The unaudited financial information relating to the year ended 31 December 2019 and the financial information relating to the year ended 31 December 2018 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 2019 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 2018 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 2018. 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 2019

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 2019 as follows:

Management Discussion and Analysis

Material event

As disclosed in the announcement of the Company dated 20 December 2019, the Company has acquired 9.8% additional interest in the issued share capital of YF Life Insurance International Limited ("YF Life") through the completion of acquisition of the entire issued share capital of YUVAN Limited and assignment of a shareholder loan of HK$1,563,419,242. The portion of the consideration paid by the Company is HK$1,561,443,800 settled by cash funded by an unsecured shareholder loan of HK$1,561,443,800 obtained from Key Imagination Limited, an indirect shareholder of the Company at market terms. After the acquisition of additional interest, the Group held 69.8% equity interest in YF Life.

The acquisition of additional interest in YF Life is consistent with business development strategy of the Group to realise the long term vision of 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. Since the acquisition of YF Life on 16 November 2018, the insurance business becomes dominant in the Group's financial result. For year 2018, the Group has consolidated the YF Life's one and half month financial result. With full year financial result for 2019 being consolidated, the Group's financial result for the year 2019 is considered not directly comparable to that of year 2018. As a result, the readers are reminded taking this into consideration while reading through the announcement.

For the year of 2019, the premium and fee income is approximately HK$6,016 million (2018: HK$762 million) and income from other financial business was HK$28 million (2018: HK$30 million). The adjusted operating income is approximately HK$718 million (2018: the adjusted operating loss: HK$48 million). The Group's consolidated profit amounted to HK$615 million (2018: consolidated loss: HK$140 million). The net loss attributable to equity shareholders of the Company of HK$196 million in the prior year turns into net profit attributable to equity shareholders of the Company of HK$256 million for 2019. The turnaround of the Group's results is mainly due to the consolidation of the net profit of YF Life and the improvement in the operation of the existing financial technology business.

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	*2019*	*2018* (restated) (note 3)	*Change %*
Premiums and fee income	6,016	762	6.9 time
Profit (Loss) after taxation	615	(140)	NA
Net profit (loss) attributable to the owners	256	(196)	NA
Basic earnings (loss) per share (HK$) (Note 1)	0.08	(0.08)	NA
Final dividend proposed per share	-	-	NA

At 31 December, HK$ million

	2019	*2018* (restated) (note 3)	*Change %*
Total assets	75,327	63,842	18
Total equity	15,463	15,354	0.7
Owner's equity	10,103	9,235	9
Owner's equity per share (HK$) (Note 2)	3.13	2.87	9

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.

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

Analysis on profit (loss) for the year, HK$ million

	2019	*2018* (Restated) (note 4)	*Change %*
YF Life segment operating profit	850	127	5.7 times
Other financial services and corporate segment operating loss	(132)	(175)	(25)
Total operating profit (loss)	718	(48)	NA
Adjust for the following profit or loss and expenses impact:			
– Realised capital gain/loss and short-term derivatives market value fluctuation and impairment loss on investment	(84)	22	NA
– Staff share award amortisation expense	7	(119)	NA
– Legal and professional fee and other expenses for acquisition of YF Life	(46)	(16)	1.9 times
– Finance cost (Note 1)	(69)	(11)	5.3 times
– One-off adjustments (Note 2)	(1)	41	NA
– Consolidation adjustments (Note 3)	90	(9)	NA
Profit (loss) for the year	615	(140)	NA
Less: non-controlling interests	(359)	(56)	5.4 times
Net profit (loss) attributable to the owners	256	(196)	NA

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.

Note 4: Certain comparative figure is restated based on the finalised purchase price allocation of prior year acquisition of YF Life.

Changes in owner's equity

HK$ million	*2019*	*2018* (Restated) (note)
Balance at 1 January	15,354	4,139
Adoption of new accounting standard	(11)	(3)
Share based payment transaction	(7)	9
Acquisition of and capital injection to YF Life	328	11,304
Acquisition of additional interest in YF Life	(1,561)	-
Profit (loss) for the year	615	(139)
Other comprehensive income and others	745	44
Balance at 31 December	15,463	15,354
Attributable to:		
– equity shareholders of the Company	10,103	9,235
– non-controlling interests	5,360	6,119
Total equity	15,463	15,354

The Group's total shareholders' equity amounted to approximately HK$15,463 million as at 31 December 2019 as compared to the total shareholders' equity of HK$15,354 million reported at the end of last year. The increase is mainly due to the improvement of operating result for the year and partially offset by the impact of acquisition of additional interest in YF Life through shareholder's loan financing.

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

<u>Insurance business review</u>

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 adjustments made on YF Life acquisition and intragroup transaction elimination with other business segment of the Group is able to provide reader with more relevant information on the business performance of the insurance business segment operating results for both 2019 and 2018 on a full year basis.

Overview

During the year 2019, 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 Group 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 illness products covering a wide range of illnesses.

The tied agency force consisted of approximately 2,973 (2018: 2,701) agents in Hong Kong and Macau as of 31 December 2019. In addition to the tied agency force, we also utilize brokers and agency intermediaries as well as banks and other financial institutions to distribute insurance products. As of 31 December 2019, the insurance business division has approximately 442 (2018: 379) employees and more than 491,000 (2018: 470,000) in-force individual policies.

Future development in the insurance business

In the year 2020 and coming years, our Group 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 our Group plans to continue to steadily grow its tied agency force. We also seek to expand our brokerage and agency intermediary distribution channel to serve sophisticated customers who we believe are more receptive to independent advice. 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.

Total premium and fee income

Total premium and fee income ("TPI") measures its business volumes by referring to the total TPI reported under the Insurance Ordinance ("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 before intra-group transaction eliminations.

	For the year ended 31 December	
	2019	*2018*
	HK$ million	HK$ million
Total premium and fee income reported under IO	8,881	7,456
Less: Premium deposits separated out from insurance contracts and recognition of fee income	(2,863)	(3,194)
Premium and fee income recognized in the income statements under HKFRS	6,018	4,262

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			
	2019		*2018*	
	HK$ million	%	HK$ million	%
Hong Kong	7,007	79	6,350	85
Macau	1,874	21	1,106	15
	8,881	100	7,456	100

(ii) By distribution channel

	For the year ended 31 December					
	2019 HK$ million			*2018* HK$ million		
	Hong Kong	*Macau*	*Total*	*Hong Kong*	*Macau*	*Total*
Tied agency	4,099	1,091	5,190	3,984	979	4,963
Brokers and non-tied agency	2,370	22	2,392	1,886	28	1,914
Banks and other financial institution	538	761	1,299	480	99	579
	7,007	1,874	8,881	6,350	1,106	7,456

(iii) By product type

	For the year ended 31 December					
	2019 HK$ million			*2018* HK$ million		
	Hong Kong	*Macau*	*Total*	*Hong Kong*	*Macau*	*Total*
Regular premium - First year	1,336	892	2,228	842	216	1,058
Regular premium-Renewal	5,274	933	6,207	5,093	822	5,915
Single premium	394	48	442	412	67	479
Fee income	3	1	4	3	1	4
	7,007	1,874	8,881	6,350	1,106	7,456

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 2019 is HK$16,351 million (31 December 2018: HK$15,131 million) with breakdown as below.

HK$ million

	31 December 2019	*31 December 2018*	*Change %*
Adjusted Net Worth ("ANW") (note 1)	5,989	5,825	3
Value of in-force ("VIF") business after CoC (note 2)	10,362	9,306	11
Embedded value	16,351	15,131	8

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 capital injection of HK$820 million from YF Life's shareholders completed on 14 May 2019 and partially offset by increase in liabilities arising from market interest rate drop.

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

For further detailed discussion and movement analysis of embedded value of insurance business from 31 December 2018 to 31 December 2019, 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 transaction eliminations:

	2019 HK$ million	*2018* HK$ million	*Change %*
Income			
Premiums and fee income	6,018	4,262	41
Premiums ceded to reinsurer	(1,948)	(594)	2.3 times
Net premium and fee income	4,070	3,668	11
Change in unearned revenue liability	(651)	(574)	13
Net earned premium and fee income	3,419	3,094	11
Net investment and other income (note a)	4,676	937	4 times
Reinsurance commission and profit	78	29	1.7 times
Benefits, losses and expenses			
Net policyholders benefit (note b)	3,197	1,102	1.9 times
Commission and related expenses	1,205	1,105	9
Deferral and amortisation of deferred acquisition costs	(853)	(625)	36
Management and other expenses (note c)	736	564	31
Change in future policyholder benefits (note d)	3,038	1,273	1.4 times
Profit before taxation before disposal of MM Japan	850	641	33
Taxation	49	49	-
Profit after taxation before disposal of MM Japan	801	592	35

Note a: The balance includes net investment and other income, interest income from bank deposits and other operating income excluding the HK$589 million disposal gain of equity interest in MassMutual Life Insurance Company K.K. ("MM Japan") in 2018. The increase of the balance mainly arises from more 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 increase of the balance mainly arises from more 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.

	2019 HK$ million	*2018* HK$ million	*Change %*
Operating profit (note 1)	850	742	15
Adjust for the following profit or loss and expenses impact:			
– Realised capital loss/gain and short-term derivatives market value fluctuation and impairment loss on investment	(49)	(150)	(67)
– One-off adjustments (Note 2)	-	589	NA
Profit for the year	801	1,181	(32)

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	
	2019	*2018*
	HK$ million	HK$ million
Investments	54,187	43,354
Cash and deposit	2,253	4,595
Deferred acquisition costs	8,208	9,640
Other assets	4,170	905
Total assets	68,818	58,494
Insurance contract provisions	47,957	42,652
Investment contract liabilities	4,613	4,479
Other payable	3,382	1,160
Total liabilities	55,952	48,291
Net assets	12,866	10,203

Investment assets

The table below sets forth the asset allocation of the investment portfolio of the insurance division based on the classification in conformity with the reports provided to the management of the Company to measure the performance of the investment portfolio which can be reconciled to total investments carrying amount in above table for the years ended 31 December 2019 and 2018.

	As at 31 December	
	2019	*2018*
	HK$ million	HK$ million
Debt securities	38,682	28,515
Mortgage loans	7,023	7,358
Equity securities	1,332	1,108
Cash for investment	770	1,816
	47,807	38,797
Unit trusts and investment policyholder plans related securities	7,150	6,373
	54,957	45,170

As at 31 December 2019, 93% (2018: 93%) of the debt securities invested have Standard and Poor's rating of BBB- or above or equivalent rating from other reputable rating agencies. As at 31 December 2019, 96.3% (2018: 97.9%) of the mortgage loans have internal rating equivalent to Standard and Poor's ratings of BBB or above or equivalent ratings from other reputable rating agencies.

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

	For the year ended 31 December	
	2019	*2018*
	HK$ million	HK$ million
Interest income and others	1,703	1,384
Dividend income	151	127

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	
	2019	*2018*
Market position/share (by regular premium income)	12^{th}/1.5%	12^{th}/1.5%
Number of employees		
- *Hong Kong*	421	361
- *Macau*	21	18
Number of tied agents		
- *Hong Kong*	2,003	1,764
- *Macau*	970	937
Number of brokers and non-tied agents	502	472
Number of bancassurance partners	5	6
MDRT qualifiers *(Note 1)*	178	177
Expenses ratio *(Note 2)*	8.4%	7.7%

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 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	
	2019	*2018*
	HK$ million	HK$ million
Total available capital	6,801	5,574
Regulatory minimum capital	2,083	1,827
Solvency Ratio	326%	305%

The solvency ratio was 326% at 31 December 2019, up by 21 % with 305% at 31 December 2018. The higher solvency ratio was driven by capital injection.

<u>Other businesses review</u>

Brokerage Business

During 2019, the turnover of brokerage business amounted to HK$ 9,875 million (2018: HK$5,733 million), representing an increase of 72.3%. Bond trading was introduced in addition to the brokerage business, thus enriching the product line. Going forward, the brokerage team continues to establish quantitative platform and low-latency trading system while continuing to devote great efforts to support the result of the research department, thus laying a more solid foundation for its future To-B business and To-C business.

Employee Stock Ownership Plan Administration

In 2019, the "Youyu ekeeper" system is able to support the management of a number of incentive plans including exercise of share options, restricted shares, employee benefit trusts, etc., covering functions including stock trading, plan monitoring, data management, accounting and financial statements, which enable enterprises to significantly increase management efficiency and reduce costs. The system is further enhanced to offer better user experiences and offer different operation model to suit different institutional needs. During the year, we have provided ESOP services to several new Hong Kong and US based listed clients. Therefore, there is steady and healthy increase in number of user using our platform and their corresponding asset under management with us. Going forward, our ESOP team will focus on system enhancement to offer more tailored made functions, employee training and marketing events to further grow our market share to increase number of users to our platform and grow in client's asset under our Group's management.

Fintech

In 2019, the Fintech Business Department was established to formulate solutions for different financial institutions. During the year, our Fintech division has successfully established business connection and working relationship with several well reputable financial institutes and contributed to their business plan and development. Going forward, our Fintech team will leverage on the existing expertise and offer services to other medium and small financial market players. On the other hand, the team also drives the initiatives to upgrade its technology level and develop a brand-new sales and online policy signing platform for our insurance business, YF Life to enrich the online product and function offered to the market.

Asset Management

In 2019, the Group's asset management business continued to enhance its existing advantages in overseas asset allocation. At the same time, we capture the unique opportunities brought about by the Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area and strengthen the cooperation with various institutions in the market with the aim to actively expand and achieve long-term business development goal. Under the Group's overall To-B business strategy, the Youyu Wealth platform focused on identifying competitive advantages to complement the cooperation with different financial institutions and achieve positive result. With our traditional advantages in global mutual fund allocation, the Group launches discretionary multi-asset strategies services involving Qualified Domestic Institutional Investor products. Based on the business opportunities brought about by the Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area and the unique financial market position of Hong Kong, the Group issued three fund products investing in anchor IPO shares and US dollar debenture of PRC-based issuer to high-net-worth and institutional clients. In terms of asset management, three Majik fund products focusing on overseas alternative assets and Youyu Note product are well operated. Going forward, the asset management business will closely monitor global market trends to capture and seize investment opportunities through issue of new asset management products to serve high-net-worth clients and institutional clients. Under To-B business model, we will continue to foster our current cooperation with fund platforms and financial institutions to achieve breakthroughs in asset under management scale and intermediary business revenue. At the same time, our team will focus on the development of high quantity orders placing service for the institutional clients and devise new To-B business model.

Prospects

With the "Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area" announced by the CPC Central Committee and the State Council on 18 February 2019, Hong Kong will take opportunities to fully leverage its advantages as the global offshore RMB business hub and the international asset management center. "Shanghai Connect" and "Shenzhen Connect" are actively enhancing the interconnection mechanism with the domestic financial markets. The mainland and Hong Kong governments are discussing the "Insurance Connect", which is believed that it can further promote the activities of the financial markets and insurance businesses in Guangdong, Hong Kong and Macau.

Looking forward, the volatility of the financial market in the 2020 will continue. A number of uncertainties, including the outbreak of Coronavirus (COVID-19), low interest rate environment, crude oil price dispute, Sino-US trade tension, impact and development of Brexit, and the recent social events in Hong Kong, have intensified market negative sentiment, and the Company will carefully respond to challenges. In particular, the outbreak of COVID-19 is expected to slow down the agency sales effort in 2020. It is expected to have a short term impact but it also depends on the duration and whether the spread can be contained due to both local and worldwide effort. For the long term prospect, with a foothold in Hong Kong, the Company will grasp the opportunities emerging in the Greater Bay Area, connect China with foreign countries, empower financial institutions with technologies and continue to forge a one-stop professional financial platform.

Liquidity and Financial Resources

As at 31 December 2019, the Group had fixed bank deposits with original maturity over 3 months and cash and cash equivalents amounting to HK$2,555 million (31 December 2018: HK$5,443 million). As at 31 December 2019, the Group has HK$1,499 million (2018: Hk$1,198 million) bank borrowing outstanding and HK$1,561 million (2018: Nil) shareholder’s loan outstanding. The Group’s gearing ratio as at 31 December 2019 is 16.52% (31 December 2018: 7.25%), 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 2019, 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 and 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 and 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 this announcement.

Material Acquisitions and Disposals of Subsidiaries and Associates

Except for those set out in note 22(d), the Group did not have any material acquisitions and disposals of subsidiaries and associates during the year ended 31 December 2019.

Charges on Assets

At the year ended December 2019, the Group did not have any charges on assets, other than a security deposit of HK$300,000 (2018: HK$300,000) for banking facilities and HK$ 5,609,487,000 (2018: HK$3,760,043,000) of investment together with HK$ 269,250,000 (2018: 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 45 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 2019.

Staffing and Remunerations

As at 31 December 2019, the Group employed 654 (2018: 609) full time employees, 485 (2018: 441) of which were located in Hong Kong, 21 (2018: 18) in Macau and 148 (2018: 150) 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 and interim report of the Company dated 29 August 2019. The table below sets out the proposed application of net proceeds after adjustments and usage up to 31 December 2019:

	Use of Proceeds after adjustments HK$ million	*Unutilised Proceeds up to 31 December 2018* HK$ million	*Actual usage from 1 January 2019 to 31 December 2019* HK$ million	*Unutilised Proceeds up to 31 December 2019* HK$ million
Setting up IT infrastructure *(note 1)*	333.2	96.6	96.6	-
Recruitment of professionals	59.9	-	-	-
Establishment of a private wealth management platform *(note 2)*	179.0	107.1	37.6	69.5
Development of a financial services ecosystem *(note 3)*	135.0	84.5	33.1	51.4
General capital management *(note 4)*	2,970.9	-	-	-
Total:	3,678.0	288.2	167.3	120.9

Notes:

1. mainly utilised on the recruitment and employment of internet products and technology development professionals and purchase of new systems to assist on the integration of YF Life operation and related operation system upgrade for overall business development.

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.

The unutilised proceeds up to 31 December 2019 are expected to be fully utilised by the end of year 2020.

Event after the Reporting Period

Details of event after the reporting period are set out in note 53 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 31 December 2019 is consistent with industry practice for publicly listed 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 69.8% 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 2019. Cost of Capital is the difference between the amount of required capital as at 31 December 2019 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 2019 to 31 December 2019.

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 2019 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 2019 to 31 December 2019.

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 31 December 2019 is 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 69.8% owned subsidiary of the Group. With the Embedded Value and the New Business Value of the insurance business being presented on a 100% basis below, the related value assessment should be considered accordingly.

5. Embedded value of YF Life

5.1 Embedded value

	31 December 2019 HK$ million	*31 December 2018* HK$ million
Adjusted Net Worth	5,989	5,825
Value of in-force business before cost of capital	12,386	11,126
Cost of capital	(2,024)	(1,820)
Embedded value	16,351	15,131
Attributable to:		
Owners of the Company	11,413	9,079
Non-controlling interests	4,938	6,052
Embedded value	16,351	15,131

5.2 New Business value

	For the past 12 months as of 31 December 2019 HK$ million	*For the past 12 months as of 31 December 2018* HK$ million
New Business Value before cost of capital	630	618
Cost of capital	(107)	(110)
New Business Value after cost of capital	523	508

5.3 Movement analysis of embedded value

	Notes	*2019* HK$ million
Embedded Value as at 1 January		15,131
New business value	a	523
Expected return on Embedded value	b	1,249
Assumption and model changes	c	(1,292)
Investment return variance	d	145
Capital injection	e	820
Other experience variance and exchange rate impact	f	(225)
Embedded Value as at 31 December		16,351

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

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 2019 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, credit spreads that reflects the allowance for risk of default and equity return 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 2019. 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 2019.

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 2019, 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 2019 Assumptions	*Value of in-force business after cost of capital* HK$ million	*New business value after cost of capital* HK$ million
Base scenario	10,362	523
New money yields increased by 100 basis points per annum	11,404	625
New money yields decreased by 100 basis points per annum	8,524	430
Risk discount rate increased by 50 basis points	9,577	467
Risk discount rate decreased by 50 basis points	11,227	585
10% increase in lapse rate and skip premium rates	10,308	517
10% decrease in lapse rate and skip premium rates	10,418	530
10% increase in mortality and morbidity rates and loss ratios	9,398	453
10% decrease in mortality and morbidity rates and loss ratios	11,334	594
10% increase in acquisition and maintenance expenses	10,219	491
10% decrease in acquisition and maintenance expenses	10,505	556

Biographical Details of Directors and Senior Management

Chairman

Mr. Yu Feng, aged 56, 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. Hai Olivia Ou, aged 40, was appointed as a non-executive Director in November 2015 and was re-designated as an executive Director and appointed as the interim Chief Executive Officer of the Company on 23 February 2020. Ms. Hai is a managing director of Yunfeng Capital and specialises in investments and management related to the financial services industry, especially for investments in Internet Finance and strategic management in insurance company. 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 a fellow member of the China Association of Actuaries.

Mr. Huang Xin, aged 44, 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. In addition, Mr. Huang is currently a director of Sanxiang Impression Co., Ltd (stock code: 000863) which is listed on the Shenzhen Stock Exchange and a director of YTO Express Group Co., Ltd (stock code: 600233) which is listed on the Shanghai Stock Exchange.

Mr. Huang is a director of Jade Passion, a 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 53, 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, a substantial shareholder of the Company. Mr. Ahmed joined MMI 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 MMI 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 Nippon Wealth Insurance in Japan, a subsidiary of Nippon Life. Prior to the current board directorship, he also served on the board of Temasek Management Services, Singapore between 2010-2018, Human Capital Leadership Institute in Singapore from 2017-2019, 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.

Mr. Gareth Ross, aged 44, 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, a substantial shareholder of the Company 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, a substantial shareholder of the Company 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 master 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. Qi Daqing, aged 55, was appointed as an independent non-executive Director, and a member of the Audit Committee, Nomination Committee and Remuneration Committee in February 2016. In 28 March 2019, Mr. Qi was appointed as the chairman of the Remuneration Committee. 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.

