Company. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening an EGM.

Procedures for Putting Forward Proposals at a General Meeting

Pursuant to the Companies Ordinance, Shareholders representing not less than one-fortieth (2.5%) of the total voting rights of all Shareholders; or not less than 50 Shareholders on which there has been paid up an average sum, per Shareholder, of not less than HK$2,000, may make requisition in writing for proposing resolution or business to be dealt with at the next general meeting. Shareholders should follow the requirements and procedures as set out in section 615 of the Companies Ordinance for putting forward a proposal at a general meeting.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary whose contact details are as follows:

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

Fax: (852) 2845 9036 / (852) 3102 9022

Email: ir@yff.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Investor Relations

The Board is committed to providing clear and full performance information of the Group to the Shareholders through the publication of interim and annual reports. In addition to the circulars, notices and financial reports sent to the Shareholders, additional information of the Group is also available to the Shareholders on the Group's website.

Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice is given. The Chairman and Directors (including chairman/members of the Audit Committee, the Nomination Committee and the Remuneration Committee) as well as the representative of external auditor, should attend and answer questions on the Group's business at the meeting. All resolutions at the general meeting are decided by a poll which is conducted by the Group's share registrar.

The Group values feedback from the Shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed.

Constitutional Documents

There are no changes in the constitutional documents of the Company during the Year. The latest version of the articles of association of the Company is posted on the websites of the Company and the Stock Exchange.

Report of the Directors

The Directors submit herewith their report together with the audited consolidated financial statements for the year ended 31 December 2018.

Principal Activities

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 22 to the financial statements. An analysis of the revenue and the results of the Group by business segments during the Year are set out in note 17 to the financial statements.

Key risks and uncertainties

The Board is ultimately responsible for ensuring that the risk management practices of the Group are sufficient to mitigate the risks present in our businesses and operations as efficiently and effectively as possible. The Board delegates some of this responsibility to various operational departments.

The Group's financial position, operations, business and prospects may be affected by the following identified risks and uncertainties. The Group adopts risk management policies, measures and monitoring systems to pre-empt and contain exposures associated with the identified risks.

Regulatory risk

Our businesses operate in highly-regulated markets and our success and operations can be impacted by changes to the regulatory environment and the structure of these markets. The Group pays close attention to financial regulatory and legislative developments of the markets it operates and actively monitors and consults with regulators of the markets on changes which could impact our business. Many of our key businesses are also subject to direct regulatory oversight and we are required to maintain the appropriate regulatory approvals and licenses to operate, and in some cases adhere to certain stringent financial and capital covenants.

Operational risk

This is the risk of loss resulting from inadequate or failed internal processes, people or system issues and from unforeseen external events. Operational risk usually includes the risks resulted from human error in internal operation, imperfection of internal process, information system fault or imperfection, trading failure and other reasons.

Our business and operations are at risk of disruption from technologies and processes. Information technology and systems is critical to the Group's operation and business development of securities trading, settlement and service, etc. The unreliability of system, imperfection of network technology and data error will inflict damage and economic losses to the Group.

The Group is responsible for managing client data and undertakes volumes of transactional processes via information technology and systems. There is a risk that failure to process these transactions correctly could result in loss and liabilities being incurred to third parties, and result in breach of certain regulations of the relevant regulatory authorities.

In order to manage these risks, the Group invests significantly in technology, human resources and automated processes, business continuity plans to cope with events of operation and system failures and disaster recovery, and has also established, a dedicated I.T. team which is responsible for handling and responding rapidly to emergencies in a systematic manner to eliminate disruptions and disasters, and to ensure business continuity. The I.T. team also plays an important role in assessing the technological requirements and their viability of new business ideas and initiatives of the Group.

The Group remains proactive in its monitoring and improving the internal control mechanisms, limits on authority and reporting of operational processes, strengthening the inspection and audit, intensifying the compliance and accountability system, to reduce the possibility of operational risks and actively and properly dealing with the adverse effects. The responsibility for managing operational risks rests with each and every employee, functions, divisions and departments of the Group. The responsibility is continuous and we adapt our response accordingly to the changing operating environment.

The Group recognises that operational risks cannot be eliminated completely, but will strive to persist in its strengthening and implementation of robust compliance and risk management measures, improve business processes, strengthen the professional integrity and ethics of staff through education and training to avoid, detect and identify risks, prevent money-laundering, insider dealing, conflict of interest and other possible violations, to pre-empt, manage and reduce these operational risks exposure.

Credit Risk

Credit risks will arise when a client/counter-party fails to perform its financial and contractual obligations. To minimise and control this risk, the Group has established and enforced stringent due diligence assessment and credit control procedures to evaluate the creditworthiness of its clients and counterparties. Preventatively and clearly defined risk control measures have been deployed to screen, evaluate potential clients and determine and assess the relevant creditworthiness and credit ratings which are used to determine appropriate trading and credit limits for all clients/counterparties, including existing clients/counterparties.

The safeguard and risk control measures include performing pre-screening and assess the client's credit rating by reputable credit rating agencies; identify and review client's investment objectives, investment history, trading frequency and risk appetite; examine and review client's/counterparty's past payment records and history of defaults; identify and review the client's capital base and the existence and amount of guarantees and by whom such guarantees are given, if any; identify and review any known events which may have an adverse impact on the client's/counterparty's financial status, potential for default or accuracy of information stored regarding the client/counterparty. Trading and credit limits, subject to the enforced and pre-determined maximum, are set specifically for each client in accordance with our assessments and their respective credit rating and trading needs. The Group also attempts to manage its investments to limit credit risk by diversifying its portfolio among various security types and industry sectors as well as purchasing credit default swaps to transfer some of the risk if necessary. The Group's exposure to the client's and counterparties' credit risks is continually monitored.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an ability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group continually monitors cash flows and maintains an adequate level of cash and credit facilities to ensure the ability to finance the Group's operations and reduce the effects of cash flow fluctuations.

Certain principal operating subsidiaries of the Group are regulated by the regulators including the SFC and the HKIA, and are subject to various liquidity and capital requirements. The Group has established procedures and monitoring systems, monitoring on a daily basis, to ensure that it maintains adequate and necessary liquid capital to facilitate its operating capability, to fund its business commitments as well as to comply with the relevant rules.

The Group has maintained banking facilities and financing arrangement to meet cash flow contingencies in its operations. The Group will also consider the need to raise capital funding in order to meet the Group's expansion and growth in its business operations. The management believes that the Group's current level of working capital is adequate to meet its operational and financial obligations.

Market Risk

The operating performance of the Group highly relates to the changes in the economy, sentiments of the investors and securities market and has risks, volatility and uncertainties.

Market risk is the risk that the Group's earnings and capital or its ability to meet its business objectives will be adversely affected by movement in foreign exchange rates, interest rates and equity prices.

Price risks of the Group include equity price risk, interest rate and exchange rate and fluctuation risks involved in the brokerage business, financial advisory business, asset management business and other business.

The Group currently has minimal exposure to foreign currency risk, but continues to monitor the relative foreign exchange positions of the mix of its assets and liabilities. When appropriate, hedging instruments including forward contracts, swaps and currency loans would be used to manage the foreign exchange exposure. The foreign currency risk is managed and monitored on an on-going basis by senior management and relevant operation staff of the Group.

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.

Equity price risk arises from fluctuation in market prices of the Group's investment in financial assets. Senior management regularly reviews and monitors the mix of securities in its investment portfolio based on its fair value to ensure the loss arising from the changes in the market values of the investment portfolios is minimised and contained within an acceptable range.

Insurance Risk

The Group prices its products based on estimated benefit payments reflecting assumptions with respect to mortality, morbidity, longevity, persistency, interest rates and other factors. If actual policy experience emerges that is significantly and adversely different from assumptions used in product pricing, the effect could be material to the profitability of the Group.

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 adequacy of the Group's reserves for the settlement of claims, reviews significant claims or major events, and investigates any fraudulent claims are continually monitored.

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.

Dividends

The Directors do not recommend the payment of a final dividend for the Year (2017: nil).

Share Capital

Details of the movements in the share capital of the Company during the Year are set out in note 41(e) to the financial statements.

Distributable Reserves

Details of the distributable reserves of the Company as at 31 December 2018 are set out in note 41(c) to the financial statements.

Purchase, Sale or Redemption of the Listed Securities of the Company

During the Year, other than acting as an agent for clients of the Group and purchase of a total of 19,952,000 shares of the Company on the market as well as from independent third parties by trustee under the share award scheme of the Company adopted by the Board on 12 December 2016, neither the Company or any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Equity Linked Agreements

Details of the equity-linked agreements entered into during the Year or subsisting at the end of the Year are set out below:

Share Option Scheme

The Company has adopted a share option scheme on 21 July 2011 (the "Share Option Scheme") which has a life of 10 years from the date of adoption. The remaining life of the Share Option Scheme is approximately 3 years.

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the participants (being any employee (whether full-time or part-time), Directors or consultants of each member of the Group, provided that the board of Directors may have absolute discretion to determine whether or not one falls within the above category) and for such other purposes as the Board may approve from time to time.

Pursuant to the Share Option Scheme, the Company can grant options to participants for a consideration of HK$1.00 for each grant payable by the participant.

No participant shall be granted an option, if the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such participant under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant would exceed 1% of the shares in issue unless such further grant has been approved by the Shareholders in general meeting with the participant and his associates abstaining from voting.

Where the Board proposes to grant any option to a participant who is a substantial Shareholder or an independent non-executive Director, or any of their respective associates, which would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the date of such grant:

(i) representing in aggregate more than 0.1% of the total number of Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000, such proposed grant of options must be approved by the Shareholders in general meeting. In such a case, the Company shall send a circular to its Shareholders containing all those terms as required under the Listing Rules. The participant concerned and all connected persons of the Company must abstain from voting in favour of the resolution at such general meeting. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

Subscription price in respect of each share issued pursuant to the exercise of options granted hereunder shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange daily quotation sheet on the date on which the option is offered to a participant, which must be a trading day; (b) a price being the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; and (c) the nominal value of a share.

According to the Share Option Scheme, unless otherwise determined by the Board, there shall be no minimum holding period for the exercise of the options but the options are exercisable within the option period as determined by the Board and in any event such period shall not be longer than 10 years from the date upon which any particular option is granted.

The total number of share option that could be granted was 38,449,452, representing approximately 10% of the total issued shares of the Company on the date of passing the resolution to refresh the Share Option Scheme limit at the annual general meeting on 26 March 2012.

As at the date of this announcement, the total number of share option that can be granted was 27,954,040, representing approximately 0.87% of the total issued shares of the Company.

During the Year, no share options had been granted, exercised, cancelled, lapsed or 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 purposes of the above share award schemes are to (i) encourage or facilitate the holding of Shares by the selected participants; (ii) encourage and retain such individual to work with the Group; and (iii) provide additional incentive for them to achieve performance goals.

The maximum number of shares 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 Year, no Shares had been awarded under the 2014 Share Award Scheme and as at 31 December 2018, 26,667 Shares were held by the trustee under the 2014 Share Award Scheme.

Further details of the 2014 Share Award Scheme are set out in Note 42 to the financial statements. Details and other principal terms of the 2014 Share Award Scheme are set out in the announcement of the Company dated 30 October 2014.

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.

TMF Trust (HK) Limited ("TMF Trustee") and Bank of Communications Trustee Limited ("BoCom Trustee") have been appointed as the trustees for the administration of the 2016 Share Award Scheme. TMF Trustee shall hold the Shares for the benefit of the selected participants who are not connected persons (as defined under the Listing Rules) of the Company. BoCom Trustee shall hold the Shares for the benefit of the selected participants who are connected persons of the Company. BoCom Trustee and/or TMF Trustee shall not be entitled to exercise any voting rights in respect of any Shares held under the trusts.

During the Year, 22,850,000 Shares had been awarded under the 2016 Share Award Scheme. Among these shares, a total of 18,550,000 Shares were awarded to Ms. Li Ting, being the executive Director and CEO, and the Shares had been fully vested as at 31 December 2018. As at 31 December 2018, 15,395,000 Shares were held by TMF Trustee under the 2016 Share Award Scheme.

Further details of the 2016 Share Award Scheme are set out in Note 42 to the financial statements. Details and other principal terms of the 2016 Share Award Scheme are set out in the announcements of the Company dated 12 December 2016, 11 January 2017 and 24 January 2017.

Directors

The Directors during the Year and up to the date of this announcement are:

Chairman

Mr. Yu Feng (Non-executive Director)

Executive Directors

Ms. Li Ting (CEO)
Mr. Huang Xin

Non-executive Directors

Mr. Ko Chun Shun, Johnson	(resigned on 16 November 2018)
Mr. Adnan Omar Ahmed	(appointed on 16 November 2018)
Ms. Hai Olivia Ou	
Mr. Huang Youlong	(resigned on 11 January 2018)
Mr. Gareth Ross	(appointed on 16 November 2018)

Independent non-executive Directors

Mr. Lin Lijun
Mr. Qi Daqing
Mr. Chu Chung Yue, Howard

In accordance with article 103(A) of the Company's articles of association, Mr. Yu Feng, Mr. Huang Xin and Mr. Lin Lijun shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules in respect of the Year and the Company considers that they are independent.

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. Qi Daqing resigned as an independent non-executive director of Honghua Group Limited (stock code: 00196) on 1 January 2018, and was appointed as an independent non-executive director of Haidilao International Holdings Limited (stock code: 06862) on 2 May 2018, both companies are listed on the Stock Exchange.

Mr. Lin Lijun was appointed as a non-executive director of Shanghai Junshi Biosciences Co., Limited (Stock code: 01877) on 24 June 2018, a company listed on the Stock Exchange.

Mr. Chu Chung Yue, Howard was appointed as an independent non-executive director of Grandshores Technology Group Limited (stock code: 01647) on 30 June 2018, a company listed on the Stock Exchange.

Directors of Subsidiaries

The names of directors who have served on the boards of the subsidiaries of the Company during the Year and up to the date of this announcement included: Mr. Yu Feng, Mr. Huang Xin, Ms. Li Ting, Mr. John Maguire[1], Ms. Liao Yee Ching, Mr. Chan Man Ko, Mr. Cai Junyi[2], Ms. Chow Ming Chee Ada[1], Ms. Qin Li[2], Ms. Wen Jie[1], Mr. Leung Pui Hong, Ms. Ho Man Yee[1], Ms. Yen Sau Fan Charlotte[1], Ms. Jing Yun, Mr. Qi Daqing, Mr. Ng Yu Lam Kenneth, Ms. Liu Shu-Yen, Mr. Tay Keng Puang, Mr. Adnan Omar Ahmed, Mr. Chan Man Kit, Ms. Lai Angela Waiyin[1], Mr. Joshua Selvakumaran[1,] Mr. Brian Eden[2], Mr. Neil Gray[2], Mr. Thomas Parsons JR[2], and Mr. Leon Rhule[2].

Notes:

1. No longer directors of the subsidiaries as at the date of this announcement

2. Companies in which they serve as directors are incorporated in places other than Hong Kong

Directors' Service Contracts

None of the Directors has a service contract with the Company which requires the Company to give a period of notice of more than one year, or to pay compensation or make other payments equivalent to more than one year's emolument.

Directors' and chief executive's interests and/or short positions in the shares, underlying shares and debentures of the Company or any associated corporations

As at 31 December 2018, the interests and short positions of each director of the Company and chief executive in the shares, underlying shares and debentures of the Company 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 pursuant to 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 under the Listing Rules, or known to the Company, were as follows:

Long positions in the ordinary shares of the Company and the underlying Shares:

		Number of Shares held	
Name of Director	**Capacity/Nature of interests**	**Long position**	**Percentage of shareholding**
Mr. Yu Feng *(note)*	Held by controlled corporation/Corporate interest	1,342,976,000	41.66%
Ms. Li Ting	Beneficial owner/Beneficial interest	18,550,000	0.58%

Note:

Mr. Yu Feng, Chairman of the Group and 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.

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	Number of Shares held in Associated Corporation: 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 31 December 2018, 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.

Directors' Rights to Acquire Shares

Save as disclosed elsewhere in this announcement, at no time during the Year 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 the means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any other body corporations.

Substantial Shareholders' and Other Persons' Interests in Shares

As at 31 December 2018, the Company was notified of the following substantial Shareholders' and other persons' interests, being 5% or more of issued Shares and recorded in the register kept under Section 336 of the SFO.

		Number of Shares held	
Name of Substantial Shareholder	**Capacity/ Nature of interests**	**Long position**	**Percentage of shareholding**
Mr. Yu Feng *(Note 1)*	Held by controlled corporation/Corporate interest	1,342,976,000	41.66%
Yunfeng Financial Holdings Limited *(Note 1)*	Held by controlled corporation/Corporate interest	1,342,976,000	41.66%
Key Imagination Limited *(Note 1)*	Held by controlled corporation/Corporate interest	1,342,976,000	41.66%
Jade Passion Limited *(Note 1)*	Beneficial owner/Beneficial interest	1,342,976,000	41.66%
Massachusetts Mutual Life Insurance Company *(Note 2)*	Held by controlled corporation/Corporate interest	800,000,000	24.82%
MassMutual International LLC *(Note 2)*	Beneficial owner/Beneficial interest	800,000,000	24.82%
Ms. Lian Yi *(Note 3)*	Held by controlled corporation/Corporate interest	167,872,000	5.21%
Clear Expert Limited *(Note 3)*	Held by controlled corporation/Corporate interest	167,872,000	5.21%
Violet Passion Holdings Limited *(Note 3)*	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 31 December 2018, 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.

Directors' Interests in Transactions, Arrangements or Contracts

Save as disclosed elsewhere in this announcement, no transactions, arrangements or contracts of significance (i) to which the Company, its holding company or any of their subsidiaries was a party, and in which a Director or his connected entities was materially interested, whether directly or indirectly, subsisted at any time during the Year or at the end of the Year, nor (ii) between the Company, or one of its subsidiaries, and a controlling shareholder or any of its subsidiaries.

Connected Transactions and Continuing Connected Transactions

The following persons, among others, are connected person of the Company:

- MMI, which holds approximately 24.82% of the issued Shares, and hence a substantial shareholder and a connected person of the Company under Rule 14A.07 (1) of the Listing Rules;

- MMLIC, the sole member of MMI, and hence an associate of MMI and a connected person of the Company under Rule 14A.13 (1) of the Listing Rules; and

- Barings LLC, a limited liability company organized in the State of Delaware, the U.S.A. and an indirect wholly-owned subsidiary of MMLIC, which is in turn the sole member of MMI, and hence an associate of MMI and a connected person of the Company under Rule 14A.13 (1) of the Listing Rules.

During the Year and up to the date of this announcement, the Group conducted the following transactions which constituted continuing connected transactions for the Company that are not exempt from annual reporting requirement in Chapter 14A of the Listing Rules, in respect of which circular dated 21 December 2017 was issued (the "2017 Circular").

1. Transitional Services Agreement

Parties: MMI and YF Life

Date: 15 December 2017

Principal terms: MMI will provide certain treasury and financial reporting services relating to investment or portfolio management and other information technology related services to YF Life.

The services will be provided for an initial term of one year from 16 November 2018, provided that the term of any service may be terminated earlier by YF Life in accordance with the Transitional Services Agreement. The services may be renewed for successive one-year terms by written agreement of the parties. It is intended that YF Life shall develop its own capability to provide to itself the services under the Transitional Services Agreement or find alternative service providers for such services during the initial term of the Transitional Services Agreement. Once YF Life is able to provide to itself, or find alternative service providers for, such services, YF Life will phase out the use of the services under the Transitional Services Agreement. The Company will re-comply with the applicable requirements under the Listing Rules as and when the Transitional Services Agreement is renewed after the initial term.

The Transitional Services Agreement was negotiated by the Company, YF Life and MMI on an arm's length basis and entered into on normal commercial terms.

Pricing terms: YF Life will pay to MMI an aggregate annual fee of HK$11,625,000, to be paid monthly in 12 equal installments. In the event all of the services are terminated prior to the expiration of the initial one-year term, MMI will refund to YF Life any amount paid for any period following termination on a *pro rata* basis. In the event one or more (but not all) of the services are terminated prior to the expiration of the initial one-year term, the parties will negotiate a *pro rata* reduction of the fee.

The fee for the services was determined taking into account the cos and expenses that would be required if such services were to be performed or provided by YF Life itself and with reference to the prevailing market price of obtaining the same or similar services from independent third party providers in the ordinary course of business.

The Company has compared the fees payable by YF Life to MMI for the services under the Transitional Services Agreement with (i) the prevailing market price offered by two other competent independent third party providers which the Company considered to be fair and representative given that such independent third party service providers offer comparable services in Hong Kong; and (ii) the costs and expenses that YF Life would have to incur if YF Life were to provide the same services to itself. The Company considered that the fees payable by YF Life to MMI are no less favourable than the prevailing market price offered by other competent independent third party providers or the costs and expenses that YF Life would have to incur if YF Life is to provide the same services to itself. In view of the above and taking into account that the services under the Transitional Services Agreement are currently provided by MMI to YF Life, the Company considers it is beneficial to and in the interests of YF Life for YF Life to obtain the services under the Transitional Services Agreement from MMI in order to facilitate the transition and to minimize any business interruption on the YF Life Group.

