THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Yunfeng Financial Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and is being provided to you solely for the purpose of considering the ordinary resolutions to be voted upon at the EGM of the Company to be held on 10 January 2018. This circular does not constitute an invitation or offer to acquire, purchase or subscribe for securities, nor is it calculated to invite any such offer or invitation. Neither this circular nor any copy thereof may be taken into or distributed, directly or indirectly, in or into the United States (including its territories and dependencies, any State of the United States and the District of Columbia).

In particular, this circular does not constitute and is not an offer to sell or a solicitation of any offer to purchase or subscribe for securities in the United States or elsewhere. No securities may be offered or sold in the United States absent registration or an exemption from registration under the United States Securities Act of 1933, as amended. There is no intention to make a public offering of the securities referred to in this circular in the United States.

YF FINANCIAL
云锋金融

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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO ACQUISITION OF 60% OF THE ISSUED SHARE CAPITAL OF MASSMUTUAL ASIA LIMITED; (2) ISSUE OF ORDINARY SHARES PURSUANT TO SPECIFIC MANDATE; (3) APPLICATION FOR WHITEWASH WAIVER; (4) SPECIAL DEAL; (5) STRATEGIC COOPERATION AMONG THE COMPANY, MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY AND ANT FINANCIAL GROUP; (6) CONTINUING CONNECTED TRANSACTIONS; (7) APPOINTMENT OF NON-EXECUTIVE DIRECTORS; AND (8) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Advisers to the Company

YF FINANCIAL
云锋金融

Yunfeng Financial Markets Limited
(A member of Yunfeng Financial Group)

J.P.Morgan

Financial Adviser to the Vendor

citi

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

光大證券
EBS INTERNATIONAL

A letter from the Independent Board Committee is set out on pages 66 to 67 of this circular, and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 68 to 97 of this circular.

A notice convening the EGM to be held at Suites 3205-3208, One Exchange Square, 8 Connaught Place, Central, Hong Kong on Wednesday, 10 January 2018 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed. If you do not intend or are unable to attend the meeting and wish to appoint a proxy/proxies to attend and vote on your behalf at the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

21 December 2017

CONTENTS

The following expected timetable is indicative only and is subject to change. If necessary, further announcements in relation to any revised timetable will be published as and when appropriate.

Events	Time and Date(Note 1)
Latest time for lodging transfer of shares for the purpose of ascertaining shareholders' entitlements to attend and vote at the EGM	4:30 p.m., 4 January 2018
Closure of register of members for the purpose of ascertaining shareholders' entitlement to attend and vote at the EGM	5 January 2018 to 10 January 2018
Latest time for lodging forms of proxy for the EGM	3:00 p.m. on 8 January 2018
EGM	3:00 p.m. on 10 January 2018
Announcement of the results of the EGM to be published	10 January 2018
Completion of the Acquisition on or before	19 November 2018(Note 2)
Completion and issue of the Consideration Shares on or before	19 November 2018(Note 2)
Announcement of completion of the Acquisition and the issue of the Consideration Shares to be published on or before	19 November 2018(Note 2)
Long Stop Date	19 November 2018(Note 3)

Notes:

1. All times and dates in this circular refer to Hong Kong local time and dates unless otherwise specified.

2. Assuming all Conditions are fulfilled or waived (where applicable). Please also refer to Note 3 below for the Long Stop Date.

3. Provided that if on 19 November 2018 the Condition set out in paragraph (b) under the section head "Letter from the Board — Share Purchase Agreement — Conditions Precedent" in this circular relating to consents from government authorities (the "**Regulatory Consent Condition**") shall not have been fulfilled but all other Conditions have been fulfilled (other than Conditions to be satisfied at Completion) then the Long Stop Date shall be extended until 18 February 2019 and if the Regulatory Consent Condition is not fulfilled by 18 February 2019, the Long Stop Date will be further extended to such date as the Company and the Vendor shall discuss and agree (in each party's sole discretion) in good faith.

This summary is intended to provide you with an overview of the information relating to the Target Group contained in this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole circular before making a decision as to how you would cast your votes at the EGM in relation to the Acquisition and the appropriate course of action for yourself.

There are risks associated with any business. You should read the section headed "Risk Factors" of this circular carefully before making a decision on the Acquisition.

OVERVIEW OF THE TARGET GROUP

The Target Group operates one of the leading insurance businesses in Hong Kong and Macau. It offers more than 80 insurance and wealth management products, including universal life insurance, deferred annuity and investment-linked assurance products, as well as MPF products. It achieved TPI of HK$5,041 million, HK$5,625 million, HK$6,875 million and HK$3,156 million for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017, respectively. As of 31 December 2016 and 30 June 2017, the Target Group had total assets of HK$44,460 million and HK$47,418 million, total equity of approximately HK$6,783 million and HK$7,421 million and an Embedded Value of HK$10,992 million and HK$11,637 million, respectively. As of 31 December 2016, the AUM of the MPF scheme operated by the Target Group reached HK$2,379 million.

The Target Group's focus on delivering value is evidenced by its financial results. Its profit after tax has grown from HK$635.1 million for the year ended 31 December 2014 to HK$668.4 million for the year ended 31 December 2015 to HK$1,119.1 million for the year ended 31 December 2016. The Value of New Business for the 12 months ended 30 June 2017 was approximately HK$510 million (assuming a mid-point risk discount rate of 9%). Throughout the Track Record Period and as of the Latest Practicable Date, it had capital in excess of its requirements under relevant Hong Kong insurance regulatory guidance.

During the year ended 31 December 2016, the Target Group derived 88% of its TPI from Hong Kong and 12% from Macau. The Target Company ranks amongst the top 12 insurers for individual life and annuity and linked individual life businesses in Hong Kong both in terms of number of policies and office premiums and had a market share of over 2.9% in terms of number of policies and about 2.0% in terms of office premiums for the three years ended 31 December 2016. It ranked fourth amongst life insurance companies in Macau in terms of total gross premiums and had a market share of over 4.6% for the year ended 31 December 2016.

Products

The Target Group offers five key product lines: (i) universal life; (ii) deferred annuity; (iii) investment-linked; (iv) accident and health; and (v) other insurance products. The Target Group also offers MPF products.

The Target Group's diversified product suite includes three flagship products: (i) the "FLEXI-ULife Prime Saver", an enhanced universal life insurance plan; (ii) the "Target Lifetime Annuity Saver", a plan providing guaranteed lifetime annuity income to act as a safety net during the customer's retirement; and (iii) the "Global InvestPlan", an investment-linked insurance product with more than 100 global investment options. The Target Group has received numerous awards in recognition of its products and services.

See the section headed "Business of the Target Group — Products" for further details.

Distribution

The Target Group distributes its insurance products through: (i) tied agents; (ii) brokers and agency intermediaries; and (iii) banks and other financial institutions.

The Target Group's tied agency force consisted of approximately 2,920 agents in Hong Kong and Macau as of 30 June 2017, with a 12-month agent retention rate of approximately 91% for the year ended 31 December 2016. Approximately 20% of the total tied agency force (which includes agency leaders) have been with the Target Group for at least 10 years.

The Target Group also utilizes approximately 460 brokers and agency intermediaries and it has relationships with seven bancassurance partners.

See the section headed "Business of the Target Group — Distribution" for further details.

COMPETITIVE STRENGTHS

The Target Group's principal strengths include the following:

- Focus on value creation to policyholders with stable financial strength;
- High operational efficiency;
- Productive and stable tied agency network; and
- Experienced and dedicated management team.

BUSINESS STRATEGIES

The Target Group plans to pursue the following strategies:

- Expand and broaden multi-channel distribution platform;
- Increase the proportion of higher margin products;
- Leverage growth opportunities offered by the Acquisition; and
- Enhance technological capabilities to improve customer experience.

SELECTED FINANCIAL INFORMATION OF THE TARGET GROUP

Financial Statements

Consolidated Income Statements

The following table sets out the consolidated results of the Target Group for each of the three years ended 31 December 2016 and the six months ended 30 June 2016 and 30 June 2017, which are derived from and should be read in conjunction with the financial information prepared in accordance with HKFRS set out in the Accountants' Report on the Target Group in Appendix IV to this circular.

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)* *(unaudited)*	*(HK$'000)*
Income					
Premiums and fee income	2,590,788	3,140,193	3,585,865	1,779,144	1,877,255
Premiums ceded to reinsurer	(195,042)	(179,813)	(254,969)	(96,989)	(282,097)
Net premium and fee income	2,395,746	2,960,380	3,330,896	1,682,155	1,595,158
Change in unearned revenue liability	(267,432)	48,277	(432,118)	(7,172)	(259,174)
Net earned premium and fee income	2,128,314	3,008,657	2,898,778	1,674,983	1,335,984
Net investment and other income	1,061,298	631,834	1,146,271	267,264	1,553,618
Reinsurance commission and profit commission	19,233	18,576	467,318	1,586	7,083
Total revenue	3,208,845	3,659,067	4,512,367	1,943,833	2,896,685
Benefits, losses and expenses					
Net policyholders benefit	1,302,191	983,627	1,505,446	563,946	1,681,691
Commission and related expenses	1,046,591	1,103,742	1,218,959	543,409	518,604
Management and other expenses	414,947	438,326	455,312	218,485	240,173
Change in future policyholder benefits and deferred acquisition costs	(225,756)	424,328	166,543	344,588	178,714
Total benefits, losses and expenses	2,537,973	2,950,023	3,346,260	1,670,428	2,619,182
Profit before taxation	670,872	709,044	1,166,107	273,405	277,503
Tax expenses	35,734	40,630	46,953	24,165	19,891
Profit after taxation	635,138	668,414	1,119,154	249,240	257,612

Consolidated Statements of Financial Position

The following table sets out the consolidated statements of financial position of the Target Group as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017, which are derived from and should be read in conjunction with the financial information prepared in accordance with HKFRS set out in the Accountants' Report on the Target Group in Appendix IV to this circular.

	As of 31 December			As of 30 June
	2014	**2015**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Assets				
Fixed assets	25,111	44,753	61,321	73,146
Statutory deposits	1,506	1,512	1,518	1,518
Deferred acquisition costs	6,703,431	7,429,423	7,769,240	7,710,557
Investments	26,460,903	29,175,630	34,958,707	37,845,765
Advance reinsurance premiums	7,838	7,217	8,752	8,752
Reinsurers' share of outstanding claims	24,798	18,787	28,919	36,604
Insurance and reinsurance receivables	70,681	99,267	148,068	179,726
Other receivables	476,945	477,333	462,934	386,467
Deposits with banks maturing after more than three months	161,250	174,250	204,250	204,250
Cash and cash equivalents	692,688	848,346	816,466	971,574
	34,625,151	38,276,518	44,460,175	47,418,359
Liabilities				
Insurance contract provisions	26,841,621	29,398,573	33,013,609	35,274,823
Investment contract liabilities	2,450,985	2,860,608	3,650,637	3,836,104
Outstanding claims	95,158	88,797	116,044	139,265
Reinsurance premium payables	86,888	121,754	211,296	277,775
Other payables	553,361	578,421	678,212	442,059
Tax payable	1,412	5,548	7,036	26,926
	30,029,425	33,053,701	37,676,834	39,996,952
Net Assets	4,595,726	5,222,817	6,783,341	7,421,407
Capital and reserves				
Share capital	896,000	896,000	896,000	896,000
Retained profits	3,116,857	3,785,271	4,904,425	5,162,037
Reserves	582,869	541,546	982,916	1,363,370
Total Equity	4,595,726	5,222,817	6,783,341	7,421,407

See the Accountants' Report on the Target Group in Appendix IV to this circular and the section headed "Financial Information of the Target Group" for further details.

Results of Operations

The Target Company measures its business volumes by referring to TPI, reported under the 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.

TPI is not a measure of operating performance under HKFRS or other generally accepted accounting principles and should not be considered as a substitute for, or superior to, profit before tax in accordance with HKFRS. TPI can be substantially affected if for example there is early termination of policies by a significant number of the policyholders of the Target Group.

The Target Group had TPI of HK$5,041, HK$5,625 million and HK$6,875 million for each of the years ended 31 December 2014, 31 December 2015 and 31 December 2016. TPI for the six months ended 30 June 2017 amounted to HK$3,156 million, representing a decrease of 7.7% from the six months ended 30 June 2016.

See the section headed "Financial Information of the Target Group — Business Overview" for further details.

EMBEDDED VALUE AND VALUE OF NEW BUSINESS

The Target Group reports its results of operations in accordance with HKFRS and the IO. See the Accountants' Report on the Target Group set forth in Appendix IV to this circular. 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.

PricewaterhouseCoopers Limited has prepared a report on its review of the Embedded Value of the Target Group as of 31 December 2016 and 30 June 2017 and the Value of New Business in respect of new policies issued in the 12 months ended 30 June 2017. See the actuarial review report on the Target Group set forth in Part A of Appendix VII to this circular. The report on Embedded Value is not an audit opinion of the financial information used in the report and the Embedded Value results are not intended to represent an opinion of market value and should not be interpreted in that manner. Values are shown under a range of assumptions, given particular uncertainties, including changes in the operating and economic environments and natural variations in experience, and shareholders are advised to consider the range of values contained in the report after studying the report in its entirety, together with the rest of this circular. The values shown do not encompass the full range of potential outcomes. The report is subject to the assumptions, qualifications and limitations set forth therein.

See also the reports from KPMG, the Company's auditor, and J.P. Morgan Securities (Asia Pacific) Limited, one of the financial advisers to the Company, set forth in the section headed "B. Letter from KPMG" in Part B of Appendix VII and the section headed "C. Letter from J.P. Morgan Securities (Asia Pacific) Limited" in Part C of Appendix VII, respectively, to this circular.

RISK FACTORS

There are certain risks involved in the Target Group's operations and in connection with the Acquisition. These risks can be categorised into: (i) risks relating to the Acquisition; (ii) risks relating to the industry that the Target Group operates in; (iii) risks relating to the business and operations of the Target Group; and (iv) risks relating to this circular.

See the section headed "Risk Factors" for further details of the risk factors.

In this circular, the following expressions have the following meanings unless the context specifies otherwise:

"**Acquisition**"	the sale and purchase of the Company Target Shares as contemplated under the Share Purchase Agreement
"**acting in concert**"	has the meaning ascribed to it under the Takeovers Code
"**AMCM**"	Autoridade Monetária de Macau
"**AMLO**"	the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong), as it may be amended from time to time
"**Announcement**"	the announcement of the Company dated 17 August 2017 in relation to, among other things, the Share Purchase Agreement and transactions contemplated thereunder, the Whitewash Waiver and the Sheen Light Acquisition
"**Ant Financial**"	Ant Small and Micro Financial Services Group Co., Ltd.* (浙江螞蟻小微金融服務股份集團股份有限公司), a company incorporated in the PRC
"**Ant Financial Group**"	Ant Financial and its subsidiaries
"**API (Hong Kong)**"	API (Hong Kong) Investment Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Ant Financial, a party to the Share Purchase Agreement
"**Articles of Association**"	the articles of association of the Company
"**associate(s)**"	has the meaning ascribed thereto in the Listing Rules
"**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 the Target Company
"**Board**"	the board of Directors
"**Business Day**"	any day except a Saturday, Sunday or other day on which commercial banks in Boston, Massachusetts, Hong Kong, Macau, Beijing, PRC or Singapore are authorized or required by applicable Law to close
"**City-Scape**"	City-Scape Pte. Ltd., a private limited company organised and existing under the laws of Singapore and a party to the Share Purchase Agreement

"**Co-investors Agreement**"	the co-investors agreement dated 17 August 2017 entered into between the Company and the Other Investors
"**Companies Ordinance**"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as it may be amended from time to time
"**Company**"	Yunfeng Financial Group Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 376)
"**Company Target Shares**"	the 537,600,000 ordinary shares in the share capital of the Target Company to be acquired by the Company from the Vendor pursuant to the Share Purchase Agreement
"**Completion**"	the completion of the Acquisition pursuant to the terms and conditions of the Share Purchase Agreement
"**Conditions**"	the conditions precedent to Completion as described in the section headed "Letter from the Board — Share Purchase Agreement — Conditions Precedent" of this circular
"**connected person**"	has the meaning ascribed thereto in the Listing Rules
"**Consideration Shares**"	800,000,000 Shares to be issued to the Vendor pursuant to the Share Purchase Agreement
"**Continuing Connected Transactions**"	the continuing connected transactions contemplated under the Trademark License Agreement, the Consulting Services Agreement, the Transitional Services Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement, as described in the section headed "Continuing Connected Transactions" of this circular
"**controlling shareholder**"	has the meaning ascribed thereto in the Listing Rules
"**Consulting Services Agreement**"	the service agreement dated 4 August 2017 and entered into by and between the Target Company and the Vendor
"**Deep Prime**"	Deep Prime Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mrs. Zhu
"**Director(s)**"	the director(s) of the Company

"**EGM**"	the extraordinary general meeting of the Company to be convened and held at Suites 3205-3208, One Exchange Square, 8 Connaught Place, Central, Hong Kong on 10 January 2018 at 3:00 p.m. to consider, and if thought fit, approve, among other things, the Share Purchase Agreement and transactions contemplated thereunder, the Whitewash Waiver, the Sheen Light Acquisition and the appointment of non-executive Directors
"**Encumbrance**"	any mortgage, charge, security interest, lien, pledge, assignment by way of security, equity, claim, right of pre-emption, option, covenant, restriction, reservation, lease, trust, order, decree, judgment, title defect (including retention of title claim), conflicting claim of ownership or any other encumbrance of any nature whatsoever (whether or not perfected)
"**Enlarged Group**"	the Group and the Target Group
"**Executive**"	the Executive Director of the Corporate Finance Division of the SFC or any of his delegate(s)
"**First Call Investments**"	First Call Investments Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Zhu
"**FSTB**"	the Hong Kong Financial Services and Treasury Bureau
"**Giant Investment (HK)**"	Giant Investment (HK) Limited (巨人投資(香港)股份有限公司), a company incorporated in Hong Kong and a party to the Share Purchase Agreement
"**Group**"	the Company and its subsidiaries
"**Harvest Billion**"	Harvest Billion International Limited (滿億國際有限公司), a company incorporated in Hong Kong and a party to the Share Purchase Agreement
"**HK$**"	Hong Kong dollar(s), the lawful currency of Hong Kong
"**HKFI**"	the Hong Kong Federation of Insurers
"**HKFRS**"	Hong Kong Financial Reporting Standards
"**HKIA**"	the Hong Kong Insurance Authority, whether the individual appointed under the IO or the body corporate established under the IO
"**HKICPA**"	Hong Kong Institute of Certified Public Accountants
"**HKMA**"	the Hong Kong Monetary Authority

"**Hong Kong**"	the Hong Kong Special Administrative Region of the People's Republic of China
"**IARB**"	the Insurance Agents Registration Board established by the HKFI
"**Independent Board Committee**"	the independent board committee of the Board comprising Mr. Ko Chun Shun, Johnson, a non-executive Director, and Mr. Lin Lijun, Mr. Qi Daqing and Mr. Chu Chung Yue, Howard, being the independent non-executive Directors, established pursuant to the Takeovers Code to consider, and if thought fit, give a recommendation to the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Sheen Light Acquisition
"**Independent Financial Adviser**"	China Everbright Capital Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Sheen Light Acquisition
"**Independent Shareholders**"	the Shareholders other than (i) the Vendor and its associates; (ii) any parties acting in concert with the Vendor; (iii) Jade Passion and its shareholders and any parties acting in concert with it; (iv) First Call Investments; (v) Deep Prime; (vi) the commonly controlled entities of J.P. Morgan Securities (Asia Pacific) Limited in respect of those Shares which they own on a proprietary basis; and (vii) any parties involved or interested in the Acquisition, the Whitewash Waiver and/or the Sheen Light Acquisition
"**inside information**"	has the meaning ascribed thereto in the SFO
"**Inside Information Provisions**"	has the meaning ascribed thereto in the Listing Rules
"**Investor Rights Agreement**"	the investor rights agreement to be entered into at Completion between the Company and the Vendor
"**IO**"	the Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong) or the Insurance Ordinance (Chapter 41 of the Laws of Hong Kong), as the case may be, as it may be amended from time to time
"**Issue Price**"	the per share price of HK$6.50 for the issue of each Consideration Share

"**Jade Passion**"	Jade Passion Limited, a company incorporated under the laws of the British Virgin Islands and a controlling shareholder of the Company
"**Key Imagination**"	Key Imagination Limited, a company incorporated under the laws of the British Virgin Islands and a 73.21% shareholder of Jade Passion
"**Last Trading Day**"	17 August 2017, being the last trading day for the Shares before the entering into of the Share Purchase Agreement
"**Latest Practicable Date**"	18 December 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"**LIBOR**"	the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for deposits in US dollars for a period of one day displayed at 11:00 a.m. (London time) on the relevant calculation date on page LIBOR01 of the Thomson Reuters screen (or any replacement Thomson Reuters page which displays that rate) or on the appropriate page of such other information service which publishes that rate from time to time in place of Thomson Reuters
"**Listing Committee**"	has the meaning ascribed thereto in the Listing Rules
"**Listing Rules**"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"**Long Stop Date**"	19 November 2018, provided that if on 19 November 2018 the Condition set out in paragraph (b) under the section head "Letter from the Board — Share Purchase Agreement — Conditions Precedent" in this circular relating to consents from government authorities (the "**Regulatory Consent Condition**") shall not have been fulfilled but all other Conditions have been fulfilled (other than Conditions to be satisfied at Completion) then the Long Stop Date shall be extended until 18 February 2019 and if the Regulatory Consent Condition is not fulfilled by 18 February 2019, the Long Stop Date will be further extended to such date as the Company and the Vendor shall discuss and agree (in each party's sole discretion) in good faith
"**Macau**"	the Macau Special Administrative Region of the People's Republic of China

"**MassMutual Financial Group**"	MMLIC and its affiliates
"**Meyu International**"	Meyu International Company Limited (覓優國際有限公司), a company incorporated in Hong Kong and a party to the Share Purchase Agreement
"**MM Japan Carve-out**"	the transfer by the Target Company of all of its interest in MassMutual Life Insurance Company K.K., by way of dividend distribution to the Vendor, prior to Completion
"**MMLIC**"	Massachusetts Mutual Life Insurance Company, a mutual life insurance company incorporated in the United States and the sole member of the Vendor
"**MMT**"	MassMutual Trustees Limited, a company incorporated under the laws of Hong Kong and an indirect subsidiary of the Target Company, which is an MPF approved trustee
"**MOP**"	Macau Pataca(s), the lawful currency of Macau
"**MPF**"	mandatory provident fund
"**MPFA**"	the Mandatory Provident Fund Schemes Authority of Hong Kong
"**MPFSO**"	the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), as it may be amended from time to time
"**Mr. Zhu**"	Mr. Zhu Baoguo, a 51% shareholder of Sheen Light (one of the Other Investors) and the sole shareholder of First Call Investments
"**Mrs. Zhu**"	Ms. Liu Guangxia, the spouse of Mr. Zhu, a 49% shareholder of Sheen Light (one of the Other Investors) and the sole shareholder of Deep Prime
"**Nomination Committee**"	the nomination committee of the Board
"**OCI**"	the Office of the Commissioner of Insurance, the regulatory body set up for the regulation of the insurance industry in Hong Kong prior to the establishment of the HKIA
"**Other Investors**"	Meyu International, City-Scape, API (Hong Kong), SINA, Sheen Light, Harvest Billion and Giant Investment (HK)
"**Other Investors Target Shares**"	the total of 358,400,000 ordinary shares in the share capital of the Target Company to be acquired by the Other Investors pursuant to the Share Purchase Agreement

"**Permitted Transfers**"	the transfer of the Shares by Jade Passion to (i) a third party pursuant to an on-market sale; (ii) Asia Newpower Group Inc., Gold Ocean Investments Group Inc. or any of their respective affiliates, up to such number of Shares reflecting the attributable interest of Asia Newpower Group Inc. and Gold Ocean Investments Group Inc. (through Jade Passion) in the Company, provided that the direct or indirect interest of Asia Newpower Group Inc., Gold Ocean Investments Group Inc. and their respective affiliates in Jade Passion shall not exceed 26.79% of Jade Passion; (iii) Ant Financial or its controlled affiliates; or (iv) any affiliate of Jade Passion, in each case in accordance with the terms of the Shareholders Agreement
"**Policies Endorsement Fee Agreement**"	the policies endorsement fee agreement dated 15 December 2017 and entered into by and between MMLIC and the Target Company
"**PRC**" or "**China**"	the People's Republic of China, which for the purpose of this circular excludes Hong Kong, Macau and Taiwan
"**Purchasers**"	the Company and the Other Investors
"**Selected Bank**"	a bank to be mutually agreed between the Company and the Vendor
"**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) in the share capital of the Company
"**Shareholder(s)**"	holder(s) of the Shares
"**Shareholders Agreement**"	the shareholders agreement to be entered into at Completion between Key Imagination and the Vendor
"**Share Purchase Agreement**"	the share purchase agreement dated 17 August 2017 and entered into between the Purchasers and the Vendor
"**Sheen Light**"	Sheen Light Development Limited (信暉發展有限公司), a company incorporated in Hong Kong and a party to the Share Purchase Agreement
"**Sheen Light Acquisition**"	the sale and purchase of the Sheen Light Target Shares as contemplated under the Share Purchase Agreement

"Sheen Light Target Shares"	the 44,800,000 ordinary shares in the share capital of the Target Company to be acquired by Sheen Light pursuant to the Share Purchase Agreement
"SINA"	SINA Corporation (新浪公司), a company incorporated in the Cayman Islands and a party to the Share Purchase Agreement
"Specific Mandate"	the specific mandate to be granted to the Directors by the Shareholders at the EGM to allot and issue the Consideration Shares to the Vendor
"SRO"	the self-regulatory organisations under the Hong Kong insurance regulatory regime, including the IARB established by the HKFI, The Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategic Cooperation Agreement"	the strategic cooperation agreement dated 15 December 2017 and entered into by and among the Company, MMLIC and API (Hong Kong)
"substantial shareholder"	has the meaning ascribed thereto in the Listing Rules
"S&P"	Standard & Poor's Rating Services
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Target Company"	MassMutual Asia Limited, a limited liability company incorporated under the laws of Hong Kong
"Target Group"	the Target Company and its subsidiaries
"Target Shares"	the 896,000,000 ordinary shares in the share capital of the Target Company, which comprise the entire issued share capital of the Target Company
"Track Record Period"	the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017
"Trademark Assignment Agreement"	the trademark assignment agreement to be entered into at Completion between the Company and MMLIC
"Trademark License Agreement"	the license agreement dated 15 December 2017 and entered into by and among the Company, the Target Company and MMLIC

"**Transitional Services Agreement**"	the transitional services agreement dated 15 December 2017 and entered into by and between the Target Company and the Vendor
"**Trustee Ordinance**"	the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong), as it may be amended from time to time
"**US dollars**" or "**US$**"	United States dollars, the lawful currency of the United States of America
"**US GAAP**"	the generally accepted accounting principles as applied in the United States
"**Vendor**"	MassMutual International LLC
"**Whitewash Waiver**"	the whitewash waiver as may be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code from the obligation of the Vendor to make a mandatory general offer for all the issued Shares other than those already owned or agreed to be acquired by the Vendor and parties acting in concert with it as a result of the Company allotting and issuing the Consideration Shares
"**%**"	per cent.

* *English name included for identification purposes only.*

This glossary contains explanations of certain terms used in this circular in connection with the Enlarged Group and its business. These terms and their meanings may not always correspond to standard industry meanings or usage of these terms.

"**agency leader**"	an agent who manages a group of agents
"**agent retention rate**"	for any 12-month period, the average of the persistency rate of all agents who were active tied agents of the Target Group at any time during such 12-month period; the "**persistency rate**" in respect of an individual agent is the rate, expressed as a percentage, determined by (i) the number of days in the relevant 12-month period in which he or she was an active tied agent of the Target Group, divided by (ii) 360 days
"**annuity**"	a contract providing for periodic payments to an annuitant for a specified period of time, often until the annuitant's death
"**AUM**"	the amount of assets under management
"**bancassurance**"	the distribution of insurance products through banks and/or other financial institutions
"**CAGR**"	compound annual growth rate
"**cash surrender value**"	the amount of cash available to a policyholder on the surrender of or withdrawal from a life insurance policy or annuity contract
"**cede**"	the transfer of all or part of a risk written by an insurer to a reinsurer
"**claim**"	an occurrence that is the basis for submission and/or payment of a benefit under an insurance policy. Depending on the terms of the insurance policy, a claim may be covered, limited or excluded from coverage
"**commission**"	a fee paid to an agent or broker by an insurance company for services rendered in connection with the sale or maintenance of an insurance product
"**credit risk**"	the risk of loss if another party fails to meet its obligations, or fails to do so in a timely fashion
"**currency risk**"	the risk that asset or liability values, cash flows, income or expenses will be affected by changes in exchange rates. Also referred to as foreign exchange risk

"**deferred acquisition costs**" or "**DAC**"	the expenses of an insurer which are incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance policies. They include commissions and other variable sales inducements and the direct costs of issuing the policy, such as underwriting and other policy issue expenses
"**DPF**"	discretionary participation feature
"**duration**"	the number of years required to receive the present value of a stream of future cash flow, which is often used as an indicator of a bond's price volatility resulting from changes in interest rates
"**ERM**"	enterprise risk management
"**Embedded Value**"	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
"**expense ratio**"	management and other expenses as a percentage of TPI
"**financial investments**"	equity and fixed income securities plus receivables and derivative financial instruments classified as assets, excluding cash and cash equivalents
"**first year premiums**"	premiums received in the first year of a recurring premium policy
"**fixed income securities**"	debt securities (consisting of government and government agency bonds, corporate bonds and structured securities) as well as policy loans, mortgage loans on residential and commercial real estate and other loans (less any allowance for loan losses) plus term deposits and cash and cash equivalents
"**GDP**"	gross domestic product
"**gross premiums**"	in relation to a financial year of an insurer: (a) means premiums after deduction of discounts specified in policies or refunds of premiums made in respect of any termination or reduction of risks but before deduction of premiums for reinsurance ceded and of commissions payable by the insurer; and (b) includes premiums receivable by the insurer under reinsurance contracts accepted by the insurer

"**high net worth**"	individuals who have investable assets of US$1.0 million or more
"**in-force**"	an insurance policy or contract reflected on records that has not expired, matured or otherwise been surrendered or terminated
"**investment funds**"	pools of funds held for collective investment purposes
"**investment grade**"	BBB- or above for S&P; Baa3 or above for Moody's
"**investment-linked investments**"	investments held to back investment-linked contracts
"**investment-linked products**" or "**investment-linked contracts**" or "**ILAS**"	investment-linked products are insurance products where the surrender value of the policy is linked to the value of underlying investments (such as collective investment schemes, internal investment pools or other property) or fluctuations in the value of underlying investment or indices. Investment risk associated with the product is usually borne by the policyholder. Insurance coverage, investment and administration services are provided for which the charges are deducted from the investment fund assets. Benefits payable will depend on the price of the units prevailing at the time of surrender, death or the maturity of the product, subject to surrender charges. These are also referred to as unit linked products or unit linked contracts
"**life insurance premiums**"	consideration received with respect to life insurance policies issued or reissued by an insurance company
"**morbidity rate**"	incidence rates and period of disability, varying by such parameters as age, gender and period since disability, used in pricing and computing liabilities for insurance products containing morbidity risk
"**mortality rate**"	rate of death, varying by such parameters as age, gender, and health, used in pricing and computing liabilities for future policyholders of life and annuity products, which contain mortality risks
"**net premiums**"	life insurance premiums net of reinsurance premiums ceded to third party reinsurers
"**office premiums**"	in relation to a financial year of an insurer: (a) for policies with single mode of payment, the premiums paid by the policyholders during the financial year; or

	(b) for policies with regular mode of payment, the annualized premiums of the policies as of the valuation date or the flexible premium paid by the policyholders during the financial year
"**penetration rate**"	life insurance premium as a percentage of GDP
"**RBC**"	risk-based capital
"**reinsurance**"	the practice whereby an insurer, in consideration of a premium paid to it, agrees to indemnify another party for part or all of the liabilities assumed by the reinsured party under an insurance contract, which the reinsured party has issued
"**renewal premiums**"	premiums receivable in subsequent years of a multi-year insurance policy
"**rider**"	a supplemental plan that can be attached to a basic insurance policy, with payment of additional premium
"**savings rate**"	savings as a percentage of disposable income
"**single premiums**"	single premium policies of insurance are those require only a single lump sum payment from the policyholder
"**solvency margin**"	a measure of an insurance company's solvency
"**solvency ratio**"	the ratio expressed as a percentage, of the surplus to the required solvency margin of the Target Company, as determined at the relevant time in accordance with the IO and its subsidiary legislation and based on standards required by the IO and methodology consistently applied by the Target Company
"**surrender**"	the termination of a life insurance policy or annuity contract at the request of the policyholder after which the policyholder receives the cash surrender value, if any, of the contract
"**surrender charge**"	the fee charged to a policyholder when a life insurance policy or annuity contract is surrendered for its cash surrender value prior to the end of the surrender charge period
"**tied agency**"; "**tied agent**"	an agency model which employs sales representatives who sell the products of one company exclusively; a sales representative who sells the products of one company exclusively
"**total premiums**"	life insurance premiums for both in-force insurance policies and insurance policies sold during that year

"**TPI**"	total premium and fee income as reported under the IO; it consists of the full amount of single premium, first year regular premium and renewal regular premium before reinsurance, and includes deposits and contributions for contracts
"**underwriting**"	the process of examining, accepting or rejecting insurance risks, and classifying those accepted, in order to change an appropriate premium for each accepted risk
"**universal life**"	an insurance product where the customer pays flexible premiums, subject to specified limits, that are accumulated in an account and are credited with interest (at a rate either set by the insurer or reflecting returns on a pool of matching assets). The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge
"**URL**"	unearned revenue liability
"**Value of New Business**" or "**VONB**"	the present value, measured at point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business

CORPORATE INFORMATION

Registered office	Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong
Company secretary	Mr. CHAN Man Ko *HKICPA* Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong
Authorized representatives	Ms. LI Ting Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong
	Mr. CHAN Man Ko *HKICPA* Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong
Audit committee	Mr. CHU Chung Yue, Howard *(Chairman)* Mr. LIN Lijun Mr. QI Daqing
Remuneration committee	Mr. LIN Lijun *(Chairman)* Mr. QI Daqing Mr. HUANG Xin Mr. CHU Chung Yue, Howard
Nomination committee	Mr. YU Feng *(Chairman)* Mr. LI Lijun Mr. QI Daqing Mr. CHU Chung Yue, Howard
Share registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong

Principal bankers	**The Hongkong and Shanghai Banking Corporation Limited** 1 Queen's Road Central Hong Kong
	China CITIC Bank International Limited 61-65 Des Voeux Road Central Hong Kong
	China Construction Bank (Asia) Corporation Limited 28th Floor, CCB Tower 3 Connaught Road Central Hong Kong
	Bank of China (Hong Kong) Limited Bank of China Tower 1 Garden Road Central Hong Kong
	Bank of Communications Co., Ltd. 20 Pedder Street Central Hong Kong
Company's website	**www.yff.com** *(A copy of this circular is available on the Company's website. Except for the information contained in this circular, none of the other information contained on the Company's website forms part of this circular)*

The current members of the Board are as follows:

Name	Business Address	Nationality
Chairman		
Mr. YU Feng (虞鋒) *(Non-Executive Director)*	Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong	Chinese
Executive Directors		
Ms. LI Ting (李婷) *(Chief Executive Officer)*	Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong	Chinese
Mr. HUANG Xin (黃鑫)	Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong	Chinese
Non-executive Directors		
Mr. KO Chun Shun, Johnson (高振順)	Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong	Chinese
Mr. HUANG Youlong (黃有龍)	Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong	Singaporean
Ms. HAI Olivia Ou (海歐)	Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong	British

Independent non-executive Directors

Mr. LIN Lijun (林利軍)	Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong	Chinese
Mr. QI Daqing (齊大慶)	Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong	Chinese
Mr. CHU Chung Yue, Howard (朱宗宇)	Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong	Canadian

Note: As disclosed in the announcement of the Company dated 3 November 2017, Dr. Wong Yau Kar, David, *GBS, JP* resigned as an independent non-executive director of the Company with effect from 3 November 2017 with the consent of the Executive pursuant to Rule 7 of the Takeovers Code.