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 Haidilao International Holdings Limited (stock code: 06862), 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 71, 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.

Mr. Xiao Feng, aged 58, was appointed as an independent non-executive Director, and a member of the Audit Committee and Remuneration Committee on 28 March 2019. Mr. Xiao is currently the vice chairman and executive director of China Wanxiang Holding Co., Ltd. (中國萬向控股有限公司). Mr. Xiao has more than 27 years of experiences in finance, asset management and securities management and had served key positions in different institutions including Securities Management Office of the People's Bank of China, Shenzhen Branch from 1992 to 1993, Securities Management Office of Shenzhen from 1993 to 1998 and Bosera Fund Management Co., Ltd. from 1998 to 2011. Since 1998, Mr. Xiao has also been appointed as the director, chairman or president of various finance company, fund or asset management company, trust company and insurance company.

Mr. Xiao holds a bachelor's degree of arts in Chinese from Jiangxi Normal University and a doctoral degree in economics from Nankai University.

Senior Management

Mr. Cai Junyi, aged 36, 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 45, 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 49, 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 bachelor degree from Peking University and a master degree from Massachusetts Institute of Technology.

Ms. Qin Li, aged 46, 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 asset 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 the assistant to the general manager of the department of asset management business at the headquarter of China CITIC Bank, tasked with product development and investment management for the bank's asset management business and leading a team with a portfolio of assets in excess of RMB 600 billion with the scope of investments covering bonds, 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. Tay Keng Puang, aged 63, 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 an effective 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 of the CG Code 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 that the Company's corporate governance practice in this aspect provides sufficient protection for the interests of Shareholders to a standard commensurate with that of the CG Code.

Code of Conduct for Securities Transactions

The Company has adopted the code of conduct regarding Director's securities transactions with terms no less exacting than the required standard set out in the Model Code. Following specific enquiry by the Company, all the Directors have confirmed that they have complied with the required standards as stated in the Model Code throughout the 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 report, the Board comprises the following Directors:

Chairman

Mr. Yu Feng (Non-executive Director)

Executive Directors

Ms. Hai Olivia Ou (Interim Chief Executive Officer)
Mr. Huang Xin

Non-executive Directors

Mr. Adnan Omar Ahmed
Mr. Gareth Ross

Independent non-executive Directors

Mr. Qi Daqing
Mr. Chu Chung Yue, Howard
Mr. Xiao Feng

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.

Save as disclosed 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 2019 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 is responsible for setting strategic targets, providing leadership to the Board, monitoring Board effectiveness and fostering constructive relationship between Directors. The CEO 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.

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 1 general meeting, 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 2019 / Number of meeting eligible to attend				
	Board	NC	RC	AC	AGM
Chairman					
Mr. Yu Feng (non-executive Director)	4/4	1/1	-	-	1/1
Executive Directors					
Ms. Li Ting (resigned on 23 February 2020)	4/4	-	-	-	1/1
Mr. Huang Xin	4/4	-	1/1	-	1/1
Ms. Hai Olivia Ou (re-designated as executive Director on 23 February 2020)	4/4	-	-	-	1/1
Non-executive Directors					
Mr. Adnan Omar Ahmed	4/4	-	-	-	0/1
Mr. Gareth Ross	4/4	-	-	-	0/1
Independent non-executive Directors					
Mr. Lin Lijun (resigned on 28 March 2019)	0/1	0/1	0/1	0/1	-
Mr. Qi Daqing	4/4	1/1	1/1	2/2	1/1
Mr. Chu Chung Yue, Howard	4/4	1/1	1/1	2/2	1/1
Mr. Xiao Feng (appointed on 28 March 2019)	3/3	-	-	1/1	1/1

Note:
NC – Nomination Committee
RC – Remuneration Committee
AC – Audit Committee
AGM – annual general meeting held on 21 June 2019

The Chairman also held a meeting with independent non-executive Directors without the presence of other Directors during the Year.

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 (non-executive Director)	✓
Executive Directors	
Ms. Li Ting (resigned on 23 February 2020)	✓
Mr. Huang Xin	✓
Ms. Hai Olivia Ou (re-designated as executive Director on 23 February 2020)	✓
Non-executive Directors	
Mr. Adnan Omar Ahmed	✓
Mr. Gareth Ross	✓
Independent non-executive Directors	
Mr. Lin Lijun (resigned on 28 March 2019)	N/A
Mr. Qi Daqing	✓
Mr. Chu Chung Yue, Howard	✓
Mr. Xiao Feng (appointed on 28 March 2019)	✓

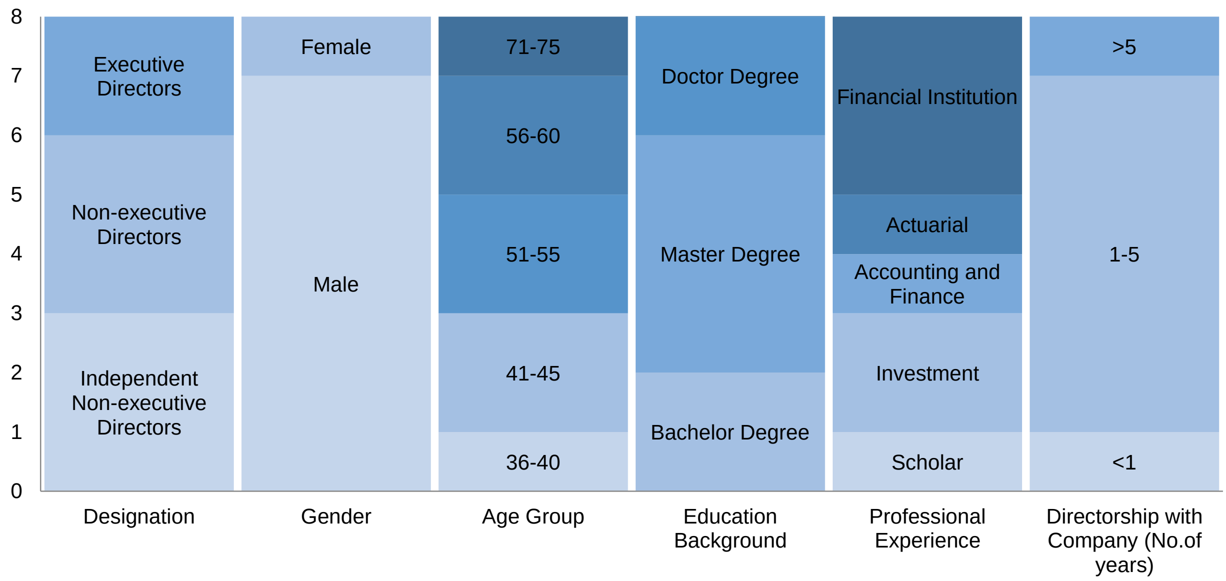
Board Diversity Policy

The Company has adopted a board diversity policy in October 2013 (the "Board Diversity Policy") 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.

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 report, 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 2019, 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. Qi Daqing with existing members of Mr. Huang Xin, Mr. Chu Chung Yue, Howard and Mr. Xiao Feng. 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 and with reference to their expected duties and responsibilities and the current market condition and made recommendation to the Board.

Details of the remuneration of the Directors during the Year are set out in note 13 to the financial statements. The remuneration of the senior management during the Year falls within the following bands:

	Number of Individual
HK$1,000,001 – HK$2,000,000	1
HK$4,000,001 – HK$5,000,000	2
HK$5,000,001 – HK$6,000,000	1
HK$19,000,001 – HK$20,000,000	1

Nomination Committee

The Nomination Committee was chaired by Mr. Yu Feng with existing members of 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, 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 relevant interest and ability to contribute to the diversity of the Board.

During the Year, the Nomination Committee held 1 meeting. The Nomination Committee considered the appointment of Mr. Xiao Feng as an independent non-executive Director, nomination of the retiring Directors for re-election based on the nomination policy. In considering the nomination of appointment and/or re-appointment of directors, the Nomination Committee assessed the relevant candidates on criteria such as integrity, experience, skill, professional qualifications, independent mind and ability to commit time etc, and made recommendation to the Board for approval. The Nomination Committee also reviewed the structure of the Board and the Board Diversity Policy.

Audit Committee

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

Mr. Chu holds a bachelor's degree in commerce from University of British Columbia and is 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 meetings and 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 2019**	31 December 2018
	HK$'000	HK$'000
Audit services	**10,562**	13,126
Non-audit services	**767**	4,229
Total	**11,329**	17,355

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.

The statement of the auditor of the Company on their responsibilities on the financial statements is set out in the Independent Auditor's Report of this announcement.

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.

The Board has the responsibilities for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

As the insurance business has become Group's dominant business, to achieve comprehensive risk management, the Group conducts risk management and internal control at the main subsidiary (insurance business) level as well as the Group level, and has built a comprehensive system for which the Board has ultimate responsibilities, and the risk management and internal control systems covering all business lines are supervised directly by the management and supported by relevant professional committees with close cooperation of all business functions.

Organisation

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks which it is willing to take whilst achieving the Group's strategic objectives and maintaining sound and effective risk management and internal control systems (including their effectiveness) to safeguard Shareholders' investments and the Group's assets.

The board of directors of the main subsidiary of the Group (insurance business) (the "Board of Subsidiary") has established its own audit committee and board risk committee which are responsible for overall risk management and internal control and report to the Board of Subsidiary together with the management of the main subsidiary of the Group ("Management of Subsidiary"). Management of Subsidiary establishes and supervises the risk management committee which identifies, prevents and controls various risks and reports to the board risk committee. The internal audit functions are conducted by the key management appointed by the Management of Subsidiary and report to the Audit Committee. Overall, the Board of Subsidiary reports to the management of the Group on risk management and internal audit matters.

The Corporate Governance Committee of the Board oversees the Group's overall risk management and internal control systems with the risk oversight committee as a sub-committee comprising business heads, head of legal, head of compliance and head of risk management, which is responsible for the risk management of non-insurance business.

Risk Management and Internal Control Systems

Currently, the risk management framework of the main subsidiary of the Group includes three lines of defences of the overall risk management model organized by key business functions, risk management, compliance and legal, and internal audit:

The first line of defence is in charged by a team of highly experienced and competent senior management from key business functions. In particular, the risk management policies and procedures are put in place to safeguard a prudent underwriting policy.

The second line of defence is taken by the risk management, compliance and legal department, as well as the board risk committee of the Board of Subsidiary which manage the respective business risks including insurance risk, currency exchange risk, investment and interest rate risk, credit risk, operational risk, and regulatory and compliance risk.

The third line of defence is maintained by the internal audit department. The audit committee of the Board of Subsidiary will oversee and monitor through a risk-based approach to its work, providing assurance to the Board of Subsidiary and management of the Group.

At Group level, the industry standard "Three Lines of Defense" for the management of risks was also adopted, comprising (1) first line defence: businesses manage risk that they respectively own; (2) second line of defence: the risk management and operation function, which defines and co-ordinates the operational risk strategy and framework; and (3) third line of defence: internal and external function provides independent assurance.

Risk Management and Internal Control Review

The review of the effectiveness of the Group's risk management and internal control systems is conducted annually. Issues raised for improvement had been identified and appropriate actions were recommended. The major risks and benchmarks are set out in Report of the Directors of this announcement.

In 2019, the Corporate Governance Committee of the Board held 5 meetings to regularly conduct risk assessment and management, and to review the Group's risk management and internal control systems. The risk committee of the Board of Subsidiary held 2 meetings and weekly management meetings were also conducted to discuss routine risks monitoring.

During the Year, the Audit Committee of the Board 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 were effective and adequate. Various risks were identified, monitored and reported by risk management function, legal function and compliance function. Corresponding measures against those risks were implemented. In 2019, the risk management department implemented the internal audit function at the Group level and conducted internal audit mainly on the operational risks of most of the departments including analysis of the current workflow and department composition, and inspections of problems occurred and tracking of subsequent improvements. For the main subsidiary of the Group (insurance business), internal audit department has conducted internal control reviews for various business functions throughout the Year including operational, management information systems and regulatory compliance reviews. The audit engagements are performed according to the risk-based and strategically-aligned audit plan which was approved by the audit committee of the Board of Subsidiary.

The Risk Management and Internal Control Reports were presented to the Audit Committee of the Board for review in March 2020 and the reports show that as of the time when the annual review is conducted, all risk assessment tests and risk monitoring reports showed stable trends and favorable results and no major risk incidents or events that have caused significant financial losses to the Group have been identified..

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 and Dividend Policy

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.

Further, the Company has adopted a dividend policy on 1 January 2019. The Company does not have any predetermined dividend payout ratio. Declaration, recommendation and payment of dividends of the Company is subject to the approval of the Board, depending on results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Board may consider relevant from time to time.

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.

Hong Kong, 27 March 2020

Report of the Directors

The Directors submit herewith their report together with the audited consolidated financial statements for the year ended 31 December 2019.

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.

Business Review

Detailed business review and future development of the Company's business are set out in "Management Discussion and Analysis ("MD&A") section in this announcement. An analysis of the Group's performance during the Year using financial key performance indictors is also provided in MD&A. Discussions on the Group's environmental policies and performance, compliance with relevant laws and regulations that have a significant impact on the Group and key relationships with employees, customers, suppliers and other stakeholders are set out in the Environmental, Social and Governance Report ("ESG Report") of this announcement.

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.

Insurance risks

The Group prices its insurance 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. For participating whole life products, the insurance company's dividends to policyholders primarily reflect the difference between actual investment, mortality, expense and persistency experience and the experience embedded in the whole life premiums and guaranteed elements. The Group also makes use of reinsurance to mitigate the impact of its underwriting risk.

Currency exchange risks

The Group's currency exchange risk is mainly related to certain insurance policies that are not written in United States (U.S.) dollars. However, most of the insurance policies are denominated in U.S. dollars. As the main subsidiary of the Group's investments are primarily made in U.S. dollars, coupled with the fact that the Hong Kong dollar is pegged to the U.S. dollar, Management of Subsidiary does not believe that the currency risk is material.

For investments made in non-U.S. 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-U.S. dollar assets and liabilities through a pre-specified exchange of interest and principal. Forward contracts are used to hedge movement in exchange rates. In year 2019, HKD liabilities were closely hedged by currency swaps and forward contracts and HKD bond.

Investment and interest rate risks

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 Company 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.

The main subsidiary of the Group tends to match dollar duration of the financial assets at fair value through other comprehensive income with its statutory liability dollar duration under Hong Kong's current statutory regime, to minimize the volatility in the statutory solvency ratio. Thus the Company allows a certain level of mismatch between asset and liability duration under economic basis or best estimate. On the other hand, to prepare for the new risk-based capital regime, the main subsidiary of the Group has started lengthening of the asset duration (amortised cost investment) in the upcoming years and will continue to maintain its dollar-duration matched position under the current statutory regime.

After assessment of the ability of the Group to withstand adverse change in interest rates, the Group's investment and interest rate risks are under control.

Credit risks

Credit risk is the risk that issuers of investments owned by the Group may default or that other parties may not be able to pay amounts due to the Group. The Group 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. Considering the resilience of the business to counterparty default events, the credit risk exposure is maintained within acceptable levels.

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's exposure to the client's and counterparties' credit risks is continually monitored.

Cyber risks

Cyber risk means any risk of financial loss, disruption or damage to the reputation of an organization from some sort of failure of its information technology systems.

For the year of 2019, the top cyber threats under concerns are:

a) Data loss or theft. Confidential or restricted information has been exposed to an unauthorized party, internally or externally.

b) Attrition or denial of Service. An attempt to make online service unavailable by overwhelming them with traffic from multiple sources; attacks that compromise, degrade, or destroy systems, or networks, over time.

c) Supplier or third Party Breach. When a third party that the Group has a business relationship experiences a breach where the Group's confidential or restricted information has been compromised.

d) Improper usage. Any unauthorized activity resulting in violation of the Company's technology acceptable use policy by an authorized user.

e) Insider threat. An insider threat can occur from people who have some level of access to the Group's networks, computer system(s) or data, including: employees, former employees, contractors, business associates, or anyone who intentionally misuses that access to negatively affect the confidentiality, integrity, and availability of the Group's information or information systems.

f) Malware or ransomware. Software that is intended to damage or disable computers and computer systems.

The cyber risk was monitored and in year 2019 showed that the number of incidents was stable and manageable. There was no cyber issue to be alerted.

Operational risks

Operational risk is the risk caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from 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. It summarizes the risks a company undertakes when it attempts to operate within a given field or industry.

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 company. 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.

Market Risk

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, credit spread risk and exchange rate 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.

Dividends

The Directors do not recommend the payment of a final dividend for the Year (2018: nil).

Share Capital

Details of the movements in the share capital of the Company during the Year are set out in note 42 (e) to the financial statements.

Distributable Reserves

Details of the distributable reserves of the Company as at 31 December 2019 are set out in note 42 (c) to the financial statements.

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

During the Year, 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 2 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 report, 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 report).

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 report, 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 report.

During the Year, no Shares had been awarded under the 2014 Share Award Scheme and as at 31 December 2019, 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 43 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 report, 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 report.

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, no Shares had been awarded under the 2016 Share Award Scheme. As at 31 December 2019, 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 43 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 report are:

Chairman

Mr. Yu Feng (Non-executive Director)

Executive Directors

Ms. Li Ting	(resigned on 23 February 2020)
Mr. Huang Xin	
Ms. Hai Olivia Ou	(re-designated as executive Director and appointed as Interim Chief Executive Officer on 23 February 2020)

Non-executive Directors

Mr. Adnan Omar Ahmed
Mr. Gareth Ross

Independent non-executive Directors

Mr. Lin Lijun	(resigned on 28 March 2019)
Mr. Qi Daqing	
Mr. Chu Chung Yue, Howard	
Mr. Xiao Feng	(appointed on 28 March 2019)

In accordance with article 103(A) of the Company's articles of association, Mr. Adnan Omar Ahmed, Ms. Hai Olivia Ou and Mr. Qi Daqing 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. Huang Xin was appointed as a director of YTO Express Group Co Ltd (Stock Code: 600233) on 20 May 2019, a company listed on the Shanghai 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 report included: Mr. Yu Feng, Mr. Huang Xin, Ms. Li Ting, Ms. Liao Yee Ching, Mr. Chan Man Ko, Mr. Cai Junyi[2], Ms. Chow Ming Chee Ada[1], Mr. Chan Man Kit[1], Ms. Qin Li, Ms. Zhu Yali[1], Mr. Zhang Hongbin[2], Ms. Wen Jie[1], Mr. Leung Pui Hong, Ms. Jing Yun[1], Mr. Ku Sanqi, Mr. He Shiqiang, Ms. Zhang Ting, Ms. Jiao Qi, Mr. Liu Zhiguang, Mr. Qi Daqing, Mr. Ng Yu Lam Kenneth, Ms. Liu Shu-Yen, Mr. Tay Keng Puang, Mr. Adnan Omar Ahmed, 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 report

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 2019, 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 *(note1)*	Held by controlled corporation/Corporate interest	1,342,976,000	41.66%
Ms. Li Ting *(note2)*	Beneficial owner/Beneficial interest	18,550,000	0.58%

Note:

1. 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.
2. Ms. Li Ting has resigned as the executive Director of the Company on 23 February 2020.

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

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

Notes:

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

Save as disclosed above, as at 31 December 2019, 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 report, 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 2019, 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 2019, 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 report, 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 report, 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 (the "2017 Circular") and announcement dated 15 November 2019 (the "2019 Announcement") were issued.

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 costs 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)

4. Extension to the Transitional Services Agreement

Parties: MMI and YF Life

Date: 15 November 2019

Principal terms: MMI will provide certain treasury and financial reporting services relating to investment or portfolio management such as classification, monitoring and allocation of purchases and sales of securities, compiling and monitoring pricing and fund performance for alternative investments, preparing risk sensitivity analysis, impairment analysis, facilitating cash management and managing specified cash accounts to YF Life.

The term of the services will be beginning on 16 November 2019 and ending on 31 December 2021, provided that the term of any Service may be terminated earlier by YF Life in accordance with the Extension to the Transitional Services Agreement.

Pricing terms: YF Life will pay to MMI a monthly service fee which shall be the greater of:-

(i) 0.00275% of the Average Portfolio Book Value for the relevant month; and

(ii) US$116,667.

The service fee shall be payable to MMI monthly in arrears.

Pursuant to the Extension to the Transitional Services Agreement, the service fee is subject to the following caps:

(a) US$250,000 for the period from 16 November 2019 to 31 December 2019;

(b) US$2,277,000 for the year ending 31 December 2020; and

(c) US$2,619,000 for the year ending 31 December 2021.

Furthermore, YF Life has the right to terminate any portion of the Services by giving three months prior notice. In the event one or more (but not all) of the Services are terminated, prior to the expiration of the term, MMI and YF Life will negotiate in good faith a pro rata reduction of the remaining balance of the service fee.

The fees for the Services were determined after arm's length negotiations between the parties and taking into account the current size and the anticipated growth in the investment portfolio of YF Life managed by MMI and with reference to the prevailing market rate charged by independent third party service providers in the ordinary course of business.

The Company has compared the fees payable by YF Life to MassMutual for the Services with the prevailing market rate 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 services in Hong Kong. The Company considered that the fees payable by YF Life to MMI are no less favourable than the prevailing market rate offered by other competent independent third party service providers. In view of this and taking into account that the Services are currently provided by MassMutual to YF Life, the Company considers it is beneficial to and in the interests of YF Life for it to enter into the Extension to the Transitional Services Agreement.

Reasons for the transaction: The Services are currently provided by MMI to YF Life under the Transitional Services Agreement. The Company believes that the continued provision of the Services by MMI to YF Life is economically efficient as it will cost YF Life more to establish the necessary systems and recruit the appropriate staff if YF Life were to carry out the Services itself.