Reasons for the transaction: The services under the Transitional Services Agreement are currently provided by MMI to YF Life. The Company believes the continued provision of such services by MMI to YF Life for a period of one year from 16 November 2018 will facilitate the transition and minimize business interruption to YF Life.

Annual caps: The fees payable by YF Life to MMI in any financial year during which the Transitional Services Agreement is effective will not exceed HK$11,625,000.

2. Policies Endorsement Fee Agreement

Parties: MMLIC and YF Life.

Date: 15 December 2017

Principal terms: Between 2004 and 2014, YF Life underwrote approximately 300 life insurance policies which included a claims payment endorsement by MMLIC, which would be triggered in the event of insolvency of YF Life. Pursuant to the Policies Endorsement Fee Agreement, MMLIC will continue to provide such endorsement to the outstanding policies until such policies mature.

Upon the occurrence a triggering event, namely the solvency ratio of YF Life ceasing to be at least 150% and such cessation not being remedied within a certain agreed period, a change of control of YF Life, or the independent Shareholders failing to approve the fee payable to MMLIC for maintaining its endorsement to the outstanding policies, MMLIC will have the right to require YF Life to cede to MMLIC the rights and obligations of YF Life under the life insurance policies which include the claims payment endorsement by MMLIC, and YF Life shall transfer assets (of a value equivalent to the obligations or liabilities of YF Life attributable to such life insurance policies) to MMLIC. The Company and YF Life consider that it is extremely unlikely that the aforementioned triggering events will occur. The value of the obligations to be assumed, and therefore the amount of assets and the selection of the assets to be transferred, will be determined by MMLIC and YF Life in good faith if any triggering event takes place.

The initial term of the Policies Endorsement Fee Agreement will be three years from 16 November 2018. The Policies Endorsement Fee Agreement will be automatically extended for successive three-year terms. The Company intends that the Policies Endorsement Fee Agreement shall continue until the expiry or lapse of the life insurance policies which included a claims payment endorsement by MMLIC. All such policies were underwritten by YF Life between 2004 and 2014 and no such policies which include such claims payment endorsement by MMLIC have been underwritten by YF Life since then. The Company intends that the Policies Endorsement Fee Agreement shall be renewed if there are any such policies subsisting upon the expiry of the initial term of the Policies Endorsement Fee Agreement. The Company will re-comply with the applicable requirements under the Listing Rules as and when the Policies Endorsement Fee Agreement is renewed after the expiry of the initial term.

The Policies Endorsement Fee Agreement was negotiated by the Company, YF Life and MMI on an arm’s length basis and entered into on normal commercial terms.

Pricing terms:

YF Life will pay to MMLIC an annual fee calculated and paid semi-annually at a rate of 0.18% of the average account value of the outstanding policies as consideration for maintaining the claims payment endorsement.

The fee rate was determined based on arm’s length negotiation with reference to the average default rates of corporates with investment credit ratings ranging from A- to BBB- published by S&P Global.

The reason for YF Life entering into the Policies Endorsement Fee Agreement is that certain life insurance policies underwritten by YF Life included a claims payment endorsement by MMLIC which would be triggered in the event of insolvency of YF Life. Given that the claims payment endorsement by MMLIC is a term of the relevant life insurance policies and YF Life cannot unilaterally revise or cancel the claims payment endorsement term without the consent of each of the relevant policyholders, there are no comparable arrangements which YF Life may obtain from independent third parties to replace the claims payment endorsement by MMLIC under such life insurance policies.

Reasons for the transaction: The Company believes it is important to assure policyholders that the acquisition of YF Life will not result in any change to the terms of their existing policies, including the claims payment endorsement by MMLIC.

Annual caps: The maximum aggregate annual amount of fees payable by YF Life to MMLIC for the years ending 31 December 2018, 31 December 2019 and 31 December 2020 shall not exceed the caps set out below:

	Proposed Annual Cap for the Year Ending December 31, (*HKD ’000*)		
	2018	**2019**	**2020**
Total fees	5,611	5,835	6,068

3. Barings Investment Advisory Agreement

Parties: Barings LLC and YF Life.

Date: 15 December 2017

Principal terms: Barings LLC is an investment adviser and has provided investment management services to YF Life since 2000. Pursuant to the Barings Investment Advisory Agreement, YF Life will engage Barings LLC as its investment adviser to acquire, manage, service and dispose of investments for YF Life.

The assets and the type and amount of assets to be managed by Barings LLC pursuant to the Barings Investment Advisory Agreement will be determined by the investment committee of YF Life. Barings LLC will manage all fixed income portfolio investments for YF Life for a period of three years from 16 November 2018.

The initial term of the Barings Investment Advisory Agreement will be three years from the 16 November 2018. The Barings Investment Advisory Agreement will be automatically renewed for successive one-year terms. Either party may terminate the Barings Investment Advisory Agreement upon 30 days’ written notice to the other party. Following the initial term of the Barings Investment Advisory Agreement, and subject to the satisfactory performance of Barings LLC, the relevant expertise and the pricing terms, Barings LLC shall continue to be the preferred manager of YF Life’s fixed income investment portfolio. The Company shall re-assess the investment needs of YF Life closer to the expiry of the initial term of the Barings Investment

Advisory Agreement and if the Company considers the continued provision of such services by Barings LLC to YF Life to be beneficial to YF Life, the term of the Barings Investment Advisory Agreement may be extended. The Company will re-comply with the applicable requirements under the Listing Rules as and when the Barings Investment Advisory Agreement is renewed after the expiry of the initial term.

The Barings Investment Advisory Agreement was negotiated by the Company, YF Life and MMI on an arm's length basis and entered into on normal commercial terms.

Pricing terms: YF Life will pay to Barings LLC fees calculated at rates based on asset type. The fee rates range from 0.25 basis points to 100 basis points. Such fee rates were determined based on arm's length negotiations taking into account (i) the type of assets to be managed by Barings LLC and (ii) preferred partner status granted by the Company to MMI under the Strategic Cooperation Agreement.

The Company has assessed the business needs of YF Life for the services under the Barings Investment Advisory Agreement. The Company considered (i) the historical amounts of fees paid by YF Life to Barings LLC; (ii) the historical fee rates charged by Barings LLC; and (iii) the fee rates for comparable services offered by two other competent independent third party service providers which the Company considered to be fair and representative given that such independent third party service providers offer comparable investment advisory services to clients in Hong Kong. The Company considers that the fee rates offered by Barings LLC are in line with the market rates offered by other competent independent third party providers for comparable services as a whole.

Reasons for the transaction: In connection with underwriting insurance policies, YF Life invests policy premium, to generate sufficient return for satisfying future insurance claims and dividend obligations. Barings LLC has assisted YF Life in executing its long term investment asset allocation strategies since the year 2000. The continuation of Barings LLC's asset management services will not only avoid the operational risks resulting from contracting a new asset manager but will also avoid any material disruptions in the execution of YF Life's long term asset allocation strategies.

Annual caps: The maximum aggregate annual amount of fees payable by YF Life to Barings LLC for the years ending 31 December 2018, 31 December 2019 and 31 December 2020 shall not exceed the caps set out below:

	Proposed Annual Cap for the Year Ending December 31, (*USD'000 and HKD'000*)		
	2018	**2019**	**2020**
Total fees	US$8,000 (equivalent to approximately HK$62,590)	US$10,500 (equivalent to approximately HK$82,150)	US$12,500 (equivalent to approximately HK$97,798)

The aggregate amount paid by the Group in respect of the Transitional Service Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement for the year ended 31 December 2018 is approximately HK$1,465,000 (being 12.6% of the annual cap for 2018), HK$888,000 (being 15.8% of the annual cap for 2018) and HK$7,188,000 (being 11.5% of the annual cap for 2018) respectively.

All the independent non-executive Directors, having reviewed the transactions under the Transitional Service Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement (the "2018 CCTs"), confirmed that such transactions had been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the respective agreements governing them on terms that are fair and reasonable and in the interests of the Shareholder as a whole.

The Company has engaged its external auditor to report on the 2018 CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 (revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the work performed, the external auditor of the Company has confirmed in its letter to the Board that nothing has come to its attention which caused it to believe that:

(i) the 2018 CCTs have not been approved by the Board;

(ii) the 2018 CCTs were not entered into, in all materials respects, in accordance with the relevant agreements governing such transactions;

(iii) the aggregate amount paid by the Group in respect of the 2018 CCTs has exceeded the annual cap of 2018 as disclosed in the 2017 Circular.

During the Year, the Group did not have any connected transactions that were subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A summary of all related parties transactions entered into by the Group during the Year is contained in Note 45 to the financial statements. All the related parties transactions described in the said note do not fall under the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules, other than transactions under the Transitional Service Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement as described in Note 45 which falls under the definition of "continuing connected transaction" under the Listing Rules and was disclosed previously by the Company pursuant to the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the Year.

Management Contracts

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

Major Suppliers and Major Customers

During the Year, revenue derived from the Group's 5 largest customers accounted for approximately 1.7% of the total revenue for the Year, with the single largest customer contributing approximately 0.5%.

The Group is a provider of financial services. In the opinion of the Board, it is therefore of no value to disclose details of the Group's suppliers.

Save as disclosed elsewhere in this announcement, none of the Directors, their close associates or any Shareholders, which to the knowledge of the Directors own more than 5% of the issued Shares, had an interest in the major customers.

Charitable Donations

During the Year, no charitable donations was made by the Group (2017: Nil).

Corporate Governance

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practice of the Company is set out in the Corporate Governance Report of this announcement.

Indemnity of Directors

A permitted indemnity provision as set out in the articles of association of the Company that provides for indemnity against liability incurred by directors and executive officers of the Group is currently in force and was in force throughout the Year.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this announcement, there was sufficient public float of the Company's securities as required under the Listing Rules.

Independent Auditors

The consolidated financial statements have been audited by KPMG who will retire at the forthcoming annual general meeting of the Company. A resolution for reappointment of KPMG will be proposed for Shareholders' approval at the forthcoming annual general meeting.

Review by Audit Committee

As at the date of this announcement, the Audit Committee comprised three independent non-executive Directors. The Audit Committee is chaired by Mr. Chu Chung Yue, Howard with Mr. Lin Lijun and Mr. Qi Daqing being the other members. The terms of reference of the Audit Committee are in line with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules. The Group's consolidated financial statements for the Year have been reviewed by the Audit Committee.

By order of the Board
Yunfeng Financial Group Limited

Li Ting
Executive Director and Chief Executive Officer
Hong Kong, 28 March 2019

Consolidated income statement for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	*2018* $'000	*2017* $'000 (Note 50)
Income			
Premiums and fee income	6	761,673	-
Premiums ceded to reinsurer		(99,149)	-
Net premium and fee income		662,524	-
Change in unearned revenue liability		(85,468)	-
Net earned premium and fee income		577,056	-
Brokerage commission, interest and other service income		7,118	6,163
Subscription, management and rebate fee income		9,978	3,791
Consultancy and advisory income		13,092	11,110
Net investment income	7a	345,616	10,591
Overlay adjustment		(9,288)	-
Other income	7b	68,229	4,374
Reinsurance commission and profit		6,843	-
Total income		1,018,644	36,029
Benefits, losses and expenses			
Net policyholders benefit	8	(287,010)	-
Commission and related expenses	9	(256,201)	-
Deferral and amortisation of deferred acquisition costs		160,289	-
Management and other expenses		(547,613)	(404,724)
Change in future policyholder benefits	10	(256,307)	-
Total benefits, losses and expenses		(1,186,842)	(404,724)
Finance cost	11(c)	(26,496)	(9,473)
Share of result in an associate		(1,241)	-
Loss before taxation	11	(195,935)	(378,168)
Tax credit/(expenses)	12	41,780	(1,138)
Loss after taxation		(154,155)	(379,306)
(Loss)/profit attributable to:			
Equity shareholders of the Company		(204,402)	(379,054)
Non-controlling interests		50,247	(252)
		(154,155)	(379,306)
Loss per share attributable to equity shareholders of the Company			
Basic *(HK$)*	16(a)	(0.08)	(0.16)
Diluted *(HK$)*	16(b)	(0.08)	(0.16)

The accompany notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	*2018* HK$'000	*2017* HK$'000 (Note 50)
Loss for the year after taxation		(154,155)	(379,306)
Other comprehensive income for the year			
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)		(3,772)	-
Items that may be reclassified subsequently to profit or loss:			
Net movement in the fair value reserve during the year recognised in other comprehensive income	18	84,603	16,459
Financial asset at fair value through profit or loss under overlay adjustment	18	9,288	-
Exchange differences arising on translation of results of foreign operations		(8,297)	2,321
Unrealised loss related to amortisation of deferred acquisition costs	24	(115,939)	-
Unrealised gain related to amortisation of unearned revenue liability - Insurance contract provisions	31(iii)	60,432	-
Unrealised gain related to amortisation of unearned revenue liability - Investment contract liabilities	32(iii)	8,215	-
		34,530	18,780
Total comprehensive income for the year		(119,625)	(360,526)
Total comprehensive income attributable to:			
Equity shareholders of the Company		(188,512)	(360,331)
non-controlling interests		68,887	(195)
		(119,625)	(360,526)

The accompany notes form an integral part of these consolidated financial statements.

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 3.

Consolidated statement of financial position at 31 December 2018

(Expressed in Hong Kong dollars)

	Note	*2018* HK$'000	*2017* HK$'000 (Note 50)
Assets			
Property and equipment	19	133,946	17,035
Statutory deposits	20	3,285	978
Deferred tax asset	37(b)	184	-
Investments in associates	21	64,846	-
Goodwill and intangible assets	23	3,827,449	36,110
Deferred acquisition costs and value of business acquired	24	8,556,181	-
Investments	25	43,632,718	898,134
Advance reinsurance premiums	26	10,652	-
Reinsurers' share of outstanding claims	33	31,202	-
Insurance and reinsurance receivables	27	243,612	-
Other account receivable and accrued income	28	95,870	74,238
Other receivables, deposit and prepayment	29	549,903	73,834
Bank balance – trust and segregated accounts	30	440,083	340,029
Fixed bank deposits with original maturity over 3 months	30	259,250	1,580,313
Cash and cash equivalents	30	5,184,229	2,182,374
		63,033,410	5,203,045
Liabilities			
Insurance contract provisions	31	39,362,136	-
Investment contract liabilities	32	4,131,951	-
Outstanding claims	33	123,823	-
Reinsurance premium payables	34	314,011	-
Other account payables	35	521,864	452,575
Other payables and accrued expense	36	824,592	101,890
Tax payable	37(a)	6,189	44,259
Financial liabilities at fair value through profit or loss	38	503,130	441,740
Obligation under finance lease	39	15,254	23,072
Deferred tax liabilities	37(b)	702,577	177
Bank borrowings	40	1,198,226	-
		47,703,753	1,063,713
NET ASSETS		15,329,657	4,139,332

Consolidated statement of financial position at 31 December 2018

(Expressed in Hong Kong dollars)

	Note	*2018* HK$'000	*2017* HK$'000 (Note 50)
CAPITAL AND RESERVES			
Share capital	41(e)	9,829,094	4,629,094
Reserves		(608,324)	(489,762)
		9,220,770	4,139,332
Non-controlling interests		6,108,887	-
TOTAL EQUITY		15,329,657	4,139,332

Approved and authorised for issue by the board of directors on 28 March 2019

Li Ting	**Huang Xin**
Executive Director and Chief Executive Officer	Executive Director

The accompany notes form an integral part of these consolidated financial statements.

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 3.

Consolidated statement of changes in equity for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company											
	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	*Non-controlling interests* HK$'000	*Total* HK$'000
Balance at 1 January 2017	4,499,548	(97)	70	2,650	(2,141)	-	(648)	219	(56,585)	4,443,016	1,107	4,444,123
Changes in equity for the year ended 31 December 2017:												
Share issued under share award scheme	129,546	(129,546)	-	-	-	-	-	-	-	-	-	-
Shares vested under share award scheme	-	(260)	-	-	-	-	-	-	-	(260)	-	(260)
Equity settled share-based transactions	-	-	56,712	-	-	-	-	-	-	56,712	-	56,712
Shares vested and cancelled under share award scheme	-	24,353	(26,039)	-	-	-	-	-	1,686	-	-	-
Loss for the year	-	-	-	-	-	-	-	-	(379,054)	(379,054)	(252)	(379,306)
Other comprehensive income for the year	-	-	-	-	16,459	-	2,264	-	-	18,723	57	18,780
Disposal of a subsidiary	-	-	-	-	-	-	195	-	-	195	(912)	(717)
Appropriation to statutory and capital reserve	-	-	-	-	-	-	-	1,227	(1,227)	-	-	-
Balance at 31 December 2017	4,629,094	(105,550)	30,743	2,650	14,318	-	1,811	1,446	(435,180)	4,139,332	-	4,139,332

Consolidated statement of changes in equity for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company											
	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	*Non-controlling interests* HK$'000	*Total* HK$'000
Balance at 31 December 2017	4,629,094	(105,550)	30,743	2,650	14,318	-	1,811	1,446	(435,180)	4,139,332	-	4,139,332
First adoption of HKFRS 9 (note 3)	-	-	-	-	(14,318)	(684)	-	-	11,921	(3,081)	-	(3,081)
Adjusted balance at 1 January 2018	4,629,094	(105,550)	30,743	2,650	-	(684)	1,811	1,446	(423,259)	4,136,251	-	4,136,251
Changes in equity for the year ended 31 December 2018:												
Acquisition of subsidiaries	5,200,000	-	-	-	-	-	-	64,000	-	5,264,000	5,240,000	10,504,000
Capital contribution to a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	-	-	800,000	800,000
Share repurchased under share award scheme	-	(110,209)	-	-	-	-	-	-	-	(110,209)	-	(110,209)
Equity settled share-based transactions	-	-	119,240	-	-	-	-	-	-	119,240	-	119,240
Shares vested and cancelled under share award scheme		132,529	(121,950)	-	-	-	-	-	(10,579)	-	-	-
Loss for the year	-	-	-	-	-	-	-	-	(204,402)	(204,402)	50,247	(154,155)
Other comprehensive income for the year	-	-	-	-	27,959	(3,772)	(8,297)	-	-	15,890	18,640	34,530
Appropriation to statutory and capital reserve	-	-	-	-	-	-	-	437	(437)	-	-	-
Balance at 31 December 2018	9,829,094	(83,230)	28,033	2,650	27,959	(4,456)	(6,486)	65,883	(638,677)	9,220,770	6,108,887	15,329,657

The accompany notes form an integral part of these consolidated financial statements.

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 3.

Consolidated cash flow statement for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	*2018* HK$'000	*2017* HK$'000 (Note 50)
Loss before taxation		(195,935)	(378,168)
Adjustments for:			
Net loss on financial assets and financial liabilities at fair value through profit and loss		51,247	89,168
Net gain on financial assets at fair value through other comprehensive income		(3,409)	-
Net loss on disposal of financial assets measured at amortised cost		114	-
Dividend and distribution income from financial asset at fair value through profit and loss		(50,354)	-
Net realised gain, dividend and distribution income and impairment loss related to available-for-sales financial assets		-	(27,329)
Impairment loss of debt instrument measured at amortised cost and fair value through other comprehensive income		38,796	(463)
Net gain on disposal of subsidiaries		(2,655)	(756)
Depreciation and amortisation		23,132	18,531
Loss on disposal of property and equipment		-	67
Impairment loss of property and equipment		-	615
Finance costs		26,496	9,473
Interest income		(106,514)	(72,476)
Equity-settled share-based payment expenses		119,240	56,712
Effect of shadow accounting on change in value of business acquired, deferred acquisition costs and unearned revenue liability		(47,293)	-
Share of result of associates		1,241	-
Interest credited to policyholders' deposits		205,858	-
Effective interest income of investments		(32,493)	-
		27,471	(304,626)

Consolidated cash flow statement
for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	*2018* HK$'000	*2017* HK$'000 (Note 50)
Changes in working capital:			
Change in financial asset and financial liabilities at fair value through profit or loss		(59,126)	349,986
Increase in accounts receivable		(21,317)	(50,164)
Decrease / (increase) in other receivables, deposits and prepayments		2,493	(52,867)
(Increase) / decrease in bank balances – trust and segregated accounts		(100,088)	18,515
Increase in accounts payable		69,289	81,898
Increase in accrued expenses and other payables		122,693	39,589
Increase in deferred acquisition costs			
Primary change		(160,289)	-
Effect of shadow accounting		115,940	-
Increase in advance reinsurance premiums		(256)	-
Increase in reinsurer's share of outstanding claims		(1,873)	-
Decrease in insurance and investment receivable		73,662	-
Decrease in policyholders' deposits		(323,483)	-
Increase in future policyholders' benefits		256,307	-
Increase in unearned revenue liability			
Primary change		85,468	-
Effect of shadow accounting		(68,647)	-
Decrease in outstanding claims		(4,237)	-
Increase in reinsurance premium payables		(119,518)	-
Others		26,815	(129)
Cash (used in) / generated from operation		(78,696)	82,202

Consolidated cash flow statement
for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	*2018* HK$'000	*2017* HK$'000 (Note 50)
Operating activities			
Cash (used in) / generated from operations		(78,696)	82,202
Interest received		1,755	3,758
Interest paid		(828)	(426)
Tax paid:			
Hong Kong profit tax paid		(10,967)	(9,130)
Overseas tax paid		(2,157)	(1,615)
Net cash (used in)/ generated from operating activities		(90,893)	74,789
Investing activities			
Payment for acquisition of subsidiaries, net of cash acquired	22(d)	(1,237,023)	-
Proceeds from disposal of subsidiaries		-	4,596
Payment for purchased of property and equipment		(16,248)	(4,985)
Proceeds from disposal of property and equipment		-	24
Payment for purchase of intangible asset		-	(1,995)
Proceeds from dividend and distribution income from available-for-sale financial assets		-	14,348
Proceeds from dividend and distribution income from financial assets at fair value through profit or loss		32,118	-
Purchase of/payment for acquisition of financial assets at fair value through other comprehensive income		(25,373,825)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income		25,636,455	-
Proceeds from disposal of financial assets at fair value through profit or loss (note)		1,042,553	-
Purchase of/payment for acquisition of and contribution made to financial assets at fair value through profit or loss (note)		(1,018,498)	-
Proceeds from disposal of available-for-sale financial assets		-	708,841
Purchase of available-for-sale financial assets		-	(1,468,617)
Decrease / (increase) in fixed bank deposits placed with original maturity over 3 months		1,580,313	(1,056,126)
Interest received		124,261	70,730
Interest paid		(742)	-
Purchases of amortised cost investment		(985,981)	-
Proceeds from sales, maturities and repayments of amortised cost investment		657,005	
Purchases of policy loans		(471)	-
Proceeds from sales, maturities and repayments of policy loans		308	-
Acquisition of associates		(70,252)	-
Net cash generated from/ (used in) investing activities		369,973	(1,733,184)

Consolidated cash flow statement for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	*2018* HK$'000	*2017* HK$'000
Financing activities			
Payment made for finance lease obligation		(5,043)	(1,075)
Net proceeds from issuance of preference shares by a subsidiary		108,117	206,194
Share repurchase under share award scheme		(110,209)	(260)
Drawndown of bank borrowings		1,220,000	-
Repayment of bank borrowings		(20,000)	-
Interest paid		(10,542)	(5,303)
Capital injection from non-controlling interest to a subsidiary		800,000	-
Policyholders' account deposits for insurance and investment contracts		995,219	-
Policyholders' account withdrawals for insurance and investment contracts		(250,104)	-
Net cash generated from financing activities		2,727,438	199,556
Net increase / (decrease) in cash and cash equivalents		3,006,518	(1,458,839)
Cash and cash equivalents at 1 January		2,182,374	3,640,494
Effect of foreign exchange rate changes		(4,663)	719
Cash and cash equivalents at 31 December		5,184,229	2,182,374

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 3.