Financial Advisers to the Company	*Financial advice in relation to the Acquisition:* **Yunfeng Financial Markets Limited** Suites 3201-3204 One Exchange Square 8 Connaught Place Central Hong Kong **J.P. Morgan Securities (Asia Pacific) Limited** 28/F, Chater House 8 Connaught Road Central Hong Kong *Due diligence with reference to Practice Note 21 to the Listing Rules as clarified under the Stock Exchange's Guidance Letter HKEx-GL78-14:* **J.P. Morgan Securities (Far East) Limited** 28/F, Chater House 8 Connaught Road Central Hong Kong
Financial Adviser to the Vendor	**Citigroup Global Markets Inc.** 388 Greenwich Street New York, NY 10013 United States of America
Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	**China Everbright Capital Limited** 24/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Legal advisers to the Company	*As to Hong Kong laws:* **Simpson Thacher & Bartlett** ICBC Tower, 35/F 3 Garden Road Central Hong Kong *As to Macau laws:* **Jorge Neto Valente, Advogados e Notários** 15th Floor, ICBC Tower Macau Landmark Building 555 Avenida da Amizade Macau

Legal advisers to the Vendor	*As to Hong Kong laws:* **Skadden, Arps, Slate, Meagher & Flom** 42/F, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong *As to Hong Kong insurance laws:* **Timothy Loh LLP** Suite 1007-8, 10th Floor St George's Building 2 Ice House Street Central, Hong Kong
Auditor to the Group and reporting accountants for the unaudited pro forma financial information of the Enlarged Group	**KPMG** *Certified Public Accountants* 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Reporting accountants for the financial information of the Target Group	**KPMG** *Certified Public Accountants* 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Actuarial consultant	**PricewaterhouseCoopers Limited** 21/F Edinburgh Tower 15 Queen's Road Central Hong Kong

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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

Chairman:
Mr. YU Feng *(Non-executive Director)*

Executive Directors:
Ms. LI Ting *(Chief Executive Officer)*
Mr. HUANG Xin

Non-executive Directors:
Mr. KO Chun Shun, Johnson
Ms. HAI Olivia Ou
Mr. HUANG Youlong

Independent non-executive Directors:
Mr. LIN Lijun
Mr. QI Daqing
Mr. CHU Chung Yue, Howard

Registered and Principal Office:
Suites 3201-3204
One Exchange Square
8 Connaught Place
Hong Kong

21 December 2017

To the Shareholders

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL ACQUISITION
IN RELATION TO ACQUISITION OF 60% OF THE ISSUED SHARE CAPITAL OF MASSMUTUAL ASIA LIMITED;
(2) ISSUE OF ORDINARY SHARES PURSUANT TO SPECIFIC MANDATE;
(3) APPLICATION FOR WHITEWASH WAIVER;
(4) SPECIAL DEAL;
(5) STRATEGIC COOPERATION AMONG THE COMPANY, MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY AND ANT FINANCIAL GROUP;
(6) CONTINUING CONNECTED TRANSACTIONS;
AND
(7) APPOINTMENT OF NON-EXECUTIVE DIRECTORS**

INTRODUCTION

Reference is made to the Announcement in which it was announced that on 17 August 2017, the Company and the Other Investors (as the Purchasers) and MassMutual International LLC (as the Vendor) entered into the Share Purchase Agreement pursuant to which (i) the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, 537,600,000 shares in the Target Company (representing 60% of the issued share capital of the Target Company), and (ii) the Other Investors have conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, 358,400,000 shares in the Target Company (representing 40% of the issued share capital of the Target Company).

The Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules as one or more of the relevant percentage ratios under Rule 14.07 of the Listing Rules for the Acquisition are over 100%. Accordingly, the Acquisition is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules. The Listing Committee has determined that the Acquisition is an extreme very substantial acquisition which is not subject to the reverse takeover rules. Enhanced disclosure comparable to the standard for listing documents for new listing applicants is required in this circular.

As of the Latest Practicable Date, the Vendor does not hold any Shares. Upon Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion), the Vendor will hold approximately 24.82% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. As of the Latest Practicable Date, Jade Passion is the single largest shareholder of the Company holding approximately 55.42% of the issued share capital of the Company. Immediately after Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion), Jade Passion will remain the single largest shareholder of the Company holding approximately 41.66% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and controlling more voting rights in the Company than the Vendor. Accordingly, there is no change in control (as defined under the Takeovers Code) of the Company immediately after Completion.

Whilst the Acquisition will not result in a change in control (as defined under the Takeovers Code) of the Company, the Vendor would, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, be obliged to make a mandatory general offer to the Shareholders for all the issued Shares other than those already owned or agreed to be acquired by the Vendor and parties acting in concert with it because under Note 1 to Rule 26.1 of the Takeovers Code, the issue of the Consideration Shares to the Vendor would result in a significant change in the make-up of the concert party group and the balance of the group (being the balance between Jade Passion and the Vendor) will change significantly. The concert party group comprises Jade Passion and the Vendor and their respective shareholders. In this regard, the Vendor has made an application to the Executive for the Whitewash Waiver and the Executive has agreed, subject to approval by the Independent Shareholders at the EGM, to grant the Whitewash Waiver. It is a non-waivable Condition of the Share Purchase Agreement that the Whitewash Waiver be granted by the Executive and approved by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders, the transactions contemplated under the Share Purchase Agreement will not proceed.

As of the Latest Practicable Date, First Call Investments (a company wholly-owned by Mr. Zhu) and Deep Prime (a company wholly-owned by Mrs. Zhu) are interested in 1,000,000 Shares and 4,348,000 Shares, representing approximately 0.04% and 0.18% of the issued share capital of the Company, respectively. Since Sheen Light is also controlled by Mr. Zhu, the Sheen Light Acquisition constitutes a special deal under Rule 25 of the Takeovers Code, which requires the consent of the Executive. An application will be made to the Executive for consent to proceed with the Sheen Light Acquisition under Rule 25 of the Takeovers Code.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition and the Specific Mandate; (ii) further details of the Whitewash Waiver; (iii) further details of the Sheen Light Acquisition (as a special deal for the purpose of Rule 25 of the Takeovers Code); (iv) further information about the Target Group; (v) financial information of the Group; (vi) financial information of the Target Group; (vii) the unaudited pro forma financial information of the Group (including the Target Group) assuming Completion takes place; (viii) the names and biographies of the Directors nominated by the Vendor; (ix) further details of the Continuing Connected Transactions; (x) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Sheen Light Acquisition; (xi) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Acquisition, the Whitewash Waiver and the Sheen Light Acquisition; and (xii) the notice of the EGM.

SHARE PURCHASE AGREEMENT

Date

17 August 2017

Parties

(1) the Company;

(2) the Other Investors; and

(3) MassMutual International LLC.

The Acquisition

The Company and the Other Investors have conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Company Target Shares and the Other Investors Target Shares, respectively, free from all Encumbrances, together with all rights attaching to them. Unless otherwise provided for in the Share Purchase Agreement, the Company and the Other Investors shall not be obliged to complete the purchase of any of the Company Target Shares or the Other Investors Target Shares, respectively, unless the sale and purchase of all the Company Target Shares and the Other Investors Target Shares are completed simultaneously.

The following table sets out the number and percentage of the Target Shares to be acquired by each Purchaser and the shareholding of each Purchaser in the Target Company immediately after Completion:

Name of Purchaser	Number of Target Shares to be acquired	Percentage of total Target Shares to be acquired and shareholding percentage in the Target Company immediately after Completion
Company	537,600,000	60.0%
Meyu International	87,808,000	9.8%
City-Scape	67,200,000	7.5%
API (Hong Kong)	44,800,000	5.0%
Sheen Light	44,800,000	5.0%
SINA	44,800,000	5.0%
Harvest Billion	43,904,000	4.9%
Giant Investment (HK)	25,088,000	2.8%

Conditions Precedent

The obligations of each party to effect the transactions contemplated by the Share Purchase Agreement at Completion shall be subject to the fulfilment at or prior to Completion of the following Conditions:

(a) no order (whether temporary, preliminary or permanent) of any governmental authority or law having been issued or made prior to Completion which has the effect of making unlawful or otherwise prohibiting or restricting in any material respect the transactions from taking place as contemplated in the Share Purchase Agreement;

(b) all consents required by applicable law to be obtained from any governmental authority to consummate the transactions contemplated by the Share Purchase Agreement having been received, made or obtained;

(c) the Executive granting the Whitewash Waiver (and such grant not being subsequently revoked or withdrawn) and any condition attached to the Whitewash Waiver having been satisfied;

(d) the Stock Exchange granting the approval for the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange (and such approval not being subsequently revoked or withdrawn);

(e) the Independent Shareholders having approved the Share Purchase Agreement, the Acquisition, the allotment and issue of the Consideration Shares, the granting of the Specific Mandate and the Whitewash Waiver;

(f) the Independent Shareholders having approved the appointment of the Directors to be nominated by the Vendor and, where required under the Listing Rules, the transactions contemplated under, and where applicable, the proposed annual caps for, each of the Continuing Connected Transactions, in each case, in accordance with the Listing Rules; and

(g) the Independent Shareholders having approved the Sheen Light Acquisition and the consent of the Executive having been obtained to proceed with the Sheen Light Acquisition in accordance with Rule 25 of the Takeovers Code.

The Conditions set out in paragraphs (c), (d) and (e) cannot be waived. In addition, the Condition set out in paragraph (g) cannot be waived in respect of the Sheen Light Acquisition. If the Executive does not consent to the Sheen Light Acquisition, and/or the approval of the Independent Shareholders is not obtained, the Sheen Light Acquisition will not proceed. The Vendor may, in its sole discretion, sell the number of the relevant Other Investors Target Shares to an Alternative Purchaser (as defined below). For further details, please refer to the paragraph headed "— Replacement of Other Investors" below.

The obligation of the Vendor to effect the transactions contemplated by the Share Purchase Agreement at Completion shall be subject to the fulfilment or waiver by the Vendor in writing at or prior to Completion of the following additional Conditions:

(h) each of the warranties in respect of the Company contained in the Share Purchase Agreement being true and correct, without giving effect to any materiality qualifications therein, on and as of Completion, except (other than in respect of certain fundamental warranties), in respect of certain warranties, where any failure of such warranties to be true and correct, individually or in the aggregate, would not reasonably be likely to have a material adverse effect;

(i) with respect to each of the Other Investors, each of the warranties given by it under the Share Purchase Agreement being true and correct, without giving effect to certain materiality qualifications therein, on and as of Completion, except (other than in respect of certain fundamental warranties), in respect of certain warranties, where any failure of such warranties to be true and correct, individually or in the aggregate, would not reasonably be likely to materially impede or delay it from performing its obligations under the Share Purchase Agreement and each transaction document to which it is a party or consummating the transactions;

(j) each Purchaser having performed in all material respects all of its obligations under the Share Purchase Agreement which are required to be performed by it at or prior to Completion;

(k) counterparts to each of the transaction documents to be executed by the Company or its affiliates or any other Purchaser having been duly executed by the Company or its affiliates or each such other Purchaser, as applicable, and delivered to the Vendor;

(l) evidence reasonably satisfactory to the Vendor that the Directors to be nominated by the Vendor having been validly appointed as directors of the Company by an extraordinary general meeting of the Shareholders and that the composition of the Board, as of Completion, is consistent with the requirements set forth in the Shareholders Agreement;

(m) since the date of the Share Purchase Agreement, no material adverse effect in respect of the Company has occurred; and

(n) the current listing of the Shares on the Main Board of the Stock Exchange not having been withdrawn, such Shares continuing to be traded on the Stock Exchange on and prior to Completion (save for any suspension in trading (i) not exceeding five (5) consecutive trading days, whether or not such suspension is required by the Company, or (ii) in connection with the announcement of the Acquisition; provided that, in each case, (a) such suspension is not directed by the Stock Exchange in connection with Rule 6.01 of the Listing Rules or by the SFC in connection with paragraph 8 of Appendix 12 to the Listing Rules, (b) the trading of the Shares has resumed for at least the five (5) consecutive trading day-period immediately prior to Completion, and (c) neither the Stock Exchange nor the SFC having indicated that it will object to such continued listing for any reason).

The obligation of the Company and each of the other Purchasers to effect the transactions contemplated by the Share Purchase Agreement at Completion shall be subject to the fulfilment or waiver by the Company at or prior to Completion of the following additional Conditions:

(o) each of the warranties in respect of the Target Company contained in the Share Purchase Agreement being true and correct, without giving effect to certain materiality qualifications therein, on and as of Completion, except (other than in respect of certain fundamental warranties), where any failure of such warranties to be true and correct, individually or in the aggregate, would not reasonably be likely to have a material adverse effect;

(p) the Vendor having performed in all material respects all of its obligations under the Share Purchase Agreement which are required to be performed by it at or prior to Completion;

(q) counterparts to each of the transaction documents to be executed by the Vendor or its affiliates having been duly executed by the Vendor or its affiliates, as applicable, and delivered to the Company;

(r) the Target Company having transferred, by way of dividend distribution to the Vendor or otherwise, all of its interest in MassMutual Life Insurance Company K.K., a joint stock corporation incorporated under the laws of Japan;

(s) the Vendor having delivered to the Company a true and complete copy of the review by the auditor of the Target Company verifying that the Solvency Ratio of the Target Company as of the last calendar day of the month immediately preceding the month in which Condition (b) set out above is satisfied (the "**Solvency Ratio Condition Date**") is not less than 200%, provided, that, if the Solvency Ratio of the Target Company as of the Solvency Ratio Condition Date is less than 200% pursuant to such Solvency Ratio review, the Vendor shall instead have delivered evidence reasonably satisfactory to the Company that the Vendor has after the Solvency Ratio Condition Date contributed to the Target Company sufficient new capital in cash such that the Solvency Ratio of the Target Company as of the Solvency Ratio Condition Date, but adjusted for such new capital contribution, is not less than 200%, as calculated on the same basis as the Solvency Ratio review;

(t) evidence reasonably satisfactory to the Company that the Vendor has made a capital contribution to the Target Company of at least HK$200 million in cash on or prior to 31 December 2017;

(u) evidence reasonably satisfactory to the Company that the individuals to be nominated by the Company have been validly appointed as directors of the Target Company with effect from Completion and that the composition of the board of directors of the Target Company, as of Completion, is consistent with the requirements set forth in the Investor Rights Agreement; and

(v) since the date of the Share Purchase Agreement, no material adverse effect in respect of the Target Group has occurred.

In respect of Condition (b) above, the consents from government authorities expected to be required include the following:

(i) the HKIA not objecting to each person required to serve on the HKIA a notice in writing stating that it proposes to become a controller (as defined under the IO) of the Target Company as a result of the change of shareholding of the Target Company as contemplated by the Share Purchase Agreement;

(ii) the HKIA not objecting to or granting the approval for the appointment of the director candidates nominated by the Company and the Vendor as directors of the Target Company;

(iii) approval of the Massachusetts Commissioner of Insurance, where required pursuant to the Massachusetts Insurance Code as determined by the commissioner;

(iv) the SFC having approved (a) if required, the proposed change of controlling shareholders of each of the Target Company and MMT as contemplated by the Share Purchase Agreement with respect to the Target Company and MMT as key operators of the MASS Mandatory Provident Fund Scheme and any corresponding approved pooled investment fund, and (b) the revised offering documents of the MASS Mandatory Provident Fund Scheme;

(v) the SFC having approved (a) the proposed change of controlling shareholders of the Target Company as contemplated by the Share Purchase Agreement with respect to the Target Company as an issuer of a number of investment-linked assurance schemes and (b) the revised offering documents of those investment-linked assurance schemes;

(vi) the MPFA having (a) given its prior written consent to the proposed change of substantial shareholders of MMT as contemplated by the Share Purchase Agreement in its capacity as the approved trustee of the MASS Mandatory Provident Fund Scheme, and (b) given its written approval to the proposed revised offering documents of the MASS Mandatory Provident Fund Scheme;

(vii) the SFC having approved each of the Vendor and MMLIC as substantial shareholders of Yunfeng Securities Limited, Yunfeng Financial Markets Limited, and Yunfeng Asset Management Limited; and

(viii) the AMCM granting consent to the change of shareholding of the Target Company as contemplated by the Share Purchase Agreement.

Apart from those set out in paragraph (i) to (viii) above, in respect of Condition (b) above, the Company and the Vendor are not aware of any other consents required to be obtained from any government authorities to consummate the transactions contemplated by the Share Purchase Agreement.

As of the Latest Practicable Date, save for Condition (t) above, none of the Conditions has been satisfied or waived.

Replacement of Other Investors

In the event that any governmental authority raises any objection to any of the Other Investors becoming a shareholder of the Target Company and/or the Independent Shareholders not having approved the Sheen Light Acquisition and/or the consent of the Executive not having been obtained to proceed with the Sheen Light Acquisition such that the Conditions set out in paragraphs (b) and/or (g) above (as the case may be) cannot or are not reasonably expected to be satisfied on or prior to the Long Stop Date, the Vendor, the Company and the Other Investors agreed that (A) the acquisition with respect only to such Other Investor shall be terminated if the Vendor and the Company, in the sole discretion of the Vendor and the Company, respectively, mutually so agree in writing, and (B) the Vendor may, in its sole discretion, sell the number of Other Investors Target Shares which such Other Investor has agreed to acquire to such other person (the "**Alternative Purchaser**") as mutually agreed in writing by the Vendor and the Company in each such party's sole discretion, and the Vendor and such Alternative Purchaser, at each such person's sole discretion, shall enter into a share purchase agreement on substantially the same terms and conditions (except any term or condition which is not applicable or as otherwise determined by the Vendor, the Company and such Alternative Purchaser) as the Share Purchase Agreement.

In addition, in the event that all the Conditions have been satisfied or waived (other than those Conditions that by their nature are to be satisfied by actions taken at Completion), and any Other Investor fails to consummate the transactions contemplated by the Share Purchase Agreement in accordance with the terms thereof, (a) the Company shall use its reasonable best efforts to promptly identify an Alternative Purchaser, (b) the Vendor may, in its sole discretion, sell the number of Other Investors Target Shares which such Other Investor has agreed to acquire to such Alternative Purchaser as may be mutually agreed in writing by the Vendor and the Company in each such party's sole discretion, (c) the Vendor and such Alternative Purchaser, at each such person's sole discretion, shall enter into a share purchase agreement on substantially the same terms and conditions (except any term or condition which is not applicable or as otherwise determined by the Vendor, the Company and such Alternative Purchaser) as the Share Purchase Agreement, provided that in the event the Vendor and an Alternative Purchaser enter into any such share purchase agreement, the Company and the non-defaulting Other Investors shall be obliged to complete the transactions contemplated by the Share Purchase Agreement contemporaneously with the sale of the applicable Other Investors Target Shares to such Alternative Purchaser, and (d) upon the entry into the share purchase agreement with the Alternative Purchaser pursuant to (c) above, the acquisition only with respect to such Other Investor shall be terminated.

In each of the above circumstances, if the acquisition of the relevant Other Investors Target Shares by an Alternative Purchaser constitutes a special deal for the purpose of Rule 25 of the Takeovers Code, such acquisition shall be subject to the obtaining of the approval of the Independent Shareholders and the consent of the Executive in accordance with Rule 25 of the Takeovers Code.

Consideration

The following table sets out the consideration payable by each Purchaser and the manner in which they will be settled:

Name of Purchaser	**Consideration Payable** *(HK$)*	**Settlement**
Company	7,860,000,000	HK$2,660,000,000 either by an installment note or in cash and HK$5,200,000,000 by issue of the Consideration Shares
Meyu International	1,283,800,000	Cash
City-Scape	982,500,000	Cash
API (Hong Kong)	655,000,000	Cash
Sheen Light	655,000,000	Cash
SINA	655,000,000	Cash
Harvest Billion	641,900,000	Cash
Giant Investment (HK)	366,800,000	Cash
TOTAL	13,100,000,000	

Consideration Payable by the Company

The consideration for the sale and purchase of the Company Target Shares is HK$7,860 million, of which HK$5,200 million will be satisfied by the issue of the Consideration Shares, being an aggregate of 800,000,000 Shares, to the Vendor at the Issue Price of HK$6.50 per Consideration Share.

The remaining HK$2,660 million will be paid by way of the Company issuing an interest-free single installment note of principal amount of HK$2,660 million (in an equivalent amount in US dollars), subject to the Company and the Vendor agreeing upon the installment note arrangement and the form of the installment note and the Company obtaining a standby letter of credit on the terms and conditions set out in the Share Purchase Agreement. If the Company is unable to obtain a standby letter of credit on the terms and conditions set out in the Share Purchase Agreement, the remaining HK$2,660 million will be paid in cash in an equivalent amount in US dollars, out of the internal resources of the Company.

If the Company pays the remaining HK$2,660 million by way of installment note, the single installment note to be issued to the Vendor by the Company will be interest-free, non-transferrable, non-assignable and will be repaid in full in one single installment in US dollars at the fixed exchange rate of US$1.00 to HK$7.8238 on a maturity date of 15 January 2020, subject to early prepayment upon the occurrence of certain events if so requested by the Vendor by giving the Company 60 days' advance notice. In connection with the standby letter of credit, the Company will be required to deposit HK$2,660 million (in an equivalent amount in US dollars) with the Selected Bank at Completion, which amount will be pledged to the Selected Bank as security for the Selected Bank to issue a standby letter of credit of the same amount to the Vendor. If the Company defaults in payment when the installment note is due, the Vendor will have the right to draw on the letter of credit. Any amount drawn on the letter of credit will be set off against the Company's liability under the single installment note. The deposit of HK$2,660 million (in an equivalent amount in US dollars) will be paid out of the internal resources of the Company. The Company will be liable to pay a default penalty at the rate of 5% per annum above LIBOR if it defaults on repayment of the installment note.

If the Company has secured a letter of credit on the terms and conditions set out in the Share Purchase Agreement and the installment note is issued, the Vendor will pay an arrangement fee to the Company to cover possible credit risk relating to the Selected Bank. The amount of the arrangement fee will be calculated by applying an annual rate (the "**CDS Rate**") to the installment note amount of the US dollar equivalent of HK$2,660 million. The CDS Rate equals to the "ask" price rate quoted on Bloomberg of a two-year credit default swap relating to the Selected Bank prevailing on the day that is thirty (30) days prior to Completion. For illustrative purposes only, the CDS Rate prevailing on 30 November 2017 is 0.2605% and the arrangement fee calculated based on such CDS Rate is US$1,771,339. In the event that installment note becomes due prior to the date that is two years following Completion, the Company shall refund to the Vendor (i) the arrangement fee in the amount pro rated based on the tenor of the installment note or, if applicable, (ii) the net proceeds received by the Company from the disposal of the credit default swap.

If the installment note is issued, the Company estimates that there will not be any additional cost to the Company or any material impact on the Company's financial condition for the issuance of the single installment note and the standby letter of credit, taking into account the interest income that can be earned from the deposit with the Selected Bank and reimbursement from the Vendor of fees incurred for obtaining the standby letter of credit (if any).

The Consideration Shares represent approximately 33.01% of the issued share capital of the Company as of the Latest Practicable Date and approximately 24.82% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The Consideration Shares will be allotted and issued under the Specific Mandate to be obtained from the Shareholders at the EGM by an ordinary resolution. The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares to be allotted and issued pursuant to the Share Purchase Agreement. Based on the current shareholding structure of the Company, the Company will continue to be able to satisfy the public float requirement under the Listing Rules following the issue of the Consideration Shares.

The total consideration for all the Target Shares is HK$13,100 million and the consideration payable by each Purchaser is proportionate to the percentage interest that it will acquire in the Target Company. The consideration for the Target Shares was determined and agreed after arm's length negotiations among the parties to the agreement and with reference to various relevant factors, including, among other things, the value of the assets and business of the Target Company with reference to its Embedded Value (after adjustment relating to the MM Japan Carve-out and the maintenance of the Solvency Ratio of 200% as further detailed below) and net assets value, prospects, market position, synergies and other factors set out under the paragraph headed "— Reasons for and Benefits of the Acquisition" below as well as valuation of public insurance companies in Hong Kong. Pursuant to the Share Purchase Agreement, the completion of the MM Japan Carve-out and the Solvency Ratio of the Target Company as of the Solvency Ratio Condition Date not being less than 200% are Conditions to Completion, and therefore, in determining the consideration, the Company made adjustments for the MM Japan Carve-out and the maintenance of the Solvency Ratio of 200% as further detailed below. The consideration represents a price to adjusted Embedded Value ratio of 1.18 times as calculated below, which falls below the market capitalization to embedded value of a major insurance company in Hong Kong which the Company considered to be a fair and representative comparable company to the Target Company because it has similar product offerings and a significant principal market in Hong Kong (being its largest market), and the purchase price to embedded value ratios of five past comparable mergers and acquisitions of insurance companies in Hong Kong which the Company considered to be fair and representative given such insurance companies had comparable market offerings of life insurance products and market focus in Hong Kong. In addition to the current intrinsic value of the Target Company, the Company believes that the synergies between the Group and the Target Company will enhance the prospects of the Enlarged Group and thus potentially creating value to the Group.

Completion is conditional upon the fulfilment or waiver by the Company of a number of Conditions, including the completion of the MM Japan Carve-out and the Solvency Ratio of the Target Company as of the Solvency Ratio Condition Date not being less than 200%. For illustrative purposes only, assuming the MM Japan Carve-out is conducted at the fair value of MassMutual Life Insurance Company K.K. of HK$1,420 million as at 30 June 2017 (which amount has been included in the adjusted net worth forming part of the Embedded Value as at 30 June 2017) and therefore reducing the net assets value of the Target Company by the same amount, the net assets value of the Target Company would have to be increased by HK$860 million in order to maintain a Solvency Ratio of 200% as at 30 June 2017. See note 20 to the financial information of the Target Group included in the Accountants' Report on the Target Group set forth in Appendix IV for the fair value of MassMutual Life Insurance Company K.K., and note 9 to the unaudited pro forma financial information of the Enlarged Group in paragraph 4 of Part A of Appendix VI for the calculation of the cash contribution required to maintain a Solvency Ratio of 200%. The Embedded Value of the Target Company as at 30 June 2017 is HK$11,637 million, which, for illustrative purposes only, would amount to HK$11,077 million after adjusting for the impact on the net assets value resulting from the MM Japan Carve-out and the maintenance of the Solvency Ratio of 200% as stated above. On this basis, the total consideration of HK$13,100 million represents 1.18 times of the Embedded Value of the Target Company as at 30 June 2017 as adjusted above.

Issue Price

The Issue Price of HK$6.50 per Consideration Share represents:

(i) a premium of approximately 33.20% over the closing price of HK$4.88 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 3.50% over the closing price of HK$6.28 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 13.12% over the average of the closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of approximately HK$5.746 per Share;

(iv) a premium of approximately 16.05% over the average of the closing price of the Shares as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day of approximately HK$5.601 per Share;

(v) a premium of approximately 27.73% over the average of the closing price of the Shares as quoted on the Stock Exchange for the thirty consecutive trading days up to and including the Last Trading Day of approximately HK$5.089 per Share; and

(vi) a premium of approximately 255.2% to the audited consolidated net asset value of the Company of approximately HK$1.83 per Share as of 31 December 2016 (based on the number of issued Shares as of the Latest Practicable Date).

The Group started its current fintech focus after the Company was taken over by Yunfeng Financial Holdings Limited in November 2015. Since then, closing prices of the Shares fluctuated between approximately HK$13.4 per Share to approximately HK$3.8 per Share. The Issue Price was determined after arm's length negotiation between the Company and the Vendor, with reference to the long-term closing prices of the Shares since November 2015 and taking into account various factors, including historical share prices during negotiations, prospects and potential of the Enlarged Group, and growing fintech market potential. The Issue Price falls within the range of closing prices of the Shares after 15 November 2015. Whilst the closing price was on a general downward trend in the above period, the parties to the Share Purchase Agreement have agreed the Issue Price in the mid range of the historic closing prices having considered the upside potential of the developing fintech market and the Enlarged Group's prospects.

Ranking of the Consideration Shares

The Consideration Shares, when issued, will rank *pari passu* in all respects among themselves and with all the Shares in issue as of the date of allotment and issue of the Consideration Shares. Holders of such Consideration Shares shall be entitled to receive all future dividends and distributions that are declared after the date of allotment and issue of the Consideration Shares.

Completion

Completion is scheduled to take place on the third Business Day after the date on which all the Conditions are satisfied or waived, or any other date as the Company and the Vendor may agree in writing.

Termination

The Share Purchase Agreement may be terminated at any time prior to Completion:

(a) by written agreement of the Company and the Vendor;

(b) by either the Company or the Vendor, by giving written notice of such termination to the Vendor or the Company, as applicable, if Completion shall have not occurred on or prior to the Long Stop Date for the reason that the Conditions have not been satisfied or waived; provided, that the right to terminate the Share Purchase Agreement shall not be available to (i) the Company if the failure of Completion to occur by the close of business on the Long Stop Date is primarily attributable to a failure on the part of the Company or any other Purchaser to perform any of its respective obligations under the Share Purchase Agreement required to be performed by the Company or such other Purchaser, as applicable, at or prior to Completion or (ii) the Vendor if the failure of Completion to occur by the close of business on the Long Stop Date is primarily attributable to a failure on the part of the Vendor to perform any of its obligations under the Share Purchase Agreement required to be performed by the Vendor at or prior to Completion;

(c) by either the Company or the Vendor, by giving written notice of such termination to the Vendor or the Company, as applicable, if any order of any governmental authority or any law shall have been issued or made which has the effect of making unlawful or otherwise prohibiting or restricting in any material respect the transactions from taking place as contemplated in the Share Purchase Agreement, and such order shall have become permanent, final and non-appealable;

(d) by the Company:

    (i) if all Conditions contained in paragraphs (a) to (n) in the section headed "— Conditions Precedent" above have been satisfied (or are capable of being satisfied), the Company has confirmed to the Vendor in writing that all Conditions contained in paragraphs (o) to (v) under the section headed "— Conditions Precedent" above have been satisfied or waived, and the Vendor fails to complete the Completion; and

(ii) if the Vendor has breached or failed to perform any of the warranties relating to the Target Company or its covenants, undertaking or agreements set forth in the Share Purchase Agreement, which breach or failure to perform (A) would result in the failure of a Condition set forth in paragraphs (a) to (n) in the section headed "— Conditions Precedent" above, and (B) cannot be cured by the Long Stop Date or if curable by the Long Stop Date, is not cured by the earlier of (x) thirty (30) days following the date of delivery by the Company of written notice of such breach or failure to perform to the Vendor or (y) the Long Stop Date; provided that the Company shall not have the right to terminate the Share Purchase Agreement pursuant to this paragraph (d)(ii) if the Company or any other Purchaser is then in material breach of any of its covenants, undertakings or agreements set forth in the Share Purchase Agreement; and

(e) by the Vendor:

(i) if all Conditions contained in paragraphs (a) to (g) and (o) to (v) in the section headed "— Conditions Precedent" above have been satisfied (or are capable of being satisfied), the Vendor has confirmed to the Company and the other Purchasers in writing that all Conditions contained in paragraphs (h) to (n) in the section headed "— Conditions Precedent" above have been satisfied or waived, and the Company and the other Purchasers fail to complete the Completion; and

(ii) if the Company has breached or failed to perform any of the warranties relating to the Company, any other Purchaser has breached or failed to perform any of its warranties or the Company or any other Purchaser has breached or failed to perform its respective covenants, undertaking or agreements set forth in the Share Purchase Agreement, in any such case, which breach or failure to perform (A) would result in the failure of a Condition set forth in paragraphs (a) to (g) and (o) to (v) in the section headed "— Conditions Precedent" above, and (B) cannot be cured by the Long Stop Date or if curable by the Long Stop Date, is not cured by the earlier of (x) thirty (30) days following the date of delivery by the Vendor of written notice of such breach or failure to perform to the Company or the relevant other Purchaser, as applicable, or (y) the Long Stop Date; provided further, that the Vendor shall not have the right to terminate the Share Purchase Agreement pursuant to this paragraph (e)(ii) if the Vendor is then in material breach of any of its covenants, undertakings or agreements set forth in the Share Purchase Agreement,

provided that, subject to the terms of the Share Purchase Agreement, the Share Purchase Agreement shall cease to have effect as regards an Other Investor in the event of termination of the Acquisition in respect to it in accordance with the paragraph headed "— Replacement of Other Investors" above, provided further that such termination shall not relieve any other party of its rights and obligations under the Share Purchase Agreement.

Lock-up Undertaking

Key Imagination, an indirect controlling shareholder of the Company which holds 73.21% of Jade Passion, which in turn holds approximately 55.42% of the Company as of the Latest Practicable Date, has undertaken to the Vendor that prior to Completion or the termination of the Share Purchase Agreement, whichever is earlier, it will not dispose of any Shares held by it or its affiliates or any voting interest of such Shares.

Specific Mandate

The Consideration Shares will be allotted and issued under the Specific Mandate to be obtained from the Shareholders at the EGM by an ordinary resolution.

Application for Listing of the Consideration Shares

The Company will apply to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares to be allotted and issued pursuant to the Share Purchase Agreement.

CO-INVESTORS AGREEMENT

The Company has entered into the Co-investors Agreement with the Other Investors on 17 August 2017. Pursuant to the Co-investors Agreement, each of the Company and the Other Investors agrees to purchase its respective proportion of Target Shares and pays consideration as provided for in the Share Purchase Agreement and the Company is appointed as a representative of the Company and the Other Investors to handle matters relating to the Share Purchase Agreement and other transaction documents with the Vendor on behalf of the Company and the Other Investors. Furthermore, the Company and the Other Investors agree to share the expenses for the Acquisition (such as fees of professional advisers and funding of a retention program to retain senior management and agents of the Target Group post Completion). The Company and the Other Investors also acknowledge that the Target Company may require future capital contribution and there may be dilution to their shareholding in the Target Company if they do not contribute capital as required in the future. The Co-investors Agreement also includes restrictions on the transfer of the Target Shares by the Company and the Other Investors, namely a lock up period of two years post Completion, customary right of first offer, tag-along right and preemptive right.

EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As of the Latest Practicable Date, the Company has 2,423,326,394 Shares in issue. The Company adopted a share option scheme on 21 July 2011, a share award scheme on 30 October 2014, and a share award scheme on 12 December 2016, pursuant to which options to subscribe for Shares and Share awards may be granted to selected eligible participants.