Annual caps: US$250,000, US$2,277,000 and US$2,619,000 have been set as the annual caps for the amounts of service fees payable by YF Life to MassMutual under the Extension to the Transitional Services Agreement for (i) the period beginning on 16 November 2019 and ending on 31 December 2019, (ii) the year ending 31 December 2020 and (iii) the year ending 31 December 2021, respectively. These annual cap amounts have been set out in the Extension to the Transitional Services Agreement and have been determined with reference to the current size and the anticipated growth of the investment portfolio of YF Life managed by MassMutual. As at 31 December 2018, the book value of YF Life's asset portfolio managed by MassMutual was US$4,990.5 million.

The aggregate amount paid by the Group in respect of the Transitional Services Agreement together with the Extension to the Transitional Services Agreement, the Policies Endorsement Fee Agreement, the Barings Investment Advisory Agreement for the year ended 31 December 2019 is approximately HK$12,041,000 (being 99.4% of the annual cap for Transitional Services after extension for 2019), HK$5,285,000 (being 90.6% of the annual cap for 2019), HK$71,553,000 (being 87.1% of the annual cap for 2019) respectively.

All the independent non-executive Directors, having reviewed the transactions under the Transitional Service Agreement, the Policies Endorsement Fee Agreement, the Barings Investment Advisory Agreement and the Extension to the Transitional Services Agreement (the "2019 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 2019 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 2019 CCTs have not been approved by the Board;

(ii) the 2019 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 2019 CCTs has exceeded the annual cap of 2019 as disclosed in the 2017 Circular and the 2019 Announcement.

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, the Barings Investment Advisory Agreement and the Extension to the Transitional Services Agreement as described in Note 46 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 3.3% of the total revenue for the Year, with the single largest customer contributing approximately 2%.

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 report, 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 is made by the Group (2018: 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 report, 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 report, the Audit Committee comprised three independent non-executive Directors. The Audit Committee is chaired by Mr. Chu Chung Yue, Howard with Mr. Qi Daqing and Mr. Xiao Feng 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

Hai Olivia Ou

Executive Director and Interim Chief Executive Officer

Hong Kong, 27 March 2020

Environment Social and Governance Report

About this report

Reporting Reference

Yunfeng Financial Group Limited (hereinafter 'the Group') is committed to maintaining a high standard of corporate social governance in order to constantly improve its environmental and social surroundings while providing sustainable returns to shareholders.

To communicate our efforts on environmental, social and governance (ESG) matters, this Environment Social and Governance report (ESG Report) has been prepared in accordance with 'comply or explain' provisions of the ESG Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Scope and Boundary of the ESG report

This report covers the ESG policies and procedures of the Group's operation in all jurisdictions for the year ended 31 December 2019. The boundary of the ESG Report covers our dominant insurance business under YF Life, and other non-insurance financial services including wealth management, stock brokerage and corporate financing.

Unless otherwise specified, the boundary of the reported ESG data covers all offices of the Group in Hong Kong, Macau and the People's Republic of China (PRC). They include:

— Thirteen YF Life head offices and agent offices (with one of the agent office closed in May), and one warehouse in Hong Kong;

— Five YF Life branch offices in Macau; and

— Three Group offices in Hong Kong, Beijing and Shenzhen;

Contact

The view and opinion of our stakeholders are important for the continuous improvement of our business and ESG performance. Any constructive feedback regarding this ESG report are welcomed and may be sent to this email: ir@yff.com.

About our Business

Our Business

Listed on the Hong Kong Stock Exchange Main Board, Yunfeng Financial Group Limited principally engage in the provision of insurance products through YF Life, with other financial services covering brokerage, investment research, corporate finance, asset management, employee stock ownership plan administration services and fintech business.

Through YF Life, we are authorized by the Insurance Authority to conduct long term insurance business in Hong Kong. Based in Hong Kong with branch offices in Macau, we provide a wide range of insurance products including life insurance, medical insurance, annuities, pension and mandatory provident fund schemes to customers. YF Life is one of the few first insurance companies to introduce annuity to the region.

Governance and Risk Management

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.

The board of directors ("Board of Subsidiary") of the main subsidiary (insurance business) of the Group has established audit committee and board risk committee which are responsible for overall risk management and internal control and report to the Board of Subsidiary with the management ("Management of Subsidiary") of the main subsidiary of the Group. Management of Subsidiary establishes and supervises the risk management committee which identifies, prevents and controls various risks and reports to the board risk committee. The internal audit functions are conducted by the key management directly appointed by the Management of Subsidiary and report to the audit committee. Overall, Board of Subsidiary reports to the management of the Group on risk management and internal audit matters and is supervised by the Board.

The corporate governance committee of the Group oversees the Group's overall risk management and internal control systems with the risk oversight committee as a sub-committee comprising business heads, head of legal, head of compliance and head of risk management and being responsible for the risk management of non-insurance business.

As we are primarily engaged in the financial and insurance service sector, we are required to comply with all related laws and regulations including the Securities and Futures Ordinances and the Insurance Ordinance etc. The overall governance effort is led by the Corporate Governance Committee and implemented primarily through our legal, compliance and risk management teams.

For details regarding corporate governance discussions, please refer to the Corporate Governance Report section of the announcement.

ESG Risk and Responsible Investment

We acknowledge that ESG impacts our working environment and has also an increasing importance in the financial sector. In June 2018, the Hong Kong Exchanges and Clearing Limited (HKEX) has become a partner of the United Nations Sustainable Stock Exchanges Initiative, to promote the sustainable development of capital markets and responsible investment. In November 2018, the Hong Kong Financial Services Development Council (FSDC) issued a paper highlighting the lack of ESG thematic products in the market. In the paper, the FSDC also recommended how ESG integration should be more readily adopted by, for instance, the Government on public funds, HKMA's requirements on external investments, and MPFA's consideration into its trustee approval and monitoring process etc. With the HKEX releasing its consultation conclusion on the proposed ESG Guide updates in December 2019, listed companies will be required to review the impact of climate change on their businesses with reference to standards like the Taskforce on Climate-related Financial Disclosures (TCFD) to identify and disclose the potential financial impacts of climate-related risks and opportunities on ESG reporting.

Stakeholder Engagement and Materiality Assessment

As an integral part of our business, we engage with our identified stakeholder groups on an on-going basis throughout our daily operations. Through our interaction with different stakeholder groups, we have summarised and presented in the below table their key concerns:

Table 1 Summary of stakeholders' communication channels

Stakeholder groups	Communication and feedback channels	Frequency	Topics of discussion
Employees	Meetings Performance reviews Internal email correspondences	Monthly Annually Event Event-driven basis	Talent attraction, development and retention
Shareholders	Annual general meetings ('AGM'), extraordinary general meetings ('EGM') Announcements, annual reports, interim reports, circulars	Annually for AGM Event-driven basis for other channels	Business development Financial performance Corporate governance Major corporate actions and transactions
Regulators	Correspondence mails/emails Phone calls Site visits	Event-driven basis	Compliance with regulations Business updates
Clients	Know-your-client (KYC) onboarding process Face-to-face meetings with our business representatives Phone calls and emails with our client service representatives	Meeting/phone call, emails on event-driven basis Electronic trading platform on event-driven basis	Product and trading system quality and development Fair and transparent dealing practice Enterprise branding
Business partners	On-site visits Meetings Conference calls	Event-driven basis	Business development Fair business practice and market reputation Sound financial strength and management
Media	Press releases Marketing campaigns Exhibitions	Event-driven basis	Business development and strategies Product and service promotion
Communities	On-site visits Meetings	Event-driven basis	Policy and commitment to communities

Materiality assessment

To determine what ESG issues are material to our operation, we conducted interviews and surveys with management who has hands-on knowledge of our operations as well as having close relationship with our business partners.

Out of the HKEX ESG Guide environmental and social issues, we have identified the overall social aspects more material than that of environment. The most important matters being anti-corruption, customer privacy, and the health and safety of our employees. To the environment, we are concerned most with the resource consumptions, particularly on the use of energy, water and packaging materials used for marketing and communication materials. Please refer to section "Environment" on how we manage these environmental impacts in more details.

Employment and labour practice

To enable us to deliver value to our shareholders and serve our clients, we endeavour to attract and retain the best talents. We are committed to maintaining a non-discriminatory workplace where all employees are provided with opportunities to reach their full potential. We maintain a policy of equal employment opportunity, and all human resources decisions including recruitment, promotion, salary administration and training opportunities shall be based on bona fide occupational requirements, but not individual traits like race, colour, religion, age, gender or medical history.

At the Board level, we have 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. Under the policy, the Group 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. For further details, please refer to the Corporate Governance Report.

Recruitment and Employment

To recruit and retain high-calibre talents, we provide competitive remuneration packages to attract and motivate our employees. We offer competitive remuneration, share option and share award schemes, retirement and medical benefits, insurance coverage and leave entitlement commensurate to market standards. The remuneration package of employees is reviewed regularly based on individual performance and market conditions. As part of the effort to retain talent, we offer internal mobility opportunities, which drive the overall efficiency of operations through better matching of required skills with talents. All the above details are documented in the two Employee Handbooks of the Group and YF Life, along with other provisions like employment terms, remuneration, benefits, training and regulations, and business conduct.

During the reporting period, the Group adhered to the Employment Ordinance and other relevant regulations, and was not aware of any material non-compliance regarding employment.

Our Workforce

As at 31 December 2019, the Group had 654 employees. Among our total employment, female employees represent 56% of the total workforce. Geographically, about 74% of our employees station in Hong Kong, with another 23% residing in the PRC and the remaining 3% in Macau. By age group, 34% of our employees are age below 30, with another 58% aged between 30 to 50, and the remaining 8% aged above 50.

The overall turnover rate was 25% in 2019, and breakdown of turnover by gender, geographical region and age group is provided in the below table.

Breakdown of turnover rate

Turnover by category	Employee turnover in 2019	Turnover rate in 2019 (%)
By gender		
Male	54	19%
Female	104	30%
By geographical region		
Hong Kong	93	20%
PRC	1	43%
Macau	64	5%
By age group		
Below 30	82	38%
30-50	66	18%
Above 50	10	19%

Labour Standards

We strictly adhere to Employment of Children Regulations and other regulations under the Employment Ordinance or other relevant laws in other jurisdiction, which prohibit any illegal employment of children or forced labour. During our recruitment process, we perform checks on candidates' relevant information including personal identification and other documents to verify their age. Through the two Employee Handbooks of Yunfeng and YF Life, we communicate to employees the employment terms and conditions, to ensure that they clearly understand their employee rights and benefits. During the reporting year, we adhered to relevant laws and regulations and were not aware of any incidence of material non-compliance relating to child or forced labour.

Employee Health and safety

The management place high importance on the health of employees and take measures to increase the awareness of all staff members regarding occupational health and safety issues within the Group. While there is no significant health and safety risk in the office environment, employees are also expected to take all practical measures to ensure a safe and healthy working environment, in keeping with their defined responsibilities and applicable laws.

We seek to promote the well-being of employees by providing medical insurance coverage to our employees, covering services like clinical visits, hospitalisation benefits, dental benefit, specialist visits and health check-ups. In addition, we promote work-life balance among our staff through different programmes, for example organising our employees to participate in charity runs to develop a healthy lifestyle while contributing to the community.

To prevent occupational health issues from arising, assessment and training of display screen equipment was done with aim to help YF Life staff to minimise health risks associated to prolonged work with their workstations. Employees are also encouraged to participate in fire drills initiated by the office building management to prepare for any possible emergency.

During the reporting year, we adhered to relevant laws and regulations and were not aware of any incidence of material non-compliance relating to health and safety.

Development and training

The Group emphasises the importance of the on-going professional development of our employees, and seeks to provide different training and development opportunities to assist their career progression. Through a relevant, systematic and organised training platform, we aim to align the knowledge and skill sets of our staff members with our business objectives and operation requirements, in order to enhance efficiency and productivity. We believe that upskilling our staff members can help reduce the overall operational risks in the long run.

At YF Life, staff training is broadly categorised into three main types for new, existing and management staff. Upon joining YF Life, employees receive basic training on legal compliance, company product knowledge, service selling techniques and mentor training in person. For staff with management roles, we offer leadership-related training to assist them in discharging their management responsibilities.

To ensure that our agents act in line with the regulatory requirements, we offer regular legal compliance e-refreshers on different compliance topics including anti-money laundering, direct marketing and data privacy. It is important that our employees must complete the required compliance training, or we may terminate their agent contract. With the demand for insurance product from mainland clients increasing, we have also established an Internal Compliance Guide for Sales to PRC clients outlining the requirements for agents working on sales to PRC clients.

Besides the above regular training, we also encourage our employees at YF Life to pursue further development by joining the Designation Programs offered by the Life Office Management Association (LOMA). The programme offers various topics including customer service, reinsurance and compliance, allowing staff to learn more about various facets of the insurance industry and fulfil their self-improvement commitments. To encourage participation, we offer full refund on the registration fees for each course passed as well as exam bonus and examination leave hours to eligible staff.

For our staff engaging in non-insurance businesses, we also offer both internal and external training. To promote and cultivate the ongoing professional development of our staff, we offer internal seminars including various team building training, FATCA[1] and CRS[2] updates, SFC[3] seminars with regulation updates, financial reporting updates which staff could join on a voluntarily basis. In the year, we have also provided trainings covering topics like legal contracting, cybersecurity and data breaching, and refresher training on compliance matter for our staff. We also support our employees to seek external education relevant to their job duties, and provide benefits including examination leave and fee reimbursement subject to approval of their department head and senior management.

[1] Foreign Account Tax Compliance Act
[2] Common Reporting Standard
[3] Securities and Futures Commission

Operation Practices

Product responsibility

The Group conducts business with a high level of integrity and treats customers in a fair manner. We emphasise the quality of both our financial and insurance products and services to our valued customers. Both industries are highly regulated by the governing bodies and regulators such as the Securities and Futures Commission, Insurance Authority and Mandatory Provident Fund Schemes Authority and Monetary Authority of Macau. We comply strictly with the local laws and regulations such as sales practice, KYC check, credit control, compliance, risk disclosure, information protection and data security as well as trademarks and intellectual property. We regularly provide our employees with refresher training on the requirements of regulators to ensure that they are capable of providing quality services to customers.

During the reporting year, there was no material non-compliance incidence against the relevant laws and regulations relating to our products and services.

Providing quality insurance product and services

Our insurance products are developed to protect customers from unexpected events and support their long-term life planning. It is therefore vital that our insurance products are of high quality and meet relevant regulatory requirements. We collaborate with different institutions from time to time to conduct market researches to upkeep the latest market trends and to ensure our products meet the needs of our customers.

As the bridge of our products to the customers, we ensure our agents provide quality services. We make sure our agents are properly licensed according to the rules promulgated by the Insurance Authority and the Monetary Authority of Macau, and have satisfied the legal and YF Life standards before being permitted to solicit YF Life business. Our agents are required to strictly follow the Insurance Authority Code of Conduct for Licensed Insurance Agents and the industry best practices, as well as the guidance in accordance with our “Agent Handbook”. We regularly communicate and educate our agents with respect to the company’s products and services to allow proper and accurate representations of product features to the customers.

In order to support the development of the business to PRC clients, we have a “Internal Compliance Guide for PRC sales” in place to ensure our staff and agents are equipped with the Do’s and Don'ts when dealing with PRC clients. The policy covers daily practices from sales, mentoring to internal training and qualification requirements. We hold requirements on internal qualification strictly and no agents can handle PRC insurance business otherwise.

The monitoring of our service quality also extends to the post-sales stage. We follow industry practices as issued by the Insurance Authority, such as making audio-recorded calls to reaffirm client’s understanding of the insurance policy they have procured, including both investment-linked and life insurance products. In addition, we make use of third-party Mystery Shopper Programmes on an irregular basis to objectively review and assess the selling practice of our agents.

Providing quality financial products and services

For our investment products, we have an investment committee which is chaired by the Chief Executive Officer of the Group and comprises committee members, oversees all investment decisions and financial product/service launching process. An internal approval process is used to govern the product launching process and mitigate relevant risks of new products. Under the approval process, the launch of new products requires approvals from all relevant middle and back office functions to ensure that relevant market practices and regulations are met.

It is also important that we empower our customers to make informed decisions with their wealth and investment opportunities. Our staff receives training on product sales best practices from time to time, and we ensure that throughout our promotion campaigns and press releases our communication materials convey clear, concise and transparent information. To effectively handle customer enquiries, we have a chatbot to provide automatic replies to frequently asked questions. When clients are not satisfied with the answer they receive, they will be directed to our customer representatives to further discuss their issues.

Customer privacy and feedback

Information security and business continuity

As a financial institution, we rely on information systems to deliver quality services to our clients and are committed to protecting and managing our information resources to enable us to meet our legal, contractual and ethical responsibilities. To provide guidance on cybersecurity efforts, we have in place a group-wide Cybersecurity Policy and a separate Information Security Policy for YF Life.

We need to deal with sensitive information of our clients and it is important that we take the necessary steps to protect such information. We adhere strictly to the Personal Data (Privacy) Ordinance and any violation of data privacy obligations is subject to disciplinary actions. There are also internal compliance manuals to guide us on the proper handling of customer information. Varying access right levels have been set to prevent unnecessary access to sensitive client information and prevent information leakage.

The protection of information from external threats is also of critical importance when protecting customers' privacy. Our IT security efforts are guided by the Group Cybersecurity Policy which provides definitive information on this matter. From time to time, we also invite external service providers to provide cybersecurity training to update our staff on the latest cybersecurity risks.

We fully understand that significance of service stability to our clients. We have established the business continuity plan ('BCP') with comprehensive and systematic measures in place to deal with potential threats from major unexpected events and/ or operational disruptions to ensure business continuity and services to our customers. We back-up our data servers regularly and in the unfortunate case of server breakdown, we can switch to the back-up server within a short period to ensure minimal disruption to our services.

Customer Feedback

We welcome customer feedback and collect their opinions through different channels, including our staff, website and customer service hotline. We also regularly seek inputs from our front-line business units to look for areas that require improvement. We promptly handle all complaints from our customers, and obliged to meet the response pledge as prescribed by regulatory requirements.

Anti-corruption

Within the Group, we expect our staff to strictly adhere to applicable laws and regulations and to high standards of business integrity and ethical dealing. All new employees are provided internal guidelines including the Corporate Compliance Guide and different compliance manuals regarding their professional obligations to transact business affairs in a legal and ethical manner. To assist individual employees across levels and divisions/departments to disclose at a high-level information related to any misconduct or malpractice they are aware of, a formal whistleblowing procedure is in place to protect the whistle-blower from retaliation.

The Group is also committed to ensuring strict compliance with all applicable anti-money laundering ("AML") laws and regulations to prevent the use of its products and services for money laundering and terrorist financing purposes. For our insurance business, an AML policy is established with reference to the Insurance Authority's Guideline on Anti-Money Laundering and Counter-Terrorist Financing. In 2019, updates were made to incorporate the latest legal requirements which our employees should follow. Under the policy, any identified suspicious client activities would be reported to relevant authorities immediately.

For our other financial services regulated by the Hong Kong Securities and Futures Commission ('SFC')-regulated entities and their branches and subsidiaries under Yunfeng Group are governed by the AML/Know-your-client ("KYC") policy and are required to perform KYC procedures prior to entering into business relationship with proposed customers.

Besides internal guidelines, we also provide employees with regular training to ensure clear understanding of the Group's compliance requirements. For example, Yunfeng employees receive annual refresher training and updates on important compliance guidelines, and at YF Life we invite Independent Commission Against Corruption to provide annual seminars to strengthen our employees' awareness towards possible misconduct. To enhance corporate management, we standardise and systemise our expenditures through the Regulations on Financial Expenditure Management by clearly documenting the various approval requirements of different expenditure by their nature and amount.

In the reporting year, there was no reported non-compliance incidence relating to corruption or money laundering during the reporting period.

Supply chain and counterparties management

At YF Life, we appoint various service providers to support our operations, particularly on IT services. When selecting these service providers, we consider different factors including price, capability and credential of suppliers, availability of local support and the possible synergy from leveraging on other services of suppliers.

For our financial services, effective counterparty and transaction due diligence processes are the foundation of our approach to form long-term partnerships with our valued business partners. We promote an ownership system where service/business users within Yunfeng are responsible for selecting the counterparties and entering into transactions. The users are responsible for gathering sufficient information and using an appropriate mechanism to address different business, financial, and legal and compliance related concerns raised by relevant internal functions. Once all concerns are addressed and cleared by the relevant internal functions governed by the internal new business approval process, the proposed transactions are then recommended to senior management for final approval and execution. Significant concerns and issues identified will be escalated to the senior management and Risk Oversight Committee for thorough review and discussion to determine the next course of action to be taken.

As part of the implementation of the counterparty management policy, our risk management, finance, and legal and compliance teams review the transaction terms and related documents and determine the need for, and depth of, additional due diligence of counterparties including counterparty risk and corresponding the extent of on boarding procedures required. We have outlined the activities and types of counterparties that Yunfeng does not associate with, such as those where there is evidence of forced or child labour and certain transactions involving market misconduct, mis-selling or those with negative publicity. For service quality maintenance purpose, we continue monitoring the market reputation and business practice of all existing counterparties.

In relation to the sourcing of professional service and financial data providers, Yunfeng has established proper tendering and quotation procedures to engage the most suitable service providers with criteria tailored for covering areas such as product/service quality together with internal control and risk management requirements to manage various operational risk including credit, reputational and concentration risks. Consequently, in addition to pricing evaluation, all relevant factors will be considered in the selection of counterparties/service providers.

For internal developed service provision process with the aim to maximise automation and segregation of duties to reduce human error, we have set up a project management and quality control team to liaise with the different areas of operation including the development of different product initiatives, financial infrastructure and applications by developing a procedural manual and regular progress meetings. The teams ensure quality services and products as per the standard set by the senior management.