The accompany notes form an integral part of these consolidated financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars)

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 principal activities of the Group are the provision of securities brokerage, consultancy and advisory services and investment research, wealth management, employee stock ownership plan administration, principal investment together with the new principal activity of long term assurance business following the completion of the acquisition of YF Life Insurance International Limited (formerly known as MassMutual Asia Limited) ("YF Life"). The principal activities and other particulars of its principal subsidiaries are set out in note 22 to the financial statements.

The consolidated financial statements are presented in Hong Kong dollars ("HKD"), which is the functional currency of the Company, and all values are rounded to the nearest thousand except when otherwise indicated.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial information.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries including the consolidated structured entities (together referred to as "the Group") and the Group's interests in associates and joint venture.

The measurement basis used in the preparation of the 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 value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(t)(iii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

The Group serves as the manager of funds. The funds invest mainly in equities, debt securities and monetary market instruments. The Group's percentage ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such funds, with control determined based on an analysis of the guidance in HKFRS 10 Consolidated financial statements, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units or return of capital in such funds for cash. These are presented as "Third-party interests in consolidated funds" within financial liabilities at fair value through profit or loss in the consolidated statement of financial position.

(d) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(t)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Joint venture

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

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

When an investment in a joint venture is held by, or is held indirectly through, a group entity that is a venture capital organisation and similar entities, the Group may elect to measure investments in those joint ventures at fair value through profit or loss in accordance with HKFRS 9 Financial instruments.

(f) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(t)(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(g) Classification of insurance and investment contracts

Contracts under which the Group accepts significant insurance risk from another party ("the policyholder") by agreeing to compensate the policyholder if a specified uncertain future event ("the insured event") adversely affects the policyholder are classified as insurance contracts. Insurance risk is risk, other than financial risk, transferred from the holder of a contract to the issuer. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant additional benefits. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

Contracts with a discretionary participation feature ("DPF")

Certain insurance contracts issued by the Group contain a DPF. A DPF is a contractual right held by a policyholder to receive, as a supplement to guaranteed minimum benefits, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the Group's discretion and is contractually based on:

(i) the performance of a specified pool of contracts or a specified type of contract;

(ii) realised and/or unrealised investment returns on a specified pool of assets held by the Group; and

(iii) the profit or loss of the Group.

(h) Insurance contracts

(i) Recognition and measurement

Revenue

Premiums in respect of insurance contracts are recognised as revenue when due. Fee income is recognised as revenue when services are rendered. Premiums and fee income exclude any taxes or duties.

Reinsurance commission refers to the amount paid by reinsurers to reimburse the expenses associated with issuing a policy. It is recognised as revenue when due. Profit commission is the reward paid by reinsurers for favourable experience.

Claims

Claims include maturities, annuities, surrenders and death claims. Maturity and annuity claims are recognised as an expense when due for payment. Surrender claims are recognised when notified. Death claims are recognised when notified.

Outstanding claims includes estimates of both claims that have been reported but not paid and those that have been incurred but not reported, also includes estimates of all future expenses associated with processing and settlement of these claims.

The estimation process is primarily based on the assumption that experience is an appropriate indication of future events, and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The amount recorded represents the best estimate based upon currently known facts and actuarial guidelines.

Policyholders' deposits

Policyholders' deposits include deposit components of insurance contracts, liabilities for universal and variable life products, annuities and investment related policies and contracts. These liabilities are established by contract deposits, increased by interest credited and decreased by interest debited, contract fees and contract withdrawals. Interest credited represents the interest accrued to universal life contracts account balance based on the credited rate declared by the Company from time to time. For linked contracts, it represents the earnings credited to the account balance based on the performance of selected investment choices. Interest credited is recognised as expense when paid in payable.

Future policyholders' benefits

Liability for future policyholders' benefits of insurance contracts for traditional life contracts and additional coverages offered under policy riders are calculated using the net level premium method and assumptions as to investment yields, mortality, withdrawals and dividends. The assumptions are based on best estimate projections of past experience from the commencement of each contract and include provisions for possible adverse deviations. The assumptions are made at the time the contract is issued and do not change, unless a loss needs to be recognised.

The reserves for participating whole life products are calculated using the net level premium method based upon prescribed estimates as to investment yield, mortality, withdrawals. Dividends are also included. Reserves for accident and disability contracts are based upon mortality, morbidity and withdrawal assumptions which are based on the Group's own experience and certain reinsurance tables. Unpaid disability claim liabilities are established based on disability payments earned from the last payment date to the valuation date.

Unearned revenue liability ("URL")

Amounts assessed against policyholders' account balances that represent compensation to the Group for services to be provided in future periods are not recognised in the period assessed. These amounts are reported as unearned revenue liability and recognised in the income statements over the period benefited, using the same assumptions and factors utilised to amortise deferred acquisition costs.

Shadow accounting is applied so that the URL balance is also adjusted by an amount that represents the change in amortisation of URL that would have been required as a charge or credit to operations had unrealised amounts recorded in fair value reserve been realised. These adjustments are charged or credited to the fair value reserve.

The accounting treatment for URL arising from insurance contracts is also applied to investment contracts.

(ii) Embedded derivatives in insurance contracts

Features contained within insurance contracts that would be considered derivatives if they were stand alone instruments which have not been separated and measured at fair value if those embedded derivatives are closely related to the host insurance contract.

The Group has taken advantage of the exemption available in HKFRS 4 *Insurance Contract* not to separate and measure at fair value policyholder options to surrender insurance contracts for a fixed amount even if the exercise price differs from the carrying amount of the host insurance liability.

(iii) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities, income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to policyholders.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts.

(iv) Deferred acquisition costs ("DAC")

The Group's DAC is comprised of incremental direct costs of contract acquisition and the portion of employee total compensation and payroll-related fringe benefits directly related to time spent performing the following acquisition activities: (a) underwriting; (b) policy issuance and processing; (c) medical and inspection; (d) sales force contract selling; and (e) other direct costs that would not have been incurred if the contract had not been acquired.

Incremental direct costs of acquisition include commissions or volume-related sales bonuses and medical and inspection fees for a successful contract acquisition. The portion of employee compensation and related benefits include only those costs directly related to time spent performing those activities for actual acquired contracts. Related benefits include medical insurance, Group life insurance and retirement plans.

The Group also defers the commissions and volume-related expense allowances for successful contract acquisitions in transactions with our career agents. All other acquisition-related costs such as soliciting potential customers, market research, training, administration, unsuccessful acquisition or renewal efforts and product development is charged to expense as incurred. Administration costs, rent, depreciation, occupancy, equipment, and all other general overhead costs are also charged to expense as incurred.

DAC for universal life and investment-type products are amortised with interest spread over the expected life of the contract in proportion to the estimated gross profits from investment, mortality, expense margins and surrender charges. Amortisation interest rates are based upon rates in effect at the inception of the contracts. The amortisation rate is periodically updated to reflect current period experience or changes in assumptions that affect future profitability, such as investment returns, asset growth rates, lapse rates, expenses, surrender charges and mortality experience. These changes result in adjustments to the DAC balances in the period that the Group changes its assumptions, as well as changes in prospective DAC amortisation.

DAC for traditional life and non-medical health products are amortised in proportion to anticipated premiums. Assumptions as to anticipated premiums are made at the date of issuance and are applied during the lives of the contracts consistently. Deviations from estimated experience are included in operations when they occur.

Shadow accounting is applied so that the DAC balance is also adjusted by an amount that represents the change in amortisation of DAC that would have been required as a charge or credit to operations had unrealised amounts recorded in fair value reserve been realised. These adjustments are charged or credited to the fair value reserve.

The accounting treatment for DAC arising from insurance contracts is also applied to investment contracts.

(v) Value of business acquired (VOBA)

VOBA, in respect of a portfolio of long-term insurance and investment contracts, is an intangible asset that reflects the estimated fair value of in-force contracts in a life insurance company acquisition and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the business in-force at the acquisition date of a subsidiary. VOBA is based on actuarially determined projections, by each block of business, of future policy and contract charges, premiums, mortality and morbidity, separate account performance, surrenders, operating expenses, investment returns and other factors. If this results from the acquisition of an investment in a joint venture or an associate, the VOBA is held within the carrying amount of that investment. The VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortisation reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated income statement.

Shadow accounting is applied so that the VOBA balance is also adjusted by an amount that represents the change in amortisation of VOBA that would have been required as a charge or credit to operations had unrealised amounts recorded in fair value reserve been realised. These adjustments are charged or credited to the fair value reserve.

The accounting treatment for VOBA arising from insurance contracts is also applied to investment contracts.

(vi) Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to determine if the insurance contract provisions, less deferred acquisition costs and VOBA, are adequate. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and investment income from assets backing the insurance contract provisions are used in performing these tests. If a shortfall is identified the related deferred acquisition costs and VOBA are written down and, if necessary, an additional provision is established. The deficiency is recognised in the consolidated income statement for the year.

(i) Investment contracts

Investment contracts are recognised as financial liabilities in the statement of financial position when the Group becomes a party to their contractual provisions. Contributions received from policyholders are not recognised in the consolidated income statement but are accounted for as deposits in the consolidated statement of financial position.

All investment contracts issued by the Group are designated by the Group on initial recognition at fair value through profit or loss. This designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise if these financial liabilities were not measured at fair value since the assets held to back the investment contract liabilities are also measured at fair value.

Changes in the fair value of investment contracts are included in the consolidated income statement in the period in which they arise.

(j) Investments

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 5. These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(x)(iv)).

- fair value through other comprehensive income ("FVOCI") - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(x)(iii).

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group had the positive ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated at amortised cost (for impairment see note 2(t)(i) – policy applicable prior to 1 January 2018).

Investments which did not fall into any of the above categories were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 2(x)(iii) and 2(x)(iv), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 2(t) - policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

Overlay approach

The Group has applied the overlay approach under amendment to HKFRS 4, Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts, to reclassify between profit or loss and other comprehensive the difference between amounts recognised in profit or loss under HKFRS 9 and those would have been reported under HKAS39, for designated financial assets including hybrid debt instruments (recognised on bifurcated basis), unit trust and partnership investments on an instrument-by-instrument basis. A financial asset is eligible for designation if 1) it is not held for an activity that is unconnected with contracts in the scope of HKFRS 4; and 2) it is measured at fair value through profit or loss under HKFRS 9 but would have not been under HKAS39. The overlay impact is shown in the consolidated income statement.

(k) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(l) Accounts payable and other payables

Accounts payable and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) those designated as at FVPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration may be paid by an acquirer as part of a business combination may be designated as at FVPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVPL.

Financial liabilities at FVPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities. Fair value is determined in the manner described in note 5.

(o) Property and Equipment

Property and Equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses.

Depreciation is calculated to write off the cost of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Leasehold improvements	Shorter of lease term and useful lives
Office furniture and equipment	5 years
Computer equipment	3 to 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

(p) Leased assets

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases and impairment losses. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(q) Insurance and reinsurance receivables and other receivables

Insurance and reinsurance receivables and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(r) Reinsurance premium and other payables

Reinsurance premium and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Intangible assets

The intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(t)(ii)). Amortisation begins when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives as follows:

Computers software	3 - 5 years

Intangible assets, such as tradename, are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(t) Credit losses and impairment of assets

(i) Credit loss from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, insurance and reinsurance receivables, reinsurers' share of outstanding claims and loans to joint venture);

- debt securities measured at FVOCI (recycling); and

- loan commitments issued, which are not measured at FVPL.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

- variable-rate financial assets: current effective interest rate;

- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(x)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

- For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

- For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

  Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- intangible assets;
- goodwill; and
- investments in subsidiaries, associates and joint ventures in the company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(t)(i), (ii) and (iii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(u) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(v) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The fair value of share awards and share options granted to employees is recognised as an employee cost with a corresponding increase in share-based payment capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the share awards and options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share awards and share options that are expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share awards and options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based payment reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profit).

(w) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

(x) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) The accounting policies for the recognition of revenue from insurance contracts are disclosed in note 2(h).

(ii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iii) Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

(iv) Brokerage and commission income is recognised on trade date basis.

(v) Service fee income, including advisory fee income, handling fee income, custodial service fee income, subscription fee income, placing and underwriting commission and financial management are recognised when the underlying services had been provided.

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss.

Exchange differences relating to available for sales debt instruments are included in income statement.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items of statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

(z) Fiduciary activities

The Group maintains segregated accounts with authorised institutions to hold clients' monies arising from its normal course of the regulated business activities. The Group has classified the "bank balances – trust and segregated accounts" within the current assets in the consolidated statement of financial position and recognised the corresponding account payables to respective clients and other institutions on the grounds that it is liable for any loss or misappropriation of clients' monies.

The Group is not allowed to use the clients' monies to settle its own obligations. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(ab) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(3) Both entities are joint ventures of the same third party;

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(6) The entity is controlled or jointly controlled by a person identified in (i);

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Changes in accounting policies

The HKICPA has issued a number of new HKFRS and amendments to HKFRSs that are first effective for the current accounting period of the Group, the following developments are relevant to the Group's financial statements:

Amendments to HKFRS 9, Financial instruments

HKFRS 15, Revenue with contracts with customers

HK (IFRIC) Interpretation 22, Foreign currency transactions and advance considerations

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, Prepayment features with negative compensation which have been adopted at the same time as HKFRS 9. The Group has not applied any other new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed below.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9 and also the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9:

	At 31 December 2017	*Impact on initial application of HKFRS9*		*At 1 January 2018*
		Reclassification	*Remeasurement*	
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets carried at amortised cost				
Current				
Other receivables	58,718	-	(1,143)	57,575
Bank balance- trust and segregated account	340,029	-	(37)	339,992
Fixed bank deposit with original maturity over 3 months	1,580,313	-	(1,813)	1,578,500
Cash and cash equivalents	2,182,374	-	(697)	2,181,677
Financial assets measured at FVOCI (non-recycling) ("FVOCI")				
Non-current				
– perpetual capital (note)	-	76,989	-	76,989
Financial assets carried at FVPL ("FVPL")				
Fund investment				
– current	-	326,691	-	326,691
– non-current	-	295,797	-	295,797
Non-current credit link obligation notes	-	192,721	-	192,721
Financial assets classified as available-for-sales investment under HKAS 39				
– current	326,691	(326,691)	-	-
– non-current	565,507	(565,507)	-	-
Deferred tax asset	-	-	609	609
Reserves	(489,762)	-	(3,081)	(492,843)
Total equity:	4,139,332	-	(3,081)	4,136,251

Note Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment in perpetual capital at FVOCI (non-recycling), as the investment is held for strategic purposes.

The following table summarises the impact of transition to HKFRS 9 on accumulated loss and reserves and the related tax impact at 1 January 2018.

Accumulated loss

	HK$'000
Transferred from fair value reserve (recycling) relating to financial assets now measured at FVPL	15,002
Recognition of additional expected credit losses on financial assets measured at amortised cost	(3,690)
Deferred tax	609
Net decrease in accumulated loss at 1 January 2018	11,921

Fair value reserve (recycling)

	HK$'000
Transferred to retained earnings relating to financial assets now measured at FVPL	(15,002)
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI	684
Net decrease in fair value reserve (recycling) at 1 January 2018	(14,318)

Fair value reserve (non-recycling)

	HK$'000
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI and decrease in fair value reserve (non-recycling)	(684)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at FVOCI and FVPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – (recycling), if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

Opening balance adjustment

Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables);
- contract assets as defined in HKFRS 15;
- debt securities measured at FVOCI (recycling);
- financial guarantee contracts issued; and
- loan commitments issued, which are not measured at FVPL.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- loan commitments: current risk-free rate adjusted for risks specific to the cash flows.

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk. In measuring ECLs, the group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to HK$3,690,000, which decreased retained earnings by HK$3,081,000 and increased gross deferred tax assets by HK$609,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	HK$'000
Loss allowance at 31 December 2017 under HKAS39	34,613
Additional credit loss recognised at 1 January 2018 on:	
– Other receivable	1,143
– Bank balance trust and segregate account	37
– Fixed bank deposit with original maturity over 3 months	1,813
– Cash and cash equivalents	697
Loss allowance at 1 January 2018	38,303

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

(a) Actuarial assumptions on future policyholders' benefits

The process used to determine the assumptions is intended to result in estimates of the most likely outcome with reasonable provisions for possible adverse deviations.

The assumptions that are considered include the expected number and timing of deaths, surrenders, discount rates, renewal expenses and inflation over the period of exposure.

(i) Mortality

Prudent mortality tables and industry mortality tables with margins are used. They are compared with the group's internal mortality experience on a regular basis to ensure their appropriateness.

Basically, the Group's valuation of non-annually renewable premium traditional products is based on the following mortality tables (except for some minor blocks of policies):

- 105% of Hong Kong Assured Lives Mortality Table 1993 with old age adjustment; and
- A1967-70 Assured Lives Mortality Table (Ultimate).

Both of the above tables are subject to a four year age setback adjustment for females.

(ii) Morbidity

Morbidity is based on the reinsurer's risk premiums which are relevant to its market experience. It is compared with the group's internal morbidity experience on a regular basis to ensure its appropriateness.

(iii) Withdrawal

Withdrawal rates are determined with reference to pricing assumptions and actual experience.

(iv) Discount rates

Discount rates are determined from a prudent assessment of the yields on existing financial assets and the yields obtained on sums to be invested in the future.

The Group's valuation of non-annually renewable premium traditional products is based on the discount rate of 5%.

(v) Renewal expenses and inflation

The level of renewal expenses is based on pricing assumptions. It is compared with the Group's internal expense study result on a regular basis to ensure its appropriateness.

The inflation rate assumption is 4%. It is compared with the Hong Kong Consumer Price Indices on a regular basis to ensure its appropriateness.

(vi) Change in assumptions and sensitivity to changes in variables

Sensitivity tests are conducted using varying mortality, morbidity and discount rate assumptions to measure the impact of deviations from anticipated experience.

The Group performs this sensitivity analysis for non-annually renewable premium traditional products to estimate the sensitivity of reserve to a particular movement in an assumption with all other assumptions remaining unchanged. Since the changes in the assumptions of withdrawal, renewal expenses and inflation only have minimal impact on the future policyholders' benefits, they are not considered in this sensitivity analysis. The following table demonstrates the resulting impacts:

Variables	*Change in variables*	*2018* *Change in profit after tax and Equity* HK$'000
Discount rate	+1%	376,631
	-1%	(431,986)
Mortality/morbidity	+10%	(43,884)
	-10%	44,847

Universal life, variable universal life, deferred annuities and annually renewable premium traditional products whose future policyholders' benefits are independent of mortality, morbidity, discount rates, withdrawal, renewal expenses and inflation are excluded from this analysis.