As of the Latest Practicable Date, the Company does not have any outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into Shares.

The following table illustrates the shareholding structure of the Company (i) as of the Latest Practicable Date; and (ii) immediately after Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion):

	As of the Latest Practicable Date		**Immediately after Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Jade Passion *(Note 1)*	1,342,976,000	55.42	1,342,976,000	41.66
MassMutual International LLC	—	—	800,000,000	24.82
Sub-total of MassMutual International LLC (i.e. the Vendor) and Jade Passion (being a party acting in concert with the Vendor under the Takeovers Code upon and following Completion)	1,342,976,000	55.42	2,142,976,000	66.48
Gainhigh Holdings Limited *(Note 2)*	229,180,726	9.46	229,180,726	7.11
Violet Passion Holdings Limited *(Note 3)*	167,872,000	6.93	167,872,000	5.21
Other public Shareholders	683,297,668	28.20	683,297,668	21.20
Total	2,423,326,394	100.00	3,223,326,394	100.00

Notes:

1. Jade Passion is owned as to 73.21% by Key Imagination Limited and 26.79% by Gold Ocean Investments Group Inc. Key Imagination Limited is owned as to 91% by Yunfeng Financial Holdings Limited and 9% by Perfect Merit Limited. Yunfeng Financial Holdings Limited is owned as to 70.15% by Mr. Yu Feng, the Chairman and a non-executive Director, and 29.85% by Mr. Ma Yun. Perfect Merit Limited is wholly-owned by Mr. Huang Xin, an executive Director. Gold Ocean Investments Group Inc. is wholly-owned by Asia Newpower Group Inc., which is wholly-owned by Mr. Huang Youlong, a non-executive Director.

2. Gainhigh Holdings Limited is wholly-owned by Insula Holdings Limited, which is wholly-owned by Mr. Ko Chun Shun, Johnson, a non-executive Director.

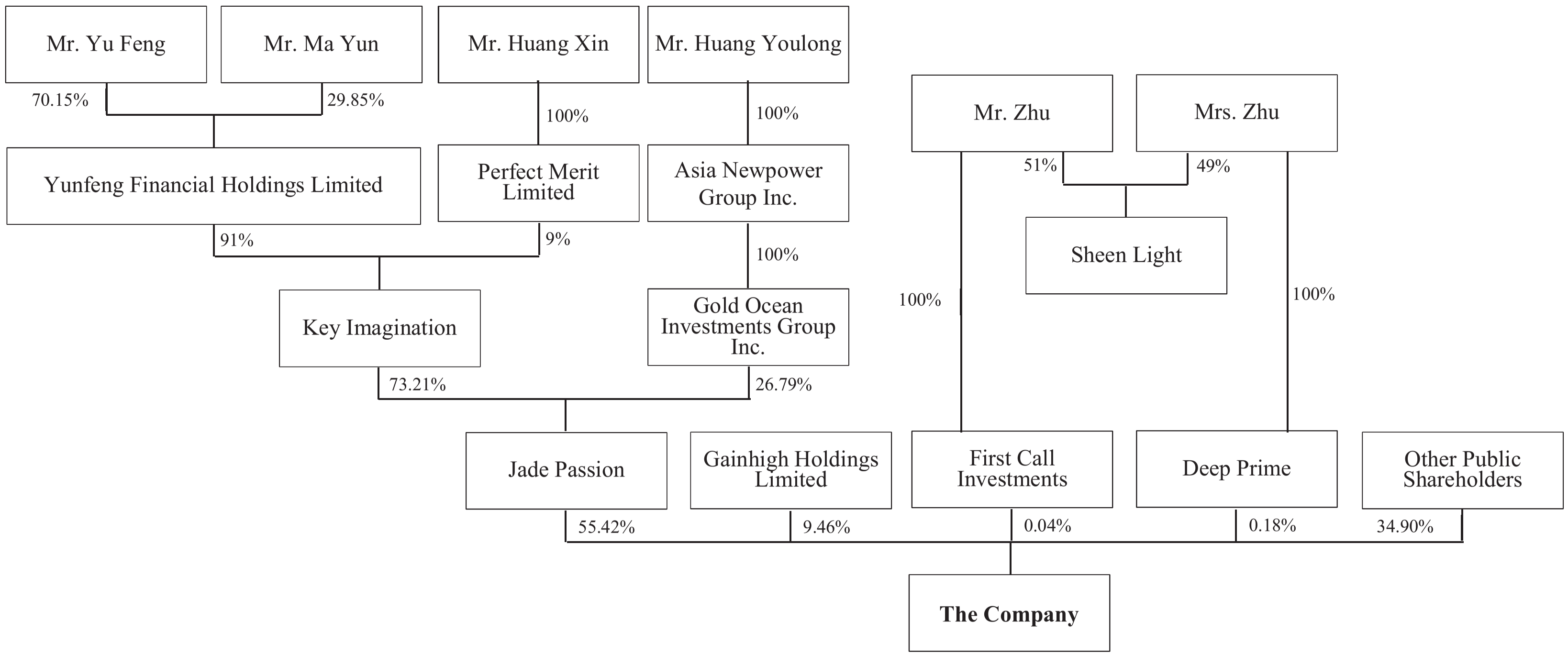
3. Violet Passion Holdings Limited is wholly-owned by Clear Expert Limited, which is wholly-owned by Ms. Lian Yi. Violet Passion Holdings Limited is not a connected person of the Company and therefore its shareholding is counted towards the public float.

4. Certain percentage figures set out in this table are subject to rounding adjustments. Accordingly, figures shown as totals in this table may not be an arithmetic sum of such figures.

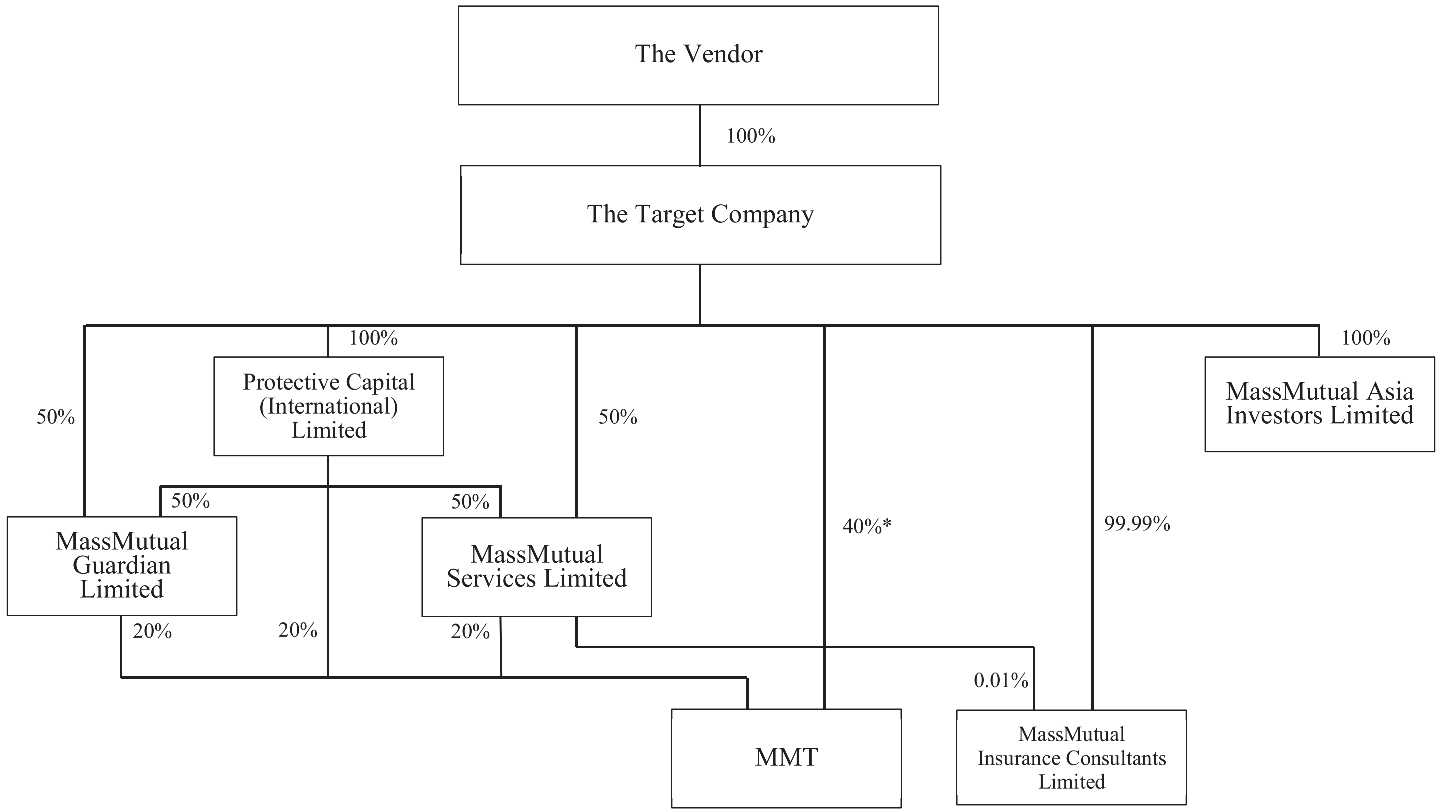
STRUCTURE OF THE GROUP AND THE TARGET GROUP

Structure of the Group and the Target Group as of the Latest Practicable Date

The Group

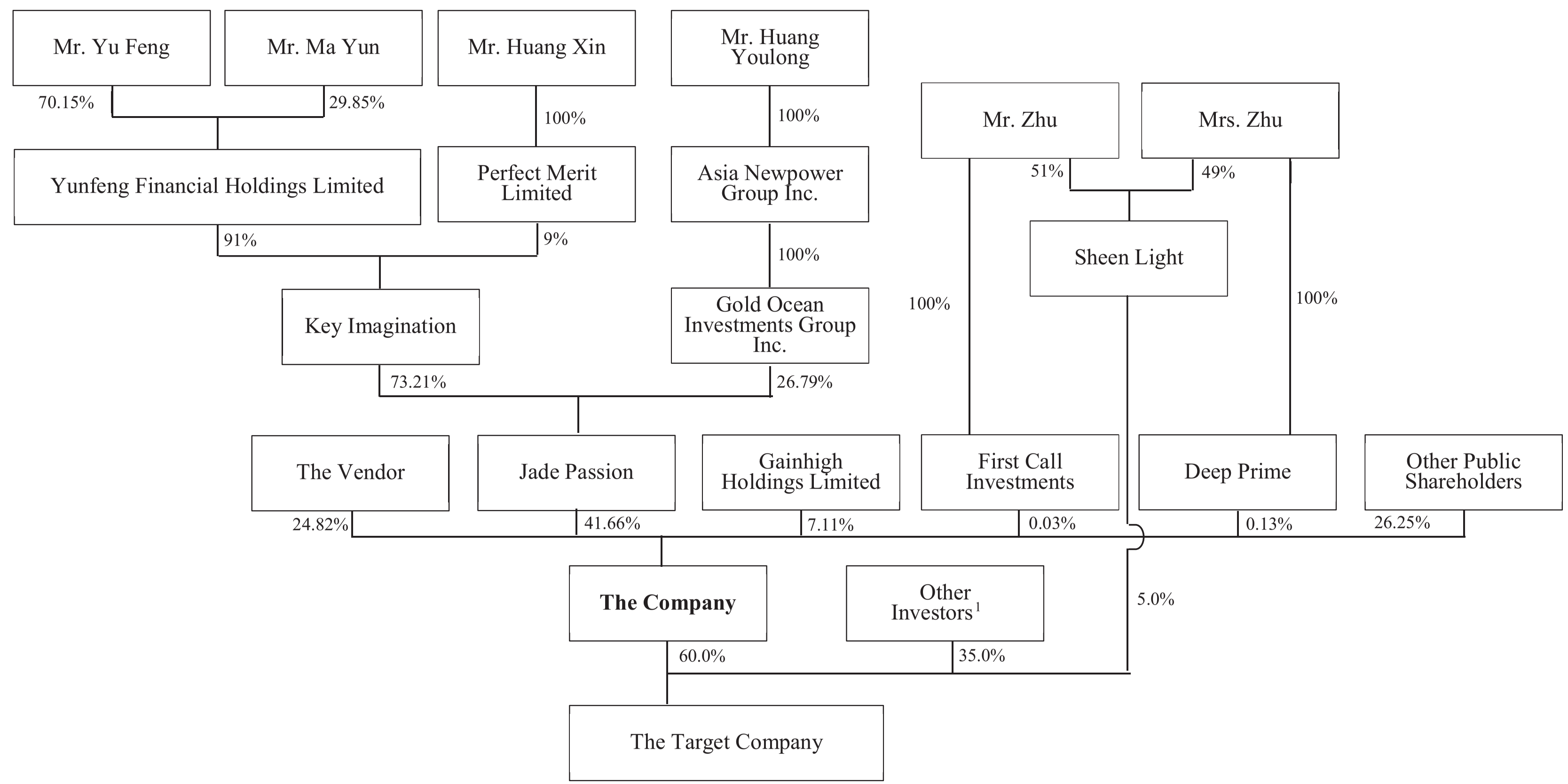


The Target Group



* Keng Puang Tay holds 20% of the shares as nominee on trust for the Target Company.

Structure of the Group immediately after Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion)



Note:

1. The Other Investors Target Shares (other than the Sheen Light Target Shares) will be owned as follows: Meyu International (9.8%), City-Scape (7.5%), API (Hong Kong) (5.0%), SINA (5.0%), Harvest Billion (4.9%) and Giant Investment (HK) (2.8%).

INVESTOR RIGHTS AGREEMENT

At Completion, the Company and the Vendor shall enter into the Investor Rights Agreement providing for certain rights of the Vendor in respect of the Company and the Target Company.

Nomination of Directors

Pursuant to the Investor Rights Agreement, the Vendor may nominate for appointment, removal or replacement of (i) two candidates to act as non-executive Directors of the Board for so long as the Vendor and its affiliates own at least 17.5% of the issued Shares and (ii) one candidate to act as a non-executive Director of the Board for so long as the Vendor and its affiliates own at least 10.0% but less than 17.5% of the issued Shares. The appointment of the Director(s) nominated by the Vendor shall be subject to the approval of the Nomination Committee after a reasonable review process based on reasonable criteria and having regards to the Articles of Association, the Listing Rules and good corporate governance practices. The Board, including the Nomination Committee will evaluate factors, including among other things, experience, qualifications and background of the candidate nominated by the Vendor when considering whether to approve the appointment. Any Directors so appointed by the Board will be subject to the standard re-election and shareholders' approval requirements under the Articles of Association.

In addition, in the event that no individual nominated by the Vendor remains as a Director and the Vendor and its affiliates own at least 5.0% of the issued Shares, the Company may, in its sole discretion, invite one representative of the Vendor to be a non-voting observer to attend and observe meetings of the Board and the Vendor may, upon the Company's invitation and at its sole discretion, designate one representative as such non-voting observer. There is no agreement between the Company and the Vendor as to whether the Company will exercise its discretion to invite such non-voting observer or as to whether the Vendor will accept such invitation. The Company will exercise its discretion only when it considers such arrangement to be in the interests of the Company and its Shareholders as a whole. The non-voting observer shall not be counted for the purposes of determining a quorum at meetings of the Board. The Vendor belongs to a well-known and long established insurance group. It is believed that the non-voting observer designated by the Vendor will be able to share with the Board his experience and knowledge in the insurance industry and provide the Board with valuable advice. The Vendor acknowledges that the non-voting observer shall be subject to the same non-disclosure, insider trading restrictions and conflicts of interest policies and procedures as and to the same extent as that applicable to the members of the Board from time to time. The Company will require any non-voting observer designated by the Vendor and the Vendor to execute an undertaking pursuant to which the non-voting observer designated by the Vendor shall undertake to comply with such restrictions, policies and procedures and the Vendor shall undertake to use reasonable best efforts to procure such observer to comply with his obligations under such undertaking. The non-voting observer shall not disclose any confidential information that he obtains in the Board meetings to the Vendor. In the event that the non-voting observer breaches the undertaking, the Company will have a contractual right to sue the non-voting observer for such breach and/or seek injunction orders from the courts. The Company believes that the Vendor, being the holding company of the Target Group before the Acquisition, will procure its designated observer to duly observe and comply with his obligations under the undertaking. In light of the benefits that non-voting observer may bring to the Board and that it is at the sole discretion of the Company to invite the Vendor to designate a non-voting observer to attend and observe meetings of the Board, the Company does not consider that the designation of such observer by the Vendor is prejudicial to the interest of the Shareholders and instead, the Company considers this arrangement to be fair and reasonable and in the interests of the Company and its Shareholders as a whole. Given the potential benefits and the restrictions that the Vendor and its designated observer will be subject to, the Company accordingly considers that all Shareholders (including the Vendor) are treated fairly and equally.

Article 66 of the Articles of Association provides that general meetings of the Company shall be convened on requisition as provided by the Companies Ordinance. According to the Companies Ordinance, if a company has received requests to do so from members of the company representing at least 5% of the total voting rights of all members having rights to vote at general meetings, the directors of the company are required to call a general meeting to consider the resolutions proposed by such members, including the appointment of persons nominated by such requesting members as Directors. Furthermore, as disclosed above, the appointment of the Director(s) nominated by the Vendor shall be subject to the approval of the Nomination Committee after a reasonable review process based on reasonable criteria and having regards to the Articles of Association, the Listing Rules and good corporate governance practices. An appointment of Director will only be made by the Company if it is in the interest of the Company and the Shareholders as a whole. Any Directors nominated by the Vendor pursuant to the Investor Rights Agreement, if so appointed by the Board, will be subject to the standard re-election and shareholders' approval requirements under the Articles of Association. Therefore, the Vendor's nomination right for appointment of Directors under the Investor Rights Agreement is consistent with those rights available to other Shareholders under the Articles of Association and the Investor Rights Agreement does not grant any additional material rights to the Vendor nor impose material additional obligations on the part of the Company. Accordingly, all Shareholders (including the Vendor) are treated fairly and equally and the Company does not consider that the Vendor's nomination right for appointment of Directors is prejudicial to the interest of the Shareholders.

Nomination of directors of the Target Company

The Vendor shall be entitled to nominate one candidate to the board of directors of the Target Company for an initial term of three years commencing upon Completion and the Company shall procure the appointment of such nominated director for the initial term. Upon Completion, it is expected that the board of directors of the Target Company shall comprise eight directors, including any independent non-executive directors as required by any applicable law or regulatory authority.

The Vendor belongs to a well-known and long established insurance group and the Target Group is part of the Vendor group. It is believed that a director nominated by the Vendor possessing the appropriate competence and experience in the financial services industry to serve on the board of the Target Company will benefit the Target Company, particularly in terms of business transitional arrangements of the Target Company post Completion and strategic cooperation with the Vendor group. The entitlement to nominate one director, and the obligation of the Company to procure the appointment of such nominated director, to the board of the Target Company will last for an initial term of three years after Completion to help facilitate a smooth transition after Completion. The Company's obligation to procure the appointment of a nominated director by the Vendor is subject to

(i) such nominated director being approved or not objected to by the HKIA (as applicable) to serve as a director of the Target Company; (ii) the Directors being satisfied with the competence and experience of such nominated director after a reasonable review process based on reasonable criteria; and (iii) the Directors fulfilling their fiduciary duties to act in the best interest of the Company and the Shareholders as a whole when making such appointment. The Vendor possesses extensive experience in the Hong Kong insurance industry and is familiar with the regulatory requirements in Hong Kong. The Target Company is an authorised insurer in Hong Kong and the appointment of any director to the board of directors of the Target Company must be approved (or otherwise not objected to) by the HKIA. With its extensive experience in the Hong Kong insurance industry and familiarity with the Hong Kong regulatory requirements, it is believed that the director nominated by the Vendor to the board of directors of the Target Company will meet the criteria for approval by the HKIA. Given the strategic value of such director to the Target Company and the benefits that the director nominated by the Vendor may bring to the Target Company and hence the Company as the holding company of the Target Company, the Company does not consider that the nomination of such director by the Vendor is prejudicial to the interest of the Shareholders and instead, the Company considers this arrangement to be in the interests of the Company and its Shareholders as a whole. Accordingly, all Shareholders (including the Vendor) are treated fairly and equally.

Preemptive right

Pursuant to the Investor Rights Agreement, subject to independent Shareholders' approval requirement, the Vendor shall have the right to subscribe for (on a pro rata basis) Shares proposed to be issued by the Company (including any issuance pursuant to a general mandate), except for shares proposed to be issued to employees and officers of the Company pursuant to any employee benefit or stock option plans approved by the Board or the Shareholders. The Vendor's preemptive right is not dependent on the Vendor holding a certain threshold percentage of Shares and such right exists as long as the Vendor is a Shareholder and the Investor Rights Agreement is not terminated.

The Company shall promptly convene a Shareholders' meeting for the approval of such preemptive issuance pursuant to a specific mandate and prepare any Shareholders' circular or other disclosure required in connection with such preemptive issuance, and the Vendor will be required to abstain from voting at general meetings on the relevant resolutions approving the preemptive issuance of Shares to the Vendor.

The Company does not consider the preemptive right to be granted to the Vendor an unfair or unequal preferential or absolute right for the Vendor to acquire Shares. The preemptive right will only be triggered when the Company decides to issue new Shares at which the Company will duly consider if the proposed new Share issue will be in its interests and those of the Shareholders as a whole. In addition, any preemptive issuance of Shares to the Vendor (even if such issuance will not constitute a connected transaction of the Company under the Listing Rules) will be made pursuant to a specific mandate and be subject to independent Shareholders' approval requirement, and the Vendor will be required to abstain from voting on the relevant resolutions. The Company's future fund raising ability will not be restricted as, in the event that the preemptive right is not exercised by the Vendor, or the resolutions concerning the preemptive issuance to the Vendor are not approved by the Shareholders, the Vendor will not have a right to veto the Company's fund raising exercise and the Company may still proceed with any proposed fund raising without the preemptive issuance of Shares to the Vendor.

Furthermore, the Vendor will only be given a limited time of 20 days to consider whether to exercise its preemptive right, which is not expected to unduly delay or hinder any future fund raising exercise of the Company. The Company considers the preemptive right to be granted to the Vendor is in the interests of the Company and its Shareholders as a whole as such preemptive right does not restrict the Company's ability in equity fund raising but provides the Company with an opportunity for a reputable and financially strong Shareholder with significant strategic value to the Group to consider and support future fund raising needs of the Company. Accordingly, the Company considers that the granting of preemptive rights to the Vendor would not contravene the requirement to treat all Shareholders fairly and equally.

Information rights

Pursuant to the Investor Rights Agreement, the Company shall deliver to the Vendor the following information:

(a) so long as the Vendor holds at least 19.9% or more of the Shares, as promptly as practicable, but in any event within sixty (60) days after the end of each of the first six-month period of each financial year of the Company (each, a "First Six-month Period"), (x) (i) a full set of unaudited consolidated semi-annual financial statements and cash flow statements of the Group prepared in accordance with US GAAP, for each First Six-month Period, or (ii) a full set of unaudited consolidated semi-annual financial statements and cash flow statements of the Group prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" (or any other financial reporting standard adopted by the Company for its annual financial statements) with a footnote (or such other statement or report) that reconciles such financial statements to US GAAP, in a form reasonably required by the Vendor, provided that the Vendor shall reimburse the Company for the cost of preparing such US GAAP financial statements described under (x)(i) (based on the First Six-month Period financial statements and cash flow statements prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" (or any other financial reporting standard adopted by the Company for its annual financial statements)) or such reconciliation to US GAAP described under (x)(ii) and the Vendor shall organize the expertise necessary to assist the Company in the preparation of such US GAAP financial statements or reconciliation, as applicable, and (y) such other information as the Vendor may reasonably request for the preparation of its consolidated accounts and cash flow statements provided that the provision of such other information is subject to the Company's compliance with the Inside Information Provisions and the Company shall not be obligated to provide such other information that it deems in good faith to be a trade secret or similar confidential information;

(b) so long as the Vendor holds 19.9% or more of the Shares, as promptly as practicable, but in any event within ninety (90) days after the end of each financial year, (x) (i) the audited consolidated financial statements and cash flow statements of the Group for each financial year in accordance with US GAAP, or (ii) the audited consolidated financial statements and cash flow statements of the Group for each financial year in accordance with HKFRS (or any other financial reporting standard adopted by the Company for its annual financial statements) with a footnote (or such other statement or report) that reconciles such financial statements to US GAAP with such reconciliation included in the audit, in a form reasonably required by the Vendor, provided that the Vendor shall reimburse the Company for the cost of preparing such financial statements under (x)(i) (based on the audited consolidated financial statements and cash flow statements prepared in accordance with HKFRS (or any other financial reporting standard adopted by the Company for its annual financial statements)) or such reconciliation to US GAAP described under (x)(ii) and the Vendor shall organize the expertise necessary to assist the Company in the preparation of such US GAAP financial statements or reconciliation, as applicable, and (y) such other information as the Vendor may reasonably request for the preparation of its consolidated accounts and cash flow statements provided that the provision of such other information is subject to the Company's compliance with the Inside Information Provisions and the Company shall not be obligated to provide such other information that it deems in good faith to be a trade secret or similar confidential information;

(c) so long as the Vendor holds 10.0% or more, by vote or value as determined for United States Tax purposes, of the Shares, such other information regarding the Company and its subsidiaries as is necessary for the Vendor to comply with its obligations under United States Tax Law; and, provided that (i) the Vendor shall provide reasonable evidence to the Company demonstrating that the provision of such other information is reasonably necessary and, (ii) where applicable, the Company shall be allowed reasonable time to disclose such other information to the public pursuant to the Inside Information Provisions, provided that the Company shall make such disclosure as soon as reasonably practicable (but in any event no later than 20 calendar days) after the date of the Vendor's provision of reasonable evidence under (i) above; and

(d) such other information relating to the financial condition, business or corporate affairs of the Group as the Vendor may from time to time reasonably request, provided, however, that the provision of such information hereunder is subject to the Company's compliance with the Inside Information Provisions and the Company shall not be obligated to provide information that it deems in good faith to be a trade secret or similar confidential information.

The Company considers that the provision of information to the Vendor under the Investor Rights Agreement is consistent with the general disclosure requirements under the Listing Rules and the applicable laws.

Unaudited and audited consolidated financial statements of the Group that the Vendor will be entitled to receive under paragraphs (a) and (b) above are materially in-line with the reporting and disclosure requirements under Rules 13.49(1) and (6) of the Listing Rules, which require the Company to announce its interim results within two months after half-year end and its full year results within three months after the financial year end. The information to be provided to the Vendor pursuant to the Investor Rights Agreement will only be provided to the Vendor after the Company has complied with the requirements under Rules 13.49(1) and (6) of the Listing Rules and published such information by way of an announcement.

The Company will ensure due and timely compliance with the Inside Information Provision requirements under the Listing Rules and Part XIVA of the SFO in respect of the provision of any other information which the Vendor may request under paragraphs (c) and (d). No inside information will be selectively disseminated to the Vendor under these information rights.

Accordingly, the Company is of the view that all Shareholders are treated fairly and equally and that in connection with the relevant provisions in the Investor Rights Agreement relating to information rights, it will take appropriate and reasonable steps to ensure that it is able to maintain strict confidentiality of inside information until it is announced.

The rights under the Investor Rights Agreement, namely Directors nomination rights, Target Company director nomination rights, preemptive right and information rights, are neither expressly provided in nor prohibited under the Articles of Association. However, taking into account the effects of such rights as more particularly explained above, the Company considers that such rights do not prejudice the interests of the Shareholders and do not contravene the principle that all of the Shareholders are to be treated fairly and equally.

SHAREHOLDERS AGREEMENT

At Completion, Key Imagination and the Vendor shall enter into the Shareholders Agreement in connection with certain matters relating to the Company.

Composition of the Board and the board of directors of the Target Company

Pursuant to the Shareholders Agreement, Key Imagination shall procure that each of its affiliates (including Jade Passion) will exercise its respective voting rights as a Shareholder and take all such other actions reasonably necessary to vote in favor of all resolutions with respect to the appointment and re-election of the Directors nominated by the Vendor pursuant to the Investor Rights Agreement, and, in the event the number of Directors of the Board is increased following Completion, a number of additional candidate(s) to the Board that is proportional to such increase to the size of the Board (rounded down to the nearest whole number), taking into account any Directors nominated by the Vendor then serving on the Board.

Further, in the event the number of directors of the board of directors of the Target Company is increased during the three year period following Completion, Key Imagination shall procure that the Vendor shall have the opportunity to nominate a number of additional candidate(s) to the board of directors of the Target Company that is proportional to such increase of the size of the board of directors of the Target Company (rounded down to the nearest whole number), taking into account any nominee or nominees of the Vendor then serving on the board of directors of the Target Company, and procure the appointment of such additional nominated director or directors for the remainder of the initial term.

Protective provisions

Pursuant to the Shareholders Agreement, so long as the Vendor and its affiliates continue to beneficially own at least 10.0% of the issued and outstanding Shares, without the prior written consent of the Vendor, Key Imagination shall not, and shall procure that each of its affiliates (including Jade Passion) shall not, vote any Shares in favour of the following actions:

(i) amendments, modifications or other alterations to the Articles of Association;

(ii) any "very substantial disposal" (as such term is defined in the Listing Rules);

(iii) any acquisition (including by merger, consolidation, scheme of arrangement, amalgamation or acquisition of stock or assets or any other business combination) which involves, or would result in the Company or any of its subsidiaries having, any material business activities outside of the financial services industry;

(iv) any "reverse takeover" (as such term is defined in the Listing Rules), including a spin-off; and

(v) a withdrawal of the Company's listing from the Stock Exchange or any action or omission that would reasonably be expected to jeopardize the listing status of the Company on the Stock Exchange.

In addition to the foregoing, in the event that and for so long as the Vendor and its affiliates continue to beneficially own at least 17.5% of the issued and outstanding Shares, without the prior written consent of the Vendor, Key Imagination shall not, and shall procure that each of its affiliates (including Jade Passion) shall not, vote any Shares in favor of the following actions:

(i) any change of the Company's name;

(ii) approval of any service contract or agreement with any Director with a term exceeding three years or a notice period for termination of more than one year (or paying compensation or other payment equivalents in excess of one year's emoluments);

(iii) appointment of any auditor of the Company or removal of an auditor of the Company prior to the expiration of such auditor's term of office; and

(iv) any "very substantial acquisition" (as such term is defined in the Listing Rules).

Save for such matters set out under the paragraphs headed "— Composition of the Board and the board of directors of the Target Company" and "— Protective provisions" above, each of Jade Passion and the Vendor shall exercise its voting rights as a Shareholder separately and independently from each other.

Lock-up

Save for any transfer of Shares to its affiliates in accordance with the terms of the Shareholders Agreement, each of Key Imagination and the Vendor shall not, and shall procure its affiliates not to, sell, transfer or otherwise dispose of any of the Shares held by it without the prior written consent of the other for a period of 12 months following Completion.

Right of first offer

So long as the Vendor and its affiliates beneficially own at least 10.0% of the issued and outstanding Shares, the Vendor shall have a right of first offer with respect to any sale, transfer or disposal of Shares by Jade Passion (other than any Permitted Transfers) pursuant to the Shareholders Agreement. The Vendor's right of first offer will be exercised on a pro rata basis in the event that there are other parties becoming bound by the Shareholders Agreement as a result of transfers of Shares by Key Imagination or the Vendor permitted and in accordance with the terms of the Shareholders Agreement.

Tag-along rights

So long as the Vendor and its affiliates beneficially own at least 10.0% of the issued and outstanding Shares, the Vendor shall have tag-along rights (on a pro rata basis) with respect to any proposed sale, transfer or disposal by Jade Passion (other than any Permitted Transfer) of 5.0% or more of the issued and outstanding Shares in one transaction or a series of related transactions pursuant to the Shareholders Agreement.

PROPOSED CHANGE TO BOARD COMPOSITION

As of the Latest Practicable Date, the Board comprises nine Directors, including Mr. Yu Feng (who is Chairman and non-executive director), Ms. Li Ting and Mr. Huang Xin (who are executive directors), Mr. Ko Chun Shun, Johnson, Ms. Hai, Olivia Ou and Mr. Huang Youlong (who are non-executive directors), and Mr. Lin Lijun, Mr. Qi Daqing and Mr. Chu Chung Yue, Howard (who are independent non-executive directors).

The Vendor has proposed to nominate Mr. Adnan Omar Ahmed and Mr. Gareth Ross to act as non-executive Directors with effect from Completion. The appointment of Mr. Adnan Omar Ahmed and Mr. Gareth Ross has been approved by the Nomination Committee and the Board, but the appointment is subject to the approval by the Independent Shareholders at the EGM. Such proposed Directors, if appointed at the EGM, will be subject to the standard re-election and shareholders' approval requirements under the Articles of Association.

The biographies of Mr. Adnan Omar Ahmed and Mr. Gareth Ross are set out in Appendix I to this circular.

In order that the Board will comprise a more even proportion of executive, non-executive and independent non-executive Directors, especially taking into account the fact that the two Directors nominated by the Vendor will act as non-executive Directors, it is expected that Mr. Huang Youlong (a non-executive Director) will resign from the Board immediately after the EGM.

STRATEGIC COOPERATION AGREEMENT

On 15 December 2017, the Company, API (Hong Kong) and MMLIC, the parent company of the Vendor, entered into the Strategic Cooperation Agreement (which will become effective on Completion) to lay down the framework of certain future business cooperation among the parties. In relation to business cooperation between the Company and MMLIC, the Company will make available its financial services platforms and channels for the distribution of asset management products and services that the MassMutual Financial Group may develop from time to time and members of the MassMutual Financial Group will be the Company's preferred partners in new product development. In relation to business cooperation between the Company and Ant Financial Group, the Company will make available its financial services platforms and channels for the distribution of asset management products and services that Ant Financial Group may develop from time to time. In relation to business cooperation between Ant Financial Group and MMLIC, members of the MassMutual Financial Group shall become Ant Financial Group's strategic and non-exclusive partners and providers for life insurance products in the United States and both parties will jointly explore and cooperate with respect to the provision of insurance and wealth management products through digital or online media. Furthermore, the parties to the Strategic Cooperation Agreement will jointly explore and cooperate with respect to digitalizing the insurance process and also on the use of big data analytics in risk-selection and risk-based pricing of insurance products.

The Strategic Cooperation Agreement lays down the framework for future cooperation and further agreements may be entered into when an area of cooperation arises. There is no cash consideration passing to any party pursuant to the Strategic Cooperation Agreement, except that under the terms of the agreement, Barings LLC, an affiliate of MMLIC, shall manage the fixed income investment portfolio of the Target Group for a period of three years after Completion. In this regard, the Target Company has entered into the Barings Investment Advisory Agreement which is described in the section headed "Continuing Connected Transactions" in this circular.

CONTINUING CONNECTED TRANSACTIONS

Upon Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion), the Vendor will become a substantial shareholder of the Company, holding an approximately 24.82% interest in the Company and therefore will be a connected person of the Company. Accordingly, any transaction between (1) the Vendor or its associates and (2) the Group (including the Target Group) will constitute a connected transaction of the Company.

In order to facilitate transition and to minimize any business interruption to the Target Group, the Vendor and MMLIC have entered into certain agreements with the Target Company. The transactions under these agreements will become continuing connected transactions of the Company upon Completion.