Environment & Community

Environment

Use of resources

The Group strives to minimise resource consumption and adopts environmental best practices across its businesses. We regularly review its environmental practices and considers implementing additional eco-friendly measures, sustainability targets and practices to reinforce the principles of reduce, recycle and reuse, as well as further minimise our already low impact on the environment.

In our offices, we have adopted various green practices to reduce the consumption of resources including electricity, water and paper. Examples of such green practices are:

— Switching off lightings, air conditioning and electrical appliances when not in use to reduce energy consumption;

— Encouraging double-sided printing and the use of recycled paper for printing and copying;

— Setting up recycling bins in office areas

As part of our effort to reduce our environmental impact, we have also been progressively digitalising our business operations. FinTech mobile applications has been launched in 2019 to support eFNA, online applications, electronic policy issue, online payment, ePolicy Services and claims. In the coming years, we will continue enhance those applications to enrich the functionalities and improve customer experiences as well as reducing our environmental impact while improving efficiency in our operations.

Concerning energy consumption, our server units and data centres consume the most energy. While we do not have controls over the energy use in the rented data centres, we have long adopted in-rack cooling for server units at YF Life’s data centre for better thermal management, thus reducing overall energy consumption.

Details of electricity, water and paper consumptions at our offices are summarised in the table below.

Table 2 Summary of resources consumptions

Use of resources	Unit	2019
Electricity	kWh	2,993,684
Water	m3	521
Paper (A3)	Sheets	134,857
Paper (A4)	Sheets	10,245,143

Emissions

With the Group's major businesses focused on the development of insurance products, financial technology solutions, financial advisory services and securities broking, majority of our operations are conducted in office environments with limited environmental impact. While we advocate the principle of environmental protection, we do not consider emissions including air, greenhouse gas (or carbon) and waste emissions to be material due to the nature of our business operations. We do however, are aware of our impact on carbon emissions is mainly caused by electricity consumption, we strive to minimise the consumption from our offices to the servers and data centres.

The Group does not have direct environmental emissions such as air, discharges to water and land as well as generation of hazardous and non-hazardous waste, and we adhere to all relevant and applicable environmental laws and regulations in the jurisdictions where we operate. No material non-compliance regarding environmental emissions was reported during the reporting year.

The environmental and natural resources

As a financial institution, the impact of our business extends beyond our own operations to the impact our investment strategies have on the environment. While we have not formulated specific policies or guidelines on the ESG considerations of our investment strategies, ESG considerations are indirectly addressed as described below.

At YF Life, majority of our portfolio belongs to fixed-income assets and we appoint Barings to be the investment manager. Barings is a signatory of the United Nation's Principle of Responsible Investment (UN PRI), and has incorporated ESG factors into the rigorous investment analysis process. Such integration of ESG factors into the investment process provides better insights into the long-term risks and opportunities and enhances the stability of our portfolio.

For our wealth management services, we select mutual fund partners by focusing on new industries and avoid investing in industries with obvious negative impact. We seek to work with top-tier fund managers, which we believe would have incorporated fundamental ESG considerations into their investment decisions. As part of our due diligence procedure, we also conduct news search on funds to better understand their performance. Any negative news identified, including ESG-related ones, may trigger further investigation or clarification with the fund managers depending on the nature of the issue.

Community Investment

The Group is committed to participating in community events. When approached by charitable organisations, we perform due diligence covering their background, mission and plan. If they matched with the Group's vision, we will provide financial and other assistance to maximum practicable extent for us on a case-by-case basis.

YF Life Jr. Space Camp Program

The "YF Life Jr. Space Camp Program" was founded by YF Life Insurance International Ltd. in 1999. It is the first program to provide simulated astronaut training for children from Hong Kong, Macua and China. Since its inception, the Program has helped 150 children make their space dreams come true. With its all-round, innovative and unique training methodology, the Program is designed to spark and nurture children's interest in space exploration and advanced aerospace technology, as well as strengthen the parent-child bond through a series of parent-child collaboration activities. The Program slogan "It is Possible!" encourages children to take on challenges and go beyond themselves.

For the 21st year of the Program, eight outstanding finalists from some 2,000 candidates were selected as the 2019 YF Life Jr. Astronauts. They embarked on a nine-day Space Exploration Journey to the US Space Camp in Huntsville, Alabama, and the Kennedy Space Center in Florida. In addition, the Program was extended to Mainland China, providing a precious opportunity for children to become YF Life Jr. Astronauts to undergo simulated astronaut training in the US. All expenses incurred were fully sponsored by YF Life.

Participation and sponsorships in various charitable events

Besides our flagship Jr. Space Camp Program, we also actively participate in different charitable events of different causes. In 2019, besides continuing to participate the Dress Casual Day organised by The Community Chest, we also participated in the Love Teeth Day 2019 co-organised by the organisation and encouraged our staff and agents to make donations.

We were also the silver sponsor of the "AVS Charity Run & Walk for Volunteering 2019" organized by Agency for Volunteer Service. The YF Life Volunteer Team, including consultants and staff, as well as member of the Friends of Jr. Space Camp, participated in the 10km, 3km and relay Charity Run and the Charity Walk to show their support towards the development of volunteerism.

A. Appendix: HKEX ESG Reporting Guide Index

	Aspects	Section	Remarks
A	**Environmental**		
A1	**Emissions** a) Policies and b) Compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	6.1	
A1.1	The Types of Emissions and respective emission data	-	Air emissions are not identified as material to the Group and data is not tracked.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	-	Greenhouse gas emissions are not identified as material to the Group. We will continue to observe any regulatory changes to review our disclosure in the future.
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	-	Due to our business nature, no significant amount of hazardous waste is generated.
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	-	Non-hazardous wastes are not identified as material to the Group and no data is tracked.
A1.5	Description of measures to mitigate emissions and result achieved	6.1	
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	6.1	
A2	**Use of Resources** Policies on the efficient use of resources, including energy, water and other raw materials.	6.1	
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	6.1	
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	6.1	
A2.3	Description of energy use efficiency initiatives and result achieved.	6.1	
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	6.1	
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	6.1	
A3	**The Environment and Natural Resources** Policies on minimizing the issuer's significant impact on the environment and natural resources.	6.1	
A3.1	Description of the significant impacts of activities on the environment and natural resources and the action taken to manage them.	6.1	

	Aspects	Section	Remarks
B	**Social**		
B1	**Employment** Policies on employment and compliance with local laws and regulations that have a significant impact on the issuer on the following aspects: • Compensation and dismissal • Recruitment and promotion • Working hours and rest periods • Equal opportunity and anti-discrimination • Diversity • Other benefits and welfare	4	
B1.1	Total workforce by gender, employment type, age group and geographical region.	4.1	
B1.2	Employee turnover rate by gender, age group and geographical region.	4.1	
B2	**Health and Safety** Policies and compliance with relevant laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards.	4.2	
B3	**Development and Training** Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	4.3	
B4	**Labour Standard** Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	4.1	
B5	**Supply Chain Management** Policies on managing environmental and social risks of the supply chain.	5.3	
B6	**Product Responsibility** Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	5	
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	5.1.3	
B7	**Anti-corruption** Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	2,5.2	
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	5.2	
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	2,5.2	

	Aspects	Section	Remarks
B8	**Community Investment** Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	6.2	

Consolidated income statement for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	*2019*	*2018*
			(Note)
		$'000	$'000
			(Restated)
Income			
Premiums and fee income	6	6,016,075	761,673
Premiums ceded to reinsurer		(1,948,003)	(99,149)
Net premium and fee income		4,068,072	662,524
Change in unearned revenue liability		(715,649)	(113,061)
Net earned premium and fee income		3,352,423	549,463
Brokerage commission, interest and other service income		18,566	7,118
Subscription, management and rebate fee income		8,850	9,978
Consultancy and advisory income		1,060	13,092
Net investment income	7a	3,290,299	345,616
Overlay adjustment		(93,666)	(9,288)
Other income	7b	1,624,033	68,229
Reinsurance commission and profit		78,204	6,843
Total income		8,279,769	991,051
Benefits, losses and expenses			
Net policyholders benefit	8	(3,196,552)	(287,010)
Commission and related expenses	9	(1,199,947)	(256,201)
Deferral and amortisation of deferred acquisition costs		913,505	203,886
Management and other expenses		(1,001,438)	(547,613)
Change in future policyholder benefits	10	(3,076,718)	(257,672)
Total benefits, losses and expenses		(7,561,150)	(1,144,610)
Finance cost	11(c)	(103,488)	(26,496)
Share of result in an associate		(1,080)	(1,241)
Profit (loss) before taxation	11	614,051	(181,296)
Tax credit	12	699	41,791
Profit (loss) after taxation		614,750	(139,505)
Profit (loss) attributable to:			
Equity shareholders of the Company		255,619	(195,612)
Non-controlling interests		359,131	56,107
		614,750	(139,505)
Earnings (loss) per share attributable to equity shareholders of the Company			
Basic *(HK$)*	16(a)	0.08	(0.08)
Diluted *(HK$)*	16(b)	0.08	(0.08)

The notes form part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	*2019*	*2018*
			(Note)
		HK$'000	HK$'000
			(Restated)
Profit (loss) for the year after taxation		614,750	(139,505)
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)		4,084	(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	1,143,832	84,603
Net movement in fair value of financial asset at fair value through profit or loss under overlay adjustment	18	93,666	9,288
Exchange differences arising on translation of results of foreign operations		(5,172)	(8,297)
Unrealised loss related to amortisation of deferred acquisition costs and value of business acquired	24	(1,033,200)	(75,106)
Unrealised gain related to amortisation of unearned revenue liability - Insurance contract provisions	31(iii)	477,873	33,041
Unrealised gain related to amortisation of unearned revenue liability - Investment contract liabilities	32(iii)	64,251	4,492
		745,334	44,249
Total comprehensive income for the year		1,360,084	(95,256)
Total comprehensive income attributable to:			
Equity shareholders of the Company		702,384	(173,890)
Non-controlling interests		657,700	78,634
		1,360,084	(95,256)

The notes form part of these financial statements.

Note: The Group has initially applied HKFRS16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3. Additionally, the comparative information in respect of the year ended 31 December 2018 has been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 2(b)(i).

Consolidated statement of financial position at 31 December 2019

(Expressed in Hong Kong dollars)

	Note	*2019*	*2018* *(Note)*
		HK$'000	HK$'000 (Restated)
Assets			
Property and equipment	19	495,328	133,946
Statutory deposits	20	3,243	3,285
Deferred tax asset	37(b)	44	184
Investments in associates	21	27,860	64,846
Goodwill and other intangible assets	23	1,923,360	1,932,016
Value of business acquired	24	10,057,446	11,075,662
Deferred acquisition costs	24	1,128,980	230,459
Investments	25	54,822,243	43,632,718
Advance reinsurance premiums	26	1,455,458	10,652
Reinsurers' share of outstanding claims	33	48,349	31,202
Insurance and reinsurance receivables	27	1,579,543	243,612
Other accounts receivable and accrued income	28	124,446	95,870
Other receivables, deposits and prepayment	29	627,511	549,903
Bank balance - trust and segregated accounts	30	478,465	440,083
Fixed bank deposits with original maturity over 3 months	30	385,417	259,250
Cash and cash equivalents	30	2,169,751	5,184,229
		75,327,444	63,887,917
Liabilities			
Insurance contract provisions	31	46,455,874	39,572,216
Investment contract liabilities	32	4,364,600	4,136,047
Outstanding claims	33	161,913	123,823
Reinsurance premium payables	34	529,562	314,011
Other accounts payables	35	578,545	521,864
Other payables and accrued expenses	36	2,436,967	824,592
Tax payable	37(a)	52,086	6,189
Financial liabilities at fair value through profit or loss	38	630,569	503,130
Lease liabilities	39	326,584	15,254
Deferred tax liabilities	37(b)	1,267,384	1,318,539
Bank borrowings	40	1,498,758	1,198,226
Shareholder's loan	41	1,561,444	-
		59,864,286	48,533,891
NET ASSETS		15,463,158	15,354,026

Consolidated statement of financial position at 31 December 2019

(Expressed in Hong Kong dollars)

	Note	*2019*	*2018* (Note)
		HK$'000	HK$'000 (Restated)
CAPITAL AND RESERVES			
Share capital	42(e)	9,829,094	9,829,094
Reserves		273,604	(593,702)
		10,102,698	9,235,392
Non-controlling interests		5,360,460	6,118,634
TOTAL EQUITY		15,463,158	15,354,026

The notes form part of these financial statements.

Note: The Group has initially applied HKFRS16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3. Additionally, the comparative information in respect of the year ended 31 December 2018 has been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 2(b)(i).

Consolidated statement of changes in equity for the year ended 31 December 2019

(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	-	-	-	-	(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 (Restated)	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 (Restated)	-	-	-	-	-	-	-	-	(195,612)	(195,612)	56,107	(139,505)
Other comprehensive income for the year (Restated)	-	-	-	-	33,791	(3,772)	(8,297)	-	-	21,722	22,527	44,249
Appropriation to statutory and capital reserve	-	-	-	-	-	-	-	437	(437)	-	-	-
Balance at 31 December 2018 (Restated)	9,829,094	(83,230)	28,033	2,650	33,791	(4,456)	(6,486)	65,883	(629,887)	9,235,392	6,118,634	15,354,026

Consolidated statement of changes in equity for the year ended 31 December 2019

(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 2018 (Restated)	9,829,094	(83,230)	28,033	2,650	33,791	(4,456)	(6,486)	65,883	(629,887)	9,235,392	6,118,634	15,354,026
First adoption of HKFRS 16	-	-	-	-	-	-	-	-	(6,580)	(6,580)	(4,387)	(10,967)
Adjusted balance at 1 January 2019	9,829,094	(83,230)	28,033	2,650	33,791	(4,456)	(6,486)	65,883	(636,467)	9,228,812	6,114,247	15,343,059
Changes in equity for the year ended 31 December 2019:												
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	178,043	178,043	(1,739,487)	(1,561,444)
Capital contribution to a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	-	-	328,000	328,000
Share repurchased under share award scheme	-	-	-	-	-	-	-	-	-	-	-	-
Equity settled share-based transactions	-	-	(6,541)	-	-	-	-	-	-	(6,541)	-	(6,541)
Profit for the year	-	-	-	-	-	-	-	-	255,619	255,619	359,131	614,750
Other comprehensive income for the year	-	-	-	-	447,853	4,084	(5,172)	-	-	446,765	298,569	745,334
Retirement of revalued assets	-	-	-	(1,112)	-	-	-	-	1,112	-	-	-
Appropriation to statutory and capital reserve	-	-	-	-	-	-	-	582	(582)	-	-	-
Balance at 31 December 2019	9,829,094	(83,230)	21,492	1,538	481,644	(372)	(11,658)	66,465	(202,275)	10,102,698	5,360,460	15,463,158

The notes form part of these financial statements.

Note: The Group has initially applied HKFRS16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3. Additionally, the comparative information in respect of the year ended 31 December 2018 has been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 2(b)(i).

Consolidated cash flow statement for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	*2019*	*2018*
			(Note)
		HK$'000	HK$'000
			(Restated)
Profit (loss) before taxation		614,051	(181,296)
Adjustments for:			
Net (gain) loss on financial assets and financial liabilities at fair value through profit and loss		(1,132,980)	51,247
Net gain on disposal of financial assets at fair value through other comprehensive income		(19,798)	(3,409)
Net loss on disposal of financial assets measured at amortised cost		220	114
Dividend and distribution income from financial asset at fair value through profit and loss		(255,480)	(50,354)
Impairment loss of debt instrument measured at amortised cost and fair value through other comprehensive income		18,650	33,742
Impairment loss of interest in an associate		35,000	-
Net gain on disposal of subsidiaries		-	(2,655)
Depreciation and amortisation		139,516	23,132
Finance costs		103,488	26,496
Interest income		(48,456)	(106,514)
Equity-settled share-based payment expenses		(6,541)	119,240
Effect of shadow accounting on change in value of business acquired, deferred acquisition costs and unearned revenue liability		(491,076)	(37,573)
Share of result of associates		1,080	1,241
Interest credited to policyholders' deposits		2,690,237	205,858
Effective interest income of investments		(100,979)	(32,493)
Other movements in investment and others		17,822	5,054
		1,564,754	51,830

Consolidated cash flow statement
for the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	*2019*	*2018*
			(Note)
		HK$'000	HK$'000
			(Restated)
Changes in working capital:			
Change in financial asset and financial liabilities at fair value through profit or loss		29,766	(59,126)
Increase in other accounts receivable		(29,812)	(21,317)
(Increase)/decrease in other receivables, deposits and prepayments		(87,452)	2,493
Decrease/(increase) in bank balances – trust and segregated accounts		(38,502)	(100,088)
Increase in other accounts payable		56,681	69,289
Increase in accrued expenses and other payables		1,586,709	122,693
Decrease in value of business acquired		1,018,216	101,678
Increase in deferred acquisition costs		(898,522)	(230,458)
Increase in unearned revenue liability		173,524	75,528
Increase in advance reinsurance premiums		(1,444,806)	(256)
Increase in reinsurer's share of outstanding claims		(17,147)	(1,873)
(Increase)/decrease in insurance and investment receivable		(1,335,621)	73,662
Decrease in policyholders' deposits		(2,030,219)	(323,483)
Increase in future policyholders' benefits		3,076,718	257,672
Increase/(decrease) in outstanding claims		38,090	(4,237)
Increase/(decrease) in reinsurance premium payables		215,551	(119,518)
Others		(12,006)	26,815
Cash generated from/(used in) operation		1,865,922	(78,696)

Consolidated cash flow statement for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	*2019*	*2018* (Note)
		HK$'000	HK$'000 (Restated)
Operating activities			
Cash generated from/(used in) operations		1,865,922	(78,696)
Interest received		1,141	1,755
Interest paid		(15,740)	(828)
Tax paid:			
Hong Kong profit tax paid		(2,071)	(10,967)
Overseas tax paid		(2,348)	(2,157)
Net cash generated from/(used in) operating activities		1,846,904	(90,893)
Investing activities			
Payment for acquisition of subsidiaries, net of cash acquired	22(d)	-	(1,237,023)
Payment for purchased of property and equipment		(81,964)	(16,248)
Payment for purchase of intangible asset		(233)	-
Proceeds from dividend and distribution income from financial assets at fair value through profit or loss		80,352	32,118
Purchase of/payment for acquisition of financial assets at fair value through other comprehensive income		(9,037,401)	(25,373,825)
Proceeds from disposal of financial assets at fair value through other comprehensive income		3,480,808	25,636,455
Proceeds from disposal of financial assets at fair value through profit or loss		2,322,348	1,042,553
Purchase of/payment for acquisition of and contribution made to financial assets at fair value through profit or loss		(2,150,555)	(1,018,498)
(Increase)/decrease in fixed bank deposits placed with original maturity over 3 months		(126,167)	1,580,313
Interest received		46,479	124,261
Interest paid		-	(742)
Purchases of amortised cost investment		(4,272,765)	(985,981)
Proceeds from sales, maturities and repayments of amortised cost investment		1,154,514	657,005
Purchases of policy loans		(626)	(471)
Proceeds from sales, maturities and repayments of policy loans		316	308
Acquisition of associates		-	(70,252)
Net cash (used in)/generated from investing activities		(8,584,894)	369,973

Consolidated cash flow statement for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	*2019*	*2018*
			(Note)
		HK$'000	HK$'000
Financing activities			(Restated)
Payment made for interest component of lease liabilities		(10,384)	-
Payment made for capital component of lease liabilities		(106,087)	-
Payment made for finance lease obligation		-	(5,043)
Net proceeds from issuance of preference shares by a subsidiary		76,063	108,117
Share repurchase under share award scheme		-	(110,209)
Drawndown of bank borrowings		1,406,800	1,220,000
Repayment of bank borrowings		(1,106,800)	(20,000)
Interest paid		(65,484)	(10,542)
Capital injection from non-controlling interest to a subsidiary		328,000	800,000
Policyholders' account deposits for insurance and investment contracts		4,931,169	995,219
Policyholders' account withdrawals for insurance and investment contracts		(1,729,217)	(250,104)
Net cash generated from financing activities		3,724,060	2,727,438
Net (decrease)/increase in cash and cash equivalents		(3,013,930)	3,006,518
Cash and cash equivalents at 1 January		5,184,229	2,182,374
Effect of foreign exchange rate changes		(548)	(4,663)
Cash and cash equivalents at 31 December		2,169,751	5,184,229

Note: The Group has initially applied HKFRS16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3. Additionally, the comparative information in respect of the year ended 31 December 2018 has been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 2(b)(i).

The notes form part of these 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 long term assurance business, the provision of securities brokerage, consultancy and advisory services and investment research, wealth management, employee stock ownership plan administration and principal investment. 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 2019 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.

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

During the year ended 31 December 2018, the Company acquired 60% of the issued share capital of YF Life Insurance International Limited and its subsidiaries ("the Acquired Group") of which the valuations were not completed and the respective fair values of the identifiable net assets acquired and liabilities assumed and goodwill were determined provisionally.

During the year ended 31 December 2019, the Group made certain fair value adjustments, with reference to the finalised valuation, to the carrying amounts of the identifiable assets and liabilities of the Acquired Group as a result of completing the initial accounting. The adjustments to the fair values at the acquisition date of the identifiable net assets and liabilities assumed were made as if initial accounting had been completed on the acquisition date. The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows for the year ended 31 December 2018 are restated.

The above restatements relate to acquisition which was effected during the year ended 31 December 2018 and hence have no financial impact on the consolidated financial position as at 1 January 2018. Accordingly no restated consolidated statement of financial position as at 1 January 2018 is presented.