The fair values of investments are sensitive to interest rate changes. As the group's main products are universal life products, interest rates may have an impact on the products' guaranteed minimum payouts and on interest credited to account holders. As interest rates decrease, investment spreads may contract as interest rates approach minimum guarantees, potentially resulting in an increased liability of the Group. As long as the total interest credited is higher than the guaranteed minimum amount, the Group has discretion on the crediting rate. The Group's exposure to interest rate risk associated with these types of products is therefore minimal. The Group may be exposed to interest rate risks in connection with traditional insurance products, which is considered inconsequential in view of the group's product portfolio. As such, no sensitivity analysis for the underlying interest rate risk is performed.

(b) 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 judgments, in combination with historical exposure to variable returns, to determine the consolidation scope.

(c) 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 FVPL, unless it is an equity instrument for which an entity applies the election to measure at 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 5 provides detailed information about the key assumptions used in the determination of the fair value of material financial instruments.

(d) Expected credit loss estimation

The Group selects appropriate methodology and assumptions in accordance with the Group's significant accounting policies. Note 3 provides detailed information about the key assumptions used in the determination of the expected credit loss of financial instruments classified under amortised cost and for debt instruments carried at FVOCI.

5 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.

Concentration of insurance risks

The table below illustrates the concentration of risks based on seven bands of contracts grouped by benefits assured for each life assured.

	Sum insured before reinsurance		*Sum insured after reinsurance*	
HK$'000	HK$'000	%	HK$'000	%
2018				
0-500	26,605,966	15	35,967,506	45
501-750	19,864,309	12	28,647,695	36
751-1,000	25,745,360	15	14,767,303	19
1,001-1,500	29,326,568	17	-	-
1,501-2,000	19,445,527	11	-	-
2,001-2,500	10,492,543	6	-	-
>2,500	41,325,657	24	-	-
Total	172,805,930	100	79,382,504	100

	Sum insured before reinsurance		*Sum insured after reinsurance*	
HK$'000	HK$'000	%	HK$'000	%
2017				
0-500	-	-	-	-
501-750	-	-	-	-
751-1,000	-	-	-	-
1,001-1,500	-	-	-	-
1,501-2,000	-	-	-	-
2,001-2,500	-	-	-	-
>2,500	-	-	-	-
Total	-	-	-	-

(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 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 31 December 2018, 0.3% (2017: 100%) of the Group's debt securities represented investments in asset-backed and mortgage-backed securities in the United States of America and 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. As of 31 December 2018, the Group had no direct subprime exposure through the origination of residential mortgage loans or purchases of unsecuritised mortgage whole-loan pools. The Group has implemented a stringent review process for determining the fair value of securities containing these risk characteristics. At 31 December 2018, 90% (2017: Nil) of the debt securities have Standard and Poor's ratings of BBB or above or equivalent ratings from other reputable rating agencies. For the year ended 31 December 2018, impairment losses amounting to HK$38,796,000 (2017: Nil) were recognised in the consolidated income statements. Further details of the impairment losses are set out in note 7(a).

In respect of bank balances, all of them are due from authorised institutions in Hong Kong, Macau, the People's Republic of China, 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. For the management of the underlying risks, please refer to note 5(a)(i).

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.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from insurance and reinsurance receivables, other account receivables and other receivables are set out in notes 27, 28 and 29.

(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.

(i) Financial liabilities

The following tables show the remaining contractual maturities at the end of the reporting period of non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date can be required to pay:

	2018				*2017*			
	Carrying amount HK$'000	*Total contractual undiscounted cash flows* HK$'000	*Within 1 year or on demand* HK$'000	*More than 1 year* HK$'000	*Carrying amount* HK$'000	*Total contractual undiscounted cash flows* HK$'000	*Within 1 year or on demand* HK$'000	*More than 1 year* HK$'000
Reinsurance premium payables	314,011	314,011	314,011	-	-	-	-	-
Other accounts payables	521,864	521,864	521,864	-	452,575	452,575	452,575	-
Accrued expenses and other payables	824,592	824,592	824,592	-	101,890	101,890	101,890	-
Financial liabilities at fair value through profit or loss	503,130	503,130	-	503,130	441,740	441,740	78,063	363,677
Finance lease liability	15,254	15,901	3,453	12,448	23,072	24,268	7,789	16,479
Bank borrowings	1,198,226	1,321,416	54,681	1,266,735	-	-	-	-
	3,377,077	3,500,914	1,718,601	1,782,313	1,019,277	1,020,473	640,317	380,156

(ii) Liabilities under insurance and investment contracts

The following table presents the estimated timing of payments for the amounts recognised in the statement of financial position arising from liabilities under insurance and investment contracts. These contracts typically include policyholder surrender or transfer options at a value equal to, or below, the carrying value of those liabilities.

	2018			*2017*		
	Total	*1 year or less*	*More than 1 year*	*Total*	*1 year or less*	*More than 1 year*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Insurance contract provisions	39,362,136	2,315,766	37,046,370	-	-	-
Investment contract liabilities	4,131,951	224,868	3,907,083	-	-	-
Outstanding claims	123,823	123,823	-	-	-	-
	43,617,910	2,664,457	40,953,453	-	-	-

(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.

(i) Interest rate profile

The following table details interest-bearing financial assets and financial liabilities at the end of the reporting period.

	2018	*2017*
	HK$'000	HK$'000
Financial assets		
Statutory deposits	1,532	-
Debt securities and mortgage loans	34,624,636	-
Loans to agents and staff	26,773	2,000
Cash and cash equivalents and deposits with banks maturing more than three months	5,443,479	3,762,687
Financial liability		
Bank Loans	1,198,226	-

(ii) Sensitivity analysis

While it is more difficult to measure the interest sensitivity of the insurance liabilities than that of the related assets, to the extent that the Group can measure such sensitivities the Group believes that interest rate movements will generate asset value changes that substantially offset changes in the value of the liabilities relating to the underlying products.

Financial assets and liabilities

At 31 December 2018, it is estimated that a general increase/decrease of one percentage point in interest rates would decrease/increase the Group’s profit after tax by approximately HK$28,909,000 (2017: Nil) and decrease/increase the equity by approximately HK$768,736,000 (2017: Nil) respectively so far as the effect on interest-bearing financial assets is concerned.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period.

(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 pre-specified exchange of interest and principal. Forward contracts are used to hedge movements in exchange rates. As such, no sensitivity analysis is prepared for currency risk.

(i) Exposure to currency risk

The following table details the exposure at the end of the reporting period to currency risk arising from financial assets or financial liabilities which are presented in Hong Kong dollars.

	2018									
	United States Dollars HK'000	*Canadian Dollars* HK'000	*Macau Patacas* HK'000	*British Pounds* HK'000	*Australian Dollars* HK'000	*Euros* HK'000	*Chinese Renminbi* HK'000	*Japanese Yen* HK'000	*Thailand Baht* HK'000	*Singapore Dollars* HK'000
Financial assets										
Investments	35,097,983	-	-	-	-	-	-	-	-	-
Insurance and reinsurance receivables	165,328	-	126	-	-	-	-	-	-	-
Other account receivables	11,735	-	-	-	3	-	297	-	-	1
Other receivables	432,426	-	-	448	168	228	-	115	-	-
Cash and cash equivalents and deposits with banks maturing more than three months and segregated accounts	2,334,791	13	37,124	756	3,064	838	26,773	522	21	18
	38,042,263	13	37,250	1,204	3,235	1,066	27,070	637	21	19
Financial liabilities										
Reinsurance premium payables	225,231	-	-	-	-	-	-	-	-	-
Derivative financial instruments	49,280	-	-	-	-	-	-	-	-	-
Other account payables	132,229	13	-	62	92	-	12,183	-	-	17
Other payables	474,360	-	-	-	-	-	-	-	-	-
Investment contract liabilities	2,094,776	-	70,184	-	-	-	-	-	-	-
Outstanding claims	44,015	-	743	-	-	-	-	-	-	-
	3,019,891	13	70,927	62	92	-	12,183	-	-	17
Notional amount of currency-related derivative contracts	(16,287,292)	-	-	-	-	(13,656)	-	-	-	-

	2017									
	United States Dollars HK'000	*Canadian Dollars* HK'000	*Macau Patacas* HK'000	*British Pounds* HK'000	*Australian Dollars* HK'000	*Euros* HK'000	*Chinese Renminbi* HK'000	*Japanese Yen* HK'000	*Thailand Baht* HK'000	*Singapore Dollars* HK'000
Financial assets										
Investments	-	-	-	-	-	-	-	-	-	-
Insurance and reinsurance receivables	-	-	-	-	-	-	-	-	-	-
Other account receivables	36,382	-	-	-	-	-	-	-	-	-
Cash and cash equivalents and deposits with banks maturing more than three months and segregated accounts	3,202,256	14	-	67	140	-	18,088	-	-	14
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
	3,238,638	14	-	67	140	-	18,088	-	-	14
Financial liabilities										
Reinsurance premium payables	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Other account payables	(186,584)	(14)	-	(67)	(109)	-	(388)	-	-	(14)
Investment contract liabilities	-	-	-	-	-	-	-	-	-	-
Outstanding claims	-	-	-	-	-	-	-	-	-	-
	(186,584)	(14)	-	(67)	(109)	-	(388)	-	-	(14)
Notional amount of currency-related derivative contracts	-	-	-	-	-	-	-	-	-	-

(5) Equity price risk

The Group is exposed to equity price changes arising from equity investments and derivative instruments 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 consolidated income statement

The portfolio of unit trusts backing linked insurance contracts, which the Group carries on its 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 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.

At 31 December 2018, the unit trusts backing non-linked insurance contracts were classified as fair value through profit or loss under overlay approach at their fair value of HK$565,133,000 (2017: Nil).

At 31 December 2018, it is estimated that an increase/decrease of 10% (2017: Nil) in the market value of Group's unit trusts backing non-linked insurance contracts, with all other variable held constant, would have increased/decreased the Group's total equity by HK$56,513,000.

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 walk-throughs 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, a 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.

	Fair value measurements as at 31 December 2018 categorised into			*Fair value measurements as at 31 December 2017 categorised into*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
	HK$'000	HK $'000	HK $'000	HK $'000	HK $'000	HK $'000
Recurring fair value measurement						
Assets/(liabilities)						
Financial assets at fair value through profit or loss:						
– Private credit and other trust product type funds	-	-	538,613	-	-	-
– Credit linked obligation note	-	-	27,275	-	-	-
– Listed equity	-	-	-	3,209	-	-
– Leveraged and structured note investment	-	1,799,058	88,980	-	-	-
– Unit trust	553,299	6,373,169	11,834	-	-	-
– Interest in a joint venture	-	-	79,128	-	-	-
– Insurance contract related partnership investment	-	-	1,378,578	-	-	-
– Unlisted fund/share option	-	248	-	-	2,727	-
Financial asset at fair value through other comprehensive income						
– Debt securities	-	6,710,854	3,626,407	-	-	-
– Perpetual capital measured at fair value	-	73,213	-	-	-	-
Available-for-sale financial assets						
Overseas investment funds	-	-	-	-	-	-
– Mutual fund investments	-	-	-	326,691	-	-
– Private credit funds	-	-	-	-	-	293,554
– Credit linked obligation note	-	-	-	-	-	192,721
– Perpetual capital measured at fair value	-	-	-	-	76,989	-
Financial liabilities designated at fair value through profit or loss						
– Fund linked note	-	-	-	-	(78,063)	-
– Preference share liability	-	-	(315,588)	-	-	(207,071)
– Third-party interests in consolidated	-	-	(187,542)	-	-	(156,606)
– Investment contract liabilities	-	(4,131,951)	-	-	-	-
	553,299	10,824,591	5,247,685	329,900	1,653	122,598

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 except for those includes under the movement during the year in the balance of Level 3 fair value measurements and a listed equity outside of Hong Kong with nil carrying value is transferred from level 1 to level 3 upon being delisted. 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.

Debt securities

U.S. Treasury securities and obligations of U.S. government corporations and agencies - These securities are principally valued using the market approach. Level 2 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.

Debt securities issued by foreign governments and state and local government securities - These securities are principally valued using the market approach. Level 2 valuations are based primarily on matrix pricing or other similar techniques using standard market observable inputs including benchmark U.S. Treasury or other yields, issuer ratings, broker-dealer quotes, issuer spreads and reported trades of similar securities, including those within the same sub-sector or with a similar maturity or credit rating. Valuations based primarily on matrix pricing, discounted cash flow models or other valuation techniques that utilize significant inputs that are unobservable or cannot be derived principally from, or corroborated by, observable market data or from inputs including quoted prices for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2 are classified as Level 3.

Assets-backed securities ("ABS") and mortgage-backed securities ("MBS") - These securities are principally valued using the market approach or the income approach. Level 2 valuations are based primarily on broker quotes, matrix pricing, discounted cash flow methodologies or other similar techniques using standard market inputs including spreads for similar, actively traded securities, spreads versus benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, issuer credit ratings, weighted average coupon, weighted average maturity, average delinquency rates, geographic region, debt-service coverage ratios and issuance-specific information including, but not limited to: collateral type, payment terms of the underlying assets, payment priority within the tranche, security structure, deal performance and loan vintage. If the matrix pricing, discounted cash flow models or other valuation techniques utilise significant inputs that are unobservable or cannot be derived principally from, or corroborated by, observable market data, the fair value measurement is classified as Level 3.

Corporate securities - These securities are principally valued using the market or the income approaches. Level 2 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. Privately placed securities are valued using discounted cash flow models using standard market observable inputs, and inputs derived from, or corroborated by, market observable data including market yield curve, duration, call provisions, observable prices and spreads for similar publicly traded or privately traded issues that incorporate the credit quality and industry sector of the issuer. This level also includes securities priced by independent pricing services that use observable inputs. Valuations based on matrix pricing or other similar techniques that utilise significant unobservable inputs or inputs that cannot be derived principally from, or corroborated by, observable market data, including adjustments for illiquidity, delta spread adjustments or spreads to reflect industry trends or specific credit-related issues are classified as Level 3. In addition, inputs including quoted prices for identical or similar securities that are less liquid and based on lower levels of trading activity than securities classified in Level 2 are classified as Level 3.

Unit trusts and equity securities

These securities are principally valued using the market approach. Level 2 valuations for equity securities are based on quoted market prices adjusted for certain factors, such as foreign market differential. If quoted market prices are not available, values provided by other third-party organisations are used. If values from other third parties are unavailable, certain equity securities, including privately held securities classified within equity securities, are valued using the market and the income approaches. Valuations are based primarily on matrix pricing, discounted cash flow methodologies or other similar techniques using inputs such as comparable credit rating and issuance structure. Certain of these securities are valued based on inputs including quoted prices for identical or similar securities, discounted cash flow, solvency margin ratio analysis and portfolio yields. These valuations are based on lower levels of trading activity than securities classified in Level 2 and are classified as Level 3.

Derivative financial instruments

These financial instruments are primarily valued using the market approach. The estimated fair value of derivatives is based primarily upon quotations obtained from counterparties and independent sources, such as quoted market values received from brokers. These quotations are compared to internally derived prices and a price challenge is lodged with the counterparties and an independent source when a significant difference cannot be explained by appropriate adjustments to the internal model.

When quoted market values are not reliable or available, the value is based upon an internal valuation process using market observable inputs that other market participants would use.

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. Due to the observability of the significant inputs to these fair value measurements, they are classified as Level 2.

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.

Information about Level 3 fair value measurements

	Valuation techniques	*Significant unobservable inputs*	*Range Min*	*Max*	*Weighted average*
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	66BPS	1,150BPS	146BPS

A description of the sensitivity of the estimated fair value to changes in the significant unobservable in puts 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 31 December 2018, 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$137,858,000 (2017: Nil) under overlay adjustment.

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 31 December 2018, 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$219,955,000 (2017: Nil).

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

Information about Level 2 investment

Perpetual capital - the fair value is based on brokers quote. As at 31 December 2018, it is estimated that with all other variables held constant, a decrease/increase in quoted price by 5% would have increased/decreased the Group's other comprehensive income and equity after tax by HK$3,057,000 (2017: HK$3,214,000).

Information about level 3 investment

Unlisted available-for-sale investment	Valuation technique	Significant unobservable inputs
Credit linked obligation note	Price quote	Price quote
Leveraged note investment/trust products	Recent transaction price	Recent transaction price
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 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 link obligation note investment - the fair value based on valuation model and price quote provided by the arranger of the note with ongoing monitoring of our investment committee and risk management team in conjunction with additional information compiled by portfolio manager including performance and covenant compliance information as provided by the independent trustee.

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 link obligation as the principal investment of the consolidated funds and the effective interest of the third parties in those consolidated funds.

Fund-linked note - fair value of the note based on the principal repayment terms, underlying reference fund price and option pricing model with appropriate assumptions.

Leveraged note investment and trust products - the fair value based on recent transaction prices of those products or price quote provided by brokers.

	2018		*2017*	
Change in the relevant equity price risk variable:	%	*Effect on profit after tax and retained profit* HK$'000	%	*Effect on profit after tax and retained profit* HK$'000
Leverage note investment				
Increase	10	6,361	-	-
Decrease	(10)	(6,361)	-	-
Trust type fund products				
Increase	5	1,188	-	-
Decrease	(5)	(1,188)	-	-
Joint controlled entity				
Increase	10	5,741	-	-
Decrease	(10)	(5,741)	-	-
Private credit funds				
Increase	10	50,719	-	-
Decrease	(10)	(50,719)	-	-
Credit linked note				
Increase	10	2,727	-	-
Decrease	(10)	(2,727)	-	-
Preference share liability				
Increase	10	-	10	-
Decrease	(10)	-	(10)	-
Third party interest in consolidated fund				
Increase	10	(18,239)	10	(11,138)
Decrease	(10)	18,239	(10)	11,138

Note: For those being reclassified from available for sales investment to fair value through profit or loss upon adoption of HKFRS 9 on 1 January 2018, no comparative is presented.

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

Available-for-sale financial assets

	2018 HK$'000	*2017* HK$'000
At 1 January	488,518	24,430
Transferred to financial assets at fair value through profit or loss upon adoption of HKFRS 9	(488,518)	-
Purchase	-	453,533
Impairment loss	-	(1,980)
Exchange alignment	-	1,685
Credited to other comprehensive income	-	10,850
At 31 December	-	488,518

Financial assets at fair value through profit or loss

	2018 HK$'000	*2017* HK$'000
At 1 January	-	-
Transferred from available-for-sale financial assets upon adoption of HKFRS 9	488,518	-
Deconsolidation of a previously consolidated fund	(13,265)	-
Recognition of a joint venture carried at fair value	12,315	-
Capital injection/purchase	535,490	-
Settlement on disposal	(290,688)	-
Realised loss on disposal	(10,007)	-
Exchange alignment	(320)	-
Deemed gain on partial disposal	(23)	-
Fair value change of investment	(820)	-
At 31 December	721,200	-

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

	2018	*2017*
	HK$'000	HK$'000
At 1 January	-	-
Acquisition of subsidiaries	3,414,497	-
Purchase	211,498	-
Settlements	(44,404)	-
Net realised gain (loss) to profit or loss	201	-
Net unrealised gain (loss) to other comprehensive income	44,615	-
At 31 December	3,626,407	-

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

	2018	*2017*
	HK$'000	HK$'000
At 1 January	-	-
Acquisition of subsidiaries	1,284,419	-
Cost of investment purchased	154,752	-
Distribution received	(51,239)	-
Earnings reinvested	12,879	-
Disposal	(12,813)	-
Net unrealised gain (loss) to other comprehensive income	1,158	-
Transfer into level 3	14,052	-
At 31 December	1,403,208	-

Financial liabilities at fair value through profit or loss

	2018	*2017*
	HK$'000	HK$'000
At 1 January	363,677	-
Share issued/contribution received	214,567	354,960
Deconsolidation of a consolidated fund	(3,489)	-
Partial disposal of interest of a consolidated fund	(1,168)	-
Distribution to third party investor	(83,756)	-
Exchange alignment	847	1,091
Fair value change	12,452	7,626
At 31 December	503,130	363,677

(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 2017 and 2018 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	2018		*Fair value measurements as at 31 December 2018 categorised into*		
	Carrying amount	*Fair value*	*Level 1*	*Level 2*	*Level 3*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Debt securities	15,188,481	15,566,781	-	13,376,484	2,190,297
Loans and receivables	7,183,581	7,379,482	-	-	7,379,482

	2017		*Fair value measurements as at 31 December 2017 categorised into*		
	Carrying amount	*Fair value*	*Level 1*	*Level 2*	*Level 3*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Debt securities	-	-	-	-	-
Loans and receivables	-	-	-	-	-

Loans and receivables - 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.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements

The following summarises gross and net information of derivative assets and liabilities, along with collateral received and posted in connection with a master netting agreement:

	2018					
	Gross HK$'000	*Gross amounts offset* HK$'000	*Net amount* HK$'000	*Due and accrued* HK$'000	*Collateral posted* HK$'000	*Net amount* HK$'000
Other accounts receivable	26,859	(14,638)	12,221	-	-	12,221
Other accounts payable	51,103	(12,278)	38,825	-	-	38,825
Derivative assets	12,667	(12,667)	-	-	-	-
Derivative liabilities	61,947	(12,667)	49,280	(208)	(57,408)	(8,336)

	2017					
	Gross HK$'000	*Gross amounts offset* HK$'000	*Net amount* HK$'000	*Due and accrued* HK$'000	*Collateral posted* HK$'000	*Net Amount* HK$'000
Other accounts receivable	8,731	(8,731)	-	-	-	-
Other accounts payable	60,051	(8,731)	51,320	-	(3,958)	47,362
Derivative assets	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-

The Group's principal derivative market risk exposures are interest rate risk, which includes the impact of inflation, and credit risk. Interest rate risk pertains to the change in fair value of the derivative instruments as market interest rates move. The Group is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to minimize credit risk the group and its derivative counterparties generally enter into master agreements that require collateral to be posted in the amount owed under each transaction, subject to minimum transfer amounts. These same master agreements allow for contracts in a positive position, in which the group is due amounts, to be offset by contracts in a negative position. This right of offset combined with collateral obtained from counterparties, reduces the Group's exposure. The Group regularly monitors counterparty credit ratings and exposures, derivatives positions and valuations, and the value of collateral posted to ensure counterparties are credit-worthy and the concentration of exposure is minimized. The Group monitors this exposure as part of its management of the Group's overall credit exposures.