For details regarding the Continuing Connected Transactions, please refer to the section headed "Continuing Connected Transactions" in this circular.

INFORMATION ON THE TARGET GROUP

The Target Company is an 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 is also registered as a principal intermediary for carrying on MPF regulated activities, and MMT, an indirect wholly-owned subsidiary of the Target Company, is an MPF approved trustee. The Target Company operates in Macau through a branch office and is licensed to sell life insurance products in Macau.

The Target Company holds a 10% interest in MassMutual Life Insurance Company K.K., a joint stock corporation incorporated under the laws of Japan. It is a condition precedent to the Completion of the Share Purchase Agreement that the Target Company shall have transferred all of its interest in MassMutual Life Insurance Company K.K., by way of dividend distribution to the Vendor.

For information on the business of the Target Group, please refer to the section headed "Business of the Target Group" in this circular. For the financial information of the Target Group for the three years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017, please refer to the sections headed "Financial Information on the Target Group" and "Appendix IV — Accountants' Report on the Target Group" in this circular. For information on the Embedded Value and Value of New Business of the Target Company, please refer to "Appendix VII — A. Actuarial Review Report on the Target Group" in this circular.

INFORMATION ON THE VENDOR

The Vendor is a limited liability company formed under the laws of the State of Delaware, the United States of America. The Vendor, through its subsidiaries, offers insurance and other financial services, including endowment and whole life insurance, universal life insurance, term insurance, group life insurance, credit life insurance, health benefit insurance and annuities, to customers primarily in Asia. The sole member of the Vendor is MMLIC. As a mutual life insurance company incorporated in the United States, MMLIC does not have any shareholders.

To the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are not connected persons of the Company and are independent of the Company and its connected persons.

INFORMATION ON THE OTHER INVESTORS

Meyu International

Meyu International is a company incorporated in Hong Kong with limited liability. Its primary business is investment holding. It is wholly-owned by Ms. Lu Xiaoyun. Ms. Lu is a professional investor in the investment management and asset management sector and has invested in multiple companies in the financial services sector.

City-Scape

City-Scape is a private limited company organised and existing under the laws of Singapore. It is an investment vehicle managed by GIC's private equity group. GIC is one of the world's leading sovereign wealth funds established in 1981 to manage Singapore's foreign reserves.

API (Hong Kong)

API (Hong Kong) is a wholly-owned subsidiary of Ant Financial. Ant Financial and its subsidiaries focus on serving small and micro enterprises as well as consumers. Ant Financial is dedicated to building an open data and technology ecosystem to provide inclusive finance globally, working together with financial institutions and other parties. Businesses operated by Ant Financial and its subsidiaries include payment, wealth management, lending, insurance and credit system.

Sheen Light

Sheen Light is a privately owned investment company that focuses on investing in enterprises with long-term growth potential. It was founded in 1997 in Hong Kong by a well-known PRC entrepreneur Mr. Zhu, who serves as Chairman of Joincare Pharmaceutical Industry Group Co., Ltd. and Livzon Pharmaceutical Group Inc. The two companies are publicly traded on China's A-share stock market. Sheen Light is held as to 51% by Mr. Zhu and as to the remaining 49% by Mrs. Zhu.

SINA

SINA is a leading online media company serving China and the global Chinese communities. SINA's digital media network of SINA.com (portal), SINA Mobile (mobile portal and mobile apps) and Weibo (social media) enables Internet users to access professional media and user generated content in multi-media formats from personal computers and mobile devices and share their interests with friends and acquaintances.

Harvest Billion

Harvest Billion is an investment company found by Mr. Chen Yihong in Hong Kong for undertaking the principal overseas investments of Mr. Chen. Mr. Chen is the chairman of China Dongxiang (Group) Co., Ltd., a company listed on the Main Board of the Stock Exchange (Stock Code: 3818) and has been committed to sports equipment retail, fashion and other investment businesses in China, Hong Kong and Macau. Mr. Chen founded China Dongxiang (Group) Co., Ltd., a leading sports equipment company in China, and acquired the ownership of Kappa (an Italian brand) in China. Mr. Chen has over 20 years' extensive experience in corporate operations and investments.

Giant Investment (HK)

Giant Investment (HK) is a wholly-owned subsidiary of Giant Network Group Co., Ltd., a company listed on the Shenzhen Stock Exchange (Stock code: 002558.SZ). Giant Network Group Co., Ltd is an integrated Internet company with three core business segments: Internet entertainment, Internet finance and Internet healthcare.

RELATIONSHIP BETWEEN OTHER INVESTORS AND THE COMPANY

API (Hong Kong) is a wholly-owned subsidiary of Ant Financial. Ant Financial is a company established under the laws of the PRC and its majority voting right is indirectly held by Mr. Ma Yun. Mr. Ma Yun holds 29.85% in Yunfeng Financial Holdings Limited, an indirect corporate controlling shareholder of the Company, whilst the remaining 70.15% is held by Mr. Yu Feng, the chairman and a non-executive Director. Mr. Yu Feng and Mr. Ma Yun are also the shareholders of Yunfeng Capital, a private equity firm, owned as to 60% by Mr. Yu Feng and 40% by Mr. Ma Yun. GIC, Mr. Zhu, SINA, Mr. Chen Yihong and Mr. Shi Yuzhu (the controlling shareholder of Giant Network Group Co., Ltd.), in each case through their respective investment entities, have invested in funds managed by Yunfeng Capital, in each case a minority economic interest in the relevant fund and Yunfeng Capital is a minority shareholder of Ant Financial. As of the Latest Practicable Date, First Call Investments (a company wholly-owned by Mr. Zhu) and Deep Prime (a company wholly-owned by Mrs. Zhu) are interested in 1,000,000 Shares and 4,348,000 Shares, representing approximately 0.04% and 0.18% of the issued share capital of the Company, respectively. First Call Investments and Deep Prime are not part of the Independent Shareholders because Sheen Light (a company held as to 51% by Mr. Zhu and as to the remaining 49% by Mrs. Zhu), is one of the Other Investors.

Save as disclosed above, to the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, each of the Other Investors and their respective ultimate beneficial owners is not a connected person of the Company and is independent of the Company and its connected persons, and that none of the Other Investors are Shareholders.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the provision of financial services, including securities brokerage, wealth management and investment, corporate finance consultancy, ESOP (Employee Stock Ownership Plan) administration, and investment research. The Group has developed and uses fintech to deliver a growing number of its services.

The long term vision of the Group is to leverage its fintech capabilities to develop a financial service ecosystem comprising information technology and online and offline platforms that offer a broad range of financial services and products along with high quality expert advice.

The Target Company is a well-established insurance company in Hong Kong with strong brand recognition. It has a proven profitable track record, with strong cash flows and solvency position. The Directors believe that the Acquisition will be accretive to the Group's net asset value per Share, and that upon completion of the Acquisition, the Target Company, as a subsidiary of the Group, will provide a stable source of revenue to the Group.

The Target Company offers a wide spectrum of insurance and wealth management products as well as MPF products. The Acquisition will provide an opportunity to broaden and enrich the product offering of the Group by extending the Group's existing wealth management and investment services through the introduction of the Target Company's insurance and annuity products, which the Company considers are products that are indispensable in overall financial planning and personal wealth management. The Company considers that a broader product portfolio will generate further growth for the Company.

The Target Company is characterized by its strong distribution capability featured by its well-trained tied-agent team. The Acquisition will allow the Group to combine the efforts of the tied-agent team of the Target Company and the Group's existing team of software engineers in the provision of high quality expert and professional advice, which would enhance customer experience and further strengthen its online to offline (O2O) capabilities. In addition, the Acquisition will also enable internal cross-referrals of existing customers of the Group and the Target Company, thereby facilitating a wider customer reach and further expanding the Company's financial service ecosystem which covers an expansive range of financial products and services.

After completion of the Acquisition, the Group will continue its existing financial services business and the Company believes that the Group's existing financial services business (including its wealth management and investment services) and the insurance and annuity businesses of the Target Group will complement and create synergies for each other. In addition, upon Completion, the Vendor will become the second largest shareholder of the Company and the strategic cooperation between the Vendor and the Group pursuant to the Strategic Cooperation Agreement will provide a valuable opportunity to leverage their respective resources and expertise, further enhancing brand recognition, and bring mutual benefits to both the Group and the Vendor.

The Company plans to continue the employment of the Target Group's employees and agency force. It is expected that the senior management team of the Target Group will remain intact after Completion and the new shareholders of the Target Company (including the Company) will fund a retention program after Completion.

In so far as the Company is aware, as of the Latest Practicable Date, it is the intention of the Vendor that the Company will continue its existing business after Completion and that the Vendor has no intention to introduce any major changes to the existing operation of the Group (including any redeployment of the fixed assets of the Group) or to discontinue the employment of the employees of the Group.

Mr. Yu Feng, Mr. Huang Xin and Mr. Huang Youlong have abstained from voting on the relevant Board resolutions to approve, among other things, the Acquisition. Mr. Yu Feng is a 70.15% shareholder of Yunfeng Financial Holdings Limited which is a 91% shareholder of Key Imagination and Mr. Huang Xin is the sole shareholder of Perfect Merit Limited which is a 9% shareholder of Key Imagination. Key Imagination is a 73.21% shareholder of Jade Passion, Mr. Huang Youlong is the sole shareholder of Asia Newpower Group Inc. which is in turn the sole shareholder of Gold Ocean Investments Group Inc. and Gold Ocean Investments Group Inc. is a 26.79% shareholder of Jade Passion, Jade Passion is a party acting in concert with the Vendor. In addition, Dr. Wong Yau Kar, David, *GBS, JP* volunteered to abstain from voting on the relevant Board resolutions to approve, among other things, the Acquisition to avoid a perception of conflict of interest since he is the Chairman of the MPFA and the obtaining of the prior written consent of the MPFA to the proposed change of the substantial shareholders of MMT in its capacity as the approved trustee of the MASS

Mandatory Provident Fund Scheme and the written approval of the MPFA to the proposed revised offering documents of the MASS Mandatory Provident Fund Scheme is one of the Conditions. Dr. Wong Yau Kar, David, *GBS, JP* resigned as an independent non-executive director of the Company with effect from 3 November 2017 with the consent of the Executive pursuant to Rule 7 of the Takeovers Code.

FUND RAISING ACTIVITY OF THE COMPANY IN THE PAST TWELVE-MONTH PERIOD

The Group has not carried out any fund raising activities during the 12 months immediately preceding the Latest Practicable Date.

FINANCIAL AND OTHER IMPACT OF THE ACQUISITION

Upon Completion, the Target Company will become a non-wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be consolidated into the financial statements of the Company. The unaudited pro forma financial information of the Enlarged Group as set out in Appendix VI to this circular has been prepared to illustrate the financial effect of the Acquisition.

With reference to the unaudited pro forma financial information of the Enlarged Group for the year ended 31 December 2016 as set out in Appendix VI to this circular, it is expected that members of the Target Group, as subsidiaries of the Group, will provide a stable source of revenue to the Group and will be accretive to the Company's net asset value per Share.

Shareholders and potential investors are advised to consider all of the information in this circular, including the non-exhaustive risks and uncertainties described in the section headed "Risk Factors" of this circular. The business, financial condition, results of operations and prospects of the Group could be adversely affected by any of the events as described.

Earnings

It is expected that the Acquisition will deliver a positive impact on the future earnings of the Enlarged Group as a result of the Target Group, as subsidiaries of the Group, providing a stable source of revenue to the Group and also improving the Group's profitability. As set out in the unaudited pro forma consolidated income statement of the Enlarged Group for the year ended 31 December 2016 as set out in Appendix VI to this circular, total revenue would increase from approximately HK$5.4 million to approximately HK$4,517.8 million, whereas the loss after taxation of the Group of approximately HK$316.5 million would turn into a profit after taxation of the Enlarged Group of approximately HK$730.0 million.

Further information regarding the financial performance, as well as the management discussions and analysis and other financial information of the Target Group can be found in the section headed "Financial Information of the Target Group" in this circular.

Net asset value

As set out in the unaudited pro forma consolidated statement of financial position of the Enlarged Group as of 30 June 2017 as set out in Appendix VI to this circular, the total assets of the Enlarged Group would increase from approximately HK$4,898.2 million to approximately HK$55,401.0 million and the total liabilities of the Enlarged Group would increase from approximately HK$632.5 million to approximately HK$40,753.7 million. Accordingly, the net assets of the Enlarged Group would increase from approximately HK$4,265.6 million to approximately HK$14,647.3 million as a result of the Acquisition.

Further information regarding the financial position, as well as the management discussions and analysis and other financial information of the Target Group can be found in the section headed "Financial Information of the Target Group" in this circular.

Goodwill arising from the Acquisition

The amount of goodwill and fair value of the identifiable assets and liabilities assumed of the Target Group on the date of Completion are subject to (i) the completion of the valuation of the fair value of the identifiable assets and liabilities assumed of the Target Group on the date of Completion (ii) the fair value of Consideration Shares upon Completion (iii) the fair value of an interest-free single installment note with the principal amount of HK$2,660 million, if issued, upon completion of the Acquisition and (iv) the financial position of the Target Group on the date of Completion. In addition, intangible assets of the Target Group which were not otherwise recognised in the historical financial information may be recognised at their fair value upon Completion. Furthermore, the fair value of the Consideration Shares is measured based on the share price of the Company upon Completion which may be substantially different from the Issue Price of HK$6.50 per Consideration Share stipulated under the Share Purchase Agreement. Should the share price of the Company upon Completion be substantially higher than the Issue Price, this will result in a material increase in the amount of goodwill. On the contrary, should the share price of the Company upon Completion be substantially lower than the Issue Price, this may result in a credit to the consolidated income statement. Likewise, should the Company issue the installment note of principal amount HK$2,660 million instead of settling the amount in cash, the fair value of the interest-free single installment note may be different from the principal amount of HK$2,660 million. If the fair value of the installment note is higher than the principal amount, this would result in an increase in the amount of goodwill. On the contrary, should the fair value of the installment note be lower than the principal amount, this may result in a credit to the consolidated income statement. The installment note is subsequently measured at amortised cost and the related amortised finance cost is charged to the consolidated income statement. Any amount of goodwill arising from the Acquisition is subject to impairment assessment at each reporting period by the Group and any impairment will result in a charge to the consolidated income statement. Accordingly, the amounts of goodwill, identifiable assets and liabilities assumed of the Target Group may be materially different from the estimated amounts used in the preparation of the unaudited pro forma financial information.

As an authorized insurer in Hong Kong, the Target Company is required to meet certain regulatory capital adequacy requirements. The Company and the Other Investors, as shareholders of the Target Company after Completion, may need to inject additional capital into the Target Company to support its business growth. Any injection of additional capital is likely to be pro rata to the shareholding of each shareholder of the Target Company after Completion. The Company will prepare a business plan of the Target Company and consider the capital needs of the Target Company. To the extent that the Target Company requires any additional capital injection after Completion and the Company and the Other Investors agree to make such capital injection, the Company will make a further announcement.

IMPLICATIONS UNDER THE TAKEOVERS CODE

As of the Latest Practicable Date, the Vendor does not hold any Shares. Upon Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion), the Vendor will hold approximately 24.82% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. As of the Latest Practicable Date, Jade Passion is the single largest shareholder of the Company holding approximately 55.42% of the issued share capital of the Company. Immediately after Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion), Jade Passion will remain the single largest shareholder of the Company holding approximately 41.66% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and controlling more voting rights in the Company than the Vendor. Accordingly, there is no change in control (as defined under the Takeovers Code) of the Company immediately after Completion.

Whilst the Acquisition will not result in a change in control (as defined under the Takeovers Code) of the Company, the Vendor would, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, be obliged to make a mandatory general offer to the Shareholders for all the issued Shares other than those already owned or agreed to be acquired by the Vendor and parties acting in concert with it because under Note 1 to Rule 26.1 of the Takeovers Code, the issue of the Consideration Shares to the Vendor would result in a significant change in the make-up of the concert party group and the balance of the group (being the balance between Jade Passion and the Vendor) will change significantly. The concert party group comprises Jade Passion and the Vendor and their respective shareholders.

In this regard, the Vendor has made an application to the Executive for the Whitewash Waiver and the Executive has agreed, subject to the approval by the Independent Shareholders at the EGM, to grant the Whitewash Waiver. It is a non-waivable Condition of the Share Purchase Agreement that the Whitewash Waiver be granted by the Executive and approved by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders, the transactions contemplated under the Share Purchase Agreement will not proceed.

As of the Latest Practicable Date, the Company does not believe that the Acquisition gives rise to any concerns in relation to compliance with other applicable rules or regulations (including the

Listing Rules). If a concern should arise after the Latest Practicable Date, the Company will endeavor to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if the Acquisition does not comply with other applicable rules and regulations.

If the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, the aggregate shareholding of the Vendor, Key Imagination and parties acting in concert with any of them in the Company will exceed 50%. The Vendor, Key Imagination and parties acting in concert with any of them, as a group, may further increase their shareholdings in the Company without incurring further obligations under Rule 26 of the Takeovers Code to make a mandatory general offer.

As of the Latest Practicable Date, First Call Investments (a company wholly-owned by Mr. Zhu) and Deep Prime (a company wholly-owned by Mrs. Zhu) are interested in 1,000,000 Shares and 4,348,000 Shares, representing approximately 0.04% and 0.18% of the issued share capital of the Company, respectively. Since Sheen Light is also controlled by Mr. Zhu, the Sheen Light Acquisition constitutes a special deal under Rule 25 of the Takeovers Code, which requires the consent of the Executive. As the Sheen Light Acquisition is not capable of being extended to all Shareholders, and the benefit conferred on Mr. Zhu cannot be quantified, the Executive may, if considered appropriate, grant such consent and such consent will be conditional upon, among other things, the Independent Financial Adviser publicly stating in its opinion that the terms of the Sheen Light Acquisition are fair and reasonable and the approval of the Independent Shareholders voting by way of a poll at the EGM. An application has been made to the Executive for consent to proceed with the Sheen Light Acquisition under Rule 25 of the Takeovers Code.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules as one or more of the relevant percentage ratios under Rule 14.07 of the Listing Rules for the Acquisition are over 100%. Accordingly, the Acquisition is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

As disclosed above under the paragraph headed "— Implications under the Takeovers Code" above, although the issue of the Consideration Shares to the Vendor would result in a significant change in the make-up of the concert party group (the concert party group comprises Jade Passion and the Vendor and their respective shareholders) and the balance of the group (being the balance between Jade Passion and the Vendor) will change significantly under Note 1 to Rule 26.1 of the Takeovers Code, obliging the Vendor, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, to make a mandatory general offer to the Shareholders for all the issued Shares other than those already owned or agreed to be acquired by the Vendor and parties acting in concert with it, the Acquisition will not result in a change in control (as defined under the Takeovers Code) of the Company. Accordingly, the Acquisition does not constitute a reverse takeover under Rule 14.06(6) of the Listing Rules.

THE LISTING COMMITTEE'S DECISION

The Listing Committee has determined that the Acquisition is an extreme very substantial acquisition which is not subject to the reverse takeover rules. Enhanced disclosure comparable to the standard for listing documents for new listing applicants is required in this circular. Yunfeng Financial Markets Limited (a wholly-owned subsidiary of the Company) and J.P. Morgan Securities (Asia Pacific) Limited have been appointed as financial advisers to the Company to provide financial advice in relation to the Acquisition. J.P. Morgan Securities (Far East) Limited has been appointed to conduct due diligence with reference to Practice Note 21 to the Listing Rules as clarified under the Stock Exchange's Guidance Letter HKEx-GL78-14.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to the Takeovers Code, the Independent Board Committee comprising Mr. Ko Chun Shun, Johnson, a non-executive Director, and Mr. Lin Lijun, Mr. Qi Daqing and Mr. Chu Chung Yue, Howard, being the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition. Each of Mr. Ko Chun Shun, Johnson, Mr. Lin Lijun, Mr. Qi Daqing and Mr. Chu Chung Yue, Howard has confirmed that he has no material interest in the Acquisition, the Specific Mandate, the Whitewash Waiver or the Sheen Light Acquisition. Given that (i) Mr. Yu Feng, the Chairman and a non-executive Director, is a 70.15% shareholder of Yunfeng Financial Holdings Limited which is a 91% shareholder of Key Imagination and that Key Imagination is a 73.21% shareholder of Jade Passion; (ii) Ms. Hai, Olivia Ou, a non-executive Director, was involved in the discussions and negotiations on behalf of the Company with the Vendor in relation to the Acquisition; and (iii) Mr. Huang Youlong, a non-executive Director, is the sole shareholder of Asia Newpower Group Inc., being the sole shareholder of Gold Ocean Investments Group Inc. which is in turn a 26.79% shareholder of Jade Passion, Mr. Yu Feng, Ms. Hai, Olivia Ou and Mr. Huang Youlong have not been included in the Independent Board Committee.

The Company has, with the approval of the Independent Board Committee, appointed China Everbright Capital Limited as an independent financial adviser in accordance with the requirements under the Listing Rules to advise the Independent Board Committee and the Independent Shareholders on matters in relation to the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition.

EGM

A notice of the EGM to be held at Suites 3205-3208, One Exchange Square, 8 Connaught Place, Central, Hong Kong on 10 January 2018 at 3:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular for the purpose of considering and, if thought fit, approving (i) the Share Purchase Agreement and the transactions contemplated thereunder; (ii) the Specific Mandate under which the Consideration Shares will be allotted and issued in accordance with the Share Purchase Agreement; (iii) the Whitewash Waiver; (iv) the Sheen Light Acquisition; and (v) the appointment of the Directors to be nominated by the Vendor. Voting on the resolutions at the EGM will be taken by poll. A form of proxy for use at the EGM is enclosed. If you do not intend or are unable to attend the meeting and wish to appoint a proxy/proxies to attend and vote on your behalf at the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending, and voting in person at the EGM or any adjournment thereof should you so wish and, in such event, the instrument appointing a proxy will be deemed to be revoked.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the identity of the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 5 January 2018 to Wednesday, 10 January 2018 (both days inclusive) during which period no share transfers can be registered. In order to be eligible to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 4 January 2018.

VOTING AT THE EGM

As of the Latest Practicable Date, (i) the Vendor and its associates did not hold any Shares; (ii) Jade Passion (a company owned as to approximately 73.21% by Key Imagination) was interested in 1,342,976,000 Shares, representing approximately 55.42% of the issued share capital of the Company; and (iii) First Call Investments (a company wholly-owned by Mr. Zhu) and Deep Prime (a company wholly-owned by Mrs. Zhu) were interested in 1,000,000 Shares and 4,348,000 Shares, representing approximately 0.04% and 0.18% of the issued share capital of the Company, respectively. Since (i) Key Imagination is a party to the Shareholders Agreement and hence a party acting in concert with the Vendor and (ii) Sheen Light (a company owned as to 51% by Mr. Zhu) is a party to the Share Purchase Agreement, Jade Passion, First Call Investments and Deep Prime will abstain from voting on the resolutions to approve (i) the Share Purchase Agreement and the transactions contemplated thereunder; (ii) the Specific Mandate under which the Consideration Shares will be allotted and issued in accordance with the Share Purchase Agreement; (iii) the Whitewash Waiver; (iv) the Sheen Light Acquisition; and (v) the appointment of the Directors nominated by the Vendor. J.P. Morgan Securities (Asia Pacific) Limited will ensure that its commonly controlled entities will abstain from voting those Shares which they own on a proprietary basis at the EGM. Save for the aforesaid and to the best knowledge of the Company, as of the Latest Practicable Date, no other Shareholder has a material interest in the Acquisition, the Specific Mandate, the Whitewash Waiver, the Sheen Light Acquisition and the appointment of the Directors nominated by the Vendor, therefore no other Shareholder is required to abstain from voting on the relevant resolutions to be proposed at the EGM.

Voting on the resolutions at the EGM will be taken by poll.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 66 to 67 of this circular and the letter from the Independent Financial Adviser set out on pages 68 to 97 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Whitewash Waiver and the Sheen Light Acquisition.

On the basis of the information set out in this circular, the Directors (including the members of the Independent Board Committee after considering the advice of the Independent Financial Adviser but excluding Mr. Yu Feng, Mr. Huang Xin and Mr. Huang Youlong who have abstained from voting on the relevant Board resolutions to approve, among other things, the Acquisition) consider that the terms and conditions of the Acquisition are on normal commercial terms and that the Acquisition (including the issue of the Consideration Shares under the Specific Mandate), the Whitewash Waiver, the Sheen Light Acquisition (as a special deal for the purpose of Rule 25 of the Takeovers Code), the Continuing Connected Transactions and the appointment of the Directors nominated by the Vendor are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors, therefore, recommend the Shareholders to vote in favor of the resolutions set out in the notice of the EGM at the end of this circular.

FURTHER INFORMATION

Your attention is drawn to other sections of and appendices to this circular, which contain further information on the Target Group, the Enlarged Group and other information required to be disclosed under the Listing Rules and the Takeovers Code. You should consider carefully all the information set out in “Risk Factors” before making a decision in relation to the Acquisition at the EGM or dealing in the Shares of the Company.

WARNING

The Acquisition is subject to a number of Conditions, including but not limited to approvals by the HKIA, the SFC, the MPFA and the AMCM and approval of the Acquisition, the Whitewash Waiver and the Sheen Light Acquisition by the Independent Shareholders, which may or may not be fulfilled. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the Shares or other securities of the Company.

Yours faithfully,
By Order of the Board
Yunfeng Financial Group Limited
Li Ting
Executive Director and Chief Executive Officer

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition.

云锋金融

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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

21 December 2017

To the Independent Shareholders

Dear Sir or Madam

(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO ACQUISITION OF 60% OF THE ISSUED SHARE CAPITAL OF MASSMUTUAL ASIA LIMITED; (2) ISSUE OF ORDINARY SHARES PURSUANT TO SPECIFIC MANDATE; (3) APPLICATION FOR WHITEWASH WAIVER; AND (4) SPECIAL DEAL

We refer to the circular of the Company dated 21 December 2017 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

Pursuant to the Takeovers Code, we have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition, details of which are set out in the "Letter from the Board" contained in the Circular. China Everbright Capital Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard. Details of the independent advice from the Independent Financial Adviser, together with the principal factors and reasons they have taken into consideration, are set out on pages 68 to 97 of the Circular.

Having considered the principal factors and reasons and the advice of the Independent Financial Adviser as set out in the letter from the Independent Financial Adviser, we consider that the terms of the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition are fair and reasonable so far as the Independent Shareholders are concerned, and have been entered into on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM in respect of the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Yunfeng Financial Group Limited

Ko Chun Shun, Johnson	**Lin Lijun**	**Qi Daqing**	**Chu Chung Yue, Howard**
Non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

Set out below is the text of a letter of advice from China Everbright Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purpose of inclusion in this circular.

光大證券
EBS INTERNATIONAL

China Everbright Capital Limited
24/F, Lee Garden One,
33 Hysan Avenue, Causeway Bay,
Hong Kong

21 December 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sir,

(1) VERY SUBSTANTIAL ACQUISTION IN RELATION TO ACQUISITION OF 60% OF THE ISSUED SHARE CAPITAL OF MASSMUTUAL ASIA LIMITED; (2) ISSUE OF ORDINARY SHARES PURSUANT TO SPECIFIC MANDATE; (3) APPLICATION FOR WHITEWASH WAIVER; AND (4) SPECIAL DEAL

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition, details of which are set out in the letter from the Board ("**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 21 December 2017 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As set out in the Letter from the Board, the Company and the Other Investors (as the Purchasers) and MassMutual International LLC (as the Vendor) entered into the Share Purchase Agreement on 17 August 2017, pursuant to which (i) the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, 537,600,000 shares in the Target Company (representing 60% of the issued share capital of the Target Company), and (ii) the Other Investors have conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, 358,400,000 shares in the Target Company (representing 40% of the issued share capital of the Target Company).

The Acquisition constitutes a very substantial acquisition for the Company under Rule 14.06(5) of the Listing Rules as one or more of the relevant percentage ratios under Rule 14.07 of the Listing Rules for the Acquisition are over 100%. Accordingly, the Acquisition is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules. The Listing Committee has determined that the Acquisition is an extreme very substantial acquisition which is not subject to the reverse takeover rules. Enhanced disclosure comparable to the standard for listing documents for new listing applicants is required in this Circular.

As of the Latest Practicable Date, the Vendor does not hold any Shares. Upon Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion), the Vendor will hold approximately 24.82% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. As of the Latest Practicable Date, Jade Passion is the single largest shareholder of the Company holding approximately 55.42% of the issued share capital of the Company. Immediately after Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion), Jade Passion will remain the single largest shareholder of the Company holding approximately 41.66% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and controlling more voting rights in the Company than the Vendor. Accordingly, there is no change in control (as defined under the Takeovers Code) of the Company immediately after Completion.

Notwithstanding, as disclosed in the Letter from the Board, Jade Passion is a party acting in concert with the Vendor and their respective shareholders. Whilst the Acquisition will not result in a change in control (as defined under the Takeovers Code) of the Company, the Vendor would, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, be obliged to make a mandatory general offer to the Shareholders for all the issued Shares other than those already owned or agreed to be acquired by the Vendor and parties acting in concert with it because under Note 1 to Rule 26.1 of the Takeovers Code, the issue of the Consideration Shares to the Vendor would result in a significant change in the make-up of the concert party group and the balance of the group (being the balance between Jade Passion and the Vendor) will change significantly. In this regard, the Vendor has made an application to the Executive for the Whitewash Waiver. It is a non-waivable Condition of the Share Purchase Agreement that the Whitewash Waiver be granted by the Executive and approved by the Independent Shareholders. If the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders, the transactions contemplated under the Share Purchase Agreement will not proceed.

As of the Latest Practicable Date, First Call Investments (a company wholly-owned by Mr. Zhu) and Deep Prime (a company wholly-owned by Mrs. Zhu) are interested in 1,000,000 Shares and 4,348,000 Shares, representing approximately 0.04% and 0.18% of the issued share capital of the Company, respectively. Since Sheen Light is also controlled by Mr. Zhu, the Sheen Light Acquisition constitutes a special deal under Rule 25 of the Takeovers Code, which requires the consent of the Executive. An application has been made to the Executive for consent to proceed with the Sheen Light Acquisition under Rule 25 of the Takeovers Code.

Pursuant to the Takeovers Code, the Independent Board Committee comprising Mr. Ko Chun Shun, Johnson, a non-executive Director, and Mr. Lin Lijun, Mr. Qi Daqing and Mr. Chu Chung Yue, Howard, being the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated or connected with the Company, the Vendor, their respective substantial shareholders, or associates or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Vendor, their respective substantial shareholders or associates or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

In formulating our opinion, we have relied upon the information, facts and representations contained in the Circular and those supplied or made available to us by the Company, the Directors and representatives of the Company for which they are solely and wholly responsible, and to their information and knowledge, being true, accurate and complete in all respects at the time they were given or made and continue to be true, accurate and valid as at the Latest Practicable Date and can be relied upon. We have assumed that all statements and information supplied, and the opinions and representations made or provided to us by the Company, the Directors and representatives of the Company and those contained in the Circular have been reasonably made after due and careful enquiry.

We consider that we have reviewed all available information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company, the Directors and representatives of the Company, or to believe that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Vendor, the Target Group, their respective substantial shareholders, or associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied to us. We have assumed that all representations contained or referred to in the Circular were true at the time they were made and continue to be true until the Latest Practicable Date. In the event we become aware of any material change to the information, facts or representations supplied or made available to us by the Company which leads to any change in our opinion after the despatch of the Circular up to the date of the EGM, we will inform the Independent Board Committee and the Independent Shareholders accordingly as soon as possible.

As stated in the Circular, the Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular (other than that relating to the Target Group, the Vendor and parties acting in concert with it) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

As stated in the Circular, the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than that relating to the Target Group, the Vendor and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those expressed by the managers of the Vendor or the sole director of Key Imagination) have been arrived at after due and careful consideration and there are no other facts or matters not contained in the Circular the omission of which would make any statement in the Circular misleading.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have considered the principal factors and reasons set out below:

1. Business of the Group

The Group is principally engaged in the provision of financial services, including securities brokerage, wealth management and investment, corporate finance consultancy, ESOP (Employee Stock Ownership Plan) administration, and investment research. The Group has developed and uses fintech to deliver a growing number of its services.

2. Business of the Target Group

The Target Company is an authorised 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 is also registered as a principal intermediary for carrying on MPF regulated activities, and MMT, an indirect wholly-owned subsidiary of the Target Company, is an MPF approved trustee. The Target Company operates in Macau through a branch office and is licensed to sell life insurance products in Macau. For more details in relation to the business of the Target Group, please refer to the section headed “Business of the Target Group” in the Circular.

3. Reasons for and benefits of the Acquisition

As stated in the Letter from the Board, the Group is principally engaged in the provision of financial services, including securities brokerage, wealth management and investment, corporate finance consultancy, ESOP (Employee Stock Ownership Plan) administration, and investment research. The Group has developed and uses fintech to deliver a growing number of its services.

The long term vision of the Group is to leverage its fintech capabilities to develop a financial service ecosystem comprising information technology and online and offline platforms that offer a broad range of financial services and products along with high quality expert advice.

As mentioned in the section headed "Business of the Target Group", the Target Group operates one of the leading insurance businesses in Hong Kong and Macau. The Target Company ranked amongst the top 12 insurers for individual life and annuity and linked individual life businesses in Hong Kong both in terms of number of policies and office premiums with a market share of over 2.9% in terms of number of policies and about 2.0% in terms of office premiums for the three years ended 31 December 2016. It also ranked fourth amongst life insurance companies in Macau in terms of total gross premiums with a market share of over 4.6% for the year ended 31 December 2016.

The Target Group has a proven stable track record and profitable growth, with strong cash flows and solvency position. For the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017, it had profit after tax of HK$635.1 million, HK$668.4 million, HK$1,119.1 million and HK$257.6 million respectively. In addition, throughout the Track Record Period and as of the Latest Practicable Date, it had capital in excess of its requirements under relevant Hong Kong insurance regulatory guidance, with the solvency ratio of 258%, 226%, 253% and 239% as of 31 December 2014, 2015 and 2016, and 30 June 2017, respectively. The Acquisition will be accretive to the Group's net asset value per Share. Based on the unaudited pro forma financial information of the Enlarged Group in Appendix VI to the Circular, the Group's net asset value per Share attributable to shareholders, after factoring in the estimated goodwill of HK$5,610 million arising from the Acquisition, would increase by 65.9% from HK$1.76 to HK$2.92 assuming completion of the Acquisition had taken place on 30 June 2017. And upon completion of the Acquisition, the Target Company, as a subsidiary of the Group, will provide a stable source of revenue to the Group.

Moreover, the Target Group offers more than 80 insurance and wealth management products, including universal life insurance, deferred annuity and investment-linked assurance products, as well as MPF products to serve the evolving needs of customers. Its diversified product suite includes three flagship products: (i) the "FLEXI-ULife Prime Saver", an enhanced universal life insurance plan; (ii) the "Target Lifetime Annuity Saver", a plan providing guaranteed lifetime annuity income to act as a safety net during customer's retirement; and (iii) the "Global InvestPlan", an investment-linked insurance product with more than 100 global investment options, which enables investors to mitigate risks by building a balanced global portfolio. With its diverse range of insurance and wealth management products, the Acquisition will provide an opportunity to broaden and enrich the product offering of the Group by extending the Group's existing wealth management and investment services through the introduction of the Target Company's insurance and annuity products, which the Company considers are products that are indispensable in overall financial planning and personal wealth management. The Company considers that a broader product portfolio will generate further growth for the Company.