Restated consolidated statement of financial position as at 31 December 2018

	As originally stated	*Adjustments*	*As restated*
	HK$'000	HK $'000	HK $'000
Total assets	63,033,410	854,507	63,887,917
Total liabilities	47,703,753	830,138	48,533,891
Total equity	15,329,657	24,369	15,354,026

Details of the financial line items as restated in the consolidated statement of financial position as at 31 December 2018 include the following:

	As originally stated	*Adjustments*	*As restated*
	HK $'000	HK $'000	HK $'000
Assets			
Goodwill and other intangible assets	3,827,449	(1,895,433)	1,932,016
Trade name	65,960	12,950	78,910
Deferred acquisition cost	217,925	12,534	230,459
Value of business acquired	8,338,256	2,737,406	11,075,662
Liabilities			
Insurance contract provisions	39,362,136	210,080	39,572,216
Investment contract liabilities	4,131,951	4,096	4,136,047
Deferred tax liabilities	702,577	615,962	1,318,539
Equity			
Reserves	(608,324)	14,622	(593,702)
Non-controlling interests	6,108,887	9,747	6,118,634

Restated consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2018

	As originally stated	*Adjustments*	*As restated*
	HK $'000	HK $'000	HK $'000
Loss after taxation	(154,155)	14,650	(139,505)
Total comprehensive income for the year	(119,625)	24,369	(95,256)

Details of the financial line items as restated in the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2018 include the following:

	As originally stated $'000	*Adjustments* $'000	*As restated* $'000
Loss after taxation			
Change in unearned revenue liability	(85,468)	(27,593)	(113,061)
Deferral and amortization of deferred acquisition costs	160,289	43,597	203,886
Change in future policyholder benefits	(256,307)	(1,365)	(257,672)
Tax credit	41,780	11	41,791

(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, cash flows and 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)(ii)), 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)(ii)).

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)(ii)). 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 Group 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 profit and loss 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 profit or loss 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 profit or loss 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 profit or loss 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.

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)(iii)).

- 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)(ii).

Overlay approach

The Group has applied the overlay approach under HKFRS 4 Insurance contracts, to reclassify between profit or loss and other comprehensive income 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 HKFRS 9 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 consolidated income statement on the date of retirement or disposal.

(p) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment' and presents lease liabilities separately in the statement of financial position.

B) Policy applicable prior to 1 January 2019

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 losses, 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 losses.

(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 trade name, 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

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

- financial assets measured at amortised cost (including debt securities, cash and cash equivalents, trade and other receivables 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 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)(iii) 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.

(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 leased asset;
- 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) and (ii)).

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 profit or loss 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 or losses from trading securities or financial instruments designated at fair value through profit or loss.

Exchange differences relating to fair value through other comprehensive income debt instruments are included in profit or loss.

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 consolidated 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 new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases - incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under HK(IFRIC) 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(b) As a lessee

The Group leases many assets, including properties and IT equipment.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under HKFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases - i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment', the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of additional right-of-use assets recognised on 1 January 2019 and their respective carrying amounts on 31 December 2019 are as below.

HK$'000	*Property and equipment*
Balance at 1 January 2019	296,540
Balance at 31 December 2019	201,463

The Group presents lease liabilities as lease liabilities in the statement of financial position.

(i) Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

(ii) Transition

Previously, the Group classified property leases as operating leases under HKAS 17. These include office building. The leases typically run for a period of 2 to 3 years.

At transition, for leases classified as operating leases under HKAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if HKFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application - the Group applied this approach to its largest property lease; or

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments - the Group applied this approach to all other leases.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a number of items of operating system. These leases were classified as finance leases under HKAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under HKAS 17 immediately before that date.

(c) Impacts on financial statements

(i) Impacts on transition

On transition to HKFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in accumulated loss. The impact on transition is summarised below.

HK$'000	*1 January 2019*
Right-of-use assets presented in property and equipment	296,540
Reclassification from prepayment	(1,643)
Lease liabilities	308,301
Derecognition of other liability	(2,437)
Accumulated losses	(6,580)
Non-controlling interest	(4,387)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019.

HK$'000	*1 January 2019*
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	255,167
Discounted using the incremental borrowing rate at 1 January 2019	(26,906)
Finance lease liabilities recognised as at 31 December 2018	15,254
– Recognition exemption for leases with less than 12 months of lease term at transition	(7,158)
– Extension options reasonably certain to be exercised	87,198
Lease liabilities recognised at 1 January 2019	323,555

(ii) Impacts for the year

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised approximately HK$201,463,000 of right-of-use assets and HK$215,925,000 of lease liabilities as at 31 December 2019.

Also in relation to those leases under HKFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the year, the Group recognised approximately HK$95,077,000 of depreciation charges and HK$8,511,000 of interest costs from these leases.

4 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

(a) Actuarial assumptions on future policyholders' benefits, VOBA and DAC

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):

- 75% 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*	*2019* *Change in profit after tax and equity* HK$'000	*2018* *Change in profit after tax and equity* HK$'000
Discount rate	+1%	562,691	376,631
	-1%	(654,223)	(431,986)
Mortality/morbidity	+10%	(74,952)	(43,884)
	-10%	77,086	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.

(vii) Amortisation of VOBA and DAC

The Group selects appropriate methodology and assumptions for the amortisation of VOBA and DAC in accordance with the Group's significant accounting policies. The assumptions used in the estimation of the future gross premiums and profit are aligned to those assumptions used for the future policyholders benefit in majority of instances.

(b) Determination of consolidation scope and business combination

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

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

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

Note 22 provides detail information about the acquisition of subsidiaries, Note 23 provides detail information about key assumptions used in the goodwill impairment assessment.

(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	%
2019				
0-500	26,704,703	15	36,090,151	44
501-750	20,258,023	11	28,353,735	35
751-1,000	25,976,464	15	16,869,339	21
1,001-1,500	30,353,799	17	-	-
1,501-2,000	20,128,668	11	-	-
2,001-2,500	11,556,369	6	-	-
>2,500	43,967,215	25	-	-
Total	178,945,241	100	81,313,225	100

	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

(ii) Financial risks

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

(1) Credit risk

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

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

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

At 31 December 2019, 0.11% (2018: 0.3%) 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 2019, 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 2019, 93% (2018: 93%) of the debt securities have Standard and Poor's ratings of BBB- or above or equivalent ratings from other reputable rating agencies. At 31 December 2019, 96.3% (2018: 97.9%) of the mortgage loan have internal rating equivalent to Standard and Poor's ratings of BBB or above or equivalent ratings from other reputable rating agencies. For the year ended 31 December 2019, impairment losses 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:

	2019				*2018*			
	Carrying amount	*Total contractual undiscounted cash flows*	*Within 1 year or on demand*	*More than 1 year*	*Carrying amount*	*Total contractual undiscounted cash flows*	*Within 1 year or on demand*	*More than 1 year*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Reinsurance premium payables	529,562	529,562	529,562	-	314,011	314,011	314,011	-
Other accounts payables	578,545	578,545	578,545	-	521,864	521,864	521,864	-
Other payables and accrued expense	2,436,967	2,436,967	2,436,967	-	824,592	824,592	824,592	-
Financial liabilities at fair value through profit or loss	630,569	630,569	-	630,569	503,130	503,130	-	503,130
Lease liabilities	326,584	341,026	135,248	205,778	15,254	15,901	3,453	12,448
Bank borrowings	1,498,758	1,596,769	82,413	1,514,356	1,198,226	1,321,416	54,681	1,266,735
Shareholder's loan	1,561,444	1,641,078	1,641,078	-	-	-	-	-
	7,562,429	7,754,516	5,403,813	2,350,703	3,377,077	3,500,914	1,718,601	1,782,313

(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.

	2019			*2018*		
	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 (Restated)	HK$'000 (Restated)	HK$'000 (Restated)
Insurance contract provisions	46,455,874	3,319,010	43,136,864	39,572,215	1,981,085	37,591,130
Investment contract liabilities	4,364,600	213,450	4,151,150	4,136,047	199,915	3,936,132
Outstanding claims	161,913	161,913	-	123,823	123,823	-
	50,982,387	3,694,373	47,288,014	43,832,085	2,304,823	41,527,262

(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.

	2019	*2018*
	HK$'000	HK$'000
Financial assets		
Statutory deposits	3,243	1,532
Debt securities and mortgage loans	44,004,452	34,624,636
Loans to agents and staff	32,379	26,773
Cash and cash equivalents and deposits with banks maturing more than three months	2,555,168	5,443,479
Financial liability		
Bank borrowings	1,498,758	1,198,226
Shareholder's loan	1,561,444	-

(ii) Sensitivity analysis

While it is more difficult to measure the interest sensitivity of the insurance and investment contract 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 2019, 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$44,722,000 (2018: HK$28,909,000) and decrease/increase the equity by approximately HK$1,397,427,000 (2018: HK$768,736,000) 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.

	2019									
	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	44,004,452	-	-	-	-	-	-	-	-	-
Insurance and reinsurance receivables	432,676	-	141	-	-	-	-	-	-	-
Other accounts receivables	56,984	-	-	-	47	-	572	-	-	2
Other receivables	446,556	-	-	171	122	272	7,217	13	-	6
Cash and cash equivalents and deposits with banks maturing more than three months and segregated accounts	1,100,766	14	35,558	1,007	3,599	4,467	19,163	879	23	26
	46,041,434	14	35,699	1,178	3,768	4,739	26,952	892	23	34
Financial liabilities										
Reinsurance premium payables	408,636	-	-	-	-	-	-	-	-	-
Derivative financial instruments	20,366	-	-	-	-	-	-	-	-	-
Other accounts payables	222,682	14	-	64	20	-	5,315	-	-	23
Other payables	1,913,599	-	-	-	-	-	10,198	-	-	35
Investment contract liabilities	2,015,623	-	74,259	-	-	-	-	-	-	-
Outstanding claims	58,886	-	831	-	-	-	-	-	-	-
Lease liabilities	-	-	37,188	-	-	-	-	-	-	-
	4,639,792	14	112,278	64	20	-	15,513	-	-	58
Notional amount of currency-related derivative contracts	(19,714,613)	-	-	-	-	(21,586)	-	-	-	-

	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)	-	-	-	-

(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 2019, 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$1,078,639,000 (2018: HK$565,133,000).

At 31 December 2019, it is estimated that an increase/decrease of 10% (2018: 10%) 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$107,864,000 (2018: 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 2019 categorised into			*Fair value measurements as at 31 December 2018 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	-	-	680,555	-	-	538,613
– Credit linked obligation note	-	-	26,813	-	-	27,275
– Listed equity	-	-	-	-	-	-
– Leveraged and structured note investment	-	2,531,873	12,559	-	1,799,058	88,980
– Unit trust	598,394	7,462,946	167,950	553,299	6,373,169	11,834
– Interest in a joint venture	-	-	100,273	-	-	79,128
– Insurance contract related partnership investment	-	-	1,569,168	-	-	1,378,578
– Mutual fund	160,936	272	-	-	248	-
Financial asset at fair value through other comprehensive income						
– Debt securities	-	11,590,267	4,450,348	-	6,710,854	3,626,407
– Perpetual capital measured at fair value	-	77,297	-	-	73,213	-
Financial liabilities designated at fair value through profit or loss						
– Preference share liability	-	-	(389,570)	-	-	(315,588)
– Third-party interests in consolidated			(240,999)	-	-	(187,542)
– Investment contract liabilities	-	(4,364,600)	-	-	(4,131,951)	-

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 except for HK$12,796,000 amount of FVOCI debt instrument level 3 to level 2. 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 inputs for the more significant level 3 insurance contract related asset and liability classes is as follows:

Partnership interest - the fair value estimation is based on the net asset value attributable to the Group determined by the respective fund managers. If such net asset value attributable to the Group is not yet readily available, adjustments to the fair value of the funds are made based on the latest net asset value with adjustments based on subsequent contribution made and distribution received by the Group. As at 31 December 2019, 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$156,917,000 (2018: HK$137,858,000) 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 2019, 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$106,738,000 (2018: HK$219,955,000).

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 2019, 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$3,227,000 (2018: HK$3,057,000).

Information about level 3 investment

Unlisted fair value through profit or loss investment	**Valuation technique**	**Significant unobservable inputs**
Credit linked obligation note	Price quote	Price quote
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 underl ying 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.

Change in the relevant equity price risk variable:	*2019* %	*2019* *Effect on profit after tax and retained profit* HK$'000	*2018* %	*2018* *Effect on profit after tax and retained profit* HK$'000
Trust type fund products				
Increase	5	1,153	5	1,188
Decrease	(5)	(1,153)	(5)	(1,188)
Joint controlled entity				
Increase	10	10,027	10	5,741
Decrease	(10)	(10,027)	(10)	(5,741)
Private credit funds				
Increase	10	64,980	10	50,719
Decrease	(10)	(64,980)	(10)	(50,719)
Credit linked note				
Increase	10	2,681	10	2,727
Decrease	(10)	(2,681)	(10)	(2,727)
Preference share liability				
Increase	10	-	10	-
Decrease	(10)	-	(10)	-
Third party interest in consolidated fund				
Increase	10	(22,916)	10	(18,239)
Decrease	(10)	22,916	(10)	18,239

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

Available-for-sale financial assets

	2019 HK$'000	*2018* HK$'000
At 1 January	-	488,518
Transferred to financial assets at fair value through profit or loss upon adoption of HKFRS 9	-	(488,518)
Purchase	-	-
Impairment loss	-	-
Exchange alignment	-	-
Credited to other comprehensive income	-	-
At 31 December	-	-

Financial assets at fair value through profit or loss

	2019 HK$'000	*2018* HK$'000
At 1 January	721,200	-
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	216,166	535,490
Settlement on disposal	(133,161)	(290,688)
Realised gain (loss) on disposal	4,636	(10,007)
Exchange alignment	(3,300)	(320)
Deemed gain on partial disposal	-	(23)
Fair value change of investment	2,100	(820)
At 31 December	807,641	721,200

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

	2019 HK$'000	*2018* HK$'000
At 1 January	3,626,407	-
Acquisition of subsidiaries	-	3,414,497
Purchase and issuances	723,279	211,498
Settlements	(216,353)	(44,404)
Net realised (loss) gain to profit or loss	1,264	201
Net unrealised (loss) gain to other comprehensive income	315,751	44,615
At 31 December	4,450,348	3,626,407

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

	2019 HK$'000	*2018* HK$'000
At 1 January	1,403,208	-
Acquisition of subsidiaries	-	1,284,419
Cost of investment purchased	497,361	154,752
Distribution received	(257,702)	(51,239)
Earnings reinvested	124,165	12,879
Disposal	(3,803)	(12,813)
Net realised loss to profit or loss	440	-
Net unrealised (loss) gain to other comprehensive income	(1,196)	1,158
Transfer into level 3	-	14,052
Transfer out of level 3	(12,796)	-
At 31 December	1,749,677	1,403,208

Financial liabilities at fair value through profit or loss

	2019 HK$'000	*2018* HK$'000
At 1 January	503,130	363,677
Share issued/contribution received	131,727	214,567
Deconsolidation of a consolidated fund	-	(3,489)
Partial disposal of interest of a consolidated fund	-	(1,168)
Distribution to third party investor	(25,899)	(83,756)
Exchange alignment	-	847
Fair value change	21,611	12,452
At 31 December	630,569	503,130

(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 2018 and 2019 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	2019		*Fair value measurements as at 31 December 2019 categorised into*		
	Carrying amount	*Fair value*	*Level 1*	*Level 2*	*Level 3*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Debt securities	18,511,569	20,811,021	-	18,037,374	2,773,647
Loans and receivables	6,881,023	7,240,918	-	-	7,240,918

	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

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:

	2019					
	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	41,161	(29,775)	11,386	-	-	11,386
Other accounts payable	145,494	(29,775)	115,719	-	-	115,719
Derivative assets	29,421	(16,815)	12,606	171	(12,324)	453
Derivative liabilities	24,857	(16,815)	8,042	(311)	(13,338)	(5,607)

	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)

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.

	2019 HK$'000	*2018* HK$'000
Net amount of financial assets after offsetting as stated above	11,386	12,221
Financial assets not in scope of offsetting disclosure	113,060	83,649
	124,446	95,870
Net amount of financial liabilities after offsetting as stated above	115,719	88,105
Financial liabilities not in scope of offsetting disclosure	462,826	483,039
	578,545	571,144

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.

	2019 HK$'000	*2018* HK$'000
Premium and fee income from insurance contracts	5,961,032	752,205
Fee income from investment contracts	55,043	9,468
	6,016,075	761,673

7a Net investment income

	2019 HK$'000	*2018* HK$'000
Interest income from unlisted debt securities and mortgage loans	1,810,687	303,635
Bank and other interest income	39,224	69,087
Net realised gain (loss) on disposal of securities designated at fair value through profit or loss	217,373	(4,969)
Net unrealised gain (loss) on financial asset and financial liabilities designated at fair value through profit or loss	936,699	(70,161)
Net realised gain on fair value through other comprehensive income debt securities	19,798	3,409
Net realised gain (loss) on debt securities measured at amortised cost	(220)	(114)
Impairment reversal (loss) of assets measured at amortised cost	8,349	(20,849)
Impairment loss of fair value through other comprehensive income debt securities	(26,999)	(12,893)
Impairment loss on investment in an associate	(35,000)	-
Dividend income	255,480	50,354
Net derivative (loss)/gain	(21,092)	23,883
Other investment loss	(7,666)	(5,054)
Net unrealised gain of fair value through profit or loss financial assets under overlay adjustment	93,666	9,288
	3,290,299	345,616

Total interest income from financial assets at fair value through other comprehensive income amounted to HK$720,989,000 (2018: HK$98,490,000) and from amortised cost financial asset amounted to HK$1,119,879,000 (2018: HK$235,838,000) for the year ended 31 December 2019.

7b Other income

	2019 HK$'000	*2018* HK$'000
Net gain on disposal of subsidiaries and deemed partial disposal of consolidated funds	-	2,655
Trustee fee income	26,334	4,185
Income from modified coinsurance	1,530,040	50,419
Other income	67,659	10,970
	1,624,033	68,229

8 Net policyholders benefit

	2019 HK$'000	*2018* HK$'000
Net claims, policy benefits and surrenders (note a)	482,165	80,687
Interest credited to policyholders' deposits (note b)	2,690,237	205,858
Dividends to policyholders (note c)	24,150	465
	3,196,552	287,010

Notes

(a) Claims, policy benefits and surrenders

	2019			
	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	648,469	1,244	40,479	690,192
– Change in outstanding claims	38,672	-	(582)	38,090
	687,141	1,244	39,897	728,282
Amount recoverable from reinsurers:				
– Benefits recoverable	(227,618)	-	(1,352)	(228,970)
– Change in outstanding claims	(18,499)	-	1,352	(17,147)
	(246,117)	-	-	(246,117)
Net amount	441,024	1,244	39,897	482,165

	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

Benefits payable comprise claims, policy benefits and surrenders.

(b) Interest credited to policyholders' deposits

	2019			
	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	2,463,853	14,730	-	2,478,583
Investment contracts	211,654	-	-	211,654
	2,675,507	14,730	-	2,690,237

	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

(c) Dividends to policyholders

	2019			
	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	24,150	-	-	24,150

	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

9 Commission and related expenses

	2019			
	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	1,174,328	260	8,707	1,183,295
Investment contracts	16,652	-	-	16,652
	1,190,980	260	8,707	1,199,947

	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

10 Change in future policyholder benefits

	2019 HK$'000	*2018* HK$'000 (Restated)
Increase in future policyholders' benefits - insurance contracts (note 31)	3,066,008	255,378
Increase in future policyholders' benefits - investment contracts (note 32)	10,710	2,294
	3,076,718	257,672

11 Profit (loss) before taxation

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

	2019 HK$'000	*2018* HK$'000
(a) Staff costs		
Equity-settled share-based payment (reversal) expenses (note 42)	(6,541)	119,240
Salaries, allowances and benefits in kind	417,925	216,407
Retention package	34,937	7,172
Social welfare		
– Staff (note a)	30,784	16,461
– Agents	25,583	9,675
	502,688	368,955

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 (2018: 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$495,000 (2018: HK$968,000) were waived as part of staff benefit scheme.

	2019	*2018*
	HK$'000	HK$'000
(b) Other operating items		
Auditors' remuneration	10,562	10,376
Legal and professional costs (Note)	27,763	15,105
Operating lease payments - property rentals	6,704	40,692
Depreciation and amortisation	139,516	23,132
Information, data and communication expenses	26,698	25,540
Net exchange gain	28,483	(4,076)
Disposal loss for		
- fixed assets	154	332
Entertainment and travelling	7,647	6,815

Note: The amount includes HK$8.4 million (2018: HK$1.2 million) of legal and professional fee related to the acquisition of the issued share capital of YF Life.

	2019	*2018*
	HK$'000	HK$'000
(c) Finance costs		
Bank loan interest	66,016	5,731
Interest on lease liabilities	10,384	549
Preference share liability	23,082	14,525
Other interest expense	1,388	5,691
Shareholder's loan interest	2,618	-
	103,488	26,496

12 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2019 HK$'000	*2018* HK$'000 (Restated)
Current tax		
Hong Kong		
Provision for the year	48,626	9,117
Over-provision in respect of prior years	(40)	(43,743)
Overseas		
Provision for the year	1,562	2,783
Under-provision in respect of prior years	168	21
Macau		
Provision for the year	-	-
Over-provision in respect of prior years	-	-
	50,316	(31,822)
Deferred tax		
Origination and reversal of temporary differences	(51,015)	(9,969)
	(699)	(41,791)

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018. The provision for Hong Kong Profits Tax for 2019 is taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of $20,000 for each business (2018: a maximum reduction of $30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018).