If amounts are due from the counterparty, they are reported as an asset. If amounts are due to the counterparty, they are reported as a liability. Negative values in the carrying value of a particular derivative category can result from the counterparty's right to offset carrying value positions in other derivative categories.

The uncertainties about the amount and timing of claims payment are typically resolved within one year.

The tables below reconcile the "net amounts of financial assets and financial liabilities presented in the consolidated statement of financial position", as set out above, to the other accounts receivable and other accounts payable together with derivative financial instruments classified under other payables presented in the consolidated statement of financial position.

	2018 *HK$'000*	2017 *HK$'000*
Net amount of financial assets after offsetting as stated above	12,221	-
Financial assets not in scope of offsetting disclosure	83,649	74,238
	95,870	74,238
Net amount of financial liabilities after offsetting as stated above	88,105	51,320
Financial liabilities not in scope of offsetting disclosure	483,039	401,255
	571,144	452,575

6 Premiums and fee income

Premiums and fee income represents gross premium income and fee income received in respect of life and annuity, linked long term, retirement scheme management categories I and III of long term business.

	2018 HK$'000	*2017* HK$'000
Premium and fee income from insurance contracts	752,205	-
Fee income from investment contracts	9,468	-
	761,673	-

7a Net investment income

	2018 HK$'000	*2017* HK$'000
Interest income from unlisted debt securities and mortgage loans	303,635	10,315
Bank and other interest income	69,087	62,115
Net realised gain on disposal of available-for-sale securities	-	14,961
Impairment loss charged on available-for-sale securities	-	(1,980)
Net realised loss on disposal of securities designated at fair value through profit or loss	(4,969)	(59,253)
Net unrealised loss on financial asset and financial liabilities designated at fair value through profit or loss	(70,161)	(23,118)
Net realised gain on fair value through other comprehensive income debt securities	3,409	-
Net realised loss on debt securities measured at amortised cost	(114)	-
Impairment loss of amortised cost investment	(20,849)	-
Impairment loss of fair value through other comprehensive income debt securities	(17,947)	-
Dividend income	50,354	14,348
Net derivative gain/(loss)	23,883	(6,797)
Net unrealised gain of fair value through profit or loss financial assets under overlay adjustment	9,288	-
	345,616	10,591

Total interest income on financial assets not at fair value through profit or loss amounted to HK$301,187,000 for the year ended 31 December 2018 (2017: HK$10,315,000).

7b Other income

	2018 HK$'000	*2017* HK$'000
Net gain on disposal of subsidiaries and deemed partial disposal of consolidated funds	2,655	756
Trustee fee income	4,185	-
Reinsurance premium ceded and other income	61,389	3,618
	68,229	4,374

8 Net policyholders benefit

	2018 HK$'000	*2017* HK$'000
Net claims, policy benefits and surrenders (note a)	80,687	-
Interest credited to policyholders' deposits (note b)	205,858	-
Dividends to policyholders (note c)	465	-
	287,010	-

Notes

(a) Claims, policy benefits and surrenders

	2018			
	Life and annuity and linked long term HK$'000	*Retirement scheme management category I* HK$'000	*Retirement scheme management category III* HK$'000	*Total* HK$'000
Gross benefits incurred:				
– Benefits payable	103,632	290	6,072	109,994
– Change in outstanding claims	(5,630)	-	1,393	(4,237)
	98,002	290	7,465	105,757
Amount recoverable from reinsurers:				
– Benefits recoverable	(23,197)	-	-	(23,197)
– Change in outstanding claims	(521)	-	(1,352)	(1,873)
	(23,718)	-	(1,352)	(25,070)
Net amount	74,284	290	6,113	80,687

	2017			
	Life and annuity and linked long term HK$'000	*Retirement scheme management category I* HK$'000	*Retirement scheme management category III* HK$'000	*Total* HK$'000
Gross benefits incurred:				
– Benefits payable	-	-	-	-
– Change in outstanding claims	-	-	-	-
	-	-	-	-
Amount recoverable from reinsurers:				
– Benefits recoverable	-	-	-	-
– Change in outstanding claims	-	-	-	-
	-	-	-	-

Benefits payable comprise claims, policy benefits and surrenders.

8 Net policyholders benefit

(b) Interest credited to policyholders' deposits

	2018			
	Life and annuity and linked long term HK$'000	*Retirement scheme management category I* HK$'000	*Retirement scheme management category III* HK$'000	*Total* HK$'000
Insurance contracts	179,292	422	-	179,714
Investment contracts	26,144	-	-	26,144
	205,436	422	-	205,858

	2017			
	Life and annuity and linked long term HK$'000	*Retirement scheme management category I* HK$'000	*Retirement scheme management category III* HK$'000	*Total* HK$'000
Insurance contracts	-	-	-	-
Investment contracts	-	-	-	-
	-	-	-	-

(c) Dividends to policyholders

	2018			
	Life and annuity and linked long term HK$'000	*Retirement scheme management category I* HK$'000	*Retirement scheme management category III* HK$'000	*Total* HK$'000
Insurance contracts	465	-	-	465

	2017			
	Life and annuity and linked long term HK$'000	*Retirement scheme management category I* HK$'000	*Retirement scheme management category III* HK$'000	*Total* HK$'000
Insurance contracts	-	-	-	-

9 Commission and related expenses

	2018			
	Life and annuity and linked long term HK$'000	*Retirement scheme management category I* HK$'000	*Retirement scheme management category III* HK$'000	*Total* HK$'000
Insurance contracts	249,807	98	742	250,647
Investment contracts	5,554	-	-	5,554
	255,361	98	742	256,201

	2017			
	Life and annuity and linked long term HK$'000	*Retirement scheme management category I* HK$'000	*Retirement scheme management category III* HK$'000	*Total* HK$'000
Insurance contracts	-	-	-	-
Investment contracts	-	-	-	-
	-	-	-	-

10 Change in future policyholder benefits

	2018 HK$'000	*2017* HK$'000
Increase in future policyholders' benefits- insurance contracts (note 31)	254,013	-
Increase in future policyholders' benefits - investment contracts (note 32)	2,294	-
	256,307	-

11 Loss before taxation

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

	2018	*2017*
	HK$'000	HK$'000
(a) Staff costs		
Equity-settled share-based payment expenses (note 42)	119,240	56,712
Salaries, allowances and benefits in kind	216,407	179,094
Retention package	7,172	-
Social welfare		
– Staff (note a)	16,461	11,328
– Agents	9,675	-
	368,955	247,134

Note a: The Group operates the Mandatory Provident Fund Scheme (the "MPF scheme") for all qualified employees in Hong Kong under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (2017: HK$30,000). Contributions to the plan vest immediately. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The domestic employees of the Group in the PRC participate in state-managed social welfare plans, including social pension insurance, unemployment insurance, health care insurance, housing funds and other social welfare plan operated by the relevant municipal and provincial governments. According to the relevant regulations, the premiums and welfare benefit contributions borne by the Group are calculated and paid to the relevant labour and social welfare authorities on a regular basis. The social pension insurance and unemployment insurance are defined contribution plans. The contributions to the defined contribution plans are expensed as incurred.

During the year, wealth management products and securities brokerage transaction fees approximately amounted to HK$968,000 (2017: HK$1,500,000) were waived as part of staff benefit scheme.

(b) Other operating items

	2018 HK$'000	*2017* HK$'000
Auditors' remuneration	10,376	2,220
Legal and professional costs (Note)	15,105	66,241
Operating lease payments - property rentals	40,692	24,689
Depreciation and amortisation	23,132	18,531
Information, data and communication expenses	25,540	33,139
Net exchange gain	(4,076)	(16,276)
Impairment loss for		
- fixed assets	-	615
Entertainment and travelling	6,815	7,220

Note: The amount includes HK$1.2 million (2017: HK$47.3 million) of legal and professional fee related to the acquisition of 60% of the issued share capital of YF Life.

(c) Finance costs

	2018 HK$'000	*2017* HK$'000
Bank loan interest	5,731	-
Finance lease obligation	549	823
Preference share liability	14,525	8,230
Other interest expense	5,691	420
	26,496	9,473

12 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2018 HK$'000	*2017* HK$'000
Current tax		
Hong Kong		
Provision for the year	9,117	-
Over-provision in respect of prior years	(43,743)	(16)
Overseas		
Provision for the year	2,783	1,270
Under-provision in respect of prior years	21	-
Macau		
Provision for the year	-	-
Over-provision in respect of prior years	-	-
	(31,822)	1,254
Deferred tax		
Origination and reversal of temporary differences	(9,958)	(116)
	(41,780)	1,138

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2017-18 subject to a maximum reduction of HK$30,000 for each business (2017: a maximum reduction of HK$20,000 was granted for the year of assessment 2016-2017 and was taken into account in calculating the provision for 2017). The provision for Macau Complementary Tax is calculated at tax rate of 12.0% (2017: 12.0%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 HK$'000	*2017* HK$'000
Loss before taxation	(195,935)	(378,168)
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	(30,431)	(63,290)
Tax effect of surplus transferred from Hong Kong long term individual life business	(35,893)	-
Notional tax on net premiums written in respect of Hong Kong long term individual life business	9,006	-
Tax effect of non-taxable income	(13,436)	(15,446)
Tax adjustment in respect of prior years	(43,722)	(16)
Tax effect of non-deductible expenses	26,098	30,959
Tax effect of unused tax losses previously not recognised	-	(2,781)
Tax effect of tax losses not recognised	55,915	46,841
Tax effect of reversal of taxable temporary difference	(10,206)	-
Others	889	4,871
Tax (credit)/ expense	(41,780)	1,138

13 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and part 2 of the Company (Disclosure of Information about Benefits of Directors) Regulations are as follows:

	2018							
	Directors' fees HK$'000	*Salaries, allowances and benefits in kind* HK$'000	*Discretionary bonus (note i)* HK$'000	*Contributions to Mandatory Provident Fund* HK$'000	*Sub-total* HK$'000	*Share-based payments (note ii)* HK$'000	*Resignation payment* HK$'000	*Total* HK$'000
Chairman								
Yu Feng	-	-	-	-	-	-	-	-
Executive directors								
Huang Xin	-	-	-	-	-	-	-	-
Li Ting (note iii)	-	7,644	9,000	18	16,662	91,823	-	108,485
Non-executive directors								
Ko Chun Shun, Johnson (note iv)	264	13	-	-	277	-	-	277
Hai Olivia Ou	-	-	-	-	-	-	-	-
Huang Youlong (note v)	-	-	-	-	-	-	-	-
Adnan Omar Ahmed (note vi)	-	-	-	-	-	-	-	-
Gareth Ross (note vi)	-	-	-	-	-	-	-	-
Independent non-executive directors								
Chu Chung Yue, Howard	360	18	-	-	378	-	-	378
Lin Lijun	240	12	-	-	252	-	-	252
Qi Daqing	272	12	-	-	284	-	-	284
Total	1,136	7,699	9,000	18	17,853	91,823	-	109,676

Notes:

i The discretionary bonus amount represents bonus accrued and approved for the year 2018.

ii It represents the estimated value of share award granted to the individuals under the Company's share award scheme. The value of these share awards are measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(v).

iii Amount of approximately HK$485,000 transaction and management fee was waived or rebated for the year 2018.

iv Resigned as non-executive director on 16 November 2018

v Resigned as non-executive director on 11 January 2018

vi Appointed as non-executive director on 16 November 2018

	2017							
	Directors' fees	*Salaries, allowances and benefits in kind*	*Discretionary bonus (note i)*	*Contributions to Mandatory Provident Fund*	*Sub-total*	*Share-based payments (note ii)*	*Resignation pa yment*	*Total*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Chairman								
Yu Feng	-	-	-	-	-	-	-	-
Executive directors								
Huang Xin	-	-	-	-	-	-	-	-
Li Ting	-	7,644	9,360	18	17,022	-	-	17,022
Non-executive directors								
Ko Chun Shun, Johnson	300	15	-	-	315	-	-	315
Hai Olivia Ou	-	-	-	-	-	-	-	-
Huang Youlong (note iii)	-	-	-	-	-	-	-	-
Independent non-executive directors								
Chu Chung Yue, Howard	360	18	-	-	378	-	-	378
Lin Lijun	240	12	-	-	252	-	-	252
Qi Daqing	240	12	-	-	252	-	-	252
Dr. Wong Yau Kar, David	253	13	-	-	266	-	-	266
Total	1,393	7,714	9,360	18	18,485	-	-	18,485

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

14 Individual with highest emoluments

Of the five individuals with the highest emoluments, one (2017: one) is a director whose emoluments is disclosed in note 13. The aggregate of the emoluments in respect of the other four (2017: four) individuals are as follows:

	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	10,294	16,338
Discretionary bonus	3,389	400
Equity-settled share-based payment expenses (note 1)	21,227	17,218
Contributions to Mandatory Provident Fund	54	72
	34,964	34,028

Note 1: These represent the estimated value of share award granted to the individuals under the Company's share award scheme. The value of these share awards are measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(v) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The emoluments of the five (2017: five) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2018	*2017*
HK$5,000,001 to HK$5,500,000	-	1
HK$5,500,001 to HK$6,000,000	-	1
HK$6,500,001 to HK$7,000,000	-	1
HK$7,000,001 to HK$7,500,000	1	-
HK$8,000,001 to HK$8,500,000	1	-
HK$9,000,001 to HK$9,500,000	1	-
HK$9,500,001 to HK$10,000,000	1	-
HK$16,000,001 to HK$16,500,000	-	1
HK$17,000,001 to HK$17,500,000	-	1
HK$108,000,000 to HK$108,500,000	1	-

15 Loss attributable to equity shareholders of the Company

The consolidated loss attributable to equity shareholders of the Company includes an approximate loss of HK$298,851,000 (2017: a loss of HK$423,943,000) which has been dealt with in the financial statements of the Company.

16 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company for the year ended 31 December 2018 of HK$204,402,000 (2017: a loss of HK$379,054,000), and the weighted average number of shares in issue during the year ended 31 December 2018 of 2,498,464,791 (2017: 2,402,313,939).

Weighted average number of ordinary shares

	2018	*2017*
Issued ordinary shares at 1 January	2,423,326,394	2,399,336,394
Effect of shares held by share award scheme	(19,528,000)	-
Effect of issue of shares under share award scheme	-	2,977,835
Effect of repurchase of shares under share award shares	(18,582,082)	(290)
Effect of share award vested	14,618,342	-
Effect of share issued for the acquisition of YF Life	98,630,137	-
Weighted average number of ordinary shares at 31 December	2,498,464,791	2,402,313,939

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company for the year ended 31 December 2018 of HK$204,402,000 (2017: a loss of HK$379,054,000), and the weighted average number of shares during the year ended 31 December 2018 of 2,498,464,791 (2017: 2,402,313,939).

Weighted average number of ordinary shares (diluted)

	2018	*2017*
Weighted average number of ordinary shares at 31 December	2,498,464,791	2,402,313,939
Weighted average number of ordinary shares *(diluted)* at 31 December	2,498,464,791	2,402,313,939

17 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 that are different from those of other operating segments.

After the completion of the YF Life acquisition, the Group is largely dominated by the insurance business. 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 financial services and complete to reflect the long term business development focus. Accordingly, comparative figures in prior year have been restated to conform to the current year's presentation.

Consequently, the Group currently has two operating segments:

(i) Insurance business - engage in the writing of long term assurance business

(ii) Other financial services and corporate includes

a) Securities brokerage - engages in securities brokerage and provision of custodian and other services;

b) Wealth and asset management - provision of fund and asset management services as well as financing and investing solution for corporate clients and

c) Consultancy and advisory services - provision of corporate advisory, placing and underwriting advisory services to corporate clients.

d) Principal investment – utilise capital 1) to provide funding on developing financial products and the funds managed by wealth management team 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 grade equity instruments and other financial investments.

e) Financial technology activities - includes administrative expenses, research and development costs, staff costs and data and technology related expenses related to the Group's financial technology activities to support other financial services function.

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 year ended 31 December 2018

	Insurance business HK$'000	*Other financial services and corporate* HK$'000	*Total* HK$'000
Premiums and fee income	761,673	-	761,673
Premiums ceded to reinsurer	(99,149)	-	(99,149)
Net premium and fee income	662,524	-	662,524
Change in unearned revenue liability	(85,468)	-	(85,468)
Brokerage commission, interest and other service income	-	7,118	7,118
Subscription, management and rebate fee income	-	9,978	9,978
Consultancy and advisory income	-	13,092	13,092
Inter-segment income	381	-	381
Reportable segment revenue	577,437	30,188	607,625
Allocated net investment income, other operating income and gains	301,089	110,311	411,400
Share of result of associates	-	(1,241)	(1,241)
Allocated operating costs	(753,998)	(416,983)	(1,170,981)
Allocated finance cost	-	(15,912)	(15,912)
Reportable segment profit/ (loss)	124,528	(293,637)	(169,109)
Elimination of inter-segment (loss)/profit			-
Reportable segment profit derived from Group's external customers			(169,109)
Unallocated legal and professional and other operating expenses			(26,826)
Taxation			41,780
Loss for the year			(154,155)
Depreciation and amortisation for the year	(1,883)	(21,249)	(23,132)
Bank interest income	2,302	66,098	68,400
Reportable segment assets (including investment in associates and those identified intangible asset at acquisition of YF Life)	56,960,743	2,342,627	59,303,370
Additions to non-current segment assets during the year other than associates	127,661	6,109	133,770
Investment in associates	-	64,846	64,846
Reportable segment liabilities	(45,351,070)	(2,350,583)	(47,701,653)

For the year ended 31 December 2017 (restated)

	Insurance business HK$'000	*Other financial services and corporate* HK$'000	*Total* HK$'000
Brokerage commission, interest and other service income	-	6,163	6,163
Subscription, management and rebate fee income	-	3,791	3,791
Consultancy and advisory income	-	11,110	11,110
Inter-segment revenue	-	-	-
Reportable segment revenue	-	21,064	21,064
Allocated net investment income, other operating income and gains	-	16,945	16,945
Allocated operating costs	-	(359,385)	(359,385)
Allocated finance cost	-	(9,473)	(9,473)
Reportable segment loss	-	(330,849)	(330,849)
Elimination of inter-segment (loss)/profit			-
Reportable segment profit derived from Group's external customers			(330,849)
Unallocated legal and professional expenses			(47,319)
Taxation			(1,138)
Loss for the year			(379,306)
Depreciation and amortisation for the year	-	(18,531)	(18,531)
Bank interest income	-	56,129	56,129
Reportable segment assets	-	5,203,045	5,203,045
Additions to non-current segment assets during the year	-	6,980	6,980
Reportable segment liabilities	-	1,019,277	1,019,277

(b) Reconciliation of segment assets and liabilities

Assets	*2018* HK$'000	*2017* HK$'000
Reportable segment assets	59,303,370	5,203,045
Elimination of inter-segment receivables	(4,089)	-
	59,299,281	5,203,045
Goodwill	3,733,945	-
Deferred tax assets	184	-
Consolidated total assets	63,033,410	5,203,045

Liabilities	*2018* HK$'000	*2017* HK$'000
Reportable segment liabilities	47,701,653	1,019,277
Elimination of inter-segment payables	(4,089)	-
	47,697,564	1,019,277
Tax payable	6,189	44,259
Deferred tax liabilities	-	177
Consolidated total liabilities	47,703,753	1,063,713

(c) 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.

(d) Information about major customers

No customer account for more than 10% of the total revenue of the Group for the year ended 31 December 2018.