Furthermore, the Target Group has a tied agency force of approximately 2,920 agents as of 30 June 2017 which is the foundation of the Target Group's distribution platform. It generated TPI of HK$4,368 million, representing 63.5% of the Target Group's TPI for the year ended 31 December 2016. In addition, the Target Group has a loyal tied agency network. Its 12-month agent retention rate has been consistently strong and was approximately 91% for the year ended 31 December 2016, which is higher than the industry average in Hong Kong and Macau. With its productive and stable tied agency network, the Acquisition will allow the Group to combine the efforts of the tied-agent team of the Target Company and the Group's existing team of software engineers in the provision of high quality expert and professional advice, which would enhance customer experience and further strengthen its online to offline (O2O) capabilities. On the other hand, the Acquisition will help the Target Group to expand and broaden its multi-channel distribution platform to increase penetration in the market.

The Acquisition provides an opportunity for the Target Group to be part of a financial services platform that offers a broader range of products and services. After completion of the Acquisition, the Group will continue its existing financial services business and the Company believes that the Group's existing financial services business (including its wealth management and investment services) and the insurance and annuity businesses of the Target Group will complement and create synergies for each other.

According to the paragraph headed "Customers" under the section headed "Business of the Target Group" in the Circular, the Target Company also has a large customer base that includes the holders of more than 441,000 in-force individual policies as of 30 June 2017 and more than 43,360 participants in its MPF scheme as of 31 December 2016. The Acquisition will also enable internal cross-referrals of existing customers of the Group and the Target Company, thereby facilitating a wider customer reach and further expanding the Company's financial service ecosystem which covers an expansive range of financial products and services.

The Target Group is dedicated to expanding its information technology capability and usage of digital platforms to match the preferences of its customers. It strives to provide clients with personalised products and services and to enhance customer experience by adopting unified and user-friendly systems. With a strong existing information technology team, upon completion of the Acquisition, the Target Group will work with the Group's team of software engineers to further develop the Target Group's platforms.

In addition, upon Completion, the Vendor will become the second largest shareholder of the Company and the strategic cooperation between the Vendor and the Group pursuant to the Strategic Cooperation Agreement will provide a valuable opportunity to leverage their respective resources and expertise, further enhancing brand recognition, and bring mutual benefits to both the Group and the Vendor.

Based on the foregoing, we consider that the Acquisition represents a valuable opportunity which enables the Group to rapidly diversify and expand its projects by entering into the insurance industry in Hong Kong and Macau where the Target Group has well established market position. In arriving at our view, we have considered the above facts and reasons, in particular: (i) the long term vision of the Group is to leverage its fintech capabilities to develop a financial service ecosystem comprising information technology and online and offline platforms that offer a broad range of financial services and products. The Acquisition will allow the Group to broaden and enrich its product portfolio through the introduction of the Target Company's insurance and annuity products, which will in turn generate further growth for the Group; (ii) the Target Company is a well-established insurance company with a proven stable track record and profitable growth, which will generate stable revenue for the Group upon completion of the Acquisition; (iii) the Acquisition will allow the Group to combine the efforts of the tied-agent team of the Target Company and the Group's existing team of software engineers in the provision of high quality expert and professional advice; (iv) the Acquisition will also enable internal cross-referrals of existing customers of the Group and the Target Company, thereby facilitating a wider customer reach; and (v) the Acquisition is expected to generate synergies through the strategic cooperation between the Company and the Vendor, which further strengthen the Group's ability to seize new opportunities. In this regard, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Share Purchase Agreement

4.1 *The Acquisition*

As mentioned in the Letter from the Board, the Company and the Other Investors have conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Company Target Shares and the Other Investors Target Shares, respectively, free from all Encumbrances, together with all rights attaching to them. Unless otherwise provided for in the Share Purchase Agreement, the Company and the Other Investors shall not be obliged to complete the purchase of any of the Company Target Shares or the Other Investors Target Shares, respectively, unless the sale and purchase of all the Company Target Shares and the Other Investors Target Shares are completed simultaneously. The principal terms of the Acquisition pursuant to the Share Purchase Agreement are set out in the section headed "Share Purchase Agreement" in the Letter from the Board. Completion of the Acquisition is subject to a number of conditions precedent, details of which are set out in the Letter from the Board.

The total consideration for all the Target Shares is HK$13,100 million and the consideration payable by each Purchaser is proportionate to the percentage interest that it will acquire in the Target Company. The following table sets out (i) the number and percentage of the Target Shares to be acquired by each Purchaser, (ii) the shareholding of each Purchaser in the Target Company immediately after Completion, (iii) the consideration payable by each Purchaser and (iv) the manner in which they will be settled:

Name of Purchaser	Number of Target Shares to be acquired	Percentage of total Target Shares to be acquired and shareholding percentage in the Target Company immediately after Completion	Consideration Payable (HK$)	Settlement
Company	537,600,000	60.0%	7,860,000,000	HK$2,660,000,000 either by an installment note or in cash and HK$5,200,000,000 by issue of the Consideration Shares
Meyu International	87,808,000	9.8%	1,283,800,000	Cash
City-Scape	67,200,000	7.5%	982,500,000	Cash
API (Hong Kong)	44,800,000	5.0%	655,000,000	Cash
Sheen Light	44,800,000	5.0%	655,000,000	Cash
SINA	44,800,000	5.0%	655,000,000	Cash
Harvest Billion	43,904,000	4.9%	641,900,000	Cash
Giant Investment (HK)	25,088,000	2.8%	366,800,000	Cash

The consideration for the sale and purchase of the Company Target Shares is HK$7,860 million, of which HK$5,200 million will be satisfied by the issue of the Consideration Shares, being an aggregate of 800,000,000 Shares, to the Vendor at the Issue Price of HK$6.50 per Consideration Share. The remaining HK$2,660 million will be paid by way of the Company issuing an interest-free single instalment note of principal amount of HK$2,660 million (in an equivalent amount in US dollars), subject to the Company and the Vendor agreeing upon the installment note arrangement and the form of the instalment note and the Company obtaining a standby letter of credit on the terms and conditions set out in the Share Purchase Agreement. If the Company is unable to obtain a standby letter of credit on the terms and conditions set out in the Share Purchase Agreement, the remaining HK$2,660 million will be paid in cash in an equivalent amount in US dollars, out of the internal resources of the Company.

4.2 *Funding alternatives considered by the Company*

We understand from the Company that the issue of Consideration Shares as part of the settlement of the Consideration was determined having considered i) the establishment of a long-term strategic shareholding relationship with the Vendor as evidenced by the Strategic Cooperation Agreement to be entered between the Vendor and Group upon Completion without triggering a change in control; ii) the demonstration of the Vendor's continuing commitment to the Target Company by being the second largest shareholder of the Company upon Completion; and iii) the reservation of cash resources for the continuing development of the Enlarged Group.

Taking into account the above and also the fact that (i) the Company's aggregate cash and cash equivalent and fixed deposits balance of HK$3,604 million as of 30 June 2017 was less than the consideration for the Company Target Shares; (ii) the Issue Price of the Consideration Shares represents a premium over the prevailing market price before the Last Trading Date, which is generally difficult to be attained for pre-emptive share issues such as rights issue or open offer of shares, we consider that the issue of the Consideration Shares represents a reasonable means of financing for the Group to fund part of the Acquisition under prevailing circumstances.

4.3 *Consideration payable by the Company*

We note from the Letter from the Board that the consideration for the Target Shares was determined and agreed after arm's length negotiations among the parties to the Share Purchase Agreement and with reference to various relevant factors, including, among other things, the value of the assets and business of the Target Company with reference to its Embedded Value (after adjustments relating to the MM Japan Carve-out and the maintenance of the Solvency Rate of 200% as further detailed below) and net assets value, prospects, market position, synergies and other factors set out under the paragraph headed "Reasons for and Benefits of the Acquisition" in the Letter from the Board as well as valuation of public insurance companies in Hong Kong. Pursuant to the Share Purchase Agreement, the completion of MM Japan Carve-out and the Solvency Ratio of the Target Company (i.e. its total available capital divided by the regulatory minimum capital in accordance with the IO) as of the Solvency Ratio Condition Date not being less than 200% are conditions to Completion. Therefore, in determining the consideration, the Company made adjustments to the reported Embedded Value of the Target Company as at 30 June 2017 to take into account the MM Japan Carve-out and the maintenance of the Solvency Ratio of 200% as further detailed below. The total consideration of HK$13,100 million represents an implied price to adjusted Embedded Value ratio of 1.18 times, where the adjusted Embedded Value of HK$11,077 million is calculated by (i) the Embedded Value of the Target Company as at 30 June 2017 of HK$11,637 million assuming that it maintains required capital at 150% of minimum solvency margin as stated in note 6.12 to the actuarial review report on the Target Group as set out in Appendix VII to the Circular, less (ii) the reduction in net asset value of the Target Group assuming MassMututal Life Insurance Company K.K. ("MM Japan") to be carved out at its fair value of HK$1,420 million as at 30 June 2017, and add back (iii) HK$860 million, which represents the amount of net assets value of the Target Company that would have to be increased in order to maintain a solvency ratio at 200% pursuant to the Share Purchase Agreement.

We discussed with the Company on the calculation of the adjusted Embedded Value and were advised that the reported Embedded Value of the Target Company as at 30 June 2017 was calculated without taking into account the fact that the MM Japan Carve-out shall reduce the Solvency Ratio and the maintenance of Solvency Ratio at of not less than 200% as of the Solvency Ratio Condition Date is a condition to Completion. Hence, parties to the Share Purchase Agreement agreed to make these adjustments to the Embedded Value in determining the Consideration. The abovementioned reduction in Target Group's net asset value of HK$1,420 million represents the fair value of MM Japan as at 30 June 2017 as stated in note 20 to the audited consolidated financial information of the Target Group as set out in Appendix IV to the Circular. We further understand from the Company that the fair value of MM Japan was estimated by the Target Company's management with reference to MM Japan's adjusted net worth, value of in-force and new businesses derived based on its recent actual operation experience. We also note that abovementioned upward adjustment of the Target Company's net asset value of HK$860 million represents cash contribution required to be injected by the Vendor to the Target Company for maintaining the 200% Solvency Ratio. The calculation of which was stated in note 9 to the unaudited pro forma financial information of the Enlarged Group as reported by KPMG set out in Appendix VI to the Circular. Based on the above, we consider that the basis of the calculation of the adjusted Embedded Value is fair and reasonable.

We understand from the Company that in arriving at the proposed consideration for the Target Shares, the Company had considered the current intrinsic value of the Target Company, which the Company believes that the synergies between the Group and the Target Company will enhance the prospects of the Enlarged Group and thus potentially creating value to the Group. Further, the Company had also considered the market capitalisation to embedded value of a major insurance company in Hong Kong which the Company considered to be a fair and representative comparable company to the Target Company because it has similar product offerings and a significant principal market in Hong Kong (being its largest market), as well as the purchase price to embedded value ratios of five past comparable mergers and acquisitions of insurance companies in Hong Kong which the Company considered to be fair and representative give such insurance companies had comparable market offerings of life insurance products and market focus in Hong Kong. The implied price to adjusted Embedded Value ratio for the Acquisition falls below each of the above.

4.4 *Issue Price of the Consideration Shares*

As set out in the Letter from the Board, the 800,000,000 Consideration Shares in connection with the Acquisition will be allotted and issued to the Vendor under the Specific Mandate. The total number of Consideration Shares represents approximately 33.01% of the issued share capital of the Company as at the Latest Practicable Date and approximately 24.82% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Issue Price of HK$6.50 per Consideration Share represents:

(i) a premium of approximately 33.2% over the closing price of HK$4.88 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 3.50% over the closing price of HK$6.28 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a premium of approximately 13.12% over the average of the closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of approximately HK$5.746 per Share;

(iv) a premium of approximately 16.05% over the average of the closing price of the Shares as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day of approximately HK$5.601 per Share;

(v) a premium of approximately 27.73% over the average of the closing price of the Shares as quoted on the Stock Exchange for the thirty consecutive trading days up to and including the Last Trading Day of approximately HK$5.089 per Share;

(vi) a premium of approximately 255.2% to the audited consolidated net asset value of the Company of approximately HK$1.83 per Share as at 31 December 2016 (based on the number of issued Shares as of the Latest Practicable Date); and

(vii) a premium of approximately 269.3% to the unaudited consolidated net asset value of the Company of approximately HK$1.76 per Share as at 30 June 2017 (based on the number of issued Shares as of the Latest Practicable Date).

The Issue Price was determined after arm's length negotiation between the Company and the Vendor, taking into account various factors, including historical share prices during negotiations, prospects and potential of the Enlarged Group, and growing fintech market potential.

5. Analysis of the Consideration and the Issue Price of the Consideration Shares

5.1 *Embedded value of the Target Company*

The Company has engaged PricewaterhouseCoopers Limited ("**PwC**") to conduct an actuarial review on the calculations of embedded value of the Target Company as at 30 June 2017. The Actuarial Review Report is set out in Appendix VII to the Circular.

In assessing the fairness and reasonableness of the determination of the Consideration, we have reviewed the Actuarial Review Report and discussed with PwC regarding, among others, its experiences and the principal bases and assumptions adopted in performing the review. Based on our interview with PwC, we understand that PwC possesses experience in performing actuarial review for various listed insurance companies in Hong Kong. We note that the professional responsible for signing the Actuarial Review Report is a Fellow of the Society of Actuaries (FAS) and has years of experience in actuarial industry. PwC confirmed it is an independent third party to the Company, the Vendor and their respective connected persons as at the Latest Practicable Date. We are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Actuarial Review Report.

PwC advised that the basis and assumptions used in the calculations are based on the actual experience of the Target Company and industry experience. We have, in such regard, conducted independent research and noted that the assumptions have been commonly used and adopted in actuarial review of other listed companies in Hong Kong. We also understand from PwC that the Target Company adopted a traditional deterministic discounted cash flow methodology to determine the components of embedded value, which is consistent with industry practice for public listed companies in Hong Kong and international practice.

Based on the above, we consider that PwC possessed the relevant experience and expertise and is suitably qualified for performing the actuarial review of the embedded value of the Target Company, and we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodologies adopted and the bases and assumptions applied by PwC in reviewing the calculations of embedded value of the Target Company.

5.2 *Comparable companies*

As the Target Group mainly operates life insurance in Hong Kong and Macau, we note that there is no direct comparable company listed in Hong Kong or other stock exchanges which carries life insurance primarily in Hong Kong and/or Macau. For the purpose of our analysis, however, we have identified the following Hong Kong listed insurance companies which predominately carry life insurance business and have presence in Asia markets with revenue generated from Asia markets in their respective latest financial year. The selected comparable companies, in our view, are exhaustive, fair and representative samples for comparison having considered their business nature and geographical region. The price-to-embedded value ratio ("**P/EV ratio**") and the price-to-book ratio ("**P/B ratio**") are set out below.

TABLE 1: COMPARABLE HONG KONG-LISTED COMPANIES OF THE TARGET GROUP

Company Name (Stock code)	**Principal activities**	**Market capitalisation (HK$ million)(1)**	**P/B ratio(2) (times)**	**P/EV ratio(3) (times)**
AIA Group Limited (1299)	Provision of products and services to individuals and businesses for their insurance, protection, savings, investment and retirement needs in Asia-Pacific	710,560	2.33	2.17
Prudential plc (2378)	Offering a wide range of retail financial products and services and asset management services to individuals and businesses in Asia, the US and UK	476,575	2.84	1.31
Ping An Insurance (Group) Company of China, Ltd. (2318)	Provision of a wide range of insurance businesses in Hong Kong and the PRC	442,014	2.07	1.55
Manulife Financial Corporation (945)	Provision of financial protection and wealth management services focusing on the life insurance business globally	309,966	1.23	1.16
China Life Insurance Company Limited (2628)	Providing products and services such as individual and group life insurance, accident and health insurance in the PRC	174,496	1.75	0.91
China Pacific Insurance (Group) Co., Ltd. (2601)	Provision of a broad range of life and property and casualty insurance and pension products and services to individual and institutional customers in the PRC	96,303	1.91	1.16
China Taiping Insurance Holdings Company Limited (966)	Underwriting of direct life insurance business in the PRC, direct property and casualty insurance business in the PRC, Hong Kong and Macau, and all classes of global reinsurance business	85,358	1.40	0.83
New China Life Insurance Company Ltd. (1336)	Provision of various life insurance, health insurance, and accident and casualty insurance in the PRC	51,912	2.06	1.10
		Mean	1.95	1.26
		Median	1.91	1.10
		Maximum	**2.84**	**2.17**
		Minimum	**1.23**	**0.83**
		The Target Company	**1.91(4)**	**1.18(4)**

Source: Factset and website of the Stock Exchange

Notes:

1. The market capitalisation is calculated based on the closing prices of the respective companies on the Stock Exchange on 17 August 2017, being the Last Trading Day prior to the Announcement and the signing of the Share Purchase Agreement, multiplied by the total number of shares in issue.

2. The P/B ratios are calculated based on the market capitalisation divided by the consolidated net asset value attributable to shareholders as of the latest financial year end.

3. The P/EV ratios are calculated based on the market capitalisation divided by embedded value as of the latest financial year end.

4. The P/B and P/EV ratios of the Target Company are calculated based on consideration of HK$13,100 million for the Consideration pursuant to the Share Purchase Agreement, divided by adjusted net asset value and adjusted Embedded Value as of 30 June 2017 of the Target Company, respectively.

As illustrated in table 1 above, the P/EV ratio of the Target Company of 1.18 times is within the range of approximately 0.83 times to 2.17 times and lower than the mean of approximately 1.26 times of the comparable companies. The P/B ratio of the Target Company of 1.91 times is within the range of approximately 1.23 times to 2.84 times and lower than the mean of approximately 1.95 times of the comparable companies.

Given (i) the P/EV ratio of the Target Company is within the range and lower than the mean of the comparable companies; and (ii) the P/B ratio of the Target Company is within the range and lower than the mean of the comparable companies, we consider that the Consideration is fair and reasonable as compared to the comparable companies.

5.3 *Comparable transactions*

In assessing the fairness and reasonableness of the Consideration, we have also considered the completed comparable transactions over the last ten years involving (i) sale and purchase of the controlling interest of life insurance business predominately in Hong Kong and Macau; (ii) the target companies which are unlisted and broadly comparable to the business nature and geographical region of the Target Group. The selected comparable transactions, in our view, are comparable to the Acquisition having considered that the life insurance markets in Hong Kong and Macau are mature and one of the most developed in the region, and its growth has been relatively stable over the last ten years. We have summarised the aforesaid comparable transactions with their respective P/EV ratio and P/B ratio which, in our view, are exhaustive, fair and representative samples available in the public domain, in the table below.

TABLE 2: COMPARABLE TRANSACTIONS INVOLVING SALE AND PURCHASE OF UNLISTED LIFE INSURANCE COMPANIES

Announcement date	Purchaser	Seller	Target company (stake acquired)	Target's Principal business	P/B ratio[(1)] (times)	P/EV ratio[(1)] (times)
2 June 2016	Fujian Thai Hot Investment	Dah Sing Financial Holdings Limited, Macau Insurance Company Limited	Dah Sing Life Assurance Company Limited, Dah Sing Insurance Services Limited, Macau Life Insurance Company Limited	Provision of life and general insurance business in Hong Kong and Macau	6.86	2.85

Announcement date	Purchaser	Seller	Target company (stake acquired)	Target's Principal business	P/B ratio(1) (times)	P/EV ratio(1) (times)
31 August 2015	JD Capital Co Ltd	Ageas NV	Ageas Insurance Company (Asia) Limited (100%)	Hong Kong based company engaged in life insurance business	N/A (Note 2)	1.37
19 October 2012	Pacific Century Group Holdings Limited	ING Group NV	ING Life (Hong Kong, Macau, Thailand units) (100%)	Provision of life insurance, general insurance and financial planning services in Hong Kong, Macau and Thailand	1.90	N/A
27 October 2010	ACE Limited	New York Life Insurance	New York Life Insurance (Hong Kong Subsidiary) (100%)	Provision of life insurance, mutual funds and investment management services in Hong Kong	0.71	0.66
1 March 2007	Fortis Insurance International N.V	Pacific Century Regional Developments, Chan Ping Kan Raymond, Chung Cho Yee, Mico, Clarest Trust, Snowdon International Limited, So Wing Hung Peter and Yuen Tin Fan Francis	Pacific Century Insurance Holdings Limited (100%)	Provision of life insurance and asset management services to individual and group in Hong Kong	2.43	1.38
				Mean	2.98	1.56
				Median	2.17	1.37
				Maximum	**6.86**	**2.85**
				Minimum	**0.71**	**0.66**
				The Target Company	**1.91**	**1.18**

Source: Mergermarket and respective companies' public release and financial information

Note:

1. The calculation of P/B and P/EV, respectively, was based on the net book value and embedded value reported by the relevant companies as of the latest financial year end prior to the relevant transactions.
2. The net book value as at 31 December 2014 of Ageas Insurance Company (Asia) Limited ("Ageas Asia") was not presented in Ageas Group's annual report or available from reliable public sources. Nevertheless, for illustration purpose, the net book value of Ageas Asia as at 30 June 2015 amounted to EUR967 million based on its public announcement in respect of the transaction, implying a P/B ratio of 1.31.

As illustrated in table 2 above, the P/EV ratio of the Target Company of 1.18 times is within the range of approximately 0.66 times to 2.85 times and lower than the mean of approximately 1.56 times of the comparable transactions. The P/B ratio of the Target Company of 1.91 times is within the range of approximately 0.71 times to 6.86 times and lower than the mean of approximately 2.98 times of the comparable transactions.

Given (i) the P/EV ratio of the Target Company is within the range and lower than the mean of the comparable transactions; and (ii) the P/B ratio of the Target Company is within the range and lower than the mean of the comparable transactions, we consider that the Consideration is fair and reasonable as compared to the comparable transactions.

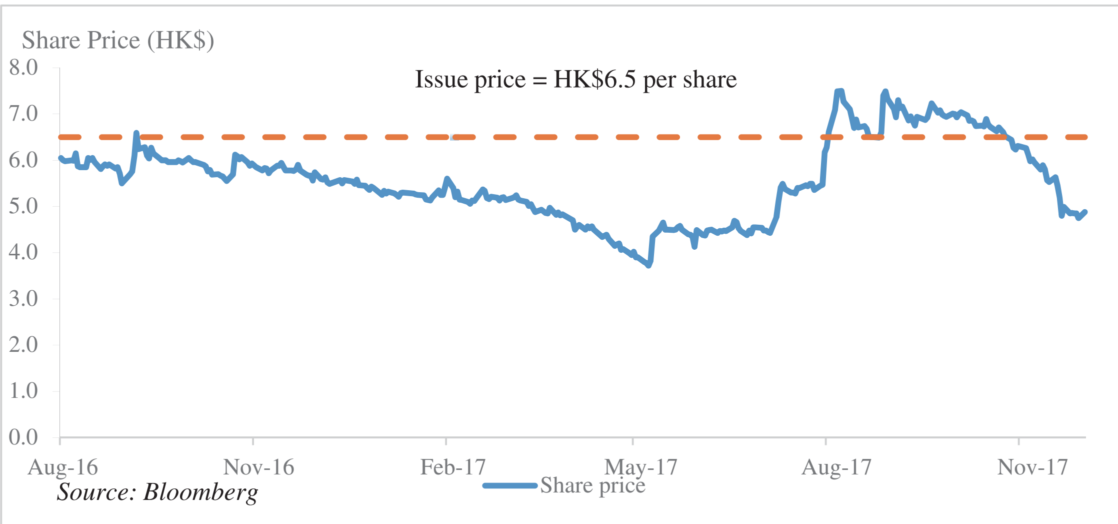
5.4 *Analysis of the Issue Price*

5.4.1 *Historical price performance of the Shares*

The Issue Price was determined after arm's length negotiation between the Company and the Vendor, taking into account various factors, including historical share prices during negotiation, prospects and potential of the Enlarged Group, and growing fintech market potential.

The share price chart below illustrates the historical closing price of the Shares as quoted on the Bloomberg from 17 August 2016 (being approximately one year prior to the publication of the Announcement) up to the Last Trading Day (the "**Review Period**") and including the Latest Practicable Date.

FIGURE 1: SHARE PRICE PERFORMANCE COMPARED TO ISSUE PRICE



Source: Bloomberg

During the Review Period, the closing price per Share ranged between HK$3.72 (being the lowest level recorded on 24 May 2017) to HK$6.59 (being the highest level recorded on 22 September 2016) with an average of HK$5.25.

The Issue Price of HK$6.5 per Share is generally above the daily closing prices of the Shares during the Review Period except for that on 22 September 2016 as mentioned above and represents (i) a discount of approximately 1.4% to the highest closing price; (ii) a premium of approximately 74.7% to the lowest closing price; and (iii) a premium of approximately 23.8% to the average daily closing price during the Review Period.

Following the Announcement made on 17 August 2017, the closing prices of the Share started an upward trend and were higher than the Issue Price until 10 November 2017. The Shares were then traded between HK$4.75 to HK$6.44 between 13 November 2017 and the Latest Practicable Date. The Issue Price is within the range of HK$4.75 to HK$7.5 following the Announcement.

5.4.2 *Historical trading volumes of the Shares*

The table below sets out the total monthly trading volume of the Shares during the period from August 2016 up to the Latest Practicable Date, the percentage of total monthly trading volume of the Shares to the total issued number of Shares and the public float in each of the respective months:

TABLE 3: TRADING VOLUMES OF THE SHARES

	Total monthly trading volume of the Shares	**% of total monthly trading volume of the Shares to current outstanding shares**	**% of total monthly trading volume of the Shares to the total public float**
		(Note 1)	*(Note 2)*
2016			
August	8,049,200	0.34%	1.87%
September	11,280,320	0.47%	2.62%
October	6,282,010	0.26%	1.46%
November	12,681,385	0.53%	2.95%
December	10,299,475	0.43%	2.40%
2017			
January	6,958,200	0.29%	1.53%
February	10,979,075	0.45%	2.42%
March	17,723,993	0.73%	3.90%
April	5,577,349	0.23%	1.23%
May	7,290,160	0.30%	1.61%
June	6,064,875	0.25%	1.34%
July	6,975,253	0.29%	1.54%
August	43,933,242	1.81%	9.68%
September	18,981,661	0.78%	2.78%
October	8,928,720	0.37%	1.31%
November	8,489,680	0.35%	1.24%
December (Note 3)	3,574,360	0.15%	0.52%

Source: Bloomberg

Notes:

(1) Based on the number of Shares outstanding as at the end of each respective month

(2) Based on the number of Shares as held in public hands as at the end of each respective month

(3) Monthly trading volume of the Shares for December is up to 18 December

As shown in table 3 above, the monthly trading volumes of the shares represented approximately 0.23% to 1.81% of the total issued Shares, equivalent to approximately 1.23% to 9.68% of the Shares which constituted the public float of the Group without taking into account of December. On the basis of the above, the Shares had been fairly traded, in particular in the months during which the Group announced its annual results in March 2017. We also noted that following the publication of the Announcement, the trading volumes of the Shares increased significantly in the subsequent five trading days, with an aggregate of 29.3 million shares traded, representing approximately 66.7% of total trading volumes in August 2017. Since September and up to the Latest Practicable Date, the Shares were fairly traded as comparable to previous months.

5.4.3 *Comparable transaction analysis*

In addition to our analysis, we have also attempted to select transactions conducted by companies listed on the main board of the Stock Exchange which (i) involved the issuance of new shares by the relevant companies as consideration for acquisition of assets and/or business that constituted major transaction or very substantial acquisition and were announced since 1 January 2017 up to the date of the Announcement, i.e. 17 August 2017; and (ii) were subsequently approved in their respective shareholder's meetings (the "**Issuance Comparables**"). We consider the aborementioned selection criteria are appropriate to capture the recent market practice since the Issuance Comparables are considered for the purpose of taking a general indication for the recent market practice in relation to the issuance price under other issuance of new shares under specific mandates as compared to the prevailing market prices of the relevant shares under the recent market conditions and sentiments.

The Issuance Comparables have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavors, in our research through public information. Shareholders should note that the Issuance Comparables may have different principal activities, market capitalisations, profitability and financial positions as compared to those of the Company. However, since the Issuance Comparables were transactions under similar market conditions and investment sentiments, we are of the view that the Issuance Comparables, although not to be used in isolation in determining the fairness and reasonableness of the Issue Price, nevertheless can provide a general reference for the Independent Shareholders as they can reflect recent market trends of terms of transactions involving issuance of shares as full or partial settlement of consideration. As such, we consider that the Issuance Comparables are fair and representative samples.

TABLE 4: COMPARABLE TRANSACTIONS OF ISSUE PRICE

Company	Stock code	Date of announcement	% of shares immediately after the allotment and issue of the consideration shares held by the vendors	Premium/(discount) of the issue price over/(to) closing price per share on the last trading day prior to the date of announcement in relation to the respective transaction	Premium/(discount) of the issue price over/(to) average closing price per share on the last five trading days prior to the date of announcement in relation to the respective transaction	Premium/(discount) of the issue price over/(to) average closing price per share on the last ten trading days prior to the date of announcement in relation to the respective transaction
Goodbaby International Holdings Limited	1086	24-Jul-2017	32.38%	6.40%	5.10%	4.20%
O Luxe Holdings Limited	860	7-Jul-2017	11.90%	(19.60%)	(12.80%)	(10.87%)
Birmingham Sports Holdings Limited	2309	30-Jun-2017	24.90%	(15.70%)	(18.50%)	(18.90%)
HC International, Inc.	2280	19-May-2017	14.89%	4.48%	1.36%	0.56%
Youyuan International Holdings Lmited	2268	24-Apr-2017	6.12%	15.00%	13.64%	13.30%
Daohe Global Group Limited	915	21-Feb-2017	29.67%	(34.00%)	(29.99%)	(19.30%)
			Maximum	15.00%	13.64%	13.30%
			Minimum	(34.00%)	(29.99%)	(19.30%)
			Average	(7.24%)	(6.86%)	(5.17%)
			Issue Price	3.50%	13.12%	16.05%

Source: The Stock Exchange website and respective announcements by the relevant listed companies

As noted in table 4 above, the issue prices of the Issuance Comparables are within the range of: (i) a discount of approximately 34.00% to a premium of 15.00% to the respective closing prices of their shares on the last trading days (the "**Market Range I**") with an average discount of approximately 7.24% (the "**Market Average I**"); (ii) a discount of approximately 29.99% to a premium of 13.64% to the respective average closing prices of their shares on the last five trading days (the "**Market Range II**") with an average discount of approximately 6.86% (the "**Market Average II**"); and (iii) a discount of approximately 19.30% to a premium of 13.30% to the respective average closing prices of their shares on the last ten trading days (the "**Market Range III**") with an average discount of approximately 5.17% (the "**Market Average III**").

The Issue Price represents a premium of approximately 3.50% to the closing price of the Shares on the Last Trading Day (the "**Issue Price I**"), a premium of approximately 13.12% to the average closing price of the Shares on the last five trading days (the "**Issue Price II**"), a premium of approximately 16.05% to the average closing price of the Shares on the last ten trading days (the "**Issue Price III**").

The Issue Price I, Issue Price II and Issue Price III are all at premiums and higher than the Market Average I, Market Average II and Market Average III and within Market Range I, Market Range II and Market Range III which is favourable to the Company and the Shareholders as a whole.

Having considered that (i) the Issue Price was above the daily closing prices of the Shares during the Review Period except for that on 22 September 2016 and the Issue Price was within the range of the Share's daily closing prices after the Review Period up to the latest Practicable Date; (ii) the Shares had been fairly actively traded from August 2016 up to the Latest Practicable Date; and (iii) the Issue Price I, Issue Price II and Issue Price III are all at premiums and higher than the Market Average I, Market Average II and Market Average III and within Market Range I, Market Range II and Market Range III, we consider the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholder as a whole.

6. Investor Rights Agreement

As stated in the Letter from the Board, at Completion, the Company and the Vendor shall enter into the Investor Rights Agreement providing for certain rights of the Vendor in respect of the Company and the Target Company. Details of the rights of the Vendor are set out in the section headed "Investor Rights Agreement" in the Letter from the Board. The key rights contain the followings:

6.1 *Nomination of Directors*

Pursuant to the Investor Rights Agreement, the Vendor may nominate for appointment, removal or replacement of (i) two candidates to act as non-executive Directors of the Board for so long as the Vendor and its affiliates own at least 17.5% of the issued Shares and (ii) one candidate to act as a non-executive Director of the Board for so long as the Vendor and its affiliates own at least 10.0% but less than 17.5% of the issued Shares. The appointment of the Director(s) nominated by the Vendor shall be subject to the approval of the Nomination Committee after a reasonable review process based on reasonable criteria and having regards to the Articles of Association, the Listing Rules and good corporate governance practices. The Board, including the Nomination Committee will evaluate factors, including among other things, experience, qualifications, background of the candidate nominated by the Vendor when considering whether to approve the appointment. Any Directors so appointed by the Board will be subject to the standard re-election and shareholders' approval requirements under the Articles of Association.

In addition, in the event that no individual nominated by the Vendor remains as a Director and the Vendor and its affiliates own at least 5.0% of the issued Shares, the Company may, in its sole discretion, invite one representative of the Vendor to be a non-voting observer to attend and observe meetings of the Board and the Vendor may, upon the Company's invitation and at its sole discretion, designate one representative as such non-voting observer. There is no agreement between the Company and the Vendor as to whether the Company will exercise its discretion to invite such non-voting observer or as to whether the Vendor will accept such invitation. The Company will exercise its discretion only when it considers such arrangement to be in the interests of the Company and its Shareholders as a whole. The non-voting observer shall not be counted for the purposes of determining a quorum at meetings of the Board.

Analysis of the nomination of Directors by the Vendor

As stated in the Letter from the Board, pursuant to the Companies Ordinance, members of a company representing at least 5% of the total voting rights of all the members having a right to vote at general meetings have the power to require the directors of the company to call a general meeting to consider the resolutions proposed by such members, including the appointment of persons nominated by such requesting members as Directors. Furthermore, as disclosed above, the appointment of the Director(s) nominated by the Vendor shall be subject to the approval of the Nomination Committee after a reasonable review process based on reasonable criteria and having regards to the Articles of Association, the Listing Rules and good corporate governance practices. An appointment of Director will only be made by the Company, if it is in the interest of the Company and the Shareholders as a whole. Any Directors nominated by the Vendor pursuant to the Investor Rights Agreement, if so appointed by the Board, will be subject to the standard re-election and shareholders' approval requirements under the Articles of Association. Therefore, the Company is of the view that the Vendor's nomination right for appointment of Directors under the Investor Rights Agreement is consistent with those rights available to other Shareholders under the Articles of Association and the Investor Rights Agreement does not grant any additional material rights to the Vendor nor impose material additional obligations on the part of the Company. Accordingly, all Shareholders (including the Vendor) are treated fairly and equally and the Company does not consider that the Vendor's nomination right for appointment of Directors is prejudicial to the interest of the Shareholders.