The provision for Macau Complementary Tax is calculated at tax rate of 12.0% (2018: 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:

	2019 HK$'000	*2018* HK$'000 (Restated)
Profit (loss) before taxation	614,051	(181,296)
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	105,496	(28,016)
Tax effect of surplus transferred from Hong Kong long term individual life business	(188,694)	(38,309)
Notional tax on net premiums written in respect of Hong Kong long term individual life business	47,263	9,006
Tax effect of non-taxable income	(4,157)	(13,436)
Tax adjustment in respect of prior years	128	(43,722)
Tax effect of non-deductible expenses	25,955	26,098
Tax effect of unused tax losses previously not recognised	(441)	-
Tax effect of tax losses not recognised	61,500	55,915
Tax effect of reversal of taxable temporary difference	(51,155)	(10,217)
Others	3,406	890
Tax credit	(699)	(41,791)

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:

	2019							
	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	-	18	7,662	-	-	7,662
Non-executive directors								
Hai Olivia Ou (note iv)	-	-	-	-	-	-	-	-
Adnan Omar Ahmed	-	-	-	-	-	-	-	-
Gareth Ross	-	-	-	-	-	-	-	-
Independent non-executive directors								
Chu Chung Yue, Howard	360	18	-	-	378	-	-	378
Lin Lijun (note v)	58	3	-	-	61	-	-	61
Qi Daqing	492	12	-	-	504	-	-	504
Xiao Feng (note vi)	183	9	-	-	192	-	-	192
Total	1,093	7,686	-	18	8,797	-	-	8,797

Notes:

i The discretionary bonus amount represents bonus accrued and approved for the year 2019.

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 Resigned as executive director and chief executive officer effective on 23 February 2020. Amount of approximately HK$355,000 transaction and management fee was waived or rebated for the year 2019.

iv Re-designated as an executive director and appointed as interim chief executive officer effective on 23 February 2020.

v Resigned as independent non-executive director on 28 March 2019.

vi Appointed as independent non-executive director on 28 March 2019.

	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	-	7,644	9,000	18	16,662	91,823	-	108,485
Non-executive directors								
Ko Chun Shun, Johnson	264	13	-	-	277	-	-	277
Hai Olivia Ou	-	-	-	-	-	-	-	-
Huang Youlong	-	-	-	-	-	-	-	-
Adnan Omar Ahmed	-	-	-	-	-	-	-	-
Gareth Ross	-	-	-	-	-	-	-	-
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

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, none (2018: one) is a director whose emoluments is disclosed in note 13. The aggregate of the emoluments in respect of the five (2018: four) individuals are as follows:

	2019	2018
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	38,055	10,294
Discretionary bonus	23,350	3,389
Equity-settled share-based payment expenses (note 1)	-	21,227
Contributions to Mandatory Provident Fund and retirement scheme contribution	2,256	54
	63,661	34,964

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 (2018: five) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2019	*2018*
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	1
HK$9,500,001 to HK$10,000,000	1	1
HK$11,500,001 to HK$12,000,000	1	-
HK$13,000,001 to HK$13,500,000	1	-
HK$19,500,001 to HK$20,000,000	1	-
HK$108,000,000 to HK$108,500,000	-	1

15 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes an approximate loss of HK$245,684,000 (2018: a loss of HK$298,851,000) which has been dealt with in the financial statements of the Company.

16 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2019 of HK$255,619,000 (2018 (restated): a loss of HK$195,612,000), and the weighted average number of shares in issue during the year ended 31 December 2019 of 3,207,904,727 (2018: 2,498,464,791).

Weighted average number of ordinary shares

	2019	*2018*
Issued ordinary shares at 1 January	3,223,326,394	2,423,326,394
Effect of shares held by share award scheme	(15,421,667)	(19,528,000)
Effect of repurchase of shares under share award shares	-	(18,582,082)
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	3,207,904,727	2,498,464,791

(b) Diluted earnings per share

The calculation of diluted loss per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2019 of HK$255,619,000 (2018(restated): a loss of HK$195,612,000), and the weighted average number of shares during the year ended 31 December 2019 of 3,207,904,727 (2018: 2,498,464,791).

Weighted average number of ordinary shares (diluted)

	2019	*2018*
Weighted average number of ordinary shares at 31 December	3,207,904,727	2,498,464,791
Weighted average number of ordinary shares *(diluted)* at 31 December	3,207,904,727	2,498,464,791

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 corporate to reflect the long term business development focus.

Consequently, the Group currently has two operating segments:

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

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; and

f) Corporate service includes central administrative and financing functions to support other operating segments.

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

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

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

(a) Segment revenue and results

For the year ended 31 December 2019

	Insurance business HK$'000	*Other financial services and corporate* HK$'000	*Total* HK$'000
Premiums and fee income	6,016,075	-	6,016,075
Premiums ceded to reinsurer	(1,948,003)	-	(1,948,003)
Net premium and fee income	4,068,072	-	4,068,072
Change in unearned revenue liability	(715,649)	-	(715,649)
Brokerage commission, interest and other service income	-	18,566	18,566
Subscription, management and rebate fee income	-	8,850	8,850
Consultancy and advisory income	-	1,060	1,060
Inter-segment income	1,741	12,936	14,677
Reportable segment revenue	3,354,164	41,412	3,395,576
Allocated net investment income, other operating income and gains	4,843,432	55,438	4,898,870
Share of result of associates	-	(1,080)	(1,080)
Allocated operating costs	(7,294,518)	(227,845)	(7,522,363)
Allocated finance cost	(7,820)	(27,028)	(34,848)
Reportable segment profit/(loss)	895,258	(159,103)	736,155
Elimination of inter-segment (loss)/profit			(7,000)
Reportable segment profit derived from Group's external customers			729,155
Unallocated legal and professional and other operating expenses			(115,104)
Taxation			699
Profit for the year			614,750
Depreciation and amortisation for the year	(108,191)	(31,880)	(140,071)
Bank interest income	25,032	13,372	38,404
Reportable segment assets (including investment in associates and those identified intangible asset at acquisition of YF Life)	71,464,563	2,100,893	73,565,456
Additions to non-current segment assets during the year other than associates	117,366	4,954	122,320
Investment in associates	-	27,860	27,860
Reportable segment liabilities	(55,422,342)	(4,446,476)	(59,868,818)

For the year ended 31 December 2018 (Restated)

	Insurance business HK$'000 (Restated)	*Other financial services and corporate* HK$'000	*Total* HK$'000 (Restated)
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	(113,061)	-	(113,061)
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	549,844	30,188	580,032
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	(711,766)	(416,983)	(1,128,749)
Allocated finance cost	-	(15,912)	(15,912)
Reportable segment profit/(loss)	139,167	(293,637)	(154,470)
Elimination of inter-segment (loss)/profit			-
Reportable segment profit derived from Group's external customers			(154,470)
Unallocated legal and professional and other operating expenses			(26,826)
Taxation			41,791
Loss for the year			(139,505)
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)	59,723,633	2,342,628	62,066,261
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	(46,181,208)	(2,350,583)	(48,531,791)

(b) Reconciliation of segment assets and liabilities

	2019 HK$'000	*2018* HK$'000 (Restated)
Assets		
Reportable segment assets	73,565,456	62,066,261
Elimination of inter-segment asset transfer	(14,500)	-
Elimination of inter-segment receivables	(49,118)	(4,089)
	73,501,838	62,062,172
Goodwill	1,825,562	1,825,562
Deferred tax assets	44	184
Consolidated total assets	75,327,444	63,887,918

	2019 HK$'000	*2018* HK$'000 (Restated)
Liabilities		
Reportable segment liabilities	59,868,818	48,531,791
Elimination of inter-segment payables	(56,618)	(4,089)
	59,812,200	48,527,702
Tax payable	52,086	6,189
Consolidated total liabilities	59,864,286	48,533,891

(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 2019.

18 Other comprehensive income

Reclassification adjustments relating to components of other comprehensive income

	Note	*2019* HK$'000	*2018* HK$'000
Debt securities classified as fair value through other comprehensive income:			
Changes in fair value recognised during the year		1,117,062	73,157
Reclassification adjustments for amounts transferred to profit or loss:			
Net gains on disposal		(20,161)	(6,501)
Impairment losses		26,999	17,947
Others		19,932	-
Net movement in the fair value reserve during the year recognised in other comprehensive income		1,143,832	84,603

	Note	*2019* HK$'000	*2018* HK$'000
Financial asset at fair value through profit or loss under overlay approach:			
Changes in fair value recognised during the year		57,085	9,058
Reclassification adjustments for amounts transferred to profit or loss:			
Net losses/(gains) on disposal		-	-
Net movement in the fair value reserve during the year recognised in other comprehensive income		57,085	9,058

	Note	*2019* HK$'000	*2018* HK$'000
Equity investment classified as fair value through profit or loss under overlay approach:			
Changes in fair value recognised during the year		36,581	230
Reclassification adjustments for amounts transferred to profit or loss:			
Net losses/(gains) on disposal		-	-
Deferred taxation		-	-
Net movement in the fair value reserve during the year recognised in other comprehensive income		36,581	230
Net movement in the fair value reserve during the year under overlay approach recognised in other comprehensive income		93,666	9,288

19 Property and Equipment

	Properties leased for own use HK$'000	*Leasehold improvements* HK$'000	*Office equipment and furniture* HK$'000	*Computers equipment* HK$'000	*Motor vehicles* HK$'000	*Total* HK$'000
Cost						
At 1 January 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
Adoption of HKFRS 16 (Note)	294,317	-	2,223	-	-	296,540
At 1 January 2019	294,317	25,963	12,457	134,367	726	467,830
Additions	88,648	16,330	19,879	70,878	-	195,735
Write off and disposal	-	(4,818)	(1,090)	(189)	-	(6,097)
Exchange alignment	-	(119)	(52)	(49)	-	(220)
At 31 December 2019	382,965	37,356	31,194	205,007	726	657,248

	Properties leased for own use HK$'000	*Leasehold improvements* HK$'000	*Office equipment and furniture* HK$'000	*Computers equipment* HK$'000	*Motor vehicles* HK$'000	*Total* HK$'000
Accumulated depreciation and impairment						
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
At 1 January 2019	-	13,840	6,035	16,743	726	37,344
Charge for the year	106,886	7,351	4,591	11,861	-	130,689
Write off and disposal	-	(4,818)	(959)	(166)	-	(5,943)
Exchange alignment	-	(91)	(28)	(51)	-	(170)
At 31 December 2019	106,886	16,282	9,639	28,387	726	161,920
Net carrying amount						
At 31 December 2019	276,079	21,074	21,555	176,620	-	495,328
At 31 December 2018	-	12,123	4,199	117,624	-	133,946

Note: The Group has initially applied HKFRS 16 and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously as operating leases under HKAS17.

Right of use asset

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 Dec 2019 HK$'000	*1 Jan 2019* HK$'000
Ownership interests in leasehold land and building held for own use with remaining lease term of:		
-Less than 10 years	276,079	294,317
Office furniture and equipment carried at depreciated cost	17,179	2,223
Computer equipment carried at depreciated cost	5,321	-
	298,579	296,540

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	31 Dec 2019 HK$'000	*31 Dec 2018* HK$'000
Depreciation charge of right-of-use assets by class of underlying asset		
Properties leased for own use	106,886	-
Office furniture and equipment	2,802	134
Computers equipment	2,044	1,032
	111,732	1,166

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise certain right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated.

	31 Dec 2019 HK$'000	*31 Dec 2018* HK$'000
Interest on lease liabilities	10,384	549
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	4,779	4,919
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	431	-
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	-	142,523

During the year, additions to right-of-use assets were HK$113,007,000. This amount held for own use primarily related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities as of 31 December 2019 are set out in notes 30 and 39, respectively

As of 31 December 2019, there are no leases subject to variable lease payment arrangement.

20 Statutory deposits

	2019 HK$'000	*2018* HK$'000
Statutory deposits	3,243	3,285

The Group has deposited in the name of the Director of Accounting Services with a bank a sum of HK$1,540,000 (2018: HK$1,532,000) 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 Investment 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:

	2019 HK$'000	*2018* HK$'000
Current assets	41,493	48,012
Non-current assets	14,059	13,210
Current liabilities	(4,052)	(1,475)
Non-current liabilities		-
Net assets	51,500	59,747
Revenue	17,160	5,702
Loss for the year	(7,321)	(10,470)
Other comprehensive income	-	-
Total comprehensive income	-	-
Loss for the year attributable to the Group	(1,222)	(1,258)
Total comprehensive income attributable to the Group	(3,274)	(5,454)
Dividend paid to Group	-	-
Reconcile to Group's interest in the associate		
Gross amount of net assets of the associate	51,500	59,747
Group's effective interest	16.67%	16.67%
Group's share of net assets of the associate	8,585	9,960
Goodwill	49,173	49,173
Exchange alignment	(4,206)	(3,413)
Impairment recognised	(35,000)	-
Carrying amount in the consolidated financial statements	18,552	55,720

Management considered an impairment loss provision of HK$35,000,000 should be made with the material associate taking into account the recent uncertainty of economic environment in PRC which is considered critical for the growth of the associate and different valuation models and assumptions made.

Aggregate information of associate that are not individually material

	2019 HK$'000	*2018* HK$'000
Aggregate carrying amount of individually immaterial associate in the consolidated financial statements	9,308	9,126
Aggregate amounts of the Group's share of those associates'		
Profit from continue operation	142	17
Other comprehensive income	(167)	31
Total comprehensive income	(25)	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.

			Proportion of ownership interest			
Name of company	*Place of incorporation and business*	*Particular of issued shares/registered and fully paid-up capital (note)*	*Group's effective interest*	*Held by the Company*	*Held by a subsidiary*	*Principal activities*
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
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 Insurance Consultancy Limited	Hong Kong	100 shares	100%	-	100%	Insurance agency and consultancy service
Youyu eKeeper Services Company Limited	Hong Kong	1 share	100%	-	100%	Provision of employee stock ownership plan administration
Youyu Smart Technologies Limited	Hong Kong	7,500,000 shares	100%	-	100%	Provision of financial technology services
Yunfeng Financial International Holdings Limited	Hong Kong	1 share	100%	100%	-	Investment holding
Yuvan Limited	Hong Kong	1 share	100%	-	100%	Investment holding
Youyu Global Limited	Hong Kong	1 share	100%	100%	-	Provision of administrative services
YF Life Insurance International Limited	Hong Kong	3,716,000,000 shares	69.8%	-	69.8%	Long term assurance business
Protective Capital (International) Limited	Hong Kong	78,610,000 shares	69.8%	-	69.8%	Provision of general services
YF Life Services Limited	Hong Kong	2 shares	69.8%	-	69.8%	Provision of general services
YF Life Guardian Limited	Hong Kong	2 shares	69.8%	-	69.8%	Provision of general services
YF Life Trustees Limited (formerly known as MassMutual Trustee Limited)	Hong Kong	73,000,000 shares	69.8%	-	69.8%	Provision of trustee services

			Proportion of ownership interest			
Name of company	*Place of incorporation and business*	*Particular of issued shares /registered and fully paid-up capital (note)*	*Group's effective interest*	*Held by the Company*	*Held by a subsidiary*	*Principal activities*
YF Life Insurance Consultants Limited	Hong Kong	50,000 shares	69.8%	-	69.8%	Provision of agency services to non-life insurers
YF Life Investors Limited	Hong Kong	5,000,000 shares	69.8%	-	69.8%	Provision of general services
Beijing Yunfeng Universal Investment Consultancy Limited (note 2)	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 (note 3)	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 (note 3)	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

			Proportion of ownership interest			
Name of company	*Place of incorporation and business*	*Particular of issued shares/ registered and fully paid-up capital (note)*	*Group's effective interest*	*Held by the Company*	*Held by a subsidiary*	*Principal activities*
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. 45,695 common shares and 500,000 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%	-	69.3%	Investment

Note 1: The class of shares held is ordinary shares unless otherwise stated.

Note 2: The company is registered as a wholly foreign-owned enterprise under the laws of the PRC.

Note 3: The company is registered as a limited company under the laws of the PRC.

Note 4: 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 2019. The subsidiary was acquired during the year as stated in note 22(c). The summarised financial information presented below represents the amounts including intangible assets identified on acquisition date before any inter-company elimination.

	2019 HK$'000	*2018* HK$'000 (Restated)
NCI percentage	30.2%	40%
Total assets	71,464,563	59,723,633
Total liabilities	(55,473,888)	(46,186,240)
Total net assets	15,990,675	13,537,393
Net assets attributable to NCI	4,829,184	5,414,957
Goodwill attributable to NCI	531,276	703,677
Carrying amount of NCI	5,360,460	6,118,634
Net earned premium and fee income	3,354,164	549,844
Profit for the year	897,827	140,268
Total comprehensive income	1,644,261	196,586
Profit allocated to NCI	359,131	56,107
Dividend paid to NCI	-	-
Cash flows from operating activities	2,062,354	284,589
Cash flows from investing activities	(8,454,453)	1,306,484
Cash flows from financing activities (Note)	3,923,824	2,745,116

Note: The cashflows includes HK$492 million capital contribution made by the Company to YF Life in year 2019.

(c) Acquisition of subsidiaries during the year ended 31 December 2018

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. The Group has made a provisional assessment of the fair value of the assets and liabilities as at the acquisition date. YF Life is involved in the writing of long term assurance business. 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 was 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. During the year ended 31 December 2019, the accounting for the Acquired Group was completed.

The following table summarises the asset acquired and liabilities assumed and consideration paid for the Acquired Group.

	HK$'000 (Restated)
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	78,910
Value of business acquired	11,177,341
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	38,688,035
Investment contract liabilities	4,059,536
Outstanding claims	128,059
Reinsurance premium payables	433,529
Other payables	622,021
Tax payable	6,566
Deferred tax liabilities	1,328,756
Identifiable net assets acquired and liabilities assumed	11,340,808
Add: Fair value of the remaining 40% non-controlling interest	5,240,000
Goodwill recognised on acquisition	1,825,562
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 was 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 were subject to finalisation and the accounting for the acquisition was to 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.

Compared with the provisional purchase price allocation disclosed in the Group's consolidated financial statements as of and for the year ended 31 December 2018, the following items were restated:

	As originally stated HK$'000	*As restated* HK$'000	*Change* HK$'000
Goodwill	3,733,945	1,825,562	(1,908,383)
Intangible asset	65,960	78,910	12,950
Value of business acquired	8,511,831	11,177,341	2,665,510
Deferred tax liabilities	(712,783)	(1,328,756)	(615,973)
Insurance contract provisions	(38,533,932)	(38,688,035)	(154,103)

(d) Acquisition of additional interest in subsidiaries during the year ended 31 December 2019

As disclosed in the announcement of the Company dated 20 December 2019, the Group acquired an additional 9.8% interest in YF Life from non-controlling interests of YF Life with a consideration of HK$1,561,443,800 in cash through the completion of acquisition of the entire issued share capital of YUVAN Limited and assignment of a shareholder loan of an amount of HK$1,563,419,242 from Meyu International Company Limited ("Meyu International"). After the completion of the acquisition, the Group's effective ownership in YF Life increases from 60% to 69.8%. The Group recognised a decrease in non-controlling interests of approximately HK$1,739,487,000 and an increase in total equity attributable to equity shareholders of the Company of approximately HK$178,043,000. The consideration of HK$1,561,443,800 is financed through a shareholder loan granted by Key Imagination Limited ("KIL"), the controlling shareholder of the Company as disclosed in note 41 and settled directly by KIL with Meyu International.

23 Goodwill and other intangible assets

(a) Goodwill

	2019	*2018*
	HK$'000	HK$'000
Cost		(Restated)
At 1 January	1,829,046	4,649
Additions	-	1,825,562
Written off	-	(1,165)
At 31 December	1,829,046	1,829,046
Accumulated impairment loss		
At 1 January	3,484	4,649
Charge for the year	-	-
Written off	-	(1,165)
At 31 December	3,484	3,484
Carrying amount		
At 31 December	1,825,562	1,825,562

During 2018, the addition of goodwill arose 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 in 2018 is related to a wholly owned subsidiary liquidated during 2018.

Impairment test for goodwill

Goodwill arises primarily in respect of the Group's insurance business. Goodwill is tested for impairment by comparing the carrying amount of the cash-generating unit, including goodwill, to the recoverable amount of that cash-generating unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the goodwill allocated to that unit shall be regarded as not impaired. The recoverable amount is the value in use of the cash-generating unit unless otherwise stated.

The value in use is determined by calculating as an actuarially determined appraisal value, based on embedded value of the business and the present value of expected future new business of the cash-generating unit. The present value of expected future new business, covering a ten year period (in line with industry practice), is based on financial budgets approved by management. The financial budgets reflect management's best estimate of future profit based on historical experience and best estimate operating assumptions such as premium and expenses.

The key assumptions used in the embedded value calculations include risk discount rate, investment returns, mortality, morbidity, persistency, expenses and inflation. In the majority of instances these assumptions are aligned to those assumptions detailed in Section "Embedded Value". The present value of expected future new business is calculated based on a combination of indicators which include, among others, taking into account recent production mix, business strategy, market trends and risk associated with the future new business projections. The risk discount rates that is used in the embedded value of the business and the present value of expected future new business is 9% (2018: 9%).