18 Other comprehensive income

Reclassification adjustments relating to components of other comprehensive income

	Note	*2018* HK$'000	*2017* HK$'000
Available-for-sale securities:			
Changes in fair value recognised during the year		-	30,260
Reclassification adjustments for amounts transferred to profit or loss:			
Net losses on disposal		-	(14,961)
Impairment losses		-	1,980
Deferred taxation		-	(820)
Net movement in the fair value reserve during the year recognised in other comprehensive income		-	16,459

	Note	*2018* HK$'000	*2017* HK$'000
Debt securities classified as fair value through other comprehensive income:			
Changes in fair value recognised during the year		73,157	-
Reclassification adjustments for amounts transferred to profit or loss:			
Net gains on disposal		(6,501)	-
Impairment losses		17,947	-
Net movement in the fair value reserve during the year recognised in other comprehensive income		84,603	-

	Note	*2018* HK$'000	*2017* HK$'000
Financial asset designated at fair value through profit or loss under overlay approach:			
Changes in fair value recognised during the year		9,058	-
Reclassification adjustments for amounts transferred to profit or loss:			
Net (gains)/losses on disposal		-	-
Impairment losses		-	-
Net movement in the fair value reserve during the year recognised in other comprehensive income		9,058	-

	Note	*2018* HK$'000	*2017* HK$'000
Equity investment classified as fair value through profit or loss under overlay approach:			
Changes in fair value recognised during the year		230	-
Reclassification adjustments for amounts transferred to profit or loss:			
Net (gains)/losses on disposal		-	-
Impairment losses		-	-
Deferred taxation		-	-
Net movement in the fair value reserve during the year recognised in other comprehensive income		230	-
Net movement in the fair value reserve during the year recognised in other comprehensive income		9,288	-

19 Property and Equipment

	Leasehold improvements HK$'000	*Office equipment and furniture* HK$'000	*Computers equipment* HK$'000	*Motor vehicles* HK$'000	*Total* HK$'000
Cost					
At 1 January 2017	11,670	6,673	17,347	726	36,416
Additions	3,686	1,501	1,333	-	6,520
Disposal	-	-	(114)	-	(114)
Disposal of a subsidiary	(308)	(10)	(23)	-	(341)
Exchange alignment	418	146	169	-	733
At 31 December 2017	15,466	8,310	18,712	726	43,214
At 1 January 2018	15,466	8,310	18,712	726	43,214
Additions	*1,925*	*1,542*	*12,906*	-	16,373
Write off and disposal	*(323)*	*(1,432)*	*(600)*	-	(2,355)
Acquisition of subsidiaries	*9,216*	*1,940*	*103,481*	-	114,637
Exchange alignment	*(321)*	*(126)*	*(132)*	-	(579)
At 31 December 2018	**25,963**	**10,234**	**134,367**	**726**	**171,290**
Accumulated depreciation and impairment					
At 1 January 2017	4,205	3,964	6,547	282	14,998
Charge for the year	4,328	1,358	4,765	242	10,693
Impairment for the year	108	320	187	-	615
Disposal	-	-	(23)	-	(23)
Disposal of a subsidiary	(308)	(9)	(22)	-	(339)
Exchange alignment	126	29	80	-	235
At 31 December 2017	8,459	5,662	11,534	524	26,179
At 1 January 2018	8,459	5,662	11,534	524	26,179
Charge for the year	*5,947*	*1,544*	*5,898*	*202*	13,591
Impairment for the year	-	-	-	-	-
Write off and disposal	*(323)*	*(1,101)*	*(599)*	-	(2,023)
Exchange alignment	*(243)*	*(70)*	*(90)*	-	(403)
At 31 December 2018	*13,840*	*6,035*	*16,743*	*726*	*37,344*
Net carrying amount					
At 31 December 2018	*12,123*	*4,199*	*117,624*	-	*133,946*
At 31 December 2017	7,007	2,648	7,178	202	17,035

20 Statutory deposits

	2018 HK$'000	*2017* HK$'000
Statutory deposits	3,285	978

The Group has deposited in the name of the Director of Accounting Services with a bank a sum of HK$1,532,000 (2017: Nil) pursuant to section 77(2)(e) of the Hong Kong Trustee Ordinance and also with the exchanges and clearing house.

All of the statutory deposits are expected to be recovered after more than one year.

21 Interest in associates

The following list contains only the particulars of material associate, which is an unlisted corporate entity whose quoted market price is not available.

			Proportion of ownership interest			
Name of associate	*Place of incorporation and business*	*Particular of issued /registered and fully paid-up capital*	*Group's effective interest*	*Held by the Company*	*Held by a subsidiary*	*Principal activities*
北京慧金科技有限公司 (note 1)	PRC	RMB522,760	16.67%	-	16.67%	Financial modelling, asset management

Note 1 On 20 June 2018, the Group has completed an acquisition of 北京慧金科技有限公司 (an "Investee") at a consideration of RMB50 million. The Group has the right to appoint one director to the board of the Investee which is comprised of 5 members. With the presence of the board representative, the Group is considered to have significant influence over the operating and financing decision of the Investee.

Summarised financial information of the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2018 HK$'000	*2017* HK$'000
Current assets	48,012	-
Non-current assets	13,210	-
Current liabilities	(1,475)	-
Non-current liabilities	-	-
Net assets	59,747	-
Revenue	3,206	-
Loss for the year	(1,258)	-
Total comprehensive income	(5,455)	-
Dividend paid to Group	-	-
Reconcile to Group's interest in the associate		
Gross amount of net assets of the associate	59,747	-
Group's effective interest	16.67%	-
Group's share of net assets of the associate	10,744	-
Goodwill	49,173	-
Exchange alignment	(4,197)	-
Carrying amount in the consolidated financial statements	55,720	-

Management considered there is no impairment indication with the material associate taking into account the recent transaction price involved in the transfer of the associate's equity interest.

Aggregate information of associate that are not individually material

	2018 HK$'000	*2017* HK$'000
Aggregate carrying amount of individually immaterial associate in the consolidated financial statements	9,126	-
		-
Aggregate amounts of the Group's share of those associates'		-
Profit from continue operation	17	-
Other comprehensive income	31	-
Total comprehensive income	48	-

22 Interests in subsidiaries

(a) Details of the subsidiaries principally affected the results and assets of the Group

The following list contains the details of the Company's subsidiaries as at which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	*Place of incorporation and business*	*Particular of issued /registered and fully paid-up capital (note)*	*Proportion of ownership interest*			*Principal activities*
			Group's effective interest	*Held by the Company*	*Held by a subsidiary*	
Yunfeng Asset Management Limited	Hong Kong	3,910,000 shares	100%	-	100%	Provision of assets management services
Yunfeng Securities Limited	Hong Kong	133,000,000 shares	100%	-	100%	Securities broking
Youyu Finance Limited	Hong Kong	1 share	100%	100%	-	Money lending
Yunfeng Financial Markets Limited	Hong Kong	125,000,000 shares	100%	100%	-	Securities broking, securities placing and underwriting, and provision of consultancy and advisory services
Youyu Global Limited	Hong Kong	1 share	100%	100%	-	Provision of administrative services
YF Life Insurance International Limited (formerly known as MassMutual Asia Limited)	Hong Kong	2,896,000,000 shares	60%	-	60%	Long term assurance business
Protective Capital (International) Limited	Hong Kong	78,610,000 shares	60%	-	60%	Provision of general services
YF Life Services Limited (formerly known as MassMutual Services Limited)	Hong Kong	1,100,002 shares	60%	-	60%	Provision of general services
YF Life Guardian Limited (formerly known as MassMutual Guardian Limited)	Hong Kong	1,300,002 shares	60%	-	60%	Provision of general services
MassMutual Trustees Limited	Hong Kong	73,000,000 shares	60%	-	60%	Provision of trustee services

Name of company	*Place of incorporation and business*	*Particular of issued /registered and fully paid-up capital (note)*	*Proportion of ownership interest*			*Principal activities*
			Group's effective interest	*Held by the Company*	*Held by a subsidiary*	
YF Life Insurance Consultants Limited (formerly known as MassMutual Insurance Consultants Limited)	Hong Kong	13,050,000 shares	60%	-	60%	Provision of agency services to non-life insurers
YF Life Investors Limited (formerly known as MassMutual Asia Investors Limited)	Hong Kong	5,000,000 shares	60%	-	60%	Provision of general services
Beijing Yunfeng Universal Investment Consultancy Limited	PRC	Registered capital RMB 70,000,000 Paid-up capital RMB48,022,624	100%	-	100%	Provision of advisory service, marketing and promoting products and public relations services
Beijing Youyu Technologies Limited	PRC	Registered capital RMB 4,000,000 Paid-up capital Nil	100%	-	100%	Provision of internet and multimedia systems and application development
Shenzhen Youyu Smart Technologies Limited	PRC	Registered capital RMB 100,000,000 Paid-up capital RMB8,010,000	100%	-	100%	Technological development of computer software and hardware, technical consulting, technology services, database and computer network services
Majik Asset Management (Cayman) Limited	Caymans Island	1 share of US1 each	100%	-	100%	Fund management
Majik Cayman GP 1 Limited	Caymans Island	1 share of US1 each	100%	-	100%	Fund management
Majik Cayman GP 2 Limited	Caymans Island	1 share of US1 each	100%	-	100%	Fund management
Majik Cayman GP 3 Limited	Caymans Island	1 share of US1 each	100%	-	100%	Fund management
Majik Cayman SPV 1 Limited	Caymans Island	1 share of US1 each	100%	-	100%	Investment holdings

Note: The class of shares held is ordinary shares unless otherwise stated.

Name of company	*Place of incorporation and business*	*Particular of issued /registered and fully paid-up capital (note)*	*Proportion of ownership interest*			*Principal activities*
			Group's effective interest	*Held by the Company*	*Held by a subsidiary*	
Majik Cayman SPV 3 Limited	Caymans Island	Authorised capital US$50,000 divided into 2,500,000 preferred shares and 2,500,000 ordinary shares. Each share is at US$0.01 par value each. 6,900 common shares and 402,952 preferred shares issued	100%	-	100% common share	Investment holdings
Majik Access USD Fund 1 L.P.	Caymans Island	US$114.2 million	65.7%	-	65.7%	Investment
Majik Access USD Fund 3 L.P.	Caymans Island	US$35 million	69.3%	-	82.5%	Investment

Note: For the fund partnership entities, the balance represents capital commitment being made by limited partners to the partnership.

(b) Information about material non-controlling interest

The following table lists out the information relating to YF Life, the only subsidiary with material non-controlling interest ("NCI") as at 31 December 2018. The subsidiary was acquired during the year as stated in note 22(d). The summarised financial information presented below represents the amounts including intangible assets identified on acquisition date before any inter-company elimination.

	2018 HK$'000	*2017* HK$'000
NCI percentage	40%	-
Total assets	56,960,743	-
Total liabilities	(45,356,102)	-
Total net assets	11,604,641	-
Net assets attributable to NCI	4,641,856	-
Goodwill attributable to NCI	1,467,031	-
Carrying amount of NCI	6,108,887	-
Net earned premium and fee income	577,437	-
Profit/ (loss) for the year	125,618	(514)
Total comprehensive income	172,618	(431)
Profit/ (Loss) allocated to NCI	50,247	(252)
Dividend paid to NCI	-	-
Cash flows from operating activities	284,589	(1,572)
Cash flows from investing activities	1,306,484	7
Cash flows from financing activities (Note)	2,745,116	-

Note: the cashflows includes HK$1,200 million capital contribution made by the Company to YF Life.

(c) Disposal of subsidiaries

During the year, the Group entered into 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 as the principal of Majik Access USD Fund 2 LP. On the date of deconsolidation, the Fund had FVPL asset of HK$13,265,000, bank and cash of HK$3,145,000 and liabilities of HK$5,607,000 including interest of third party investors in the Fund. As a result of the deconsolidation, the Group has recorded the difference between disposed net asset attributable to the Group and the fair value on initial recognition of an investment in a joint venture as a disposal gain of HK$1,538,000. From 1 January 2018 to the date of deconsolidation, the Fund contributed a loss of HK$151,000 to the Group.

(d) Acquisition of subsidiaries

On 16 November 2018, the Company has completed the acquisition of the 60% of the outstanding share capital in YF Life and its subsidiaries (the "Acquired Group"), for a consideration of approximately HK$7,926.0 million. YF Life is involved in the writing of long term assurance business. The Group has made a provisional assessment of the fair value of the assets and liabilities as at the acquisition date. The acquisition is in line with the Group's strategy to expand the Group's business scope and form an ecosystem covering multiple financial products and services. A provisional goodwill of HK$3,733 million arising from the acquisition is attributable mainly to the benefit of skills and technical talents of the acquired businesses' work force and synergies expected to be achieved from integrating the entities into the Group's existing businesses. None of the goodwill recognised is expected to be deductible for income tax purpose. The following table summarises the asset acquired and liabilities assumed and consideration paid for the Acquired Group.

	HK$'000
Consideration:	
At acquisition date	
Total consideration - cash	2,662,370
Total consideration - shares	5,264,000
	7,926,370
Assets and liabilities acquired	
Assets	
Fixed assets	114,637
Statutory deposits	1,532
Intangible asset	65,960
Value of business acquired	8,511,831
Investments	42,696,966
Advance reinsurance premiums	10,396
Reinsurers' share of outstanding claims	29,329
Insurance and reinsurance receivables	317,110
Other receivables	496,492
Deposits with banks maturing after more than three months	259,250
Cash and cash equivalents	1,425,347
Liabilities	
Insurance contract provisions	38,533,932
Investment contract liabilities	4,059,535
Outstanding claims	128,059
Reinsurance premium payables	433,529
Other payables	622,021
Tax payable	6,566
Deferred tax liabilities	712,783
Identifiable net assets acquired and liabilities assumed	9,432,425
Add: Fair value of the remaining 40% non-controlling interest	5,240,000
Goodwill recognised on acquisition	3,733,945
Cash consideration paid	2,662,370
Less: cash and cash equivalent of the subsidiaries acquired	(1,425,347)
Net cash and cash equivalent consideration received	1,237,023

Due to the timing of the completion of the acquisition, the Group is unable to complete the valuation of the value of business acquired ("VOBA"). The assessment of the fair value of VOBA and the corresponding effects on the insurance contracts provisions at the acquisition date will be subject to finalisation and the accounting for the acquisition will be revised within one year in accordance with HKFRS 3. Non-controlling interest in YF Life was measured at fair value based on cash consideration paid by these investors in the acquisition. Please refer to note 11 (b) for acquisition cost have been charged to consolidated income statement.

Since the acquisition date, YF Life and its subsidiaries (the "Acquired Group") has contributed HK$878.5 million of total income and HK$125.6 million of profit to the Group. For the purpose of disclosing the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition occurred as of the beginning of the current reporting period, it is considered impracticable to quantify the impact as the financial results of the Acquired Group are previously prepared on a different accounting principle compared to the Group's accounting policy. The valuation of certain balances including insurance reserves and value of business acquired based on assumptions made on the acquisition date are not applicable to that of the beginning of the annual reporting period. As a result, the information is considered not being a fair indicator to illustrate the full year financial impact of the Acquired Group could have been contributed to the Group.

23 Goodwill and other intangible assets

(a) Goodwill

	2018	*2017*
	HK$'000	HK$'000
Cost		
At 1 January	4,649	4,649
Additions	3,733,945	-
Written off	(1,165)	-
At 31 December	3,737,429	4,649
Accumulated impairment loss		
At 1 January	4,649	4,649
Charge for the year		-
Written off	(1,165)	-
At 31 December	3,484	4,649
Carrying amount		
At 31 December	3,733,945	-

During the year, the addition of goodwill arises from the acquisition of YF Life. The recoverable amount of the cash generating units containing goodwill or intangible assets was determined based on the value-in-use calculation. This calculation uses cash flow projection which represents what management believes is the best estimate of what the cash generating units are able to achieve in their business life. The Directors determined the cash flow projection based on past performance and its expectation for market development. The Directors believed any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount. Management of the Group determines that there are no impairments of its cash generating units containing goodwill and intangible assets.

In respect of insurance business, the recoverable amount was determined based on YF Life appraisal value, which consists of the adjusted net worth plus the present value of inforce business and the new business value after cost of capital. The amount of accumulated impairment loss written off for the year is related to a wholly owned subsidiary liquidated during the year.

(b) Other intangible assets

	Trade Name HK$'000	*Trading Rights* HK$'000	*Club Membership* HK$'000	*Computer software* HK$'000	*Total* HK$'000
At cost					
At 1 January 2017	-	6,550	2,930	18,924	28,404
Additions	-	-	-	22,389	22,389
Exchange alignment	-	-	-	34	34
At 31 December 2017 and 1 January 2018	-	6,550	2,930	41,347	50,827
Acquisition of subsidiaries	65,960	-	-	-	65,960
Additions	-	-	-	988	988
Exchange alignment	-	-	-	(24)	(24)
At 31 December 2018	65,960	6,550	2,930	42,311	117,751
Accumulated amortisation and impairment					
At and 1 January 2017	-	6,000	-	892	6,892
Charge for the year	-	-	-	7,815	7,815
Exchange alignment	-	-	-	10	10
At 31 December 2017 and 1 January 2018	-	6,000	-	8,717	14,717
Charge for the year	-	-	-	9,541	9,541
Exchange alignment	-	-	-	(11)	(11)
At 31 December 2018	-	6,000	-	18,247	24,247
Carrying amount					
At 31 December 2018	65,960	550	2,930	24,064	93,504
At 31 December 2017	-	550	2,930	32,630	36,110

As at 31 December 2018, the Group had three (2017: three) trading rights in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and one (2017: one) trading right in the Hong Kong Futures Exchange Limited (the "Futures Exchange"), of which two trading rights in the Stock Exchange and one trading right in the Futures Exchange were fully amortised as at 31 December 2010. The Group has one (2017: one) club membership with indefinite useful life similar to the trading rights.

Trade name acquired in the acquisition of YF Life, which is subject to annual impairment test. The relief-from-royalty approach is adopted to determine the fair value of trade name. At the end of each reporting period, the management of the Group reassessed the assumptions of this approach. As at 31 December 2018, the valuation of the Chinese trade name is determined based on the relevant value of new business estimated by YF Life. The trade name is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trade name will not be amortised until its useful life is determined to be finite.

24 Deferred acquisition costs and value of business acquired

	2018				2017			
	Value of business acquired	*Insurance contracts*	*Investment contracts*	*Total*	*Value of business acquired*	*Insurance contracts*	*Investment contracts*	*Total*
At 1 January	-	-	-	-	-	-	-	-
Acquisition of subsidiaries	8,511,831	-	-	8,511,831	-	-	-	-
Amount deferred	-	275,243	7,146	282,389	-	-	-	-
Amortisation for the year	(73,674)	(48,272)	(154)	(122,100)	-	-	-	-
	8,438,157	226,971	6,992	8,672,120	-	-	-	-
Amortisation for the year allocated to fair value reserve	(99,901)	(14,119)	(1,919)	(115,939)	-	-	-	-
At 31 December	8,338,256	212,852	5,073	8,556,181	-	-	-	-

The amount of deferred acquisition costs expected to be recognised as expense after more than one year is HK$114,574,000 (2017: Nil).

25 Investments

2018	*At fair value through other comprehensive income* HK$'000	*At fair value through profit or loss* HK$'000	*Held for trading* HK$'000	*Available-for-sale securities* HK$'000	*Amortised cost* HK$'000	*Total* HK$'000
Debt securities:						
– Unlisted	10,337,261	1,915,313	-	-	15,188,481	27,441,055
Mortgage loans	-	-	-	-	7,183,581	7,183,581
	10,337,261	1,915,313	-	-	22,372,062	34,624,636
Equity securities:						
– Unlisted	73,213	-	-	-	-	73,213
Fund Investment:						
– Unlisted (note (a))	-	1,996,567	-	-	-	1,996,567
Derivatives:						
– Unlisted	-	-	-	-	-	-
Unit trusts:						
– Unlisted	-	6,938,302	-	-	-	6,938,302
Total	10,410,474	10,850,182	-	-	22,372,062	43,632,718
Market value of listed securities	-	-	-	-	-	-

2017	*Fair value at fair value through other comprehensive income* HK$'000	*Designated at fair value through profit or loss* HK$'000	*Held for trading* HK$'000	*Available-for-sale securities* HK$'000	*Loans and receivables* HK$'000	*Total* HK$'000
Debt securities:						
– Unlisted	-	-	-	192,721	-	192,721
Mortgage loans	-	-	-	-	-	-
	-	-	-	192,721	-	192,721
Equity securities:	-	3,209	-	76,989	-	80,198
Fund investment:						
– Unlisted (note (a))	-	-	-	622,488	-	622,488
Derivatives						
– Unlisted	-	-	2,727	-	-	2,727
Total	-	3,209	2,727	892,198	-	898,134
Market value of listed securities	-	3,209	-	-	-	3,209

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 5. During the year, the Group has made an injection of approximately HK$63,569,000 to the joint venture. As of 31 December 2018, the carrying value of the jointly controlled entity amounted to HK$79.1 million.

(b) Investments of HK$3,760,043,000 (2017: Nil) 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$7,793,141,000 (2017: HK$332,627,000) and the portion that is expected to be recoverable after more than one year is HK$35,839,577,000 (2017: HK$565,507,000).

(d) Fair value of individually impaired investments is as follows:

	2018	*2017*
	HK$'000	HK$'000
Fair value through other comprehensive income debt securities	9,431,434	-
Amortised cost investment	14,091,752	-

As at 31 December 2018, the investments were individually determined to be impaired on the basis of expected credit losses model. Impairment losses on these investments were recognised in the consolidated income statements in accordance with the policy set out in note 2(s)(i).

(e) The maturity profile of the Group's debt securities and loans and receivables is as follows:

	2018	*2017*
	HK$'000	HK$'000
Fixed maturities due in		
– 1 year or less	642,606	-
– 1 to 5 years	2,723,688	-
– 5 to 10 years	6,375,965	192,721
– More than 10 years	17,698,796	-
	27,441,055	192,721
Mortgage loans due in		
– 1 year	153,501	-
– 2 years	276,017	-
– 3 years	365,502	-
– 4 years	201,069	-
– 5 years	817,215	-
– More than 5 years	5,370,277	-
	7,183,581	-

(f) Interests in collective investment schemes

(i) Included in financial assets designated at fair value through profit or loss on the 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 Company 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 5) and the capital commitments. The maximum exposure to loss, which represents the maximum loss that the company 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 (see note 5).