Having taken into account the above factors and reasons, in particular, (i) the number of Directors that Vendor may nominate under the Investor Rights Agreement is proportionate to the shareholding percentage of the Vendor in the Company; (ii) the appointment of Director(s) nominated by the Vendor shall still be subject to the approval of the Nomination Committee in accordance with the Articles of Association, the Listing Rules and good corporate governance practices; (iii) any Directors nominated by the Vendor, if so appointed by the Board, will be subject to the standard re-election and shareholders' approval requirements; and (iv) the Investor Rights Agreement does not grant any additional material rights to the Vendor nor impose material additional obligations on the part of the Company, we are of the opinion that the right given to the Vendor for nomination of Directors is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Analysis of the designation of non-voting observer by the Vendor

As stated in the Letter from the Board, the Vendor belongs to a well-known and long established insurance group. It is believed that the non-voting observer designated by the Vendor will be able to share with the Board his experience and knowledge in the insurance industry and provide the Board with valuable advice. The Vendor acknowledges that the non-voting observer shall be subject to the same non-disclosure, insider trading restrictions and conflicts of interest policies and procedures as and to the same extent as that applicable to the members of the Board from time to time. The Company will require any non-voting observer designated by the Vendor and the Vendor to execute an undertaking pursuant to which the non-voting observer designated by the Vendor shall undertake to comply with such restrictions, policies and procedures and the Vendor shall undertake to use reasonable best efforts to procure such observer to comply with his obligations under such undertaking. In light of the benefits that non-voting observer may bring to the Board and that it is at the sole discretion of the Company to invite the Vendor to designate a non-voting observer to attend and observe meetings of the Board, the Company does not consider that the designation of such observer by the Vendor is prejudicial to the interest of the Shareholders and instead, the Company considers this arrangement to be fair and reasonable and in the interests of the Company and its Shareholders as a whole. Given the potential benefits and the restrictions that the Vendor and its designated observer will be subject to, the Company accordingly considers that all Shareholders (including the Vendor) are treated fairly and equally.

Having taken into account the above factors and reasons, in particular, (i) the extensive experience and knowledge in the insurance industry possessed by the designated observer that could render valuable advice to the Board; (ii) the sole discretion of the Company to invite the Vendor to designate an observer to attend the Board meeting and the non-voting nature of the observer as well as (iii) the obligation that the Vendor and its designated observer is bounded by, we are of the opinion that the designation of non-voting observer by the Vendor is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

6.2 *Nomination of directors of the Target Company*

The Vendor shall be entitled to nominate one candidate to the board of directors of the Target Company for an initial term of three years commencing upon Completion and the Company shall procure the appointment of such nominated director for the initial term. Upon Completion, it is expected that the board of directors of the Target Company shall comprise eight directors, including any independent non-executive directors as required by any applicable law or regulatory authority.

Analysis of the nomination of directors of the Target Company

As stated in the Letter from the Board, the Vendor belongs to a well-known and long established insurance group and the Target Group is part of the Vendor group. It is believed that a director nominated by the Vendor possessing the appropriate competence and experience in the financial services industry to serve on the board of the Target Company will benefit the Target Company, particularly in terms of business transitional arrangements of the Target Company post Completion and strategic cooperation with the Vendor group. The entitlement to nominate one director, and the obligation of the Company to procure the appointment of such nominated director, to the board of the Target Company will last for an initial term of three years after Completion to help facilitate a smooth transition after Completion. The Company's obligation to procure the appointment of a nominated director by the Vendor is subject to (i) such nominated director being approved or not objected to by the HKIA (as applicable) to serve as a director of the Target Company; (ii) the Directors being satisfied with the competence and experience of such nominated director after a reasonable review process based on reasonable criteria; and (iii) the Directors fulfilling their fiduciary duties to act in the best interest of the Company and the Shareholders as a whole when making such appointment. The Vendor possesses extensive experience in the Hong Kong insurance industry and is familiar with the regulatory requirements in Hong Kong. The Target Company is an authorised insurer in Hong Kong and the appointment of any director to the board of directors of the Target Company must be approved (or otherwise not objected to) by the HKIA. With its extensive experience in the Hong Kong insurance industry and familiarity with the Hong Kong regulatory requirements, it is believed that the director nominated by the Vendor to the board of directors of the Target Company will meet the criteria for approval by the HKIA. Given the strategic value of such director to the Target Company and the benefits that the director nominated by the Vendor may bring to the Target Company and hence the Company as the holding company of the Target Company, the Company does not consider that the nomination of such director by the Vendor is prejudicial to the interest of the Shareholders and instead, the Company considers this arrangement to be in the interests of the Company and its Shareholders as a whole. Accordingly, all Shareholders (including the Vendor) are treated fairly and equally.

Having taken into account the above factors and reasons, in particular, (i) the director to be nominated by the Vendor to the Target Company is believed to possess ample experience and appropriate competence in the Hong Kong insurance industry so as to meet the HKIA's criteria; and (ii) such director serving for an initial term of three years could facilitate the smooth business transition of the Target Company post Completion and enhance the strategic cooperation with the Vendor group, we are of the opinion that the right granted to the Vendor for nomination of one director to the Target Company is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

6.3 *Preemptive right to the Vendor*

Subject to independent Shareholders' approval requirement, the Vendor shall have the right to subscribe for (on a pro rata basis) Shares proposed to be issued by the Company (including any issuance pursuant to a general mandate), except for shares proposed to be issued to employees and officers of the Company pursuant to any employee benefit or stock option plans approved by the Board or the Shareholders. The Vendor's preemptive right is not dependent on the Vendor holding a certain threshold percentage of Shares and such right exists as long as the Vendor is a Shareholder and the Investor Rights Agreement is not terminated.

The Company shall promptly convene a Shareholders' meeting for the approval of such preemptive issuance pursuant to a specific mandate and prepare any Shareholders' circular or other disclosure required in connection with such preemptive issuance, and the Vendor will be required to abstain from voting at general meetings on the relevant resolutions approving the preemptive issuance of Shares to the Vendor.

Analysis of the preemptive right

As stated in the Letter from the Board, the preemptive right will only be triggered when the Company decides to issue new Shares at which the Company will duly consider if the proposed new Share issue will be in its interests and those of the Shareholders as a whole. In addition, any preemptive issuance of Shares to the Vendor (even if such issuance will not constitute a connected transaction of the Company under the Listing Rules) will be made pursuant to a specific mandate and be subject to independent Shareholders' approval requirement, and the Vendor will be required to abstain from voting on the relevant resolutions. The Company's future fund raising ability will not be restricted as, in the event that the preemptive right is not exercised by the Vendor, or the resolutions concerning the preemptive issuance to the Vendor are not approved by the Shareholders, the Vendor will not have a right to veto the Company's fund raising exercise and the Company may still proceed with any proposed fund raising without the preemptive issuance of Shares to the Vendor. Furthermore, the Vendor will only be given a limited time of 20 days to consider whether to exercise its preemptive right, which is not expected to unduly delay or hinder any future fund raising exercise of the Company. The Company considers the preemptive right to be granted to the Vendor is in the interests of the Company and its Shareholders as a whole as such preemptive right does not restrict the Company's ability in equity fund raising but provides the Company with an opportunity for a reputable and financially strong Shareholder with significant strategic value to the Group to consider and support future fund raising needs of the Company. Accordingly, the Company considers that the granting of preemptive rights to the Vendor would not contravene the requirement to treat all Shareholders fairly and equally.

Having taken into account the above factors and reasons, in particular, (i) any preemptive issuance of Shares to the Vendor (even if such issuance will not constitute a connected transaction of the Company under the Listing Rules) will be made pursuant to a specific mandate and be subject to independent Shareholders' approval requirement, and the Vendor will be required to abstain from voting on the relevant resolutions; and (ii) the Company's future fund raising ability will not be restricted, in the event that the preemptive right is not exercised by the Vendor, or the resolutions concerning the preemptive issuance to the Vendor are not approved by the Shareholders, we are of the opinion that the terms of the preemptive right is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

6.4 *Information rights*

Pursuant to the Investor Rights Agreement, the Company shall deliver to the Vendor certain information relating to the financial condition, business or corporate affairs of the Group, details of which are set out in the section headed "Information Rights" in the Letter from the Board.

Analysis of the information rights

As stated in the Letter from the Board, the Company considers that the provision of information to the Vendor under the Investor Rights Agreement is consistent with the general disclosure requirements under the Listing Rules and the applicable laws.

The information to be provided to the Vendor pursuant to the Investor Rights Agreement will only be provided to the Vendor after the Company has complied with the requirement under Rules 13.49(1) and (6) of the Listing Rules and published such information by way of an announcement.

The Company will ensure due and timely compliance with the Inside Information Provision requirements under the Listing Rules and Part XIVA of the SFO. No inside information will be selectively disseminated to the Vendor under these information rights.

Accordingly, the Company is of the view that all Shareholders are treated fairly and equally and that in connection with the relevant provisions in the Investor Rights Agreement relating to information rights, it will take appropriate and reasonable steps to ensure that it is able to maintain strict confidentiality of inside information until it is announced.

Given (i) the provision of information to the Vendor is consistent with the general disclosure requirements under the Listing Rules and the applicable laws; and (ii) the Company will ensure due and timely compliance with the Inside Information Provision requirements under the Listing Rules and the SFO, we are of the opinion that, the terms of the provision of the information right to the Vendor is fair and reasonable and is in the interests of the Company and the Shareholders as whole.

Conclusion

Having considered the above factors, we are of the view that the terms and conditions of the Investor Rights Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as whole.

7. Financial effects of the Acquisition on the Group

Upon completion of the Acquisition, the Target Company will become a non-wholly-owned subsidiary of the Company, and the Target Company's financial information will be consolidated into the financial statements of the Enlarged Group.

Based on the pro forma financial information as set out in Appendix VI to the Circular, a summary of the key figures of the Group and the Enlarged Group to illustrate the financial effects of the Acquisition is set out below:

TABLE 5: FINANCIAL EFFECTS OF THE ACQUISITION

	The Group	The Enlarged Group	+/-
For the year ended 31 December 2016			
Net profit/(loss) attributable to shareholders (HK$'000)	(316,688)	287,892	n.a.(2)
Earnings/(losses) per share (HK$)(1)	(0.13)	0.09	n.a.(2)
As at 30 June 2017			
Total equity attributable to shareholders (HK$'000)	4,264,646	9,406,261	120.6%
Net assets value per Share(1)	1.76	2.92	65.9%

Note (1): It is calculated based on 2,423,326,394 Shares, being the number of Shares in issue as at 31 December 2016 and 30 June 2017 for the earnings per Share and net asset value per Share of the Group respectively and 3,223,326,394, being the number of Share in issue as at 31 December 2016 and 30 June 2017 as enlarged by the issue of Consideration Shares for the earnings per Share and net asset value per Share of the Enlarged Group respectively.

Note (2): The calculation of the change is not considered to be meaningful as the Group recognised a loss attributable to shareholders for the year ended 31 December 2016 whilst the Enlarged Group would have recognised a net profit attributable to shareholders for the same period upon completion of the Acquisition.

7.1 *Earnings*

As set out in Table 5 above, assuming the Acquisition was completed on 1 January 2016, the pro forma net profit/loss attributable to shareholders/equity holders of the Enlarged Group for the year ended 31 December 2016 would increase from a loss of approximately HK$316.7 million to a profit of approximately HK$287.9 million. The increase was primarily due to the consolidation of the net profit of the Target Group attributable to its shareholders of HK$1,119.2 million, and having taking into account (i) the legal and professional fee which is attributable to the Acquisition; and (ii) the annual service fee paid to the Vendor as disclosed in "Continuing Connected Transactions" of the Circular.

On a per Share basis, the pro forma earnings per Share of the Enlarged Group for the year ended 31 December 2016 would be HK$0.09 as compared to the losses per Share of the Group of HK$0.13.

7.2 *Total equity attributable to the shareholders*

As set out in Table 5 above, assuming the Acquisition was completed on 30 June 2017, the pro forma total equity attributable to shareholders/equity holders of the Enlarged Group as at 30 June 2017 would increase by 120.6% to approximately HK$9,406.3 million. The increase was primarily due to the consolidation of the all assets and liabilities of the Target Group with the total equity attributable to its owners amounted to HK$7,421.4 million as at 30 June 2017, and adjusted by (i) the legal and professional fee paid which is attributable to the Acquisition; (ii) the reduction in net asset value of the Target Group due to MassMututal Life Insurance Company K.K. to be carved out at its fair value of HK$1,420 million as at 30 June 2017; (iii) cash contribution by the Vendor to the Target Group; and (iv) goodwill and non-controlling interest arising from the Acquisition.

On a per Share basis, the pro forma total equity per Share attributable to Shareholders of the Enlarged Group as at 30 June 2017 would be HK$2.92 as compared to the total equity per Share attributable to Shareholders of the Group of HK$1.76.

7.3 *Gearing and Liquidity*

There is no borrowing for both the Group and the Enlarged Group as at 30 June 2017.

Taken into account of the above, the Acquisition will have a positive impact to both the earnings and total equity attributable to the shareholders of the Company as an enlarged basis.

8. Potential dilution effect

The following table illustrates the shareholding structure of the Company (i) as of the Latest Practicable Date; and (ii) immediately after Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion):

TABLE 6: SHAREHOLDER STRUCTURE OF THE COMPANY

	As of the Latest Practicable Date		**Immediately after Completion**	
	Number of Shares	*%*	*Number of Shares*	*%*
Jade Passion *(Note 1)*	1,342,976,000	55.42	1,342,976,000	41.66
MassMutual International LLC	—	—	800,000,000	24.82
Sub-total of MassMutual International LLC (i.e. the Vendor) and Jade Passion (being a party acting in concert with the Vendor under the Takeovers Code upon and following Completion)	1,342,976,000	55.42	2,142,976,000	66.48
Gainhigh Holdings Limited *(Note 2)*	229,180,726	9.46	229,180,726	7.11
Violet Passion Holdings Limited *(Note 3)*	167,872,000	6.93	167,872,000	5.21
Other public Shareholders	683,297,668	28.20	683,297,668	21.20
Total	2,423,326,394	100.00	3,223,326,394	100.00

Notes:

1. Jade Passion is owned as to 73.21% by Key Imagination Limited and 26.79% by Gold Ocean Investments Group Inc. Key Imagination Limited is owned as to 91% by Yunfeng Financial Holdings Limited and 9% by Perfect Merit Limited. Yunfeng Financial Holdings Limited is owned as to 70.15% by Mr. Yu Feng, the Chairman and a non-executive Director, and 29.85% by Mr. Ma Yun. Perfect Merit Limited is wholly-owned by Mr. Huang Xin, an executive Director. Gold Ocean Investments Group Inc. is wholly-owned by Asia Newpower Group Inc., which is wholly-owned by Mr. Huang Youlong, a non-executive Director.
2. Gainhigh Holdings Limited is wholly-owned by Insula Holdings Limited, which is wholly-owned by Mr. Ko Chun Shun, Johnson, a non-executive Director.
3. Violet Passion Holdings Limited is wholly-owned by Clear Expert Limited, which is wholly-owned by Ms. Lian Yi. Violet Passion Holdings Limited is not a connected person of the Company and therefore its shareholding is counted towards the public float.
4. Certain percentage figures set out in this table are subject to rounding adjustments. Accordingly, figures shown as totals in this table may not be an arithmetic sum of such figures.

As illustrated in table 6 above, the shareholding in the Company held by the existing public shareholders (including Violet Passion Holdings Limited) would be diluted from approximately 35.13% as of the Latest Practicable Date to approximately 26.41% upon the allotment and issue of the Consideration Shares and completion of the Acquisition. Having taken into account: (i) the benefits to be brought about by the Acquisition; and (ii) the fairness and reasonableness of the Consideration; (iii) the fairness and reasonableness of the Issue Price; (iv) the fact that the issue of Consideration Shares would allow the Group to pursue the Acquisition without substantial cash outlay or incurring additional borrowings, (v) the need of the Enlarged Group to maintain sufficient capital base and liquidity as the Target Company, being an authorised insurer in Hong Kong, is required to meet certain regulatory adequacy requirements, and (vi) based on the proforma financial information as set out in Appendix VI to the Circular, the Acquisition will have a positive impact to both the earnings and total equity attributable to the shareholders of the Company as an enlarged basis, we consider the potential dilution on the shareholdings of the existing public Shareholders upon Completion to be acceptable in this regard.

9. The Whitewash Waiver

9.1 *Background*

As at the Latest Practicable Date, the Vendor does not hold any Shares. Upon Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion), the Vendor will hold approximately 24.82% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. As of the Latest Practicable Date, Jade Passion is the single largest shareholder of the Company holding approximately 55.42% of the issued share capital of the Company. Immediately after Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion), Jade Passion will remain the single largest shareholder of the Company holding approximately 41.66% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and controlling more voting rights in the Company than the Vendor. Accordingly, there is no change in control (as defined under the Takeovers Code) of the Company immediately after Completion.

Whilst the Acquisition will not result in a change in control (as defined under the Takeovers Code) of the Company, the Vendor would, unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, be obliged to make a mandatory general offer to the Shareholders for all the issued Shares other than those already owned or agreed to be acquired by the

Vendor and parties acting in concert with it because under Note 1 to Rule 26.1 of the Takeovers Code, the issue of the Consideration Shares to the Vendor would result in a significant change in the make-up of the concert party group and the balance of the group (being the balance between Jade Passion and the Vendor) will change significantly. The concert party group comprises Jade Passion and the Vendor and their respective shareholders.

In this regard, the Vendor has made an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, in which Jade Passion, First Call Investments and Deep Prime will abstain from voting on the relevant resolutions. J.P. Morgan Securities (Asia Pacific) Limited will ensure that its commonly controlled entities will abstain from voting those Shares which they own on a proprietary basis at the EGM. If the Whitewash Waiver is granted by the Executive, the Vendor will not be required to make a mandatory offer which would otherwise be required as a result of the acquisition of the Consideration Shares. The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders, the transactions contemplated under the Share Purchase Agreement will not proceed.

9.2 *The Whitewash Waiver as a condition to the Acquisition*

We note in the Letter from the Board that completion of the Acquisition, is conditional upon, among others, (i) the granting of the Whitewash Waiver by the Executive; and (ii) the approval of the Whitewash Waiver by the Independent Shareholders, which are non-waivable. If the Whitewash Waiver is not to be approved by the Independent Shareholders or granted by the Executive, the transactions contemplated under the Share Purchase Agreement cannot proceed.

We note that upon Completion, the Company, MMLIC (the parent company of the Vendor) and API (Hong Kong) (a wholly-owned subsidiary of Ant Financial) shall enter into the Strategic Cooperation Agreement, pursuant to which the three parties shall strengthen their business cooperation and share their respective business resources and expertise in the future (details of which is set out in the section headed “Strategic Cooperation Agreement” in the Letter from the Board). In addition, save for any transfer of Shares to its affiliates in accordance with the terms of the Shareholders Agreement entered into between Key Imagination and the Vendor at Completion (details of which is set out in the section headed “Shareholders Agreement” in the Letter from the Board), each of Key Imagination and the Vendor shall not, and shall procure its affiliates not to, sell, transfer or otherwise dispose of any of the Shares held by it without the prior written consent of the other for a period of 12 months following the Completion. The Company believes that the Strategic Cooperation Agreement shall facilitate the long term development of the Enlarged Group, and the lock up commitment of the Vendor shows its long term intention to bring mutual benefits to both the Enlarged Group and the Vendor through such strategic cooperation. We understand from the Company that on this basis and pursuant to an arm’s length negotiation, it is mutually agreed between the Company and the Vendor that the granting of the Whitewash Waiver by the Executive is included as one of the conditions precedent of the Share Purchase Agreement.

Having considered (i) the benefits of the Acquisition as set out in the section headed “Reasons for and benefits of the Acquisition” in this letter; (ii) the fairness and reasonableness of the terms of the Share Purchase Agreement; (iii) the obtaining of the Whitewash Waiver being a condition to the

Acquisition; and (iv) the benefits brought by the Strategic Cooperation Agreement (which shall only be entered into upon Completion), we are of the view that the granting of the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole so far as the Independent Shareholders are concerned.

The Independent Shareholders should note that if the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders, the aggregate shareholding of the Vendor, Key Imagination and parties acting in concert with any of them in the Company will exceed 50%. The Vendor, Key Imagination and parties acting in concert with any of them, as a group, may further increase their shareholdings in the Company without incurring further obligations under Rule 26 of the Takeovers Code to make a mandatory general offer.

10. The Sheen Light Acquisition

Pursuant to the Share Purchase Agreement, Sheen Light, as one of the Other Investors has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sheen Light Target Shares (representing 5% of the Total Target Shares) at the consideration of HK$655,000,000, which will be settled in cash.

As of the Latest Practicable Date, First Call Investments (a company wholly-owned by Mr. Zhu) and Deep Prime (a company wholly-owned by Mrs. Zhu) are interested in 1,000,000 Shares and 4,348,000 Shares, representing approximately 0.04% and 0.18% of the issued share capital of the Company, respectively. Since Sheen Light is also controlled by Mr. Zhu, the Sheen Light Acquisition constitutes a special deal under Rule 25 of the Takeovers Code, which requires the consent of the Executive. As the Sheen Light Acquisition is not capable of being extended to all Shareholders, and the benefit conferred on Mr. Zhu cannot be quantified, the Executive may, if considered appropriate, grant such consent and such consent will be conditional upon, among other things, the Independent Financial Adviser publicly stating in its opinion that the terms of the Sheen Light Acquisition are fair and reasonable and the approval of the Independent Shareholders' voting by way of a poll at the EGM. An application has been made to the Executive for consent to proceed with the Sheen Light Acquisition under Rule 25 of the Takeovers Code. If the Executive does not consent to the Sheen Light Acquisition, and/or the approval of the Independent Shareholders is not obtained, the Sheen Light Acquisition will not proceed. The Vendor may, in its sole discretion, sell the number of the relevant Other Investors Target Shares to an alternative purchaser as mutually agreed by the Vendor and the Company. For more details, please refer to the paragraph headed "Replacement of Other Investors" under the section headed "Share Purchase Agreement" in the Letter from the Board.

Taking into account (i) the fairness and reasonableness of the Consideration as discussed above in this letter ; (ii) the consideration payable by Sheen Light for the Sheen Light Acquisition is proportionate to the percentage interest that it will acquire in the Target Company; (iii) the terms and conditions of the Sheen Light Acquisition is substantially the same as those applicable to the Company and each of the Other Investors pursuant to the Share Purchase Agreement; (iv) the Sheen Light Acquisition is conditional upon, among others, the consent of the Executive being obtained and the approval by the Independent Shareholders of the Sheen Light Acquisition; (v) First Call Investments and Deep Prime (among others) will abstain from voting on the resolutions to be proposed at the EGM to approve the Sheen Light Acquisition; and (vi) all Independent Shareholders are entitled to vote for or against the resolutions in respect of the Sheen Light Acquisition at the EGM, we are of the opinion that the Sheen Light Acquisition is on normal commercial terms and that the terms of the Sheen Light Acquisition are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the principal factors and reasons as set out above, we consider that the Acquisition, the issuance of the Consideration Shares under the Specific Mandate and the Sheen Light Acquisition are on normal commercial terms, are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We also consider that the approval for the Whitewash Waiver by the Independent Shareholders is fair and reasonable. Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolutions to approve the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition at the EGM.

Yours faithfully,
For and on behalf of
China Everbright Capital Limited

Chan Ying Wai	**Chan Hiu Shan**
Director	*Senior Vice President*

Mr. Chan Ying Wai is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of China Everbright Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Chan has worked in corporate finance industry for over eight years and has acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.

Ms. Chan Hiu Shan is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of China Everbright Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO. She has over six years of experience in the corporate finance industry.

FORWARD-LOOKING STATEMENTS

This circular contains forward-looking statements that are not historical facts, but relate to the Group's plans, intentions, beliefs, expectations and predictions for the future. By their nature, these forward-looking statements are subject to risks and uncertainties. In some cases, the Company uses words such as "aim", "continue", "predict", "propose", "believe", "seek", "intend", "anticipate", "estimate", "project", "forecast", "target", "plan", "potential", "will", "would", "may", "could", "should" and "expect", and the negatives of these words and other similar expressions, to identify forward-looking statements.

These forward-looking statements reflect the Company's current views on future events but are not assurance of future performance, and will be affected by certain risks, uncertainties and assumptions, including the risk factors mentioned in this circular. Under no circumstances should the inclusion of such information in this circular be regarded as a representation, warranty or prediction with respect to the accuracy of the assumptions by the Company or the Vendor or any of their respective directors, officers, employees, agents, advisers or representatives or that these results will be achieved or are likely to be achieved. The possible occurrence of one or more relevant risk factors or uncertainties, or the potential inaccuracy of the relevant assumptions, may cause actual results, performance or effects or industry results to differ materially from any future results, performance or presentation indicated expressly or implicitly in the forward-looking statements.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. The Company undertakes no obligation to publicly update or revise any forward-looking statements contained in this circular, whether as a result of new information, future events or otherwise, except as required by law and the Listing Rules. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond the Company's control. The Company cautions you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statements.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this circular may not occur in the way the Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this circular are qualified by reference to these cautionary statements.

When considering the Acquisition, you should carefully consider the risk factors set out below and the other data and information set forth in this circular. The business, financial condition, results of operations and prospects of the Company could be adversely affected by any of the following events. The risks and uncertainties described below are not exhaustive of all the risks faced by the Company or the Enlarged Group. Any other risks and uncertainties which the Company is not aware of or deems to be immaterial currently may also have an adverse impact on the business, financial condition, results of operations and prospects of the Company and the Enlarged Group.

The Acquisition involves various risks, many of which are beyond the control of the Company. Such risks may be categorized into: (i) risks relating to the Acquisition; (ii) risks relating to the industry that the Target Group operates in; (iii) risks relating to the business and operations of the Target Group; and (iv) risks relating to this circular.

RISKS RELATING TO THE ACQUISITION

The Acquisition is subject to the fulfilment or waiver (as applicable) of the Conditions, and the Acquisition may or may not proceed

The Acquisition is subject to the fulfilment or waiver (as applicable) of the Conditions. For further details, please refer to section headed "Letter from the Board — Share Purchase Agreement — Conditions Precedent" in this circular. Certain Conditions involve the actions and decisions of third parties, including but not limited to approvals by the HKIA, the SFC, the MPFA and the AMCM and approval of the Acquisition, the Specific Mandate, the Whitewash Waiver and the Sheen Light Acquisition by the Independent Shareholders, and the fulfilment of these Conditions are beyond the control of the Company. Whether and when the approvals can be obtained for the Acquisition is uncertain. Hence, the Acquisition is exposed to the risk of approvals not being obtained. There is no guarantee that all or part of the Conditions can be fulfilled or the Acquisition will proceed. If any of the Conditions is not fulfilled or waived (as applicable) on or before the Long-Stop Date, the Acquisition will not proceed.

The Company is exposed to the risk of integration

Upon Completion, members of the Target Group will become non-wholly-owned subsidiaries of the Company. The Target Group offers a wide spectrum of insurance and wealth management products as well as MPF products. In order for the Group's existing financial services business and the Target Group's insurance and annuity businesses to complement and create synergies for each other, a certain degree of optimisation and integration will be required on the customer resources management, marketing, technical research and development, financial accounting and human resources management of the Group and the Target Group. However, it is uncertain whether the integration can be successfully implemented. Such integration may not be able to achieve the expected results, and may even have an adverse impact on the existing operation of the Target Group or the Group.

The industries in which the Company operates are different from those of the Target Group. To successfully integrate the operations of the Target Group into those of the Group, the Company may need to, among others, hire, train or retain competent staff members and develop, adopt and maintain the standards, control measures, procedures and policies appropriate to the operations of the Target Group. To ensure a smooth integration of the businesses of the Target Group, the Company plans to continue the employment of the Target Group's employees and retain its agency force. It is expected that the senior management team of the Target Group will remain intact after Completion. However, there is no guarantee that the operations of the Target Group will be successfully integrated into those of the Group. Moreover, there is no guarantee that the Company will be able to implement the business strategies of the Target Group in an accurate and effective manner. The Company may not be able to integrate or run the operations of the Target Group successfully or make the best judgement when running those operations. If the expected benefits of the Acquisition fail to materialise or the relevant risks of integration are not properly managed, the Enlarged Group may risk losing its key agency force, employees, senior management team, customers relationship and/or connections, which may have a material and adverse effect on the financial conditions and results of operations of the Enlarged Group.

RISKS RELATING TO THE INDUSTRY THAT THE TARGET GROUP OPERATES IN

The Target Group faces significant competition and the Target Group's business and prospects will be materially harmed if the Target Group is not able to compete effectively

The Target Group faces significant competition in Hong Kong and Macau. The Target Group's ability to compete is based on a number of factors, including premiums charged and other terms and conditions of coverage, guarantees, product features, investment performance, services provided, distribution capabilities, scale, experience, commission structure, brand strength and name recognition, information technology and actual or perceived financial strength. Some of the Target Group's competitors have greater financial, management and other resources than the Target Group does, and may be able to offer a broader range of products and services than the Target Group. Consolidation, including acquisitions of insurance and other financial services companies in Hong Kong, could result in additional competitors with strong financial resources, marketing and distribution capabilities and brand identities. The increased competitive pressures resulting from these and other factors may materially harm the Target Group's business and prospects, as well as materially reduce the Target Group's profitability and prospects by, among other things:

- reducing the Target Group's market share;
- decreasing the Target Group's margins and spreads;
- reducing the growth of the Target Group's customer base;
- increasing the Target Group's policy acquisition costs;
- increasing the Target Group's operating expenses, such as sales and marketing expenses; and
- increasing turnover of management and sales personnel, including agents.

The insurance industry in Hong Kong is highly regulated and the Target Group is required to deploy significant resources for compliance with the applicable laws and regulations

The insurance industry in Hong Kong is highly regulated. Companies carrying on insurance business in or from Hong Kong must obtain authorisation from the HKIA. Authorisation will only be granted to insurers meeting certain requirements under the IO, which focus on, among other things, the following aspects: paid up capital, solvency margin, fitness and properness of directors and controllers and adequacy of reinsurance arrangements. Compliance with applicable laws, rules and regulations may restrict the Target Group's business and investment activities and require the Target Group to deploy significant resources and to devote considerable management efforts and time to such compliance efforts.

New or revised laws, rules and regulations may be introduced from time to time and such changes may have a material adverse effect on the insurance companies in Hong Kong, including the Target Group. If any of the Target Group's business segments is to become subject to more stringent legal or regulatory restrictions, this may have a material adverse effect on the Target Group's product range, distribution network, capital requirements, day-to-day operations and consequently, the Target Group's business, financial conditions and results of operations.

The HKIA has regulatory oversight on the business of insurance companies in Hong Kong, including, inter alia, ownership and shareholding structure, capital and solvency requirements, investment portfolio allocations, ability to declare dividends and other distributions, the number of policies which could be offered and the maximum amount of premium which could be written in a given period. There is no assurance that any regulatory or government action would not have a material adverse effect on the business, financial condition and results of operations of insurance companies in Hong Kong, including the Target Group's.

The Target Group's ability to comply with minimum solvency requirements is affected by a number of factors, and the Target Group's compliance of those requirements may force the Company to raise additional capital, which could be dilutive to the Shareholders, or could limit the growth of the Target Group

The Target Group is required to maintain minimum solvency level under the IO or such higher solvency level imposed by the HKIA. The Target Group's minimum solvency is affected primarily by the amount of premiums the Target Group received, the amount of potential claims, the number of insurance policies the Target Group sells and the applicable regulations in force from time to time. The Target Group's solvency is also affected by a number of other factors, including credit ratings of the Target Group's insurance products, returns on the Target Group's investments and method of calculation of such solvency level. For details of the Target Group's solvency margin ratio as of the end of each of the Track Record Period, please refer to the section headed "Business of the Target Group" of this circular. Any failure of the Target Group in meeting the minimum solvency level requirements may subject it to intervention by the HKIA.

Upon Completion, members of the Target Group will become non-wholly-owned subsidiaries of the Company. If the Company intends to expand the Target Group's business in the future, the Company may need to raise additional capital to meet the solvency level requirements. Any issue of equtiy capital by the Company could be dilutive to the Shareholders. If the Company is not able to raise additional capital, the Company may face adverse consequences to the Target Group's business, financial condition and results of operations.

The risk-based capital framework for the insurance industry in Hong Kong

The IO and its regulations, together with the Guidance Notes issued by the HKIA, prescribe a capital adequacy framework for insurers operating in Hong Kong. In recent years, it has been recognized globally that the capital adequacy framework should take into account different risk factors of different insurers, and be conducive to enhance the corporate governance, enterprise risk management and public disclosure practices of insurers. The International Association of Insurance Supervisors has issued new Insurance Core Principles in relation to risk-based capital ("**RBC**") requirements in late 2011. The HKIA has reviewed the existing regulatory capital framework for insurance business in Hong Kong and proposed to revamp it towards a RBC regime. For more details about RBC requirements, please refer to the section headed "Regulatory Overview" of this circular.

Compliance with changing solvency and RBC requirements entails costs to the Target Group. In order to comply with applicable solvency and RBC requirements, the Target Group may need to raise or inject additional capital to meet the solvency and RBC requirements. The Target Group may also need to change its business strategies, including the types of products it sells and how it manages its capital. Finally, compliance with solvency and RBC requirements may require the Target Group to slow down the growth of its business.

Investments by insurance companies in Hong Kong are subject to restrictions imposed by the HKIA

The HKIA has imposed certain restrictions on the constituents and amounts of the investment portfolio of insurance companies in Hong Kong. Under certain circumstances, changes in constituents and increase in amounts of the investment portfolio exceeding certain thresholds are subject to prior consent of the HKIA and there is usually a time gap between the making of investment decision and the grant of the consent of the HKIA. In light of the aforesaid, there is no assurance that the Target Group will always be able to capture market opportunities in a timely manner, which may in turn affect the Target Group's results of operations. Further, due to such consent requirement, the Target Group may not be able to maximize its profits.

The rate of growth of the life insurance, investment and pension industries in Hong Kong may not be as high or as sustainable as the Company anticipates

The rate of growth of the life insurance, investment and pension industries in Hong Kong may not be as high or as sustainable as the Company anticipates. In particular, the insurance industry in Hong Kong may not expand, and a low penetration rate in a given market does not necessarily mean that a market has growth potential or that the Target Group will succeed in increasing its penetration into that market. The growth and development of the life insurance, investment and pension industries in Hong Kong are subject to a number of industry trends and uncertainties that are beyond the Target Group's control.

Customer preferences for insurance, investments and pension products as well as wealth management solutions may change and the Target Group may not respond appropriately or in time to sustain its business or its market share

The insurance, investment, pension and wealth management markets as well as the preferences of the Target Group's customers are constantly evolving. As a result, the Target Group must continually respond to changes in these markets and customer preferences to remain competitive and grow its business and maintain market share. The Target Group faces many risks when introducing new products. The Target Group's new products may fail to achieve market acceptance, which could harm its business. The Target's Group new products may also be rendered obsolete or uneconomical by competition or developments in the insurance, investment, pension and wealth management industries. Furthermore, even if the Target Group's current and anticipated product offerings respond to changing market demand, the Target Group may be unable to commercialise them. Moreover, potential products may fail to receive necessary regulatory approvals, be difficult to market on a large scale, be uneconomical to introduce or fail to achieve market acceptance. An inability to commercialise the Target Group's products would materially impair the viability of the Target Group's business. Accordingly, the Target Group's future success will depend on the Target Group's ability to adapt to changing customer preferences, industry standards and new product offerings and services. Any of these changes may require the Target Group to re-evaluate its business model and adopt significant changes to its strategies and business plan. Any inability to adapt to these changes would have a material adverse effect on the Target Group's business, financial condition and results of operations.