(b) Other intangible assets

	Trade name HK$'000 (restated)	*Trading rights* HK$'000	*Club membership* HK$'000	*Computer software* HK$'000	*Total* HK$'000
At cost					
At 1 January 2018	-	6,550	2,930	41,347	50,827
Acquisition of subsidiaries	78,910	-	-	-	78,910
Additions	-	-	-	988	988
Exchange alignment	-	-	-	(24)	(24)
At 31 December 2018 and 1 January 2019	78,910	6,550	2,930	42,311	130,701
Additions	-	-	-	233	233
Written off and reclassified	-	(2,550)	-	-	(2,550)
Exchange alignment	-	-	-	(14)	(14)
At 31 December 2019	78,910	4,000	2,930	42,530	128,370
Accumulated amortisation and impairment					
At 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 and 1 January 2019	-	6,000	-	18,247	24,247
Charge for the year	-	-	-	8,827	8,827
Written off	-	(2,500)	-	-	(2,500)
Exchange alignment	-	-	-	(2)	(2)
At 31 December 2019	-	3,500	-	27,072	30,572
Carrying amount					
At 31 December 2019	78,910	500	2,930	15,458	97,798
At 31 December 2018	78,910	550	2,930	24,064	106,454

As at 31 December 2019, the Group had two (2018: three) trading rights in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and one (2018: one) trading right in the Hong Kong Futures Exchange Limited (the "Futures Exchange"), of which one 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 (2018: 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 2019, 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

	2019				*2018*			
		Deferred acquisition costs				*Deferred acquisition costs*		
	Value of business acquired HK$'000	*Insurance contracts HK$'000*	*Investment contracts HK$'000*	*Total HK$'000*	*Value of business acquired HK$'000* (Restated)	*Insurance contracts HK$'000* (Restated)	*Investment contracts HK$'000* (Restated)	*Total HK$'000* (Restated)
At 1 January	11,075,662	224,457	6,002	230,459	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	11,177,341	-	-	-
Amount deferred	-	1,307,194	28,797	1,335,991	-	275,243	7,146	282,389
Amortisation for the year	(135,208)	(287,772)	494	(287,278)	(35,524)	(42,906)	(73)	(42,979)
	(135,208)	1,019,422	29,291	1,048,713	11,141,817	232,337	7,073	239,410
Effect of shadow accounting allocated to fair value reserve	(883,008)	(132,390)	(17,802)	(150,192)	(66,155)	(7,880)	(1,071)	(8,951)
At 31 December	10,057,446	1,111,489	17,491	1,128,980	11,075,662	224,457	6,002	230,459

The amount of deferred acquisition costs expected to be recognised as expense after more than one year is HK$827,819,000 (2018: HK$114,574,000).

25 Investments

2019	*At fair value through other comprehensive income* HK$'000	*At fair value through profit or loss* HK$'000	*Amortised cost* HK$'000	*Total* HK$'000
Debt securities:				
– Unlisted	16,040,615	2,571,245	18,511,569	37,123,429
Mortgage loans	-	-	6,881,023	6,881,023
	16,040,615	2,571,245	25,392,592	44,004,452
Equity securities:				
– Unlisted (note (g))	77,297	-	-	77,297
Fund investment and others:				
– Unlisted (note (a))	-	2,511,204	-	2,511,204
Unit trusts:				
– Unlisted	-	8,229,290	-	8,229,290
Total	16,117,912	13,311,739	25,392,592	54,822,243
Market value of listed securities	-	-	-	-

2018	*At fair value through other comprehensive income* HK$'000	*At fair value through profit or loss* HK$'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 (note (g))	73,213	-	-	73,213
Fund investment and others:				
– Unlisted (note (a))	-	1,996,567	-	1,996,567
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	-	-	-	-

Notes:

(a) In 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. As a result, 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 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$18,693,000 to the joint venture. As of 31 December 2019, the carrying value of the jointly controlled entity amounted to approximately HK$100 million.

(b) Investments of HK$5,609,487,000 (2018: HK$3,760,043,000) have been pledged in favour of Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.

(c) The portion of the investments that is expected to be recoverable within one year is HK$8,030,003,000 (2018: HK$7,793,141,000) and the portion that is expected to be recoverable after more than one year is HK$46,792,240,000 (2018: HK$35,839,577,000).

(d) The following table set out the credit quality analysis of financial assets measured at FVOCI (recycling) and at amortised cost. Unless specifically indicated, the amounts in the table represent gross carrying amounts. For explanations of the terms '12-month ECL', 'lifetime ECL' and 'credit-impaired', see note 2(t).

HK$'000	*2019*							*2018*						
	Investment grade			*Non-investment grade*				*Investment grade*			*Non-investment grade*			
	12-month ECL	*Lifetime ECL not credit - impaired*	*Lifetime ECL credit - impaired*	*12-month ECL*	*Lifetime ECL not credit - impairment*	*Lifetime ECL credit - impaired*	*Total*	*12-month ECL*	*Lifetime ECL not credit - impairment*	*Lifetime ECL credit - impaired*	*12-month ECL*	*Lifetime ECL not credit - impairment*	*Lifetime ECL credit - impaired*	*Total*
Financial assets at amortised cost														
Unlisted debt Securities	18,205,123	-	-	255,666	55,094	5,987	18,521,870	14,715,373	318,752	-	121,945	52,146	-	15,208,216
Mortgage loan	6,721,762	-	-	161,460	-	-	6,883,222	7,035,319	-	-	149,376	-	-	7,184,695
Gross carrying amount	24,926,885	-	-	417,126	55,094	5,987	25,405,092	21,750,692	318,752	-	271,321	52,146	-	22,392,911
Less: Loss allowance	(7,385)	-	-	(1,308)	(2,697)	(1,110)	(12,500)	(18,251)	(1,958)		(419)	(221)	-	(20,849)
Amortised cost	24,919,500			415,818	52,397	4,877	25,392,592	21,732,441	316,794	-	270,902	51,925	-	22,372,062
Financial assets at FVOCI (recycling)														
Financial assets at FVOCI (recycling) Unlisted debt Securities gross carrying amount	11,808,079	-	-	4,053,320	165,540	40,068	16,067,007	7,557,763	43,421	-	2,652,743	86,084	-	10,340,011
Less: Loss allowance	(3,736)	-	-	(3,677)	(21,569)	(10,910)	(39,892)	(7,373)	(299)	-	(2,680)	(2,541)	-	(12,893)
Amortised cost	11,804,343	-	-	4,049,643	143,971	29,158	16,027,115	7,550,390	43,122	-	2,650,063	83,543		10,327,118
Carrying amount – fair value	11,797,533	-	-	4,039,827	164,743	38,512	16,040,615	7,556,031	43,415	-	2,651,951	85,864	-	10,337,261

	12-month ECL HK$'000	*Lifetime ECL not credit - impairment* HK$'000	*Lifetime ECL credit - impaired* HK$'000	*Total* HK$'000
Debt Securities at amortised cost:				
Acquisition of subsidiaries	-	-	-	-
Net increase in loss allowance recognised in current year, net of those derecognised upon settlement	17,556	2,179	-	19,735
Balance as at 31 Dec 2018	17,556	2,179	-	19,735
Net (decrease)/increase in loss allowance recognised in current year, net of those derecognised upon settlement	(11,063)	518	1,110	(9,435)
Balance as at 31 Dec 2019	6,493	2,697	1,110	10,300

	12-month ECL HK$'000	*Lifetime ECL not credit - impairment* HK$'000	*Lifetime ECL credit - impaired* HK$'000	*Total* HK$'000
Mortgage loan at amortised cost:				
Acquisition of subsidiaries	-	-	-	-
Net increase in loss allowance recognised in current year, net of those derecognised upon settlement	1,114	-	-	1,114
Balance as at 31 Dec 2018	1,114	-	-	1,114
Net increase in loss allowance recognised in current year, net of those derecognised upon settlement	1,086	-	-	1,086
Balance as at 31 Dec 2019	2,200	-	-	2,200

	12-month ECL HK$'000	*Lifetime ECL not credit - impairment* HK$'000	*Lifetime ECL credit - impaired* HK$'000	*Total* HK$'000
Debt Securities at fair value through other comprehensive income				
Acquisition of subsidiaries	-	-	-	-
Net increase in loss allowance recognised in current year, net of those derecognised upon settlement	10,053	2,840	-	12,893
Balance as at 31 Dec 2018	10,053	2,840	-	12,893
Net (decrease)/increase in loss allowance recognised in current year, net of those derecognised upon settlement	(2,640)	18,729	10,910	26,999
Balance as at 31 Dec 2019	7,413	21,569	10,910	39,892

(e) The maturity profile of the Group's debt securities and loans and receivables is as follows:

	2019	*2018*
	HK$'000	HK$'000
Fixed maturities due in		
– 1 year or less	328,884	642,606
– 1 to 5 years	4,207,276	2,723,688
– 5 to 10 years	11,157,433	6,375,965
– More than 10 years	21,429,836	17,698,796
	37,123,429	27,441,055
Mortgage loans due in		
– 1 year	243,807	153,501
– 2 years	308,762	276,017
– 3 years	202,481	365,502
– 4 years	800,110	201,069
– 5 years	364,593	817,215
– More than 5 years	4,961,270	5,370,277
	6,881,023	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 Group with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated equity price risk (see note 5) and the capital commitments. The maximum exposure to loss, which represents the maximum loss that the Group could be required to report as a result of its involvement with these collective investment schemes regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments (see note 5).

(ii) In addition, the Group's subsidiary, YF Life Trustees Limited is the sponsor of Mass Mandatory Provident Fund scheme ('MPF scheme') as specified in the respective trust deeds. Management fee and trustee fee income that the Group recognised in profit or loss in return for the administration services provided to MPF Scheme that the Group sponsored amounted to HK$26,334,000 (2018: HK$4,185,000) 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.

(g) The unlisted equity securities are perpetual capital issued by China CITIC Bank International Limited registered in Hong Kong and engaged in banking business. The Group designated its investment in the perpetual capital at FVOCI (non-recycling), as the investment is held for strategic purposes. Dividend of HK$3,334,000 was received on this investment during the year (2018: HK$3,331,000).

(h) At year end, the carrying amounts of the Group's financial assets being accounted for under the overlay approach are shown as below.

	2019 HK$'000	2018 HK$'000
Financial assets measured at FVPL		
Unlisted equity/partnership fund investment	1,569,168	1,378,577
Unlisted unit trust investment	1,078,639	565,132
Unlisted debt securities	2,544,432	1,811,854
	5,192,239	3,755,563

For financial assets at FVPL being accounted under the overlay approach, the amounts charged to the consolidated income statements reported with and without overlay adjustments for the year ended are stated as below:

		31 December 2019		
	Under HKFRS 9 HK $'000	*Overlay approach adjustments* HK $'000	*Under HKFRS 9 (adjusted by overlay approach)* HK $'000	*Under HKAS 39* HK $'000
Net realised and unrealised gains/(losses) of fair value through profit or loss financial asset under overlay adjustment on:				
– Unlisted equity/partnership fund investment	(369)	369	-	-
– Unlisted unit trust investment	36,950	(36,950)	-	-
– Unlisted debt securities	57,085	(57,085)	-	-
Total	93,666	(93,666)	-	-

		31 December 2018		
	Under HKFRS 9 HK $'000	*Overlay approach adjustments* HK $'000	*Under HKFRS 9 (adjusted by overlay approach)* HK $'000	*Under HKAS 39* HK $'000
Net realised and unrealised gains/(losses) of fair value through profit or loss financial asset under overlay adjustment on:				
– Unlisted equity/partnership fund investment	230	(230)	-	-
– Unlisted unit trust investment	9,058	(9,058)	-	-
– Unlisted debt securities	-	-	-	-
Total	9,288	9,288	-	-

26 Advance reinsurance premiums

Analysis of movement in advance reinsurance premiums

	2019 HK$'000	*2018* HK$'000
At 1 January	10,652	-
Acquisition of subsidiaries	-	10,396
Other movements	1,444,806	256
At 31 December	1,455,458	10,652

Advance reinsurance premiums are expected to be recovered within one year.

27 Insurance and reinsurance receivables

	2019 HK$'000	*2018* HK$'000
Loans to policyholders	2,014	1,710
Direct premium receivables	4,743	4,744
Reinsurance receivables	1,572,786	237,158
	1,579,543	243,612

At 31 December 2019, 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

	2019 HK$'000	*2018* HK$'000
Other accounts receivable arising from securities brokerage:		
– Cash clients	50,200	55,842
– Margin clients	11,386	16,930
– Clients for subscription of new shares in IPO	949	-
– Clearing house, brokers, fund managers and dealers	52,908	22,314
	115,443	95,086
Other accounts receivable arising from consultancy and advisory services	2,242	1,959
Other service fees receivables	9,504	332
	127,189	97,377
Less : allowance for credit losses	(2,743)	(1,507)
	124,446	95,870

There is no balance of other accounts receivable from consultancy and advisory services (2018: HK$650,000) 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 credit losses as of the end of the reporting period is as follows:

	2019 HK$'000	*2018* HK$'000
Current	121,976	95,019
Less than 1 month past due	1,796	370
1 to 3 months past due	74	126
More than 3 months past due	600	355
Amounts past due	2,470	851
	124,446	95,870

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$2,470,000 (2018: HK$851,000) 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 2019, no amount due from cash clients (2018: HK$40,000) 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 other accounts receivable from corporate clients (2018: HK$851,000) and amount of HK$2,470,000 of other fee receivable (2018: Nil) which are past due but not impaired represent other accounts receivable arising from provision of corporate finance, consultancy and advisory services and other financial 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 credit losses 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 life time credit impaired losses during the year is as follows:

	2019 HK$'000	*2018* HK$'000
At 1 January	1,507	26,403
Provision for impairment loss recognised	1,236	1,224
Amount recovered during the year	-	-
Amount written off	-	(26,120)
At 31 December	2,743	1,507

In 2018, 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$502,000 (2018: HK$400,000) relates to credit impaired other accounts receivable arising from the business of dealing in securities. HK$2,241,000 (2018: HK$1,108,000) relates to credit impaired other accounts receivable arising from the business of consultancy and advisory services.

(d) Balance with related parties

At 31 December 2019, the balance of other service fee receivables includes fund management fee of approximately HK$132,000 (2018: HK$248,000) due from a joint venture of the Group.

29 Other receivables, deposits and prepayment

	Note	*2019* HK$'000	*2018* HK$'000
Utility and rental deposits	(i)	42,662	36,831
Loans to agents and staff	(ii)	32,379	26,773
Accrued investment income		421,719	374,123
Other receivable from non-controlling shareholders of a subsidiary		18,634	32,836
Prepayment, other deposits and receivables	(iii)	107,744	88,316
Derivative financial instruments		12,605	-
		635,743	558,879
Less: provision for impairment of other receivable	(iii)	(8,232)	(8,976)
		627,511	549,903

Notes:

(i) The amount of utility and rental deposits expected to be recovered after more than one year is HK$35,155,000 (2018: HK$22,005,000).

(ii) On 31 December 2019, interest bearing loans to staff included loans to key management of HK$3,225,000 (2018: HK$3,136,000) entered with a subsidiary of the Group.

(iii) Impairment of other receivables

Other receivable of HK$8,232,000 (2018: HK$8,976,000) is fully impaired as the recoverability of the balance is considered uncertain after credit assessment performed by management.

The movement of the allowance for credit losses during the year is as follows:

	2019 HK$'000	*2018* HK$'000
At 1 January	8,976	8,210
Expected credit loss recognised upon adoption of HKFRS 9	-	1,143
Reversal of impairment loss recognised	-	(377)
Amount written off	(744)	-
At 31 December	8,232	8,976

(iv) Except for those mentioned above in (i), 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	*2019* HK$'000	*2018* HK$'000
Bank balance - trust and segregated accounts			
Deposit with bank		478,619	440,117
Less: impairment allowance	(iii)	(154)	(34)
	(i)	478,465	440,083
Fixed bank deposits with original maturity over 3 months			
Deposit with bank	(iv)	385,417	259,250
Less: impairment allowance	(iii)	-	-
		385,417	259,250
Cash and cash equivalent			
Deposit with bank	(ii)	300	300
Fixed bank deposits with original maturity less than 3 months		524,567	1,455,350
Cash at bank and in hand		1,644,998	3,728,897
Less: impairment allowance	(iii)	(114)	(318)
Cash and cash equivalent in the statement of financial position		2,169,751	5,184,229

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) During the period, the movement of 12-month ECL provision is as follows:

	2019	*2018*
	HK$'000	HK$'000
At 1 January	352	-
Expected credit loss recognised upon adoption of HKFRS 9	-	2,547
Reversal of impairment loss recognised	(84)	(2,195)
Amount written off	-	-
At 31 December	268	352

(iv) The Group has pledged fixed deposits of HK$269,250,000 (2018: HK$259,250,000) 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$'000	*Bank borrowings* HK$'000	*Preference shares* HK$'000	*Lease liabilities* HK$'000	*Shareholder's loan* 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)
Other borrowing cost paid	-	(7,505)	-	-	-	(7,505)
Total change in financing cash flows	745,115	1,192,495	108,117	(5,043)	-	2,040,684
Net change in lease obligation	-	-	-	592	-	592
Finance charge and effective interest expenses	-	5,731	-	549	-	6,280
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

	Policyholders' deposit HK$'000	*Bank borrowings* HK$'000	*Preference shares* HK$'000	*Lease liabilities* HK$'000	*Shareholder's loan* HK$'000	*Total* HK$'000
At 31 December 2018	38,013,370	1,198,226	315,588	15,254	-	39,542,438
Adoption of HKFRS 16	-	-	-	308,301	-	308,301
At 1 January 2019	38,013,370	1,198,226	315,588	323,555	-	39,850,739
Change from financing cash flow:						
Proceeds from issue of preference share by a subsidiary	-	-	76,063	-	-	76,063
Payment made to lease liabilities	-	-	-	(116,471)	-	(116,471)
Policyholders' account deposits for investment contracts	4,931,169	-	-	-	-	4,931,169
Policyholders' account withdrawals for investment contracts	(1,729,217)	-	-	-	-	(1,729,217)
Drawdown of bank loans	-	1,406,800	-	-	-	1,406,800
Repayment of a bank loan	-	(1,106,800)	-	-	-	(1,106,800)
Other borrowing cost paid	-	(65,484)	-	-	-	(65,484)
Total change in financing cash flows	3,201,952	234,516	76,063	(116,471)	-	3,396,060
Drawndown of shareholder's loan settled directly outside of the Group as disclosed in (note 41)	-	-	-	-	1,561,444	1,561,444
Net change in lease obligation	-	-	-	113,008	-	113,008
Finance charge and effective interest expenses	-	66,016	-	10,384	2,618	79,018
Fair value change	-	-	(2,081)	-	-	(2,081)
Interest credited to policyholders' account balances	2,690,237	-	-	-	-	2,690,237
Cost of insurance charges	(632,696)	-	-	-	-	(632,696)
Administrative fees	(1,370,638)	-	-	-	-	(1,370,638)
Other reserve changes	(26,885)	-	-	-	-	(26,885)
Transfer to the other payable and accrual	-	-	-	(3,892)	(2,618)	(6,510)
At 31 December 2019	41,875,340	1,498,758	389,570	326,584	1,561,444	45,651,696

(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 2019, client money maintained in segregated accounts amounted to HK$478,466,000 (2018: HK$440,083,000).

31 Insurance contract provisions

	Note	*2019* HK$'000	*2018* HK$'000 (Restated)
Policyholders' deposits	(i)	37,556,895	33,927,093
Future policyholders' benefits	(ii)	8,639,426	5,573,418
Unearned revenue liability	(iii)	259,553	71,704
		46,455,874	39,572,215

Notes:

(i) Policyholders' deposits

Analysis of movement in policyholders' deposits

	2019 HK$'000	*2018* HK$'000
At 1 January	33,927,093	-
Acquisition of subsidiaries	-	33,369,995
Premiums received during the year	4,576,745	903,008
Net fees and charges deducted from account balances	(1,943,268)	(339,964)
Interest credited to account balances	2,478,583	179,714
Redemptions due for payment in current year	(1,465,536)	(182,777)
Others movements	(16,722)	(2,883)
At 31 December	37,556,895	33,927,093

(ii) Future policyholders' benefits

Analysis of movement in future policyholders' benefits

	2019 HK$'000	*2018* HK$'000 (Restated)
At 1 January	5,573,418	-
Acquisition of subsidiaries	-	5,318,040
Movement during the year	3,066,008	255,378
At 31 December	8,639,426	5,573,418

(iii) Unearned revenue liability

	2019 HK$'000	*2018* HK$'000 (Restated)
At 1 January	71,704	-
Acquisition of subsidiaries	-	-
Amount deferred	812,177	136,743
Amortisation for the year allocated to consolidated income statement	(146,455)	(31,998)
	665,722	104,745
Effect of shadow accounting allocated to fair value reserve	(477,873)	(33,041)
At 31 December	259,553	71,704

(iv) The amount of insurance contract provisions expected to be settled after more than one year is HK$43,136,864,000 (2018: HK$37,591,130,000).

32 Investment contract liabilities

	Note	*2019* HK$'000	*2018* HK$'000 (Restated)
Policyholders' deposits	(i)	4,318,445	4,086,277
Future policyholders' benefits	(ii)	56,656	45,946
Unearned revenue liability	(iii)	(10,501)	3,824
		4,364,600	4,136,047

Notes:

(i) Policyholders' deposits

Analysis of movement in policyholders' deposits:

	2019 HK$'000	*2018* HK$'000
At 1 January	4,086,277	-
Acquisition of subsidiaries	-	4,015,883
Contributions received during the year	294,362	82,856
Net fee and charges deducted from account balances	(55,043)	(9,468)
Interest credited to account balances	211,654	26,145
Redemptions due for payment in current year	(219,232)	(28,443)
Others movements	427	(696)
At 31 December	4,318,445	4,086,277

(ii) Future policyholders' benefits

Analysis of movement in future policyholders' benefits:

	2019 HK$'000	*2018* HK$'000
At 1 January	45,946	-
Acquisition of subsidiaries	-	43,653
Movement during the year	10,710	2,293
At 31 December	56,656	45,946

(iii) Unearned revenue liability

Analysis of movement in unearned revenue liability:

	2019 HK$'000	*2018* HK$'000 (Restated)
At 1 January	3,824	-
Acquisition of subsidiaries	-	-
Amount deferred	50,284	8,726
Amortisation for the year allocated to consolidated income statement	(358)	(410)
	49,926	8,316
Effect of shadow accounting allocated to fair value reserve	(64,251)	(4,492)
At 31 December	(10,501)	3,824

(iv) The amount of investment contract liabilities expected to be settled after more than one year is HK$4,151,149,652 (2018: HK$3,936,132,000).