(ii) In addition, the Group's subsidiary, MassMutual 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$4,185,000 (2017: Nil) for the year.

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.

26 Advance reinsurance premiums

Analysis of movement in advance reinsurance premiums

	2018	*2017*
	HK$'000	HK$'000
At 1 January	-	-
Acquisition of subsidiaries	10,396	-
Other movements	256	-
At 31 December	10,652	-

Advance reinsurance premiums are expected to be recovered within one year.

27 Insurance and reinsurance receivables

	2018	*2017*
	HK$'000	HK$'000
Loans to policyholders	1,710	-
Direct premium receivables	4,744	-
Reinsurance receivables	237,158	-
	243,612	-

At 31 December 2018, none of the insurance and reinsurance receivables were past due or impaired.

All of the insurance and reinsurance receivables are expected to be recovered within one year.

28 Other accounts receivable and accrued income

	2018 HK$'000	*2017* HK$'000
Other accounts receivable arising from securities brokerage:		
– Cash clients	55,842	61,609
– Margin clients	16,930	26,120
– Clearing house, brokers, fund managers and dealers	22,314	10,632
	95,086	98,361
Other accounts receivable arising from consultancy and advisory services	1,959	1,720
Other service fees receivables	332	560
	97,377	100,641
Less : allowance for doubtful debts	(1,507)	(26,403)
	95,870	74,238

The balances of other accounts receivable from consultancy and advisory services with accrued fees of approximately HK$650,000 (2017: HK$1,455,000) for on-going advisory projects which have not been billed.

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 allowance for doubtful debts as of the end of the reporting period is as follows:

	2018 HK$'000	*2017* HK$'000
Current	95,019	72,688
Less than 1 month past due	370	767
1 to 3 months past due	126	262
More than 3 months past due	355	521
Amounts past due	851	1,550
	95,870	74,238

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.

(b) Other accounts receivable which are past due but not impaired

Included in the Group's other accounts receivable balance are debtors with an aggregate carrying amount of HK$851,000 (2017: HK$1,550,000) which are past due at the end of the reporting period for which the Group has not made provision for impairment loss.

As of 31 December 2018, approximately HK$40,000 due from cash clients which are past due but not impaired represented client trades which are unsettled beyond the settlement date. No impairment loss was provided for these balances as either the Group held securities collateral for those balances with fair values in excess of the past due amounts or the balances have been settled subsequently. Collaterals held against such other accounts receivable are publicly traded securities. No such balance existed as of 31 December 2017.

Other accounts receivable from corporate clients of HK$851,000 (2017: HK$1,550,000) which are past due but not impaired represent other accounts receivable arising from provision of corporate finance, consultancy and advisory services which have not yet been settled and aged by their invoice date. No impairment loss was provided for these balances as these clients are trade counterparties with sound credit rating and/or reputation.

(c) Impairment of other accounts receivable

The Group has a policy for allowance for doubtful debts which is based on the evaluation of collectability, ageing analysis of accounts and management's judgement including the creditworthiness, collaterals and the past collection history of each client.

The movement of the allowance for doubtful debts during the year is as follows:

	2018 HK$'000	*2017* HK$'000
At 1 January	26,403	26,901
Provision for impairment loss recognised	1,224	18
Amount recovered during the year	-	(513)
Amount written off	(26,120)	(3)
At 31 December	1,507	26,403

During the year, the Group has relaunched margin financing service after ceasing the service in 2004. The amount from margin clients in respect of margin service prior to the cession of this business in 2004, amounted to HK$26,120,000, which had been fully impaired in prior year was written off. HK$400,000 (2017: HK$285,000) relates to individually impaired other accounts receivable arising from the business of dealing in securities. HK$1.1 million relates to individually impaired other accounts receivable arising from the business of consultancy and advisory services.

(d) Balance with related parties

At 31 December 2018, the balance of other service fee receivables includes fund management fee of approximately HK$248,000 (2017: Nil) due from a joint venture of the Group.

29 Other receivables, deposits and prepayment

	Note	*2018* HK$'000	*2017* HK$'000
Utility and rental deposits	(i)	36,831	8,289
Loans to agents and staff	(ii)	26,773	2,000
Accrued investment income	(ii)	374,123	19,909
Prepayment and other deposit		10,888	6,827
Other receivable from non-controlling shareholders of a subsidiary	(iv)	32,836	-
Other deposits and receivables	(iii)	77,428	45,019
		558,879	82,044
Less: provision for impairment of other receivable	(iv)	(8,976)	(8,210)
		549,903	73,834

Notes:

(i) The amount of utility and rental deposits expected to be recovered after more than one year is HK$22,005,000 (2017: HK$8,038,000).

(ii) On 31 December 2018, interest bearing loans to staff included loans to key management of HK$3,136,000 entered with a subsidiary of the Group.

(iii) During the year, HK$28,315,000 of other receivable is reclassified to other receivable from non-controlling shareholders of a subsidiary after the completion of acquisition of YF Life.

(iv) Impairment of other receivables

Other receivable of HK$8,976,000 (2017: HK$8,210,000) is fully impaired as the recoverability of the balance is considered uncertain after credit assessment performed by management.

The movement of the allowance for doubtful debts during the year is as follows:

	2018 HK$'000	*2017* HK$'000
At 1 January	8,210	16,795
Expected credit loss recognised upon adoption of HKFRS 9	1,143	-
Reversal of impairment loss recognised	(377)	-
Amount written off	-	(8,585)
At 31 December	8,976	8,210

(v) Except for those mentioned above in (i) and (iv), all of the other receivables are expected to be recovered within one year.

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

	Note	*At 31 December 2018* HK$'000	*At 31 December 2017* HK$'000
Bank balance - trust and segregated accounts			
Deposit with bank		440,117	340,029
Less: impairment allowance	(iii)	(34)	-
	(i)	440,083	340,029
Fixed bank deposits with original maturity over 3 months			
Deposit with bank	(iv)	259,250	1,580,313
Less: impairment allowance	(iii)	-	-
		259,250	1,580,313
Cash and cash equivalent			
Deposit with bank	(ii)	300	30,000
Fixed bank deposits with original maturity less than 3 months		1,455,350	1,739,627
Cash at bank and in hand		3,728,897	412,747
Less: impairment allowance	(iii)	(318)	-
Cash and cash equivalent in the statement of financial position		5,184,229	2,182,374

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) The expected credit loss provision is made based on assessment as disclosed in note 3. During the period, provision of HK$2,195,000 was reversed.

(iv) The Group has pledged fixed deposits of HK$259,250,000 (2017: Nil) to banks in favour of the Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.

(a) Reconciliation to liabilities arising from financing activities for disclosure purpose

The table below details changes in the Group's liabilities from financing activities including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Policyholders' deposit HK$'000	*Preference shares* HK$'000	*Finance lease* HK$'000	*Total* HK$'000
At 1 January 2017	-	-	2,227	2,227
Change from financing cash flow:				
Proceeds from issue of preference share by a subsidiary	-	206,194	-	206,194
Payment made to finance lease obligation	-	-	(1,075)	(1,075)
Total change in financing cash flows	-	206,194	1,152	207,346
New finance lease	-	-	20,807	20,807
Finance charge on finance lease obligation	-	-	823	823
Fair value change	-	877	-	877
Exchange alignment	-	-	290	290
At 31 December 2017	-	207,071	23,072	230,143

	Policyholders' deposit HK$'000	*Bank borrowings* HK$'000	*Preference shares* HK$'000	*Finance lease* HK$'000	*Total* HK$'000
At 1 January 2018	-	-	207,071	23,072	230,143
Acquisition of subsidiaries	37,385,878	-	-	-	37,385,878
Change from financing cash flow:					
Proceeds from issue of preference share by a subsidiary	-	-	108,117	-	108,117
Payment made to finance lease obligation	-	-	-	(5,043)	(5,043)
Policyholders' account deposits for investment contracts	995,219	-	-	-	995,219
Policyholders' account withdrawals for investment contracts	(250,104)	-	-	-	(250,104)
Drawdown of bank loans	-	1,220,000	-	-	1,220,000
Repayment of a bank loan	-	(20,000)	-	-	(20,000)
Total change in financing cash flows	745,115	1,200,000	108,117	(5,043)	2,048,189
Net change in lease obligation	-	-	-	592	592
Finance charge and effective interest expenses	-	(1,774)	-	549	(1,225)
Fair value change	-	-	400	-	400
Interest credited to policyholders' account balances	205,859	-	-	-	205,859
Cost of insurance charges	(104,180)	-	-	-	(104,180)
Administrative fees	(246,065)	-	-	-	(246,065)
Other reserve changes	26,763	-	-	-	26,763
Transfer to the other payable and accrual	-	-	-	(3,916)	(3,916)
At 31 December 2018	38,013,370	1,198,226	315,588	15,254	39,542,438

(b) Bank balances - trust and segregated account

The Group maintains segregated accounts with authorised institutions to hold clients' monies arising from its normal course of business of the regulated activities. The Group has classified the "bank balances – trust and segregated accounts" under current assets in the consolidated statement of financial position and recognised the corresponding account payables to respective clients and other institutions on the grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance. As at 31 December 2018, client money maintained in segregated accounts amounted to HK$440,083,000 (2017: HK$340,029,000).

31 Insurance contract provisions

	Note	*2018* HK$'000	*2017* HK$'000
Policyholders' deposits	(i)	33,927,093	-
Future policyholders' benefits	(ii)	5,417,950	-
Unearned revenue liability	(iii)	17,093	-
		39,362,136	-

Notes:

(i) Policyholders' deposits

Analysis of movement in policyholders' deposits

	2018 HK$'000	*2017* HK$'000
At 1 January	-	-
Acquisition of subsidiaries	33,369,995	-
Premiums received during the year	903,008	-
Net fees and charges deducted from account balances	(339,964)	-
Interest credited to account balances	179,714	-
Redemptions due for payment in current year	(182,777)	-
Others movements	(2,883)	-
At 31 December	33,927,093	-

(ii) Future policyholders' benefits

Analysis of movement in future policyholders' benefits

	2018 HK$'000	*2017* HK$'000
At 1 January	-	-
Acquisition of subsidiaries	5,163,936	-
Movement during the year	254,013	-
At 31 December	5,417,949	-

(iii) Unearned revenue liability

	2018 HK$'000	*2017* HK$'000
At 1 January	-	-
Acquisition of subsidiaries	-	-
Amount deferred	136,743	-
Amortisation for the year allocated to consolidated income statement	(59,218)	-
	77,525	-
Amortisation for the year allocated to fair value reserve	(60,432)	-
At 31 December	17,093	-

(iv) The amount of insurance contract provisions expected to be settled after more than one year is HK$37,046 (2017: Nil).

32 Investment contract liabilities

	Note	*2018* HK$'000	*2017* HK$'000
Policyholders' deposits	(i)	4,086,277	-
Future policyholders' benefits	(ii)	45,946	-
Unearned revenue liability	(iii)	(272)	-
		4,131,951	-

Notes:

(i) Policyholders' deposits

Analysis of movement in policyholders' deposits:

	2018 HK$'000	*2017* HK$'000
At 1 January	-	-
Acquisition of subsidiaries	4,015,883	-
Contributions received during the year	82,856	-
Net fee and charges deducted from account balances	(9,468)	-
Interest credited to account balances	26,145	-
Redemptions due for payment in current year	(28,443)	-
Others movements	(696)	-
At 31 December	4,086,277	-

(ii) Future policyholders' benefits

Analysis of movement in future policyholders' benefits:

	2018 HK$'000	*2017* HK$'000
At 1 January	-	-
Acquisition of subsidiaries	43,652	-
Movement during the year	2,294	-
At 31 December	45,946	-

(iii) Unearned revenue liability

Analysis of movement in unearned revenue liability:

	2018 HK$'000	*2017* HK$'000
At 1 January	-	-
Acquisition of subsidiaries	-	-
Amount deferred	8,726	-
Amortisation for the year allocated to consolidated revenue account	(783)	-
	7,943	-
Amortisation for the year allocated to fair value reserve	(8,215)	-
At 31 December	(272)	-

(iv) The amount of investment contract liabilities expected to be settled after more than one year is HK$3,907,083,000 (2017: Nil).

33 Outstanding claims

	2018			*2017*		
	Gross HK$'000	*Reinsurers' share* HK$'000	*Net* HK$'000	*Gross* HK$'000	*Reinsurers' share* HK$'000	*Net* HK$'000
Outstanding claims	91,838	(31,202)	60,636	-	-	-
Claims incurred but not reported	31,985	-	31,985	-	-	-
	123,823	(31,202)	92,621	-	-	-
Amount expected to be settled within one year	123,823	(31,202)	92,621	-	-	-

Analysis of movements in outstanding claims:

	2018			*2017*		
	Gross HK$'000	*Reinsurers' share* HK$'000	*Net* HK$'000	*Gross* HK$'000	*Reinsurers' share* HK$'000	*Net* HK$'000
Balance at 1 January	-	-	-	-	-	-
Acquisition of subsidiaries	128,059	(29,329)	98,730	-	-	-
Current year claims	109,717	(25,070)	84,647	-	-	-
Current year claims paid	(64,251)	9,300	(54,951)	-	-	-
Previous year claims paid	(45,742)	13,897	(31,845)	-	-	-
Movement in incurred but not reported reserve	(3,960)	-	(3,960)	-	-	-
Balance at 31 December	123,823	(31,202)	92,621	-	-	-

34 Reinsurance premium payables

All of the reinsurance premium payables are expected to be settled within one year.

35 Other accounts payable

	2018	*2017*
	HK$'000	HK$'000
Accounts payable		
– Cash and margin clients	481,554	400,247
– Clearing house, fund managers, brokers and dealers	40,310	52,328
	521,864	452,575

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$440,787,000 (2017: HK$391,043,000).

All of the accounts payable are aged and due within one month or on demand.

Balance with related parties

At 31 December 2018, accounts payable of approximately HK$38,430,379 (2017: HK$18,667,000) are payable to certain key management personnel of the Company on normal terms of brokerage and wealth management business of the Group.

36 Other payables and accrued expenses

	2018	*2017*
	HK$'000	HK$'000
Accrued staff costs	95,211	33,245
Commission payables	195,483	-
Derivative financial instruments	49,280	-
Other payables and accruals	484,618	68,645
	824,592	101,890

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

Balance with related parties

At 31 December 2018, accounts payable of approximately HK$9,541,000 (2017: Nil) are payable to MassMutual International LLC ("MMI") who is a substantial shareholder of the Company and its affiliates.

37 Income tax in the statement of financial position

(a) Tax payable in the statement of financial position represents:

	2018 HK$'000	*2017* HK$'000
Provision for Hong Kong Profits Tax for the year	9,117	-
Provisional Profits Tax paid	(4,085)	-
	5,032	-
Balance of Profits Tax provision relating to prior years	-	43,744
	5,032	43,744
Macau Complementary Tax		
Balance of Complementary Tax provision for the year	-	-
Overseas Tax		
Balance of overseas provision for the year	1,157	515
	6,189	44,259
Amount of tax payable expected to be settled within one year	6,189	44,259
Amount of taxation payable expected to be settled after more than one year	-	-

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax liabilities/(assets) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value adjustment to assets and liabilities related to acquisition of subsidiaries HK$'000	*Accelerated tax depreciation* HK$'000	*Tax losses* HK$'000	*Fair value adjustment on investment at fair value through profit and loss* HK$'000	*Decelerated tax on expense /expected credit loss incurred* HK$'000	*Net unrealised gain on available for sales financial instruments* HK$'000	*Total* HK$'000
Deferred tax liabilities/ (assets) arising from:							
At 1 January 2017	-	1,297	(1,297)	-	(508)	-	(508)
Exchange alignment	-	-	-	-	(18)	-	(18)
(Credited)/charged to profit or loss	-	(470)	(173)	-	526	-	(117)
Charged to other comprehensive income	-	-	-	-	-	820	820
At 31 December 2017	-	827	(1,470)	-	-	820	177
At 1 January 2018	-	827	(1,470)	-	-	820	177
Upon adoption of HKFRS 9	-	-	-	820	(609)	(820)	(609)
Acquisition of subsidiaries	712,783	-	-	-	-	-	712,783
(Credited)/charged to profit or loss	(10,206)	(827)	1,470	(820)	425	-	(9,958)
At 31 December 2018	702,577	-	-	-	(184)	-	702,393

At 31 December 2018, no deferred tax asset has been recognised in respect of the tax losses of HK$1,351 million (2017: HK$848 million) to the extent that it is not probable that future taxable profit against which the losses can be utilised will be available subject to the approval of respective tax authorities in the relevant tax jurisdiction. The tax losses amounting to HK$1,351 million (2017: HK$835 million) do not expire under current tax legislation.

38 Financial liabilities at fair value through profit or loss

	At 31 December 2018 HK$'000	*At 31 December 2017* HK$'000
Designated at fair value through profit or loss		
Fund-linked note	-	78,063
Preference share liability *(note 1)*	315,588	207,071
Third-party interests in consolidated funds *(note 2)*	187,542	156,606
	503,130	441,740

Note:

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 31 December 2018. During the year, US$13.9 million proceed obtained from the issue of preference shares at US$100 per share 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 31 December 2018.

39 Obligation under finance lease

The Group had obligations under finance leases repayable as follows:

	At 31 December 2018		*At 31 December 2017*	
	Present value of the minimum lease payment HK$'000	*Total minimum lease payment* HK$'000	*Present value of the minimum lease payment* HK$'000	*Total minimum lease payment* HK$'000
Within one year	3,401	3,453	7,694	7,789
After one but within 2 years	3,982	4,130	4,438	4,528
After 2 years but within 5 years	7,871	8,318	10,940	11,951
	15,254	15,901	23,072	24,268
Less: finance cost		(647)		(1,196)
Present value lease obligation		15,254		23,072

40 Bank borrowings

The bank loan was unsecured and repayable as follows:

	At 31 December 2018 HK$'000	*At 31 December 2017* HK$'000
After 2 year but within 5 years	1,198,226	-

The Group's banking facilities are subject to the compliance of covenants including certain financial ratios and negative pledge against certain arrangement and transactions, as are commonly found in lending arrangements with financial institutions. If the Group breached any of the covenants and negative pledge against certain arrangement and transactions, the outstanding bank loan would become immediate due and payable. The Group regularly monitors its compliance with these covenants. As at 31 December 2018 the Group is in compliance with the covenants. Further details of the Group's management of liquidity risk are set out in note 5.

41 Capital and reserves

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital HK$'000	*Capital Reserve* HK$'000	*Shares held by share award scheme* HK$'000	*Share-based payment reserve* HK$'000	*Accumulated losses* HK$'000	*Total* HK$'000
At 1 January 2017	4,499,045	-	(97)	70	(290,387)	4,208,631
Share issued under share award scheme	129,546	-	(129,546)	-	-	-
Share repurchase under share award scheme	-	-	(260)	-	-	(260)
Equity settled share-based transactions	-	-	-	56,712	-	56,712
Shares vested under share award scheme	-	-	24,353	(26,039)	1,686	-
Total comprehensive income for the year	-	-	-	-	(423,943)	(423,943)
At 31 December 2017 and 1 January 2018	4,628,591	-	(105,550)	30,743	(712,644)	3,841,140
Share issued for acquisition of subsidiaries	5,200,000	64,000	-	-	-	5,264,000
Share repurchase under share award scheme	-	-	(110,209)	-	-	(110,209)
Equity settled share-based transactions	-	-	-	119,239	-	119,239
Shares vested under share award scheme	-	-	132,529	(121,949)	(11,498)	(918)
Total comprehensive income for the year	-	-	-	-	(298,851)	(298,851)
At 31 December 2018	9,828,591	64,000	(83,230)	28,033	(1,022,993)	8,814,401

(b) Nature and purpose of reserves

(i) Share held by share award scheme and share-based payment reserve

The Company's shares held by Youyu Share Award Scheme Nominee Limited, TMF Trust (HK) Limited and Bank of Communications Trustee Limited for the share award schemes are presented as a deduction in equity as shares held for share award scheme.

Share-based payment reserve represents the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments.

(ii) Asset revaluation reserve

The asset revaluation reserve arose on the revaluation of the trading rights in the exchanges in Hong Kong in prior years. The carrying value of the trading rights have been fully amortised in previous years. The remaining revaluation reserve will be realised when the Group disposes of the trading rights.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(x).

(iv) Statutory and capital reserve

Statutory reserve

Pursuant to the Company Law of the PRC, in accordance with the relevant subsidiary's articles of association, 10% of the net profit of the relevant subsidiary, determined in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the PRC ("PRC GAAP"), is required to be transferred to the statutory reserve until such time when this reserve reaches 50% of the registered capital of the subsidiary incorporated in PRC. The reserve appropriated can be used for expansion of business scale and capitalisation. If the statutory reserve is capitalised into registered capital, the remaining reserve is required to be no less than 25% of the subsidiary's registered capital before capitalisation.

Capital reserve

The capital reserve arose to recognise the difference between the fair value and the issue price of Company's share in relation to the completion of the acquisition of YF Life.

(c) Distributability of reserves

As at 31 December 2018, the Company did not have any reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622) (2017: nil).

(d) Dividend

No dividend was paid or proposed for the year ended 31 December 2018 (2017: nil), nor has dividend been proposed since the end of the reporting period.