Demonstrations in Hong Kong in recent years cause uncertainties to the insurance industry and the overall business environment of Hong Kong

During the last quarter of 2014, demonstrations occurred in certain busy areas of Hong Kong and people occupied certain main roads, which had in turn resulted in suspension of services or route diversions of some of the public transportations. While such occupation actions have ended, there are uncertainties on whether such occupation actions will repeat or appear in other manners in the future. If the Hong Kong economy is adversely and materially affected by the demonstrations or other similar actions, the financial condition of the Target Group's customers and potential customers may be affected and become unable to afford the premium, and hence affecting the Target Group's business and profitability.

RISKS RELATING TO THE BUSINESS AND OPERATIONS OF THE TARGET GROUP

Any actual or perceived deterioration in the Target Group's financial strength could affect its reputation and business

The confidence of the policyholders in the financial strength of an insurance company is an important factor affecting its business. Any actual or perceived deterioration in the Target Group's financial strength could materially and adversely affect the Target Group's business since this may:

- affect the Target Group's relationship with its customers;
- affect the Target Group's sales of new insurance products;
- require the Target Group to offer more favourable terms for its insurance products in order to remain competitive; and
- adversely affect the Target Group's ability to obtain reinsurance on acceptable terms.

There is no assurance that the Target Group may not experience any deterioration of its financial strength in the future.

The Target Group may need additional capital in the future, and the Target Group may not be able to obtain such capital on acceptable terms or at all

The Target Group may require additional capital in the future in order for it to meet regulatory capital adequacy requirements, remain competitive, enter new businesses, pay operating expenses, conduct investment activities, meet its liquidity needs, expand its base of operations and offer new products and services. To the extent the Target Group's existing sources of capital are not sufficient to satisfy its needs, the Target Group may have to seek external sources. The Target Group's ability to obtain additional capital from external sources in the future is subject to a variety of uncertainties, including:

- the Target Group's future financial condition, results of operations and cash flows;
- the Target Group's ability to obtain the necessary regulatory approvals on a timely basis;
- any tightening of credit markets and general market conditions for debt and equity raising activities by insurance companies and other financial institutions; and

- economic, political and social conditions of the markets.

The Target Group may not be able to obtain additional capital in a timely manner or on acceptable terms, if at all. Future debt financing could include terms that restrict the Target Group's financial flexibility or restrict the Target Group's ability to manage its business freely.

The Target Group may incur significant losses on its investments, which may cause the Target Group's investment income to decrease

As of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017, the Target Group's investments in:

- debt securities represented approximately 54.7%, 56.2%, 60.4% and 59.6%;
- mortgage loans represented approximately 11.6%, 14.2%, 14.4% and 14.4%;
- equity securities represented approximately 3.5%, 4.0%, 5.0% and 5.6%; and
- unit trusts represented approximately 30.2%, 25.5%, 20.2% and 20.4%

of the total carrying value of the Target Group's investment portfolio, respectively.

In addition, the total statutory deposits, deposits with banks maturing more than three months and cash and cash equivalents of the Target Group represented approximately 2.5%, 2.7%, 2.3% and 2.5% of the total assets of the Target Group as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017, respectively.

The Target Group's ability to earn a profit on its products depends in part on the returns on investments supporting its obligations under these products. The Target Group's investment returns, and thus the Target Group's results of operations, may be adversely affected from time to time by various factors affecting the Target Group's specific investments and, more generally, by the overall economic environment. Those factors include, inter alia, currency exchange rates, credit and liquidity conditions, the performance and volatility of capital markets, asset values, inflation rates, etc. Any significant deterioration in one or more of these factors could have an adverse impact on the value of, and the income generated by, the Target Group's investment portfolio and could have a material adverse effect on the Target Group's business, financial condition and results of operations. In particular, the global financial crisis happened in 2008 had caused volatility in the securities market. There is no assurance that such financial crisis will not occur again in the future. Any reoccurrence of such financial crisis may in turn adversely affect the returns on the Target Group's investment and its financial position.

The Target Group is subject to the credit risk of its investment counterparties, including the issuers or borrowers whose securities or loans the Target Group holds

A portion of the Target Group's investment portfolio comprises debt securities, which includes government bonds, corporate bonds and certificates of deposit. As of 31 December 2014, 31

December 2015 and 31 December 2016 and 30 June 2017, approximately 54.7%, 56.2%, 60.4% and 59.6% of the Target Group's investments in terms of carrying value of the Target Group's investment portfolio were debt securities. Among these debt securities, approximately 90.6%, 89.7%, 89.6% and 90.9% in term of carrying value of total debt securities were corporate bonds and certificates of deposit as of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, respectively. As of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, 88%, 87%, 88% and 89% of the debt securities invested by the Target Group have S&P rating of BBB or above or equivalent rating from other reputable rating agencies.

The ability of the issuers of debt securities to pay the principal amount and interest under the debt securities depends on the financial conditions of the respective issuers. There is no assurance that all the issuers of debt securities will be able to honour the payment obligation thereunder. In the event that the financial condition of any of these issuers deteriorates, it may not be able to honour its payment obligation under the debt securities, which in turn could have an adverse effect on the Target Group's business, financial condition and results of operations, as well as the Target Group's liquidity and profitability.

In addition, there is no assurance that the Target Group will not suffer losses due to defaults from certain counterparties related to its investment activities, such as trading counterparties, counterparties under swaps and other derivative contracts and other financial intermediaries and guarantors. Any such losses may also have an adverse effect on the Target Group's business, financial condition and results of operations, as well as the Target Group's liquidity and profitability.

Interest rate fluctuations may materially and adversely affect the Target Group's profitability

The Target Group is exposed to the risk of fluctuations in interest rates because of the substantial amount of variable interest securities, variable interest mortgage loans, statutory deposits and deposits with banks that the Target Group holds as investment and cash. As of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017, the Target Group's variable interest securities, variable interest mortgage loans, statutory deposits and deposits with banks maturing more than three months amounted to approximately HK$5,637.5 million, HK$6,592.2 million, HK$7,894.2 million and HK$8,169.5 million, respectively. During periods of declining interest rates, the interest to be received from the Target Group's variable interest securities, variable interest mortgage loans, statutory deposits and deposits with banks may decrease, which may in turn reduce the Target Group's return on investments and affect the Target Group's results of operations.

The Target Group may be unable to match closely the duration of its assets and liabilities, which could increase its exposure to interest rate risk

Matching the duration of the Target Group's assets to their related liabilities reduces the Target Group's exposure to changes in interest rates. The Target Group seeks to manage the risk of duration mismatch by focusing on product offerings whose maturity profiles are in line with the duration of investments available to the Target Group. However, the Target Group's ability to invest in financial instruments that would enable the Target Group to closely match the duration and yield of its investment assets and insurance policy liabilities may be restricted by applicable insurance laws, rules and regulations. In addition, the Target Group may not be able to effectively hedge its interest rate risk through financial derivative products. If the Target Group is unable to match closely the duration of its assets and liabilities, the Target Group will be exposed to interest rate changes, which may materially and adversely affect its financial condition and results of operations.

The Target Group is subject to risks associated with currency fluctuations and regulations

The Target Group's investment and cash and cash equivalents are mainly denominated in United States dollars and Hong Kong dollars, whilst a small portion of such amounts are held in MOP, British Pounds, Australian Dollars, Euros, RMB, Japanese Yen and Singapore Dollars and the Target Group is exposed to foreign exchange rate risk. Changes in exchange rates between HK$ and US dollars, on the one hand, and such currencies on the other, will be directly reflected in the Target Group's financial results. The Target Group cannot predict future exchange rate fluctuations and such fluctuations could materially and adversely affect the Target Group's financial condition and results of operations.

In addition, the Target Group's functional currency is US dollars. The presentation currency of the financial information of the Target Group is Hong Kong dollars, the official currency of the jurisdiction in which the Target Group primarily operates. Although the exchange rate between HK$ and US dollars has been pegged (i.e. the exchange rate is only permitted to fluctuate within a narrow band) since 1983, there is no assurance that the HK$ will remain pegged to US dollars. If the pegging system between HK$ and US dollars is changed or terminated due to any reason whatsoever, this could pose extra uncertainty on the Target Group's financial condition and results of operations.

Concentration of the Target Group's investment portfolio in any particular asset class may increase its risk of suffering investment losses which could have a material adverse effect on the Target Group's financial condition and results of operations

The Target Group's investment portfolio is comprised primarily of unlisted assets on level 2 or level 3 (as defined in note 5(a)(iii)(1) of the Accountants' Report on the Target Group set out in Appendix IV to this circular) valuation basis. As of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017, the unlisted assets on level 2 or level 3 in the Target Group's investment portfolio accounted for approximately 100.0%, 99.7%. 99.3% and 98.1%. These unlisted investments do not have quoted prices and the prices of these unlisted investments may in turn be affected by numerous factors, including the existence of suitable buyers and market makers, market sentiment and volatility, the availability and cost of credit and general economic, political and social conditions. In addition, there may not be a liquid trading market for these unlisted investments. If the Target Group is required to dispose of these illiquid assets on short notice, the Target Group could be forced to sell such assets at prices significantly lower than the prices the Target Group has recorded in its consolidated financial information and hence may suffer investment losses.

Increases in the amount of allowances and impairments taken on the Target Group's investments could have a material adverse effect on the Target Group's financial condition and results of operations

The Target Group determines the amount of allowances and impairments taken in respect of its investments in accordance with HKFRS. See note 3(l)(i) to the financial information of the Target Group included in the Accountants' Report on the Target Group set forth in Appendix IV to this circular. Such determination varies by investment type and is based upon the Target Group's periodic evaluation and assessment of known and inherent risks associated with the respective asset classes. For example, the Target Group may determine available-for-sale financial assets to be impaired when there has been a significant or prolonged decline in the fair value of such assets below their costs. These evaluations and assessments are revised as conditions change and new information becomes available. The determination of the amount of allowances and impairments to be taken on the Target Group's investment assets may require complex and subjective judgments. In making these judgments, the Target Group evaluates among other factors, the duration and extent to which the fair value of an investment is less than its cost, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. There is no assurance that the best estimates of the Target Group's management reflect actual losses that the Target Group will ultimately incur on these investments, that historical trends will be indicative of future impairments or allowances or that the Target Group will not be required under future accounting standards to change the amounts of allowances and impairments of its investments.

Any new trademark of the Target Group may not be as well-recognised as the existing trademark of the Target Group

We believe that the success of the Target Group's business and its competitive position depend to a certain extent on the Target Group's trademark and customer awareness of its trademark. Pursuant to the Trademark License Agreement, MMLIC will grant to the Target Company a license (i) to use certain trademarks bearing the name "MassMutual" and/or the logo for a period of two years from the date of Completion, which may be extended by one year by written agreement of the parties and (ii) to use certain trademarks bearing the characters "美國萬通" for a period of six months from the date of Completion. The parties will establish a transition committee to jointly develop a plan to transition from using the licensed trademarks to the replacement trademarks to be selected by the Target Company and the Company. There is no assurance that any new trademark selected by the Target Company and the Company will be as well-recognised as the existing trademarks of the Target Group bearing the name "MassMutual" and/or the logo . In addition, the Target Group may have to incur significant time and resources in building and promoting its new brand with the replacement trademarks. The building and promotion of the new brand of the Target Group may not be successful. If the Target Group is unsuccessful in building and promoting its new brand, the customer awareness and the competitive position of the Target Group may be eroded, and the business, results of operations and prospects of the Target Group may be adversely affected.

If the Target Group is not able to motivate, retain and attract agency leaders and individual agents, the Target Group's competitive position, growth and profitability will suffer

The Target Group depends to a significant extent on its agency leaders and individual agents to distribute its products. The Target Group faces intense competition to attract and retain its agency leaders and individual agents, and the Target Group competes with other companies for their services, primarily on the basis of its reputation, product range, compensation and retirement benefits, training, support services and financial position. The Target Group may not always be successful in attracting agency leaders and individual agents, and there is no assurance that the Target Group's initiatives to motivate, retain and attract agency leaders and individual agents will succeed. Competition from other insurance companies and business institutions may also force the Target Group to increase the compensation of its agency leaders and individual agents, which would increase operating costs and reduce the Target Group's profitability. If the Target Group is unsuccessful in attracting and retaining agency leaders and individual agents, the Target Group's ability to effectively market and distribute its products may be negatively affected, which could have a material adverse effect on the Target Group's financial condition and results of operations.

The Target Group depends on key management and actuarial, information technology, investment management, underwriting, sales staff and other personnel, and the Target Group's business would suffer if it loses its services and is unable to adequately replace them

The success of the Target Group's business is dependent to a large extent on its ability to retain key personnel who have in-depth knowledge and understanding of the insurance markets in which the Target Group operates, including members of the Target Group's senior management, actuaries, information technology specialists, experienced investment managers and finance professionals, underwriting personnel, sales staff and other personnel.

The Target Group's business could suffer if it loses the services of its personnel and cannot adequately replace them. Moreover, the Target Group may be required to increase substantially the number of such personnel in connection with any future growth plans, and the Target Group may face difficulty in doing so due to the intense competition in the insurance industry for such personnel. There is no assurance that the Target Group will be able to attract and retain qualified personnel or that they will not retire or otherwise leave the Target Group in the future.

The Target Company entered into the Transitional Services Agreement and the Barings Investment Advisory Agreement to outsource certain of its operations. Termination of these agreements may affect the Target Group's operations and financial results

The Target Company entered into the Transitional Services Agreement for the provision by the Vendor of certain treasury and financial reporting services relating to investment or portfolio management and other information technology related services to the Target Group. In addition, the Target Company also entered into the Barings Investment Advisory Agreement for engaging Barings LLC as its investment adviser to acquire, manage, service and dispose of investments for the Target Company. If the counterparties to these agreements terminate the agreements and the Target Group were unable to secure an adequate alternative, the Target Group's operations and financial results could be materially disrupted and its financial condition could be materially affected.

The Target Group may be unable to utilise reinsurance successfully

The Target Group's ability to obtain external reinsurance on a timely basis and at a reasonable cost is subject to a number of factors, many of which are beyond the Target Group's control. If the Target Group is unable to renew any expiring external coverage or obtain acceptable new external reinsurance coverage, the Target Group's net risk exposure could increase or, if the Target Group is unwilling to bear an increase in net risk exposure, its overall underwriting capacity and the amount of risk the Target Group is able to underwrite would decrease. To the extent that the Target Group is unable to utilise external reinsurance successfully, its business, financial condition and results of operations may be materially and adversely affected.

In addition, although a reinsurer would be liable to the Target Group for the risk transferred pursuant to a reinsurance arrangement, such an arrangement does not discharge the Target Group's primary liability to its policyholders. As a result, the Target Group is exposed to credit risk with respect to reinsurers. In particular, a default by one or more of the Target Group's reinsurers under the Target Group's reinsurance arrangements would increase the financial losses arising out of a risk the Target Group has insured, which would reduce the Target Group's profitability and may have a material adverse effect on its liquidity position. There is no assurance that the Target Group's reinsurers will always be able to meet their obligations under the Target Group's reinsurance arrangements on a timely basis, if at all.

Differences between actual benefits and claims experience and underwriting and reserving assumptions, as well as deviations from the assumptions used in pricing the Target Group's products, could have a material adverse effect on the Target Group's financial condition and results of operations

The Target Group establishes and carries reserves as balance sheet liabilities to pay future policyholder benefits and claims. The Target Group establishes these reserves, prices its products and reports capital levels and the results of its long-term business operations based on many assumptions and estimates, including:

- mortality rate;
- morbidity rate;
- estimated premiums the Target Group will receive over the assumed life of the insurance policy;
- lapse, surrenders and persistency (i.e. how long an insurance policy or contract stays in-force);
- timing of the event covered by the insurance policy;
- amount of benefits or claims to be paid;
- amount of expenses to be incurred;

- macroeconomic factors such as interest rates and inflation; and
- investment returns on the assets the Target Group purchases with the premiums the Target Group receives.

The process of determining these assumptions and estimates is a difficult and complex exercise involving many variable and subjective judgments. Due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of the liabilities for unpaid benefits and claims, the Target Group cannot precisely determine the amount that it will ultimately pay to settle these liabilities. These amounts may vary from the estimated amounts, particularly when payments may not occur until well into the future. In addition, actual experience, such as lapse, mortality, expense and morbidity, can be different from the assumptions used when the Target Group establishes reserves for and prices its products or otherwise uses such assumptions in the conduct of its business. For example, significant changes in mortality could emerge over time, due to changes in the natural environment, the health habits of the insured population, effectiveness of diagnosis and treatment of disease and disability, or other factors. In addition, the Target Group may lack sufficient data to make accurate estimates of the future benefits or claims experience. Significant deviations in actual experience from the Target Group's assumptions could materially and adversely reduce its profitability.

The Target Group evaluates its reserves, net of DAC, periodically, based on changes in the assumptions and estimates used to establish these reserves, as well as its actual policy benefits and claims experience. A liability adequacy test is performed at least annually. If the net reserves initially established for future policy benefits prove insufficient, the Target Group must increase its net reserves, which may have a material adverse effect on its liquidity, financial condition and results of operations.

The Target Group's businesses are highly regulated and compliance with, or failure to comply with, applicable regulations could result in financial losses or harm to its business

The Target Group is subject to laws, rules and regulations that regulate all aspects of its business. Compliance with applicable laws, rules and regulations may restrict the Target Group's business activities and require the Target Group to incur increased expense and to devote considerable time to such compliance efforts. Failure to comply with any of the applicable laws, rules and regulations could result in fines, suspension of the Target Group's business licences or, in extreme cases, business licence revocation, each of which would have a material adverse effect on the Target Group's business, liquidity, financial condition and results of operations. Laws, rules, regulations and regulatory interpretations may change from time to time and such changes could have a material adverse effect on the Target Group's business.

Agent, employee and distribution partner misconduct is difficult to detect and deter and could harm the Target Group's reputation or lead to regulatory sanctions or litigation against the Target Group

Agent, employee or distribution partner misconduct could result in violations of law, regulatory sanctions, litigation or serious reputational or financial harm. Such misconduct could include:

- binding the Target Group to transactions that exceed authorised limits;
- hiding unauthorised or unsuccessful activities, resulting in unknown and unmanaged risks or losses;
- improperly using or disclosing confidential information;
- making illegal or improper payments;
- recommending products, services or transactions that are not suitable for the Target Group's customers;
- misappropriation of funds;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products;
- engaging in unauthorised or excessive transactions to the detriment of the Target Group's customers; or
- otherwise not complying with applicable laws or the Target Group's internal policies and procedures.

The measures that the Target Group has taken to detect and deter misconduct by its agents, employees and distribution partners may not be effective and so the Target Group may not always be successful in detecting or deterring such misconduct. There is no assurance that any such misconduct, if occurs, would not have a material adverse effect on the Target Group's reputation, business, financial condition, results of operations and prospects.

The Target Group's risk management policies and procedures and internal controls, as well as the risk management tools available to the Target Group, may not be adequate or effective

The risk management policies, procedures and internal controls of the Target Group may not be adequate or effective in mitigating its risk exposures, including risks that are unidentified or unanticipated. In particular, some methods of managing risk are based upon observed historical market behaviour and claims experience. These methods may fail to predict future risk exposures, which could be significantly greater than those indicated by historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters. This information may not be accurate, complete, up-to-date or properly evaluated. In addition, the information and experience data that the Target Group relies on may become quickly outdated by market and regulatory developments.

Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, as well as appropriate and consistently applied internal control systems. These policies, procedures and internal controls may not be adequate or effective, and the Target Group's business, financial condition and results of operations could be materially and adversely affected by the corresponding increase in the Target Group's risk exposure and actual losses experienced as a direct or indirect result of failures of the Target Group's risk management policies and internal controls. Any hedging programmes that the Target Group may utilise may also not be fully effective and may leave the Target Group exposed to unidentified and unanticipated risks. The Target Group uses models in its risk management procedures and these models rely on assumptions and projections that are inherently uncertain.

In addition, the investment portfolio of the Target Group is governed by the Target Group's risk management and asset allocation decisions. The Target Group may not have adequate risk management tools, policies and procedures, and the Target Group may not have sufficient access to trading counterparties to effectively implement investment risk mitigation strategies and techniques related to its investment portfolio. If the Target Group's investment decision making process fails to minimise losses while capturing gains, the Target Group could experience significant financial losses and harm to its business.

The impact of epidemics, terrorism, natural disasters or other catastrophes may materially and adversely affect the Target Group's claims experience, investment portfolio, financial condition and results of operations

The threat of epidemics, terrorism, natural disasters or other catastrophes may cause disruptions to commerce, reduced economic activity and market volatility. The Target Group's insurance business exposes the Target Group to claims arising out of such events and catastrophes affecting a large segment of the population. In particular, the Target Group's life insurance business is exposed to the risk of catastrophic mortality, such as an epidemic or other events that cause a large number of deaths.

In addition, the occurrence and severity of many catastrophic events, such as epidemics, earthquakes, typhoons, floods and fires, is inherently unpredictable. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemic could have a material impact on the losses experienced by the Target Group.

A significant portion of the Target Group's assets is comprised of its investment portfolio, which consists primarily of debt and equity securities, and catastrophic events may materially and adversely affect market prices for these investments, thereby causing decreased asset quality during a period in which the Target Group may also experience increases in claims incurred. A decrease in asset quality could result in, among other things, a write-down in the fair value of assets and other charges to the Target Group's earnings, which would reduce the Target Group's profitability.

The Target Group's operations could be disrupted by unexpected network interruptions caused by system failures, natural disasters, terrorist attacks, unauthorised tampering or security breaches of its information technology systems

The Target Group's business depends heavily on the ability of its information technology systems to timely process a large number of transactions and numerous product lines. In particular, transaction processes have become increasingly complex and the volume of transactions continues to grow. The proper functioning of the Target Group's financial controls, accounting, customer database, customer service and other data processing systems is critical to its operations and to its ability to compete effectively. Although the Target Group maintains a network of disaster recovery facilities designed to be activated in place of primary facilities in the event of failure, the Target Group cannot assure that its business activities would not be materially disrupted in the event of a partial or complete failure of any of these or other information technology or communications systems. These failures could be caused by, among other things, software bugs, computer virus attacks, conversion errors due to system upgrading, failure to successfully implement ongoing information technology initiatives, natural disasters such as earthquakes and floods, war, terrorist attack and unanticipated problems at the Target Group's existing and future facilities. The Target Group did not experience any network interruptions during the Track Record Period that had a material adverse effect on its business taken as a whole. A failure of the Target Group's information technology or communications systems could damage its reputation and have a material adverse effect on its business, financial condition and results of operations.

RISKS RELATING TO THIS CIRCULAR

The Target Group's Embedded Value and Value of New Business are each calculated based on a number of assumptions and may vary significantly as those assumptions change

In order to provide the Shareholders with an additional tool to understand the Target Group's economic value and business results, we have disclosed information regarding the Target Group's Embedded Value and Value of New Business, as discussed in the section headed "Appendix VII — A. Actuarial Review Report on the Target Group" in this circular. These measures are based on a discounted cash flow valuation using commonly applied actuarial methodologies. Guidelines with respect to the preparation and presentation of Embedded Value and Value of New Business are still evolving, however, and there is no single adopted standard for any of the form, determination or presentation of the Embedded Value and Value of New Business of an insurance company. The calculation of Embedded Value and Value of New Business involves many assumptions, many of which are beyond the Target Group's control, and actual experience may vary materially from those assumed. Moreover, because of the technical complexity involved in Embedded Value and Value of New Business calculations and the fact that Embedded Value and Value of New Business estimates vary materially as key assumptions are changed, Shareholders should read the section headed "Appendix VII — A. Actuarial Review Report on the Target Group" in this circular, use special care when interpreting Embedded Value and Value of New Business and should not place undue reliance on them. Furthermore, we do not intend to update or otherwise revise these values in the future, whether as a result of new information, future events or otherwise. See also the section headed "Forward-Looking Statements" in this circular.

Certain statistics, industry data and other information relating to general economy and industry environment contained in this circular are derived from various publications by official governmental authorities, industry associations and other entities, and the Company and/or its Directors, agents and advisers cannot assure the accuracy and completeness of such statistics, data and information

Certain statistics, industry data and other information relating to the general economy and industry environment contained in this circular were derived from various publications by official governmental authorities, industry associations and other entities. The statistics, data and information contained in these publications are provided through channels such as governmental authorities and industry associations. As such, the Company or its Directors, agents and advisers cannot assure or make any representation as to the accuracy or completeness of such statistics, data and information.

None of the Company or the Target Group, their respective legal advisers or any of their respective associates, directors, employees, agents or advisers has prepared or independently verified the accuracy or completeness of such statistics, data and information directly or indirectly derived from sources and channels such as official governmental authorities and industry associations. Due to the possibility of flawed collection methods, discrepancies in published information, different market practices or other problems, the statistics, industry data and other information relating to the general economy and industry environment derived from sources such as official governmental authorities and industry associations may be inaccurate or may not be comparable to statistics produced from other sources, and thus should not be unduly relied upon. Shareholders should give careful consideration as to how much weight or importance to attach or place on such statistics, industry data and other information relating to the general economy and the industries.

This circular contains forward-looking statements by the Company relating to the Target Group's and the Company's plans, objectives, expectations and intentions, which may not represent its actual performance for the periods of time to which such statements relate

This circular contains certain forward-looking statements by the Company relating to the Target Group's and the Company's plans, objectives, expectations and intentions. Such forward-looking statements involve known and possibly known risks, uncertainties and other factors which may cause actual performance or achievements of the Target Group and the Enlarged Group to be materially different from the anticipated performance or achievements expressed or implied by the forward-looking statements in this circular. Such forward-looking statements are based on numerous assumptions as to the Target Group's and the Company's present and future business strategies and the environment in which the Target Group and the Company will operate in the future and the reasonableness and appropriateness of certain assumptions are subject to the risk that the information used by the Company to derive such assumptions may be inaccurate or inadequate. The actual performance or achievements of the Target Group and the Enlarged Group may differ materially from those disclosed in this circular.

HISTORY AND DEVELOPMENT

The Target Company traces its origins to July 1975, when it was founded in Hong Kong by Wing On Life (Holdings) Limited under the name "Hong Kong Family Insurance Company Limited". It first obtained its license as an authorized insurer in Hong Kong in 1981. The Target Company established its branch office in Macau in August 1999.

The Target Company has experienced several changes in ownership since its establishment. In March 1994, it was acquired as to 50% by The HKCB Bank Holding Company Limited and as to 50% by Protective Life Corporation. In March 2000, it became ultimately beneficially owned by MMLIC and in April 2000, it was renamed as "MassMutual Asia Limited".

The Target Company is currently authorized to carry out class A (life and annuity), class C (linked long term), class D (permanent health), class G (retirement scheme management category I), class H (retirement scheme management category II) and class I (retirement scheme management category III) long term insurance business in Hong Kong. In addition, it is licensed to operate as a life insurer in Macau.

The Target Group commenced its MPF business in 2000 upon the establishment of the MPF system in Hong Kong. The Target Company was registered as a principal intermediary and MMT, a company which is 100% beneficially owned by the Target Company, became an MPF approved trustee under the MPF Ordinance in 2000.

BUSINESS MILESTONES

The following table sets forth the key milestones in the Target Group's history:

Date	Event
July 1975	The Target Company was incorporated in Hong Kong.
1981	The Target Company first obtained its license to carry out insurance business in Hong Kong.
August 1999	The Target Company established its branch office in Macau and obtained its license to operate as a life insurer in Macau.
2000	The Target Group commenced its MPF business.

MEMBERS OF THE TARGET GROUP

Details of the members of the Target Group are set forth below:

No.	Name	Date of Incorporation	Place of Incorporation	Principal Business Activities
1	MassMutual Asia Limited	8 July 1975	Hong Kong	Life insurance, annuity, investment-linked, accident and health, and other insurance products
2	MassMutual Services Limited	28 July 1994	Hong Kong	General services
3	MassMutual Guardian Limited	15 November 1994	Hong Kong	General services
4	MassMutual Trustees Limited	4 June 1996	Hong Kong	MPF approved trustee
5	MassMutual Insurance Consultants Limited	22 January 1997	Hong Kong	Agency services to non-life insurers
6	Protective Capital (International) Limited	13 October 1999	Hong Kong	General services
7	MassMutual Asia Investors Limited	18 March 2004	Hong Kong	General services

The structure of the Target Group as of the Latest Practicable Date is set forth in the section headed "Letter from the Board — Structure of the Group and the Target Group — Structure of the Group and the Target Group as of the Latest Practicable Date — The Target Group".

The structure of the Group immediately after Completion as enlarged by the acquisition of the Target Group is set forth in the section headed "Letter from the Board — Structure of the Group and the Target Group — Structure of the Group immediately after Completion (assuming there is no change in the issued share capital of the Company since the Latest Practicable Date and up to Completion)". See also "Regulatory Overview — Regulatory Framework — Hong Kong — B. Mandatory Provident Fund Schemes — II. Approved trustee" in Appendix III for details of the expected transfer of the 20% interest in MMT held by Mr. Keng Puang Tay on trust for the Target Company to MassMutual Asia Investors Limited prior to Completion.

OVERVIEW

The Target Group operates one of the leading insurance businesses in Hong Kong and Macau. It offers more than 80 insurance and wealth management products, including universal life insurance, deferred annuity and investment-linked assurance products, as well as MPF products. It achieved TPI of HK$5,041 million, HK$5,625 million, HK$6,875 million and HK$3,156 million for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017, respectively. As of 31 December 2016 and 30 June 2017, the Target Group had total assets of HK$44,460 million and HK$47,418 million, total equity of approximately HK$6,783 million and HK$7,421 million and an Embedded Value of HK$10,992 million and HK$11,637 million, respectively. As of 31 December 2016, the AUM of the MPF scheme operated by the Target Group reached HK$2,379 million.

The Target Group's focus on delivering value is evidenced by its financial results. Its profit after tax has grown from HK$635.1 million for the year ended 31 December 2014 to HK$668.4 million for the year ended 31 December 2015 to HK$1,119.1 million for the year ended 31 December 2016. The Value of New Business for the 12 months ended 30 June 2017 was approximately HK$510 million (assuming a mid-point risk discount rate of 9%). Throughout the Track Record Period and as of the Latest Practicable Date, it had capital in excess of its requirements under relevant Hong Kong insurance regulatory guidance.

During the year ended 31 December 2016, the Target Group derived 88% of its TPI from Hong Kong and 12% from Macau. The Target Company ranks amongst the top 12 insurers for individual life and annuity and linked individual life businesses in Hong Kong both in terms of number of policies and office premiums and had a market share of over 2.9% in terms of number of policies and about 2.0% in terms of office premiums for the three years ended 31 December 2016. It ranked fourth amongst life insurance companies in Macau in terms of total gross premiums and had a market share of over 4.6% for the year ended 31 December 2016.

The Target Group's diversified product suite includes three flagship products: (i) the "FLEXI-ULife Prime Saver", an enhanced universal life insurance plan; (ii) the "Target Lifetime Annuity Saver", a plan providing guaranteed lifetime annuity income to act as a safety net during the customer's retirement; and (iii) the "Global InvestPlan", an investment-linked insurance product with more than 100 global investment options. The Target Group has received numerous awards in recognition of its products and services.

The Target Group's tied agency force consisted of approximately 2,920 agents in Hong Kong and Macau as of 30 June 2017, with a 12-month agent retention rate of approximately 91% for the year ended 31 December 2016. In addition to its tied agency force, the Target Group also utilizes brokers and agency intermediaries as well as banks and other financial institutions to distribute its insurance products. As of the Latest Practicable Date, the Target Group had 358 employees and more than 441,000 in-force individual policies.

The Target Group believes that its roots and relatively long track record in Hong Kong and Macau have provided it with the necessary experience and expertise to enable it to continue to develop and offer innovative insurance products and services to existing and new customers.

COMPETITIVE STRENGTHS

The Target Group is a large insurance company in Hong Kong and Macau with a consistent market position and offering a diverse range of insurance products. The Target Group's principal strengths include the following:

Focus on value creation to policyholders with stable financial strength

The Target Group is focused on creating value by offering products which provide comprehensive insurance protection to policyholders while generating high profit margins for the Target Group. Its VONB for the 12 months ended 30 June 2017 was approximately HK$510 million (assuming a mid-point risk discount rate of 9%).

The Target Group derives its income from more than 80 products, which the Target Group considers to be important in maintaining its financial strength and profitability, since it is not reliant on a single business line. For the year ended 31 December 2016, 21.8% of the Target Group's TPI was generated from universal life products, 40.0% from deferred annuity products, 10.8% from investment-linked products, 25.0% from accident and health products and 2.4% from other insurance products.

The Target Group has a track record of stable and profitable growth, which is evidence of the success of its business model. For the year ended 31 December 2016 and the six months ended 30 June 2017, it had profit after tax of HK$1,119.1 million and HK$257.6 million, respectively. Throughout the Track Record Period and as of the Latest Practicable Date, it had capital in excess of its requirements under relevant Hong Kong insurance regulatory guidance.

High operational efficiency

The Target Group is committed to enhancing the efficiency of its operations and reducing its operating expenses in order to improve profitability. For the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017, it had an expense ratio of 8.2%, 7.8%, 6.6% and 7.6%, respectively.

The Target Group has adopted various tools and programs in order to achieve operating efficiencies. In particular, it employs information technology systems including applications related to processes, sales and management support, underwriting, policy administration and financial management and analysis. The Target Group believes that such actions have allowed it to increase its efficiency while maintaining high quality services for its customers.

Productive and stable tied agency network

The Target Group has a tied agency force of approximately 2,920 agents as of 30 June 2017. The tied agency force is the foundation of the Target Group's distribution platform. For the year ended 31 December 2016, it generated TPI of HK$4,368 million, representing 63.5% of the Target Group's TPI.

The Target Group has a loyal tied agency network. Its 12-month agent retention rate has been consistently strong and was approximately 91% for the year ended 31 December 2016, which is higher than the industry average in Hong Kong and Macau. Approximately 20% of the total tied agency force (which includes agency leaders) have been with the Target Group for at least 10 years.

The Target Group's agents have provided it with significant reach and face-to-face customer targeting and servicing capabilities, enabling it to build and maintain long-term relationships with customers. Such benefits are enhanced by the stability of the tied agency force, which is evidence of the agents' commitment to the Target Group.

For further information on the agency distribution channel, see "— Distribution — Agency Channel" in this section.

Experienced and dedicated management team

The Target Group is led by a long-serving management team with extensive experience in the Hong Kong and Macau insurance industry. Mr. Keng Puang Tay, the chief executive officer of the Target Group, has more than 36 years of experience in the life insurance industry. He joined the Target Group in December 1996 and has served in his current position since June 2009. Mr. Tay is supported by the other members of the Target Group's management team, including Mr. Victor Ka Lin Yip, the chief operating officer and chief actuary of the Target Group. Each of the management members with a rank of senior vice president or above is an industry veteran and has been employed by the Target Group for at least 15 years.

The management team has a proven track record of generating profits in face of evolving market conditions and customer needs. The Target Group believes that their knowledge and experience will help drive its continued growth and development.