33 Outstanding claims

	2019			*2018*		
	Gross HK$'000	*Reinsurers' share* HK$'000	*Net* HK$'000	*Gross* HK$'000	*Reinsurers' share* HK$'000	*Net* HK$'000
Outstanding claims	124,526	(48,349)	76,177	91,838	(31,202)	60,636
Claims incurred but not reported	37,387	-	37,387	31,985	-	31,985
	161,913	(48,349)	113,564	123,823	(31,202)	92,621
Amount expected to be settled within one year	161,913	(48,349)	113,564	123,823	(31,202)	92,621

Analysis of movements in outstanding claims:

	2019			*2018*		
	Gross HK$'000	*Reinsurers' share* HK$'000	*Net* HK$'000	*Gross* HK$'000	*Reinsurers' share* HK$'000	*Net* HK$'000
Balance at 1 January	123,823	(31,202)	92,621	-	-	-
Acquisition of subsidiaries	-	-	-	128,059	(29,329)	98,730
Current year claims	722,878	(246,116)	476,762	109,717	(25,070)	84,647
Current year claims paid	(626,394)	207,461	(418,933)	(64,251)	9,300	(54,951)
Previous year claims paid	(63,797)	21,508	(42,289)	(45,742)	13,897	(31,845)
Movement in incurred but not reported reserve	5,403	-	5,403	(3,960)	-	(3,960)
Balance at 31 December	161,913	(48,349)	113,564	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

	2019 HK$'000	*2018* HK$'000
Accounts payable		
– Cash and margin clients	554,471	481,554
– Clearing house, fund managers, brokers and dealers	24,074	40,310
	578,545	521,864

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$496,572,000 (2018: HK$440,787,000).

All of the accounts payable are aged and due within one month or on demand.

Balance with related parties

At 31 December 2019, accounts payable of approximately HK$15,549,000 (2018: HK$38,430,000) 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

	2019	*2018*
	HK$'000	HK$'000
Accrued staff costs	106,125	95,211
Commission payables	204,791	195,483
Derivative financial instruments	20,366	49,280
Premium received in advance	1,583,983	177,043
Other payables and accruals	521,702	307,575
	2,436,967	824,592

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

Balance with related parties

1) At 31 December 2019, accounts payable of approximately HK$22,299,000 (2018: 9,541,000) are payable to MassMutual International LLC ("MMI") who is a substantial shareholder of the Company and its affiliates.

2) At 31 December 2019, interest accrual of approximately HK$2,618,000 (2018: Nil) is due to Key Imagination Limited ("KIL") who is the controlling shareholder of the Company.

37 Income tax in the statement of financial position

(a) Tax payable in the statement of financial position represents:

	2019 HK$'000	*2018* HK$'000
Provision for Hong Kong Profits Tax for the year	48,626	9,117
Provisional Profits Tax paid	(1,992)	(4,085)
	46,634	5,032
Balance of Profits Tax provision relating to prior years	4,913	-
	51,547	5,032
Macau Complementary Tax		
Balance of Complementary Tax provision for the year	-	-
Overseas Tax		
Balance of overseas provision for the year	539	1,157
	52,086	6,189
Amount of tax payable expected to be settled within one year	52,086	6,189
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 2018	-	827	(1,470)	-	-	820	177
Upon adoption of HKFRS 9	-	-	-	820	(609)	(820)	(609)
Acquisition of subsidiaries (Restated)	1,328,756	-	-	-	-	-	1,328,756
(Credited)/charged to profit or loss (Restated)	(10,217)	(827)	1,470	(820)	425	-	(9,969)
At 31 December 2018 (Restated)	1,318,539	-	-	-	(184)	-	1,318,355
At 1 January 2019	1,318,539	-	-	-	(184)	-	1,318,355
(Credited)/charged to profit or loss	(51,155)	-	-	-	140	-	(51,015)
At 31 December 2019	1,267,384	-	-	-	(44)	-	1,267,340

At 31 December 2019, no deferred tax asset has been recognised in respect of the tax losses of HK$1,267 million (2018: HK$1,351 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$1,266 million (2018: HK$1,351 million) do not expire under current tax legislation.

38 Financial liabilities at fair value through profit or loss

	2019 HK$'000	*2018* HK$'000
Designated at fair value through profit or loss		
Preference share liability *(note 1)*	389,570	315,588
Third-party interests in consolidated funds *(note 2)*	240,999	187,542
	630,569	503,130

Note:

(1) By 31 December 2019, total number of 500,000 preference shares was issued under the agreement 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 2019.

(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 2019.

39 Lease liabilities

The Group had obligations under contractual maturities of the lease liabilities as follows:

	31December 2019		*1 January 2019*		*31December 2018*	
	Present value of the minimum lease payme nt	*Total minimum lease payment*	*Present value of the minimum lease payme nt*	*Total minimum lease payment*	*Present value of the minimum lease payment*	*Total minimum lease payme nt*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	128,147	135,249	97,411	104,341	3,401	3,453
After one but within 2 years	114,146	118,879	91,982	97,507	3,982	4,130
After 2 years but within 5 years	81,970	84,554	133,583	139,530	7,871	8,318
Over 5 years	2,321	2,345	579	580	-	-
	326,584	341,027	323,555	341,958	15,254	15,901
Less: finance cost		(14,443)		(18,403)		(647)
Present value lease liabilities		326,584		323,555		15,254

40 Bank borrowings

The bank loan was unsecured and repayable as follows:

	2019	*2018*
	HK$'000	HK$'000
After 2 year but within 5 years	1,498,758	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 2019, 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 Shareholder's loan

As disclosed in the Group's announcement dated 20 December 2019, the Group has obtained a loan of HK$1,561,443,800 from KIL to facilitate the acquisition of Yuvan Limited as disclosed in note 22 (d). The interest rate is determined based on arm's length terms. The loan is due within one year from the reporting date and the Group has an unconditional extension right to extend the due date for another year at the interest rate to be reset based on prevailing market condition at the time of exercising the right.

42 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 2018	4,628,591	-	(105,550)	30,743	(712,644)	3,841,140
Share issued under share award scheme	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 and 1 January 2019	9,828,591	64,000	(83,230)	28,033	(1,022,993)	8,814,401
Equity settled share-based transactions	-	-	-	(6,541)	-	(6,541)
Total comprehensive income for the year	-	-	-	-	(245,684)	(245,684)
At 31 December 2019	9,828,591	64,000	(83,230)	21,492	(1,268,677)	8,562,176

(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(y).

(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 2019, 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) (2018: nil).

(d) Dividend

No dividend was paid or proposed for the year ended 31 December 2019 (2018: 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:

	2019 Number of shares	Amount HK$'000	*2018* Number of shares	Amount HK$'000
Issued and fully paid:				
Balance brought forward	3,223,326,394	9,829,094	2,423,326,394	4,629,094
Shares issued under share award scheme	-	-	-	-
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	3,223,326,394	9,829,094

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

In 2018, 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 43. 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 2019.

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.

43 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 did not repurchase any Company ordinary share through Bank of Communications for 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* A	*Number of awarded shares vested* B	*Number of awarded shares cancelled and forfeited* C	*Number of awarded share remains outstanding* F = A - B - C
As of 31 December 2017	20,190,000	4,510,000	3,487,500	12,192,500
Movement for the year 2018				
4 May 2017	-	-	87,500	
4 May 2018	-	3,372,500	662,500	
4 May 2019	-	-	862,500	
4 May 2020	-	-	862,500	
4 May 2017	5,047,500	4,510,000	537,500	-
4 May 2018	5,047,500	3,372,500	1,675,000	-
4 May 2019	5,047,500	-	1,875,000	3,172,500
4 May 2020	5,047,500	-	1,875,000	3,172,500
As of 31 December 2018	20,190,000	7,882,500	5,962,500	6,345,000
Movement for the year 2019				
4 May 2017	-	-	-	
4 May 2018	-	-	-	
4 May 2019	-	-	1,662,500	
4 May 2020	-	-	1,637,500	
4 May 2017	5,047,500	4,510,000	537,500	-
4 May 2018	5,047,500	3,372,500	1,675,000	-
4 May 2019	5,047,500	-	3,537,500	1,510,000
4 May 2020	5,047,500	-	3,512,500	1,535,000
As of 31 December 2019	20,190,000	7,882,500	9,262,500	3,045,000

The awarded share remains outstanding due to service condition modification.

Grant date on 25 April 2018

Vesting date	*Number of awarded shares awarded*	*Number of awarded shares vested*	*Number of awarded shares cancelled and forfeited*	*Number of awarded share remains outstanding*
Movement for the year 2018	A	B	C	F = A – B - C
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
Movement for the year 2019				
4 May 2018	-	-	-	
4 May 2019	-	-	-	
4 May 2020	-	-	-	
4 May 2021	-	-	-	
4 May 2018	712,500	712,500	-	-
4 May 2019	712,500	-	12,500	700,000
4 May 2020	712,500	-	12,500	700,000
4 May 2021	712,500	-	12,500	700,000
As of 31 December 2019	2,850,000	712,500	37,500	2,100,000

(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 31 December 2018	20,000,000	20,000,000	-	-	-

There is no movement for 2016 Share Award Scheme to Group B Grantee for the year.

44 Interests in structured entities

<u>Interest in consolidated structure entities</u>

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 2019, the net assets of consolidated limited partnership fund entities as detailed in note 22 amounted to HK$706 million (2018: HK$550 million) with net carrying interest held by the Group being HK$464 million (2018: HK$362 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 a principal.

<u>Interest in unconsolidated structure entities</u>

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.

45 Commitments

(a) Capital commitments

As at 31 December 2019, the Group has a total of HK$30.7 million (2018: HK$20.5 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
Within one year	105,867
After one year but within five years	149,300
	255,167

(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$1,575,509,000 (2018: HK$2,760,775,000).

(ii) As at 31 December 2019, the Group has capital commitment to a joint venture for an amount of US$20 million with US$12.7 million has been contributed.

(iii) As disclosed in the announcement of the Company dated 4 February 2016, YFFM (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 YFFM, 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, YFFM is committed to contribute RMB1,290,000,000 of the registered capital of the joint venture company.

46 Material related party transactions

(a) Transactions with key management personnel

The remuneration for key management personnel of the Group is as follows:

	2019 HK$'000	*2018* HK$'000
Short term employee benefits	37,718	37,089
Post employment benefits	796	65
Equity compensation benefits	5,368	129,609
	43,882	166,763

Total remuneration is included in "staff costs" in note 11(a) to the financial statements.

During the year, amount of approximately HK$356,000 (2018: HK$554,000) 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

	2019 HK$'000	*2018* HK$'000
Brokerage fee income *(note (i))*	35	151
Advisory fee income *(note (ii))*	-	790
Interest expense *(note (iii))*	247	356
Investment management fee paid *(note (iv))*	71,553	7,188
Transitional services fee paid *(note (v))*	12,041	1,465
Policies endorsement fee paid *(note (vi))*	5,285	888
Management fee and advisory fee income from a joint venture and co manager of the joint venture	2,951	2,021
Premiums and fee income *(note vii)*	1,343	-

Note:

(i) During the year ended 31 December 2019, , the Group provided brokerage services to (i) a company where the Company's chairman, Mr. Yu Feng ("Mr. Yu") is a director and substantial shareholder and Mr. Huang Xin ("Mr. Huang"), the executive director, is a director. (ii) key management of the Company.

During the year ended 31 December 2018, the Group provided brokerage services to a company where Company's chairman, Mr. Yu Feng ("Mr. Yu") is a director and substantial shareholder and Mr. Huang Xin ("Mr. Huang"), the Company's executive director, is a director.

(ii) During the year ended 31 December 2018, the Group provided advisory services to companies where Mr. Ko Chun Shun, Johnson is a substantial shareholder or as an 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) During the year, the Group premium and fee income from a company where the Company's chairman, Mr. Yu is a director and shareholder.

(viii) As of 31 December 2019, amount of US$1 million (2018: US$2.1 million) investment commitment is made by key management personnel to the funds managed or jointly managed by the Group.

47 Company-level statement of financial position at 31 December 2019

	Note	*2019* HK$'000	*2018* HK$'000
Assets			
Interests in subsidiaries		10,050,744	9,756,849
Other receivable and prepayment		18,995	35,590
Cash and cash equivalents		90	258,270
Total assets		10,069,829	10,050,709
Liabilities			
Accrued expenses and other payables		8,895	38,082
Bank borrowings	40	1,498,758	1,198,226
Total liabilities		1,507,653	1,236,308
NET ASSETS		8,562,176	8,814,401
EQUITY			
Share capital	42(a)	9,828,591	9,828,591
Reserves	42(a)	(1,266,415)	(1,014,190)
TOTAL EQUITY		8,562,176	8,814,401

48 Immediate and ultimate controlling party

At 31 December 2019, 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.

49 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance Contracts, which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020
HKFRS 17, Insurance Contracts	1 January 2021

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

HKFRS 17 will replace the existing HKFRS 4, Insurance Contracts, with a new liability and revenue measurement model for all insurance contracts. In January 2018, HKICPA issued HKFRS 17, Insurance Contracts, which supersedes HKFRS 4 of the same title, and is currently effective for annual periods beginning on or after 1 January 2021. However, the International Accounting Standards Board has decided to defer the mandatory effective date of IFRS 17 by two years in their March 2020 meeting, so that IFRS 17 should be applied after 1 January 2023. It is expected that effective date of HKFRS 17 will follow. The Group intends to adopt the new standard on its mandatory effective date. The Group is currently in the process of assessing the impact of HKFRS 17 on its financial reporting.

50 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 2019*			
	HKFRSs adjustments			*Amounts under US GAAP*
	Insurance-related balances reclassification[1]	*Other difference in accounting* [2]	*Difference in Impairment basis*[3]	HK$'000
Assets				
Property and equipment		8,657		503,985
Statutory deposits				3,243
Deferred tax assets			78	122
Investments in an associate				27,860
Goodwill and Intangible assets				1,923,360
Deferred acquisition costs and value of business acquired				11,644,004
Investments	457,578	(36,596)	12,499	54,798,146
Advance reinsurance premiums				1,455,458
Reinsurers' share of outstanding claims				48,349
Insurance and reinsurance receivables	(65,997)			1,513,546
Other account receivable and accrued income				124,446
Other receivables	(2,281)		22	625,252
Bank balance - Trust and segregated accounts			155	478,620
Deposits with banks maturing after more than three months				385,417
Cash and cash equivalents			115	2,169,866
Total assets				75,701,674
Liabilities				
Insurance contract provisions	4,381,059			50,836,933
Investment contract liabilities	(4,364,600)			-
Outstanding claims				161,913
Reinsurance premium payables				529,562
Financial liability at fair value through profit or loss, other account payable and finance lease obligation				1,535,698
Other payables	331,299			2,768,266
Tax payable				52,086
Deferred tax liabilities				1,267,384
Bank borrowings				1,498,758
Shareholder's loan				1,561,444
Total liabilities				60,212,044
Total net assets				15,489,630
Capital and reserves				
Share capital				9,829,094
Reserves	24,925	(13,947)	7,869	292,451
Non-controlling interest	16,617	(13,992)	5,000	5,368,085
Total equity				15,489,630

Consolidated statement of financial position		*As at 31 December 2018 (Restated)*		
		HKFRSs adjustments		*Amounts under US GAAP*
	Insurance-related balances reclassification[1]	*Other difference in accounting* [2]	*Difference in Impairment basis*[3]	HK$'000
Assets				
Property and equipment				133,946
Statutory deposits				3,285
Deferred tax assets			(62)	122
Investments in an associate				64,846
Goodwill and Intangible assets				1,932,016
Deferred acquisition costs and value of business acquired	413,173			11,719,294
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	(1,015)		22	548,910
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				64,249,363
Liabilities				
Insurance contract provisions	4,132,247			43,704,463
Investment contract liabilities	(4,136,047)			-
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				1,318,539
Bank borrowings				1,198,226
Total liabilities				48,876,337
Total net assets				15,373,026
Capital and reserves				
Share capital				9,829,094
Reserves	(1,297)		12,821	(582,178)
Non-controlling interest	(864)		8,340	6,126,110
Total equity				15,373,026

Consolidated income statement	*For the year ended 31 December 2019*			
	HKFRSs adjustments			*Amounts under US GAAP*
	Insurance-related balances reclassification[1]	*Other difference in accounting* [2	*Difference in Impairment basis*[3]	HK$'000
Income				
Premiums and fee income				6,016,075
Premiums ceded to reinsurer	331,972			(1,616,031)
Net premium and fee income				4,400,044
Change in unearned revenue liability	11,411			(704,238)
Net earned premium and fee income				3,695,806
Brokerage commission, interest and other service income				18,566
Subscription, management and rebate fee income				8,850
Consultancy and advisory fee				1,060
Net investment income and other income	(228,671)	(89,582)	18,566	4,614,645
Overlay adjustment		93,666		-
Reinsurance commission and profit	(10,945)			67,259
Total income				8,406,186
Benefits, losses and expenses				
Net policyholders benefit	(17,370)			(3,213,922)
Commission and related expenses				(1,199,947)
Management and other expenses	(17,022)	(2,310)		(1,020,770)
Change in future policyholder benefits and deferral and amortisation of deferred acquisition costs	(27,706)			(2,190,919)
Total benefits, losses and expenses				(7,625,558)
Finance cost				(103,488)
Share of result of in associates				(1,080)
Profit before taxation				676,060
Tax credit			140	839
Profit after taxation				676,899
Profit attributable to:				
Equity shareholders of the Company	25,002	3,040	11,246	294,907
Non-controlling interests	16,667	(1,266)	7,460	381,992
				676,899

		For the year ended 31 December 2018 (Resetated)		
Consolidated income statement		*HKFRSs adjustments*		*Amounts under US GAAP*
	Insurance-related balances reclassification[1]	*Other difference in accounting* [2]	*Difference in Impairment basis*[3]	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	9,180			(103,881)
Net earned premium and fee income				613,952
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	(42,045)	(13,059)	33,741	392,482
Overlay adjustment		9,289		-
Reinsurance commission and profit	(1,823)			5,020
Total income				1,041,642
Benefits, losses and expenses				
Net policyholders benefit	(1,536)			(288,546)
Commission and related expenses				(256,201)
Management and other expenses	(2,995)		(2,576)	(553,184)
Change in future policyholder benefits and deferral and amortisation of deferred acquisition costs	(18,612)			(72,398)
Total benefits, losses and expenses				(1,170,329)
Finance cost				(26,496)
Share of result of in associates				(1,241)
Loss before taxation				(156,424)
Tax credit			425	42,216
Loss after taxation				(114,208)
(Loss)/profit attributable to:				
Equity shareholders of the Company	(1,515)	(3,771)	18,094	(182,804)
Non-controlling interests	(1,007)		13,496	68,596
				(114,208)

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 classification and measurement of investments and lease accounting

[3] Difference arises from different impairment methodology and basis (expected credit loss model vs. incurred loss model) under HKFRS and US GAAP.

51 Comparative figures

Other than those comparative information in respect of the year ended 31 December 2018 has been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 2(b)(i). Certain comparative disclosure notes have been adjusted to conform with current year presentation.

52 Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2019 and 31 December 2018.

53 Non- adjustment events after the reporting period

In the first quarter of 2020, the COVID-19 outbreak has severely hampered business activities which will negatively impact new business sales activities in the short term. As of now, the Group has not seen any irregularity in its claims patterns and will closely monitor the developing situation. The Group is still assessing the financial impact up to the date of the report.

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

54 Scope of Work of KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and the related notes thereto for the year ended 31 December 2019 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

	2019	*2018* (Note)	*2017*	*2016*	*2015*
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000	HK$'000
RESULTS					
Premiums and fee income	6,016,075	761,673	-	-	-
Brokerage commission, interest and other service income	18,566	7,118	6,163	3,846	11,059
Subscription, management and rebate fee income	8,850	9,978	3,791	-	-
Consultancy and advisory income	1,060	13,092	11,110	42,274	182,908
Profit/(loss) before taxation	614,051	(181,296)	(378,168)	(324,869)	(77,869)
Taxation	699	41,791	(1,138)	8,327	(79,172)
Profit/(loss) for the year	614,750	(139,505)	(379,306)	(316,542)	(157,041)
Attributable to:					
Equity shareholder of the company	255,619	(195,612)	(379,054)	(316,688)	(152,419)
Non-controlling interest	359,131	56,107	(252)	146	(4,622)
Profit/(loss) for the year	614,750	(139,505)	(379,306)	(316,542)	(157,041)
Basic (loss)/earnings per share *(HK$)*	0.08	(0.08)	(0.16)	(0.13)	(0.21)
ASSETS AND LIABILITIES					
Property and equipment	495,328	133,946	17,035	21,418	13,930
Goodwill and intangible assets	1,923,360	1,932,016	36,110	21,512	550
Value of business acquired	10,057,446	11,075,662	-	-	-
Interest in associates	27,860	64,846	-	-	-
Investments	54,822,243	43,632,718	898,134	310,123	410,620
Other assets	8,001,207	7,048,729	4,251,766	4,572,544	4,662,424
Total liabilities	(59,864,286)	(48,533,891)	(1,063,713)	(481,474)	(326,181)
	15,463,158	15,354,026	4,139,332	4,444,123	4,761,343
Share capital	9,829,094	9,829,094	4,629,094	4,499,548	4,499,548
Reserves	273,604	(593,702)	(489,762)	(56,532)	260,759
	10,102,698	9,235,392	4,139,332	4,443,016	4,760,307
Non-controlling interests	5,360,460	6,118,634	-	1,107	1,036
Total equity	15,463,158	15,354,026	4,139,332	4,444,123	4,761,343

Note 1: The 5 years financial summary is rearranged to present VOBA as a separate line item to conform with 2019 presentation.

Note 2: The Group has initially applied HKFRS16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3. Additionally, the comparative information in respect of the year ended 31 December 2018 has been restated as a result of finalised purchase price allocation of prior year acquisition as set out in note 2(b)(i).

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 Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the chairman of the Board
"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
"Extension to the Transitional Services Agreement"	the extension to the transitional services agreement dated 15 November 2019 and entered into by and between YF Life and MMI
"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 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
"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 2019
"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
Hai Olivia Ou
Executive Director and Interim Chief Executive Officer

Hong Kong, 27 March 2020

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