(e) Share capital

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

	At 31 December 2018 Number of shares	Amount HK$'000	*At 31 December 2017* Number of shares	Amount HK$'000
Issued and fully paid:				
Balance brought forward	2,423,326,394	4,629,094	2,399,336,394	4,499,548
Shares issued under share award scheme	-	-	23,990,000	129,546
Shares issued as consideration for the acquisition of YF Life	800,000,000	5,200,000	-	-
Balance carried forward	3,223,326,394	9,829,094	2,423,326,394	4,629,094

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Repurchase of Company's shares under share award scheme

During the year, the Group repurchased 19,952,000 number of Company ordinary share for a total consideration approximately of HK$110,209,000 through Bank of Communications Trustee Limited for share award scheme purpose to be granted to the Group B Participant (Group B Grantees) as disclosed in note 42. The share repurchased is accounted for as shares held under share award scheme of the Company's reserve. The highest price paid per share repurchased is HK$6 and the lowest price paid per share repurchased is HK$5.5.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to meet its obligations and continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The capital structure of the Group consists of share capital and reserves as shown in the statement of financial position. In respect of the Group's insurance operations in Hong Kong and Macau, the regulators are interested in ensuring that the subsidiary maintains an appropriate solvency position to meet its liabilities arising from claims maturities and surrenders from its life insurance contracts. Pursuant to the Hong Kong Insurance Ordinance and the Macau Insurance Ordinance, YF Life is required to meet the requirements on solvency margin. If YF Life fails to comply with the requirements, the regulators may require YF Life to submit a plan for the restoration of a sound financial position or a short term financial scheme as appropriate, to the satisfaction of the regulators. YF Life complied with the solvency margin requirements for the year ended 31 December 2018.

On the other hand, certain subsidiaries of the Group, Yunfeng Financial Markets Limited ("YFFM"), Yunfeng Securities Limited ("YFSL") and Yunfeng Asset Management Limited ("YFAM"), is subject to externally imposed capital requirements. YFFM, YFSL and YFAM are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the Securities and Futures Ordinance. The management monitors YFFM, YFSL and YFAM's liquid capital daily to ensure they meet the minimum liquid capital requirement in accordance with the Securities and Futures (Financial Resources) Rules ("FRR") adopted by the SFC. Under the FRR, YFFM and YFSL must maintain its liquid capital in excess of HK$3 million or 5% of their total adjusted liabilities whichever is higher. For YFAM, it must maintain its liquid capital in excess of HK$100,000 or 5% of its adjusted liabilities whichever is higher. The required information was filed with SFC on a monthly or half yearly basis. YFFM, YFSL and YFAM were in compliance with the capital requirements imposed by FRR during the current and prior year

42 Employee share-based arrangements

(i) Share award scheme

On 17 October 2014, the board of directors approved the adoption of the share award scheme (the "2014 Share Award Scheme"). The purpose of the 2014 Share Award Scheme is to (i) encourage or facilitate the holding of shares by the selected participants; (ii) encourage and retain such individuals to work with the Company and the Group and (iii) provide additional incentive for them to achieve performance goals, and the share award scheme took effect on 30 October 2014. The awarded shares are awarded by issuing new ordinary shares. Before vesting, the awarded shares are held in a trust set up by the scheme. During the year, there is neither new issue nor outstanding share award under the 2014 Share Award Scheme.

With similar purpose of 2014 Share Award Scheme, on 12 December 2016, the board of directors approved the adoption of 2016 Share Award Scheme (the "2016 Share Award Scheme") and the Company issue of 23,990,000 new ordinary shares of the Company to TMF Trust (HK) Limited to be granted to the Group A Participant (Group A Grantees) as disclosed in the announcement of the Company dated 24 January 2017. The share was issued at value of HK$5.4 per share.

During the year, the Group repurchased 19,952,000 number of Company ordinary share through Bank of Communications Trustee Limited together with 48,000 shares already repurchased in 2017 for share award at a total consideration of approximately HK$110,469,000. All 20,000,000 repurchased shares were granted to the Group B Participant (Group B Grantees).

The fair value of 2016 Share Award Scheme at the date of the grant are charged to staff costs and related expenses over the projected vesting period being the period for which the services from the employees are rendered with a corresponding credit to employee share-based payment reserve.

Upon vesting and transfer to the awardees, the related cost of the shares are credited to share held for share award scheme, and the related fair value of the shares are debited to share-based payment reserve.

(ii) Details of the 2016 Share Award Scheme (to Group A Grantee)

Date of approval by board	*Date of award*	*Awarded sum* HK$'000	*Number of shares issued*	*Number of awarded shares awarded*	*Average fair value per share* HK$	*Vesting period*
24 January 2017	24 January 2017	26,499	5,997,500	5,047,500	5.25	24 January 2017 - 4 May 2017
24 January 2017	24 January 2017	26,499	5,997,500	5,047,500	5.25	24 January 2017 - 4 May 2018
24 January 2017	24 January 2017	26,499	5,997,500	5,047,500	5.25	24 January 2017 - 4 May 2019
24 January 2017	24 January 2017	26,499	5,997,500	5,047,500	5.25	24 January 2017 - 4 May 2020
25 April 2018	25 April 2018	3,242	-	712,500	4.55	25 April 2018 - 4 May 2018
25 April 2018	25 April 2018	3,242	-	712,500	4.55	25 April 2018 - 4 May 2019
25 April 2018	25 April 2018	3,242	-	712,500	4.55	25 April 2018 - 4 May 2020
25 April 2018	25 April 2018	3,242	-	712,500	4.55	25 April 2018 - 4 May 2021

Details of the 2016 Share Award Scheme (to Group B Grantee)

Date of approval by board	*Date of award*	*Awarded sum* HK$'000	*Number of shares repurchased*	*Number of awarded shares awarded*	*Average fair value per share* HK$	*Vesting period*
26 January 2018	26 January 2018	5,786	950,000	950,000	6.09	26 January 2018 - 2 February 2018
21 May 2018	21 May 2018	94,298	19,050,000	19,050,000	4.95	21 May 2018 - 28 May 2018

(iii) 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*	*Number of awarded shares vested*	*Number of awarded shares cancelled*	*Number of awarded shares forfeited*	*Number of awarded share remains outstanding*
	A	B	C	D	F=A-B-C-D
4 May 2017	5,047,500	4,510,000	450,000	-	87,500
4 May 2018	5,047,500	-	-	1,012,500	4,035,000
4 May 2019	5,047,500	-	-	1,012,500	4,035,000
4 May 2020	5,047,500	-	-	1,012,500	4,035,000
As of 31 December 2017	20,190,000	4,510,000	450,000	3,037,500	12,192,500
Movement for the year					
4 May 2017	-	-	87,500	-	
4 May 2018	-	3,372,500	87,500	575,000	
4 May 2019	-	-	162,500	700,000	
4 May 2020	-	-	162,500	700,000	
4 May 2017	5,047,500	4,510,000	537,500	-	-
4 May 2018	5,047,500	3,372,500	87,500	1,587,500	-
4 May 2019	5,047,500	-	162,500	1,712,500	3,172,500
4 May 2020	5,047,500	-	162,500	1,712,500	3,172,500
As of 31 December 2018	20,190,000	7,882,500	950,000	5,012,500	6,345,000

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*	*Number of awarded shares forfeited*	*Number of awarded share remains outstanding*
	A	B	C	D	F=A-B-C-D
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 2018	2,850,000	712,500	37,500	-	2,100,000

(iv) Details of the 2016 Share Award Scheme vested, cancelled and modification of service condition to Group B Grantee

Vesting date	*Number of awarded shares awarded*	*Number of awarded shares vested*	*Number of awarded shares cancelled*	*Number of awarded shares forfeited*	*Number of awarded share remains outstanding*
	A	B	C	D	F=A-B-C-D
2 Feb 2018	950,000	950,000	-	-	-
28 May 2018	19,050,000	19,050,000	-	-	-
As of 30 June 2018	20,000,000	20,000,000	-	-	-

43 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 31 December 2018, the net assets of consolidated fund entities as detailed in note 22 amounted to HK$550 million (2017: HK$574 million) with net carrying interest held by the Group being HK$362 million (2017: HK$417 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 of the consolidated statements of financial position with fair value change of financial liability at fair value through profit or loss presented in the consolidated income statements.

At year 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 to these structured entities is not significant and the Group is primarily acting as an agent. Therefore, the Group did not consolidate these structured entities.

The Group classified its investment in those unconsolidated entities as FVOCI investments with minimal loss exposure due to small investment amount involved.

44 Commitments

(a) Capital commitments

As at 31 December 2018, the Group has a total of HK$20.5 million (2017: HK$0.6 million) capital commitment contracted but not provided for.

(b) Operating lease commitments

As lessee

As at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK$'000	*2017* HK$'000
Within one year	105,867	18,801
After one year but within five years	149,300	5,711
	255,167	24,512

The Group leases a number of offices under operating leases. The leases run for an initial period of one to five years. None of the leases includes contingent rentals.

(c) 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. The Group has investment commitments contracted for amounted to HK$2,760,775,000 (2017: HK$990,600,000).

(ii) As at 31 December 2018, the Group has capital commitment to a joint venture for an amount of US$20 million with US$9.8 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.

45 Material related party transactions

(a) Transactions with key management personnel

The remuneration for key management personnel of the Group is as follows:
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	2018 HK$'000	*2017* HK$'000
Short term employee benefits	37,089	33,789
Post employment benefits	65	-
Equity compensation benefits	129,609	14,667
	166,763	48,456

Total remuneration is included in "staff costs" in note 11(a) to the financial statements.

During the year, amount of approximately HK$554,000 (2017: HK$763,000) transaction and management fee related to key management personnel's securities brokerage and wealth management transaction is waived by the Group.

(b) Transactions with other related parties

	2018 HK$'000	*2017* HK$'000
Brokerage fee income *(note (i))*	151	243
Advisory fee income *(note (ii))*	970	2,750
Interest expense *(note (iii))*	356	107
Investment management fee paid *(note (iv))*	7,188	-
Transitional services fee paid *(note (v))*	1,465	-
Policy endorsement fee paid *(note (vi))*	888	-
Management fee income from a joint venture	2,021	-

Note:

(i) During the year ended 31 December 2018, the Group provided brokerage services to a company where our chairman, Mr. Yu Feng ("Mr. Yu") is a director and substantial shareholder and Mr. Huang Xin ("Mr. Huang"), our executive director, is a director.

During the year ended 31 December 2017, the Group provided brokerage services to (i) a company where our former independent non-executive director, Dr. Wong Yau Kar, David, GBS, JP, is an independent non-executive director; and (ii) a company where Mr Johnson Ko, Mr. Ko, our former non-executive director, is a substantial shareholder and an executive director; and (iii) a company where Mr. Yu is a director and substantial shareholder.

(ii) During the year ended 31 December 2018, the Group provided advisory services to (i) companies where Mr. Ko is a substantial shareholder or as an executive director and (ii) a company where Mr. Huang), is the chairman.

During the year ended 31 December 2017, the Group provided advisory services to (i) a company where our executive director, Mr. Huang Xin ("Mr. Huang"), is the chairman; (ii) a company where Mr. Ko is a substantial shareholder; (iii) a company where our former independent non-executive director, Dr. Wong Yau Kar, David, GBS, JP, is an independent non-executive director.

(iii) During the year, the Group incurred interest expense for cash custodian transactions with key management personnel.

(iv) 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.

(v) 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.

(vi) 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 the life insurance outstanding policies of YF Life until such policies mature.

(vii) As of 31 December 2018, amount of US$2.1 million (2017: US$1.65 million) investment commitment is made by key management personnel to the funds managed or jointly managed by the Group.

46 Company-level statement of financial position at 31 December 2018

	Note	*2018* HK$'000	*2017* HK$'000 (Note 50)
Assets			
Interests in subsidiaries		9,756,849	1,009,119
Other receivable and prepayment		35,590	46,677
Fixed bank deposits with original maturity more than 3 months		-	1,505,766
Cash and cash equivalents		258,270	1,329,331
Total assets		10,050,709	3,890,893
Liabilities			
Accrued expenses and other payables		38,082	49,753
Bank borrowings	40	1,198,226	-
Total liabilities		1,236,308	49,753
NET ASSETS		8,814,401	3,841,140
EQUITY			
Share capital	41(a)	9,828,591	4,628,591
Reserves	41(a)	(1,014,190)	(787,451)
TOTAL EQUITY		8,814,401	3,841,140

Approved and authorised for issue by the Board on 28 March 2019 and are signed on its behalf by:

Li Ting	Huang Xin
Executive Director and Chief Executive Officer	Executive Director

47 Immediate and ultimate controlling party

At 31 December 2018, the directors consider the immediate parent and ultimate holding company of the Company to be Yunfeng Financial Holdings Limited which is incorporated in the Cayman Islands and beneficially owned as to 29.85% and 70.15% by Mr. Ma Yun and Mr. Yu Feng, respectively. Yunfeng Financial Holdings Limited does not produce financial statements available for public use.

48 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16, *Leases*

As disclosed in note 2(p), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into leases as the lessee.

48 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 44(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$255,167,000 for properties, the majority of which is payable between 1 and 5 years after the reporting date. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to HK$231,896,000 and HK$223,156,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

49 Reconciliation between HKFRSs and US GAAP

The 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:

Consolidated statement of financial position	*As at 31 December 2018* — *HKFRSs adjustments*: Insurance-related balances reclassification[1]	Difference in Impairment basis[2]	*Amounts under US GAAP* HK$'000
Assets			
Property and equipment			133,946
Deferred tax assets		(62)	122
Statutory deposits			3,285
Investments in an associate			64,846
Deferred acquisition costs and value of business acquired	410,402		8,966,583
Goodwill and Intangible assets			3,827,449
Investments		20,849	43,653,567
Advance reinsurance premiums			10,652
Reinsurers' share of outstanding claims			31,202
Insurance and reinsurance receivables	(71,873)		171,739
Other account receivable and accrued income			95,870
Other receivables	(1,016)	22	548,909
Bank balance - Trust and segregated accounts		34	440,117
Deposits with banks maturing after more than three months			259,250
Cash and cash equivalents		318	5,184,547
Total assets			63,392,084
Liabilities			
Insurance contract provisions	4,127,204		43,489,340
Investment contract liabilities	(4,131,951)		-
Outstanding claims			123,823
Reinsurance premium payables			314,011
Financial liability at fair value through profit or loss, other account payable and finance lease obligation			1,040,248
Other payables	346,246		1,170,838
Tax payable			6,189
Deferred tax liabilities			702,577
Bank borrowings			1,198,226
Total liabilities			48,045,252
Total net assets			15,346,832
Capital and reserves			
Share capital			9,829,094
Reserves	(2,392)	12,822	(597,894)
Non-controlling interest	(1,594)	8,339	6,115,632
Total equity			15,346,832

Consolidated income statement	*As at 31 December 2018* *HKFRSs adjustments* Insurance-related balances reclassification[1]	Difference in Impairment basis[2]	*Amounts under US GAAP* HK$'000
Income			
Premiums and fee income			761,673
Premiums ceded to reinsurer	55,309		(43,840)
Net premium and fee income			717,833
Change in unearned revenue liability	17,218		(68,250)
Net earned premium and fee income			649,583
Brokerage commission, interest and other service income			7,118
Subscription, management and rebate fee income			9,978
Consultancy and advisory fee			13,092
Net investment income and other income	(38,442)	17,077	392,480
Overlay adjustment	9,288		-
Reinsurance commission and profit	(1,823)		5,020
Total income			1,077,271
Benefits, losses and expenses			
Net policyholders benefit	(1,536)		(288,546)
Commission and related expenses			(256,201)
Management and other expenses	(2,993)	(2,576)	(553,182)
Change in future policyholder benefits and deferral and amortisation of deferred acquisition costs	(30,634)		(126,652)
Total benefits, losses and expenses			(1,224,581)
Finance cost			(26,496)
Share of result of in associates			(1,241)
Loss before taxation			(175,047)
Tax credit		424	42,204
Loss after taxation			(132,843)
(Loss)/profit attributable to:			
Equity shareholders of the Company	3,832	6,586	(193,984)
Non-controlling interests	2,555	8,339	61,141
			(132,843)

Notes:

[1] Major differences in relation to insurance-related balance 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 different impairment methodology and basis (expected credit loss model vs. incurred loss model) under HKFRS and US GAAP.

50 Comparative figures

After the completion of the YF Life acquisition, the Group is largely dominated by the insurance business. Accordingly, consolidated statement of financial position, consolidated income statement, cash flow statements, and disclosure notes have been rearranged to conform to the current year's presentation.

51 Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2018 and 31 December 2017.

52 Non- adjustment events after the reporting period

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

53 Scope of Work of KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated income statement and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by KPMG.

Five Year Financial Summary

	2018 HK$'000	*2017* HK$'000	*2016* HK$'000	*2015* HK$'000	*2014* HK$'000
RESULTS					
Premiums and fee income	761,673	-	-	-	-
Brokerage commission, interest and other service income	7,118	6,163	3,846	11,059	24,580
Subscription, management and rebate fee income	9,978	3,791	-	-	-
Consultancy and advisory income	13,092	11,110	42,274	182,908	182,908
Placing and underwriting commission	-	-	-	-	3,080
Profit/(loss) before taxation	(195,935)	(378,168)	(324,869)	(77,869)	759,327
Taxation	41,780	(1,138)	8,327	(79,172)	(450)
Profit/(loss) for the year	(154,155)	(379,306)	(316,542)	(157,041)	758,877
Attributable to:					
Equity shareholder of the company	(204,402)	(379,054)	(316,688)	(152,419)	758,856
Non-controlling interest	50,247	(252)	146	(4,622)	21
Profit/(loss) for the year	(154,155)	(379,306)	(316,542)	(157,041)	758,877
Basic (loss)/earnings per share *(HK$)*	(0.08)	(0.16)	(0.13)	(0.21)	1.73
ASSETS AND LIABILITIES					
Property and equipment	133,946	17,035	21,418	13,930	5,289
Goodwill and intangible assets	3,827,449	36,110	21,512	550	550
Interest in associates	64,846	-	-	-	27,311
Investments	43,632,718	898,134	310,123	410,620	982,814
Other assets	15,374,451	4,251,766	4,572,544	4,662,424	344,879
Total liabilities	(47,703,753)	(1,063,713)	(481,474)	(326,181)	(339,942)
	15,329,657	4,139,332	4,444,123	4,761,343	1,020,901
Share capital	9,829,094	4,629,094	4,499,548	4,499,548	614,919
Reserves	(608,324)	(489,762)	(56,532)	260,759	400,015
	9,220,770	4,139,332	4,443,016	4,760,307	1,014,934
Non-controlling interests	6,108,887	-	1,107	1,036	5,967
Total equity	15,329,657	4,139,332	4,444,123	4,761,343	1,020,901

Note 1: the 5 years financial summary is rearranged to conform with 2018 presentation

Note 2: The Group adopted HKFRS 9, Financial instrument, including the amendments to HKFRS 9, Prepayment features with negative compensation, from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information related to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves at 1 January 2018. There was no difference in carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with policies applicable in those years.

Definitions

In the announcement, the following expressions shall have the following meanings unless the context required otherwise:

"Audit Committee"	the audit committee of the Company
"Barings Investment Advisory Agreement"	the Fourth Amended and Restated Investment Advisory Agreement dated 15 December 2017 and entered into by and between Barings LLC and YF Life
"Board"	the board of Directors
"CEO"	the chief executive officer of the Group
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company"	Yunfeng Financial Group Limited
"Companies Ordinance"	the Companies Ordinance ("Chapter 622 of the Laws of Hong Kong, as it may be amended from time to time)
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"HKIA"	the Hong Kong Insurance Authority, whether the individual appointed under the IO or body corporate established under the IO
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IO"	the Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong) or the Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as the case may be, as it may be amended from time to time
"Jade Passion"	Jade Passion Limited
"Key Imagination"	Key Imagination Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MMI"	MassMutual International LLC
"MMLIC"	Massachusetts Mutual Life Insurance Company

Definitions

"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company
"Policies Endorsement Fee Agreement"	the policies endorsement fee agreement dated 15 December 2017 and entered into by and between MMLIC and YF Life
"PRC"	the People's Republic of China
"Remuneration Committee"	the remuneration committee of the Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as it may be amended from time to time
"Share(s)"	ordinary share(s) of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Transitional Services Agreement"	the transitional services agreement dated 15 December 2017 and entered into by and between YF Life and MMI
"Year"	the year ended 31 December 2018
"YF Life"	YF Life Insurance International Limited, formerly known as MassMutual Asia Limited, a non-wholly-owned subsidiary of the Company
"YF Life Group"	YF Life and its subsidiaries
"YFHL"	Yunfeng Financial Holdings Limited

By Order of the Board
Yunfeng Financial Group Limited
Li Ting
Executive Director and Chief Executive Officer

Hong Kong, 28 March 2019

As at the date of this announcement, the Board comprises Mr. Yu Feng (who is Chairman and non-executive director), Ms. Li Ting and Mr. Huang Xin (who are executive directors), Mr. Adnan Omar Ahmed, Ms. Hai Olivia Ou and Mr. Gareth Ross (who are non-executive directors), and Mr. Lin Lijun, Mr. Qi Daqing and Mr. Chu Chung Yue, Howard (who are independent non-executive directors).