BUSINESS STRATEGIES

The Target Group plans to pursue the following strategies to grow its business and strengthen its competitive and market position:

Expand and broaden multi-channel distribution platform

The Target 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 Target Group's most significant distribution channel in terms of TPI contribution and the Target Group plans to continue to steadily grow its tied agency force. The Target Group also seeks to expand its brokerage and agency intermediary distribution channel to serve sophisticated customers who the Target Group believes are more receptive to independent advice. In order to expand its bancassurance distribution channel, the Target Group will aim to establish new partnerships with suitable banks and financial institutions.

Increase the proportion of higher margin products

The Target Group intends to utilise its innovative capabilities to develop products with higher margins and to leverage its distribution channels to increase its sales of such products. The Target Group believes that such products will provide meet customers' needs while generating profit for the Target Group.

In order to support this strategy, the Target Group plans to optimise its product mix by developing and promoting products, such as refundable critical illness products, which have higher profit margins. The Target Group believes that its wide product offering combined with a stable tied agency force trained to sell all of its insurance products, which enable the agents to respond quickly to changing consumer demand with an appropriate product, provide it with a strong distribution platform to pursue its strategy of increasing the proportion of higher margin products that it sells.

Leverage growth opportunities offered by the Acquisition

The Acquisition provides an opportunity for the Target Group to be part of a financial services platform that offers a broader range of products and services. The Target Group believes that the portfolio of its insurance and wealth management products and the Group's wealth management and investment services will generate further growth for the Target Group.

The Target Group has a built a large customer base that includes the holders of its more than 441,000 in-force individual policies as of 30 June 2017. The Target Group believes that the respective existing customer base of the Target Group and the Group offers significant cross-selling opportunities.

Enhance technological capabilities to improve customer experience

The Target Group is dedicated to expanding its information technology capability and usage of digital platforms to match the preferences of its customers. It strives to provide clients with personalized products and services and to enhance customer experience by adopting unified and user-friendly systems. The Target Group has a strong existing information technology team and it is expected that, following Completion, they will work with the Group's team of software engineers to further develop the Target Group's platforms.

EMBEDDED VALUE AND VALUE OF NEW BUSINESS

As of 31 December 2016 and 30 June 2017, the Target Group had an Embedded Value of HK$10,992 million and HK$11,637 million, respectively. The Value of New Business for the 12 months ended 30 June 2017 was approximately HK$510 million (assuming a mid-point risk discount rate of 9%).

The Target Group reports its results of operations in accordance with HKFRS and the IO. See the Accountants' Report on the Target Group set forth in Appendix IV. 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.

PricewaterhouseCoopers Limited has prepared a report on its review of the Embedded Value of the Target Group as of 31 December 2016 and 30 June 2017 and the Value of New Business in respect of new policies issued in the 12 months ended 30 June 2017. See the actuarial review report on the Target Group set forth in Part A of Appendix VII of this circular. The report on Embedded Value is not an audit opinion of the financial information used in the report and the Embedded Value results are not intended to represent an opinion of market value and should not be interpreted in that manner. Values are shown under a range of assumptions, given particular uncertainties, including changes in the operating and economic environments and natural variations in experience, and shareholders are advised to consider the range of values contained in the report after studying the report in its entirety, together with the rest of this circular. The values shown do not encompass the full range of potential outcomes. The report is subject to the assumptions, qualifications and limitations set forth therein.

See also the reports from KPMG, the Company's auditor, and J.P. Morgan Securities (Asia Pacific) Limited, one of the financial advisers to the Company, set forth in the section headed "B. Letter from KPMG" in Part B of Appendix VII and the section headed "C. Letter from J.P. Morgan Securities (Asia Pacific) Limited" in Part C of Appendix VII, respectively, to this circular.

See the section headed "Risk Factors — Risks Relating to this Circular — The Target Group's Embedded Value and Value of New Business are each calculated based on a number of assumptions and may vary significantly as those assumptions change".

PRODUCTS

Product Strategy and Development

The Target Group's product development strategy is to provide relevant product solutions that meet its clients' evolving insurance, savings, investment and retirement needs.

The Target Group's track record and experience in the markets in which it operates have enabled it to accumulate know-how to design innovative and relevant products and allow it to price its products competitively. For example, the Target Group was among the first group of insurance companies to offer universal life and annuity products in Hong Kong and both remain key product lines of the Target Group.

The Target Group has developed more than 80 insurance and wealth management products to serve the evolving needs of customers. The Target Group's diversified product suite includes three flagship products: (i) the "FLEXI-ULife Prime Saver", an enhanced universal life insurance plan, which challenges traditional life insurance plans by offering flexibilities to accommodate the policyholder's changing needs; (ii) the "Target Lifetime Annuity Saver", a plan providing guaranteed lifetime annuity income to act as a safety net during the customer's retirement; and (iii) the "Global InvestPlan", an investment-linked insurance product with more than 100 global investment options, which enables investors to mitigate risks by building a balanced global portfolio.

Key Product Lines

The Target Group offers five key product lines: (i) universal life; (ii) deferred annuity; (iii) investment-linked; (iv) accident and health; and (v) other insurance products. The Target Group also offers MPF products.

The Target Company measures its business volumes by referring to the TPI reported under the 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.

The following table illustrates the breakdown of TPI generated by the Target Group's key product lines during the Track Record Period:

	Year ended 31 December						Six months ended	
	2014		2015		2016		30 June 2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Hong Kong								
Universal life	1,193	26.5	1,121	22.5	1,233	20.4	541	20.2
Deferred annuity	1,132	25.1	1,701	34.1	2,515	41.6	972	36.2
Investment-linked	1,027	22.8	793	15.9	652	10.8	268	10.0
Accident and health	1,025	22.7	1,253	25.1	1,477	24.5	798	29.7
Others	132	2.9	118	2.4	162	2.7	105	3.9
Sub-total	4,509	100.0	4,986	100.0	6,039	100.0	2,684	100.0
Macau								
Universal life	167	31.4	184	28.7	263	31.5	131	27.8
Deferred annuity	139	26.1	172	27.0	232	27.8	156	33.1
Investment-linked	100	18.8	98	15.4	90	10.8	36	7.6
Accident and health	120	22.6	176	27.5	241	28.8	144	30.5
Others	6	1.1	9	1.4	10	1.1	5	1.0
Sub-total	532	100.0	639	100.0	836	100.0	472	100.0
Total								
Universal life	1,360	27.0	1,304	23.2	1,496	21.8	672	21.3
Deferred annuity	1,271	25.2	1,873	33.3	2,747	40.0	1,128	35.7
Investment-linked	1,127	22.4	891	15.8	742	10.8	304	9.6
Accident and health	1,145	22.7	1,429	25.4	1,718	25.0	942	29.8
Others	138	2.7	128	2.3	172	2.4	110	3.6
Total	**5,041**	**100.0**	**5,625**	**100.0**	**6,875**	**100.0**	**3,156**	**100.0**

Universal life and deferred annuity have consistently been the Target Group's top product lines, together generating 52.2%, 56.5%, 61.8% and 57.0% of TPI for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017.

Accident and health products have contributed an increasing share of the Target Group's TPI, rising from 22.7% for the year ended 31 December 2014, to 25.4%, 25.0% and 29.8% for the years ended 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017, respectively.

Investment-linked products generated 22.4%, 15.8%, 10.8% and 9.6% of the Target Group's TPI for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017, respectively.

Other insurance products contributed 2.7%, 2.3%, 2.4% and 3.6% of the Target Group's TPI for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017, respectively.

Set forth below is a description of the Target Group's key product lines.

Universal Life Products

Universal life products are insurance products where the customer pays flexible premiums that are accumulated in an account balance and are credited with an interest rate determined by the Target Group. The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance.

Between 2004 and 2014, the Target Company underwrote approximately 300 universal life insurance policies which included a claims payment endorsement by MMLIC, which would be triggered in the event of insolvency of the Target Company. Pursuant to the Policies Endorsement Fee Agreement, MMLIC will continue to provide such endorsement to the outstanding policies until such policies mature. See the section headed "Continuing Connected Transactions — Continuing Connected Transactions — 4. Policies Endorsement Fee Agreement" for further details. The Target Company has ceased to issue such policies since July 2014.

Deferred Annuity Products

The Target Group's deferred annuity products are savings products where the accumulated amount could be paid out to the customer in a variety of income streams. The purpose of these products is to fund retirement for individuals. The Target Group has two main types of deferred annuity products: a single premium product, where a customer can invest money in a deferred annuity by paying a single lump sum, and a flexible premium product, where a customer can invest over a period of years. Customers may exercise the annuity option and convert the policy into an annuity, where annuity payments continue during the lifetime of the annuitant and some of the annuity options guarantee annuity payments for at least a fixed period of time.

Investment-linked Products

Investment-linked products are insurance products where the account balance of the policy is linked to the value of underlying investment, such as collective investment schemes. In general, the investment risk associated with such products is borne by the policyholder. The interest rate credited to the policyholder's account balance is linked to the value of underlying investments. Insurance coverage, investment and administration services are provided for which the charges are deducted from the policy. Benefits payable will depend on the price of the units prevailing at the time of surrender (subject to surrender charges), death or the maturity of the policy.

Accident and Health Products

The Target Group offers accident and health insurance products, which provide morbidity or sickness benefits and include health, medical, accident, critical illness and disability cover. These products are sold both as standalone policies and as riders that can be attached to the Target Group's individual life insurance products. Some products are refundable whereby, after a specified policy anniversary date, policyholders are entitled to a refund of up to all of the total premium paid.

Other Insurance Products

The Target Group offers a range of other insurance products, including traditional life insurance, term insurance and employee benefits.

MPF

MMT is the trustee of the MASS Mandatory Provident Fund Scheme, a master trust scheme open to the employees of participating employers, self-employed persons and persons with accrued benefits transferred from other schemes. MMT receives trustee and management fees from scheme participants.

Awards

The Target Group has received numerous awards in recognition of its products and services, including the following awards in recent years:

- BENCHMARK Wealth Management Awards
  Best in Class — Retirement Product (2012, 2013, 2014 and 2016)
  Best in Class — Universal Life Insurance Product (2016)
  Best in Class — Critical Illness Product (2013, 2014 and 2015)
  Best in Class — Hospitalization Insurance Product (2014)
  Outstanding Achiever — Product Innovation (Insurance) (2015)
  Best in Class — Platform Usability (2014)

- Bloomberg Businessweek Financial Institution Awards
  Insurance Brand of the Year — Outstanding (2017)
  Retirement Plan — Excellence (2016 and 2017)
  Life Insurance — Outstanding (2016)
  Critical Illness — Outstanding (2015 and 2017)

- CAPITAL Merits of Achievements in Banking and Finance
  Best in Insurance (2012, 2013, 2014, 2015, 2016 and 2017)

- Hong Kong Business High Flyers Awards
  Innovative Insurance Company (2014, 2015 and 2016)

- Ming Pao Weekly Elite Awards
  Life Insurance Company Award (2016)

CUSTOMERS

The Target Company has a large customer base that includes the holders of more than 441,000 in-force individual policies as of 30 June 2017 and more than 43,360 participants in its MPF scheme as of 31 December 2016. Individuals are the primary customers of the Target Company's insurance products. Corporate and institutional clients are mostly customers of employee benefits products and include employers participating in the MASS Mandatory Provident Fund Scheme.

For the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017, the Target Company's top five individual customers in terms of premium income contributed approximately 3.98%, 1.81%, 3.13% and 1.30% of the Target Company's TPI in the respective period. The Target Company did not have overlapping top five customers in terms of premium income for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the six months ended 30 June 2017.

DISTRIBUTION

The Target Group distributes its insurance products through: (i) tied agents; (ii) brokers and agency intermediaries; and (iii) banks and other financial institutions. The Target Group believes that its distribution channels enable it to reach a broad range of potential customers.

As of 30 June 2017, the Target Group has developed a tied agency force of 2,919 agents (of which 922 are in Macau). The Target Group also utilizes approximately 460 brokers and agency intermediaries (of which four are in Macau) and it has relationships with seven bancassurance partners (of which four are in Macau).

The Target Group will continue to expand its distribution channels to extend its network and reach. In particular, it will focus on growing its tied agency force, its most significant distribution channel.

The contributions of the three distribution channels to the TPI of the Target Group during the Track Record Period are set forth below:

	Year ended 31 December						Six months ended	
	2014		**2015**		**2016**		**30 June 2017**	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Hong Kong								
Tied agency	3,055	67.8	3,319	66.6	3,653	60.5	1,753	65.3
Brokers and agency intermediaries	1,269	28.1	1,388	27.8	2,061	34.1	737	27.5
Banks and other financial institutions	185	4.1	279	5.6	325	5.4	194	7.2
Sub-total	4,509	100.0	4,986	100.0	6,039	100.0	2,684	100.0
Macau								
Tied agency	472	88.7	551	86.2	715	85.5	404	85.6
Brokers and agency intermediaries	14	2.7	36	5.7	47	5.6	19	4.0
Banks and other financial institutions	46	8.6	52	8.2	74	8.9	49	10.4
Sub-total	532	100.0	639	100.0	836	100.0	472	100.0
Total								
Tied agency	3,527	70.0	3,870	68.8	4,368	63.5	2,157	68.3
Brokers and agency intermediaries	1,283	25.4	1,424	25.3	2,108	30.7	756	24.0
Banks and other financial institutions	231	4.6	331	5.9	399	5.8	243	7.7
Total	5,041	100.0	5,625	100.0	6,875	100.0	3,156	100.0

Tied agency is the Target Group's main distribution channel as measured by TPI, generating 63.5% and 68.3% of the Target Group's TPI for the year ended 31 December 2016 and the six months ended 30 June 2017, respectively, including 60.5% and 65.3% in Hong Kong and 85.5% and 85.6% in Macau.

Brokers and agency intermediaries contributed 30.7% and 24.0% of the Target Group's TPI for the year ended 31 December 2016 and the six months ended 30 June 2017, respectively. They are relatively significant to the Target Group's operations in Hong Kong, contributing 34.1% and 27.5% of TPI, compared to 5.6% and 4.0% in Macau.

Banks and other financial institutions generated the remaining 5.8% and 7.7% of the Target Group's TPI for the year ended 31 December 2016 and the six months ended 30 June 2017, respectively, including 5.4% and 7.2% in Hong Kong and 8.9% and 10.4% in Macau.

Agency Channel

The Target Group believes that its tied agency force is one of its key strengths. The Target Group has expanded its tied agency force from 2,519 agents as of 31 December 2014 to 2,919 agents as of 30 June 2017. The TPI generated by such tied agency force has increased from HK$3,527 million for the year ended 31 December 2014 to HK$3,870 million for the year ended 31 December 2015, HK$4,368 million for the year ended 31 December 2016 and HK$2,157 million for the six months ended 30 June 2017. Tied agents distribute all of the insurance products offered by the Target Group.

The tied nature of the agency model and the Target Group's role in managing and training its agency force provide the Target Group with considerable control over the agency force, which enables the Target Group to: (i) drive the product strategy and development process and create new products to meet specific customer demands; and (ii) anticipate the needs of existing customers and potential new customers.

As of 30 June 2017, 110 tied agents are members of the Million Dollar Round Table, a global professional trade association of life insurance and financial services professionals that recognizes significant sales achievements. The Target Group is focused on further enhancing the productivity of its agency force.

The Target Group has a stable agency force. Its 12-month agent retention rate was approximately 90%, 90% and 91% for the years ended 31 December 2014, 31 December 2015 and 31 December 2016, respectively. The tied agents have worked with the Target Group for an average of five years and approximately 20% of the total tied agency force (which includes agency leaders) have been with the Target Group for at least 10 years. The Target Group believes that the stability of the tied agency force enables the agents to develop strong and long-term relationships with customers and is evidence of the agents' commitment to the Target Group.

The Target Group's agent recruitment strategies focus on recent graduates and younger agents. The Target Group believes that this allows it to train and develop agents from early on in their career and to maintain an energetic agency force.

Agency Management

The Target Group has established a comprehensive training, compliance and compensation structure to enhance the operational efficiency of its tied agency force. Each agency office is led by an agency leader who supervises a team of tied agents. Agency leaders work with the Target Group's management to develop agent productivity strategies and goals, compensation schemes and training and development programmes. The Target Group encourages experienced tied agents with a strong productivity record to become agency leaders.

Compensation

The Target Group's compensation system for tied agents aims to align agents' incentives with the strategies and objectives of the Target Group, such as sales of products with regular premium income. Agency compensation mainly consists of commissions, production bonuses and persistency bonuses.

The tied agents are not employees of the Target Group. The Target Group believes that its compensation structure and other contractual terms with its tied agents are competitive in the industry. The Target Group regularly reviews its compensation arrangements in light of industry developments and has an internal approval process for any modifications to its compensation schemes.

Training and Development

The Target Group has created training programmes for new and experienced agents joining the Target Group. Such programmes allow agents to become more familiar with the Target Group's products so they can address the needs of customers and also emphasize licensing, regulatory and compliance matters. The Target Group further conducts and requires each agent to attend in-house training on regulatory developments. Since 2015, each agent has been required to take an annual compliance test to ensure that he or she is familiar with the applicable regulations.

Brokerage and Agency Intermediary Channel

Brokers and agency intermediaries distribute almost the entire range of the Target Group's insurance products, but they are primarily utilized to sell annuity products. The Target Group had approximately 460 brokers and agency intermediaries as of 30 June 2017, of which approximately 50 focus on high net worth clients.

Brokers and agency intermediaries generated HK$1,283 million in TPI for the year ended 31 December 2014, HK$1,424 million for the year ended 31 December 2015, HK$2,108 million for the year ended 31 December 2016 and HK$756 million for the six months ended 30 June 2017.

Arrangements between the Target Group and its brokerage partners are typically non-exclusive and include commission-based payment terms.

Bancassurance Channel

Bancassurance is attractive because it provides access to the client base and/or branch infrastructure of the partnering banks and other financial institutions, and extends the Target Group's market reach and exposure. Bancassurance distribution is also responsive to the evolving needs of customers who prefer a single point of entry for banking, insurance and other financial services.

The Target Group has relationships with three banks and financial institutions in Hong Kong and four in Macau. The bancassurance partners focus on distributing medical insurance, accident benefits and critical illness benefits products. The Target Group's agreements with the bancassurance partners are non-exclusive and have open-ended terms and the bancassurance partners are entitled to commission-based payment.

Distribution through banks and other financial institutions generated HK$231 million in TPI for the year ended 31 December 2014, HK$331 million for the year ended 31 December 2015, HK$399 million for the year ended 31 December 2016 and HK$243 million for the six months ended 30 June 2017.

INVESTMENTS

The Target Group invests premiums and other income generated from its insurance business for the purpose of meeting future liabilities associated with the insurance products that it underwrites and to generate a return for its business. Its investment management function is a key aspect of its business and can create significant value for its customers and shareholders. The Target Group's financial strength and ability to profitably underwrite insurance business depends on the quality and performance of its investment portfolios and its success in investment management contributes to the competitiveness of its products, its financial strength and business reputation.

Objectives

The Target Group's principal investment objective is to achieve optimal levels of risk-adjusted return for policyholders and shareholders over the long term while: (i) preserving capital; (ii) maintaining adequate solvency and liquidity levels; (iii) remaining in line with its risk selection and management and asset-liability management objectives; and (iv) ensuring full compliance with applicable regulations and internal policies.

Investment Management

The board of directors of the Target Company has established an Investment Committee to manage the investment strategy of the Target Group, including the overall investment direction, investment process and oversee the Target Group's investment transactions, management, policies and guidelines, including the establishment of investment benchmarks and approval thresholds, the review of potential investments and investment performance and oversight of investment risk exposure management policies and guidelines.

Upon Completion, the Investment Committee will comprise four members, with the Company entitled to nominate three members and the Vendor entitled to nominate one member. Each member will have a term of at least three years following the date of Completion.

The key duties and functions of the Investment Committee are: (i) to review and evaluate the Target Group's portfolio allocation; (ii) to review and approve periodically any investment benchmarks or approval thresholds or other methods of measurement used by the Target Group to monitor its investment activities; (iii) to review and approve policies and guidelines governing the Target Group's investment portfolio and ensure compliance with such policies; and (iv) to keep informed of the financial markets and prepare appropriate and adequate risk management measures.

Currently, most of the Target Group's investment portfolio is managed by Barings LLC, an affiliate of MMLIC, under the oversight of the Investment Committee. Barings LLC charges fees calculated at rates based on asset type. Pursuant to the Barings Investment Advisory Agreement, the Target Group will continue to engage Barings LLC to manage its fixed income investment portfolio for an initial term of three years from the date of Completion. The assets and the type and amount of assets to be managed by Barings LLC will be determined by the Investment Committee. See the section headed "Continuing Connected Transactions — Continuing Connected Transactions — 5. Barings Investment Advisory Agreement" for further details.

Investment Portfolio

The Target Group manages its financial investments in two distinct categories: general account investments and investment-linked investments. The investment risk in respect of general account investments is partially or wholly borne by the Target Group. In general, the investment risk in respect of investment-linked investments is borne by holders of the Target Group's investment-linked insurance products. Furthermore, investment-linked contract holders are responsible for allocation of their policy values among investment options offered by the Target Group.

During the Track Record Period, the Target Group has invested in the following principal assets: (i) debt securities; (ii) mortgage loans; (iii) equity securities; and (iv) unit trusts. None of the Target Group's investments (other than unit trusts) were in listed assets.

The following table sets out the breakdown of the Target Group's investments as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017:

	31 December 2014 *(HK$ million)*	31 December 2015 *(HK$ million)*	31 December 2016 *(HK$ million)*	30 June 2017 *(HK$ million)*
Securities designated at fair value through profit or loss — Unit trusts	**7,492**	**6,906**	**6,706**	**7,356**
Available-for-sale securities				
Debt securities				
Fixed interest securities				
- Government	13	43	338	210
- Others	5,296	6,341	8,206	9,377
Variable interest securities	393	288	292	164
Equity securities	922	1,170	1,763	2,133
Unit trusts	511	539	354	363
Sub-total	7,134	8,381	10,953	12,247
Held-to-maturity				
Debt securities				
Fixed interest securities				
- Government	1,343	1,648	1,861	1,898
- Others	5,410	6,113	8,042	8,545
Variable interest securities	2,021	1,977	2,360	2,346
Sub-total	8,774	9,738	12,262	12,789
Loans and receivables — Mortgage loans	**3,060**	**4,151**	**5,037**	**5,454**
Total investments	**26,461**	**29,176**	**34,959**	**37,846**

The table below sets out the carrying value of the principal assets of the Target Group's general account investment portfolio as of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017:

	31 December 2014		31 December 2015		31 December 2016		30 June 2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Debt securities	14,476	75.8	16,410	73.3	21,099	74.3	22,540	73.5
Mortgage loans	3,060	16.0	4,151	18.5	5,037	17.7	5,454	17.8
Equity securities	922	4.8	1,170	5.2	1,763	6.2	2,133	6.9
Unit trusts	631	3.3	656	2.9	502	1.8	555	1.8
Total	**19,089**	**100.0**	**22,387**	**100.0**	**28,401**	**100.0**	**30,682**	**100.0**

The total amount of equity securities set out above includes the Target Company's investment in MassMutual Life Insurance Company K.K. The fair value of the equity interest held by the Target Company in MassMutual Life Insurance Company K.K. amounted to HK$669.3 million, HK$866.3 million, HK$1,225.2 million and HK$1,419.8 million as of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, respectively.

The table below sets out the carrying value of the principal assets of the Target Group's investment-linked investments as of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017:

	31 December 2014		31 December 2015		31 December 2016		30 June 2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Unit trusts	7,372	100.0	6,789	100.0	6,558	100.0	7,164	100.0

As of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, the Target Group's investments in:

- debt securities represented approximately 54.7%, 56.2%, 60.4% and 59.6%;
- mortgage loans represented approximately 11.6%, 14.2%, 14.4% and 14.4%;
- equity securities represented approximately 3.5%, 4.0%, 5.0% and 5.6%; and
- unit trusts represented approximately 30.2%, 25.5%, 20.2% and 20.4%

of the carrying value of the Target Group's investment portfolio, respectively.

As of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, 95.2%, 97.3%, 97.7% and 97.9% of the Target Group's investments were denominated in US dollars.

Debt Securities and Mortgage Loans

Investments in debt securities are mostly comprised of government bonds, corporate bonds and certificates of deposit.

As of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, 88%, 87%, 88% and 89% of the debt securities invested by the Target Group have S&P rating of BBB or above or equivalent rating from other reputable rating agencies.

The maturity profile of the Target Group's debt securities and loans and receivables (mainly mortgage loans) range from 1 year or less to more than 10 years. In particular, a majority of debt securities held by the Target Group has a term of more than 10 years, whilst over 75% of the total mortgage loans invested by the Target Group has a term of more than 5 years.

The maturity profile of the Target Group's debt securities is set out in the following table:

	31 December 2014		**31 December 2015**		**31 December 2016**		**30 June 2017**	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*
1 year or less	600	4.1	463	2.8	333	1.6	366	1.6
1 to 5 years	1,964	13.6	1,777	10.8	2,284	10.8	2,888	12.8
5 to 10 years	4,080	28.2	5,214	31.8	6,526	30.9	6,204	27.5
More than 10 years	7,833	54.1	8,956	54.6	11,955	56.7	13,082	58.1
Total	**14,476**	**100.0**	**16,410**	**100.0**	**21,099**	**100.0**	**22,540**	**100.0**

The maturity profile of the Target Group's mortgage loans is set out in the following table:

	31 December 2014		31 December 2015		31 December 2016		30 June 2017	
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*	*HK$ million*	*%*
1 year	95	3.1	169	4.1	58	1.1	24	0.4
2 years	147	4.8	96	2.3	37	0.7	37	0.7
3 years	110	3.6	37	0.9	218	4.3	235	4.3
4 years	48	1.6	234	5.6	317	6.3	317	5.8
5 years	217	7.1	328	7.9	279	5.5	278	5.1
More than 5 years	2,444	79.8	3,287	79.2	4,128	82.0	4,563	83.7
Total	**3,060**	**100.0**	**4,151**	**100.0**	**5,037**	**100.0**	**5,454**	**100.0**

Unit Trusts

As of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, the carrying value of the Target Group's investments in unit trusts was HK$8,003 million, HK$7,445 million, HK$7,060 million and HK$7,719 million, respectively. Approximately 92.1%, 91.2%, 92.9% and 92.8%, respectively, of the carrying value of such investments were investment-linked investments held in a separate account from the Target Group's other investments for the benefit of policyholders.

Investment Income

The Target Group's investment income consists of: (i) interest income; (ii) dividend income; and (iii) net realized/unrealized gains.

The table below sets forth the total investment income of the Target Group (excluding income arising from investment-linked products) during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2014	2015	2016	2017
	HK$ million			
Interest income and others	743	851	993	559
Dividend income	68	57	31	13
Net realized gain/(loss)	72	35	2	(68)
Total	**883**	**943**	**1,026**	**504**

OPERATIONS

The Target Group's operations team is responsible for processing new business and serving existing policies and policyholders and has the following main functions: (i) new business and underwriting; (ii) claims management and settlement; and (iii) customer services.

New Business and Underwriting

The Target Group's underwriting processes involve the evaluation by a professional staff of underwriters and actuaries of the type and the amount of risk that the Target Group is willing to accept. The Target Group has established rigorous personnel qualification requirements and review procedures for its underwriting professionals. Underwriting is governed by detailed policies, guidelines and procedures centrally to assist underwriters to assess and quantify risks before issuing an insurance policy or contract to a qualified customer.

The underwriting staff evaluate the risk characteristics of each prospective insured risk. Requests for coverage are reviewed based on their merits. No insurance policy or contract will be issued unless the particular risk has been examined and approved for underwriting or falls within certain established criteria. The Target Group sets authorization limits and procedures depending on the size of the policy or contract and has pre-established authorization limits for its underwriting personnel depending on their level of qualification.

The Target Group engages in internal underwriting audits in order to maintain high and consistent standards of underwriting quality. The pricing of products is based on the expected payout of benefits, calculated through the use of assumptions for mortality, morbidity, persistency, solvency requirements, expenses and investment returns, as well as certain macroeconomic factors such as inflation. These assumptions include a margin for expected profitability and the possibility that actual experience deviates from anticipated experience, and are based on the Target Group's extensive experience and internal data as well as data published by external sources.

Claims Management and Settlement

Claims that the Target Group receives on its products are processed and investigated in a structured manner by the claims team. Claims are typically received by the Target Group's employees or agents who assist policyholders with claims for submission and forward them to the claims team for further review and verification. Major and unusual claims, such as early death claims, are elevated to senior assessors. If a claim is verified, the amount payable is calculated and, if approved, is distributed to the customer or directly settled with the service provider.

Claims policies, procedures and controls are determined internally by the Target Group. The Target Group manages claims management risk through organizational and computer systems controls. Such controls include pre-established procedures, guidelines and authorization limits for various operating levels. Routine quality assurance control is part of the standard operating procedure to ensure that claim assessment quality and accuracy are in line with the expected loss ratio. The Target Group also imposes specific requirements on the qualification and employment of its claims staff. It has adopted service standards for claims processing and strives to resolve claims in a timely and structured manner with appropriate diligence.

The Target Group has established a claims assessment process to verify the authenticity of submitted claims and to detect potential fraudulent claims. Claims staff assess the submitted claims in accordance with detailed internal guidelines and checklists, which require review and verification of key documents and events, and claimants are required to submit detailed documentation. Claims personnel check the authenticity of documents by, among other things, reviewing the signatures on the documents, establishing that submitted documents are in the usual formats issued by the relevant authority and examining the official stamps of the relevant clinic, hospital or authority. The propriety of submitted claims is assessed by reviewing the status of the relevant policies or benefits, as well as any limitations set forth in the relevant contracts, such as terms related to exclusions, pre-existing conditions and waiting periods. The Target Group verifies the identities of the claimants or insured beneficiaries and collect and review documentation related to the events on which the claim is based. In addition, claims staff conduct background checks of the hospitals and physicians or other health care providers referenced in the claims to ensure that they have the necessary authorisations and appropriate medical qualifications.

Customer Service

The Target Group aims to provide quality services to its customers and potential customers and to be responsive to their needs, whether before or after issuing a policy or contract, through its customer service team. It delivers customer services primarily via its offices, internet platform and telephone services based on guidelines established by the Target Group. The Target Group seeks to continually improve its customer services through training, technology and innovation.

The customer service team is also the first point of contact for customer complaints. Given the nature of its business, the Target Group receives such complaints from time to time in the ordinary course of its business. The Target Group has policies and procedures to handle such complaints. It has an internal policy to acknowledge receipt of each written complaint within three working days of receipt. All written complaints are reviewed and discussed thoroughly by the Complaints Committee.

Reinsurance

To reduce its exposure and protect its capital, the Target Group reinsures with third parties a portion of the risk that it assumes under its insurance products, in exchange for a portion of the premiums that the Target Group receives under such insurance products. The Target Group also uses reinsurance to obtain product pricing and product design expertise when entering new lines of business or products.

The Target Group has entered into reinsurance arrangements with five reinsurers, none of which are affiliated with MMLIC. As of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, the Target Group ceded approximately HK$195 million, HK$180 million, HK$255 million and HK$282 million, respectively, in premiums to such reinsurers.

The Target Group's criteria for selecting its third party reinsurers include financial strength, service, terms of coverage, claims settlement efficiency and price. It monitors the financial condition of third party reinsurers on an ongoing basis and review its reinsurance arrangements periodically. During the Track Record Period and up to the Latest Practicable Date, the Target Group has not experienced any third party reinsurer or broker default.

Three of the reinsurance contracts entered into by the Target Group contain change of control provisions which would be triggered by the Acquisition. Pursuant to such reinsurance contracts, if the Target Group does not obtain the consent of the respective reinsurers to the change of control of the Target Group, the reinsurers would have the right to terminate the reinsurance contracts. As of the Latest Practicable Date, the Target Group has obtained consents from the relevant reinsurers in respect of all such contracts.

Information Technology

Information technology plays a key role in supporting the Target Group's business and in providing reliable service to its customers, agents and business partners. The Target Group employs various information technology systems including applications related to processes, sales and management support, sales illustration, underwriting, imaging and workflow, policy administration, actuarial, financial management and analysis and human resources.

The Target Group was among the first group of financial services organizations in Hong Kong to make a major investment in a platform dedicated to risk management, wealth management, and wealth preservation and distribution. "Wealth Suite Online" provides an array of value-added online investment services and global market updates, "MMPro Personal Financial Analysis System" enables customers to identify their risk- and wealth-management needs at different stages of life, and the iWealth and iFinance apps enable customers to manage their risk and wealth at any time and from anywhere. Following Completion, the Target Group will be able to leverage the Group's team of software engineers to assist in the further development of the Target Group's digital platforms to provide additional convenience to its customers.

The Target Group has developed and implemented business continuity and disaster recovery plans which provide detailed processes and procedures to be applied in case of any failure of its information technology systems. It also maintains data protection systems to limit potential losses of data resulting from system disruptions.

Currently, the Vendor and its affiliates provide certain information technology related services to the Target Group. Pursuant to the Transitional Services Agreement, the Vendor and its affiliates will continue to provide several of such information technology related services for a period of one year from the date of Completion.

RISK MANAGEMENT

The Target Group operates in an industry and environment which is subject to various risks. Risk management is fundamental to the Target Group's business, growth and success.

Risk Management Framework

The board of directors of the Target Company, together with various management committees, are responsible for managing the risks faced by the Target Group.

The board of directors of the Target Company oversees the Target Group's risk management framework and defines the objectives and areas of responsibility of risk management.

Risk Management Committee

The Risk Management Committee is the primary risk management body of the Target Group and it focuses on managing the Target Group's overall risk exposure. It reviews financial, insurance and operational risk management, monitors risk appetite and oversees and approves the risk management framework.

The Risk Management Committee comprises the chief executive officer, the chief operating officer and chief actuary, the senior vice president of operations and the chief financial officer of the Target Company.

Underwriting Committee

The Underwriting Committee is responsible for establishing policies and procedures to supervise and assess the insurance risks faced by the Target Group and periodically reviewing and monitoring the overall underwriting management process.

The members of the Underwriting Committee are the senior vice president of underwriting and issue, the senior vice president of operations and the chief operating officer and chief actuary of the Target Company.

Claims Settlement Committee

The Claims Settlement Committee is responsible for establishing policies and procedures to supervise the settlement of claims. It monitors the adequacy of the Target Group's reserves, reviews significant claims or major events and investigates potential fraudulent claims.

The Claims Settlement Committee comprises the senior vice president of underwriting and issue, the senior vice president of life operations, the chief operating officer and chief actuary, and the general counsel of the Target Company.

Reinsurance Committee

The Reinsurance Committee establishes policies and procedures to properly and regularly supervise and review proposed and existing reinsurance activities covering ceded risks to reinsurers. The Reinsurance Committee also periodically reviews and monitors the financial stability of reinsurers.

The members of the Reinsurance Committee are the chief executive officer, the senior vice president of underwriting and issue, the senior vice president of life operations and the chief operating officer and chief actuary of the Target Company, and an actuary of MassMutual International LLC.

Principal Risk Exposures

Insurance Risks

The Target Group considers insurance risks to mainly comprise: (i) product design risk; (ii) pricing or underwriting risk; (iii) claims risk; and (iv) lapse risk. The Target Group manages its insurance risks through prudent pricing guidelines, reinsurance and underwriting management and monitoring internal and external emerging trends and issues.

Product Design Risk

Product design risk refers to potential defects in the development of a particular insurance product. The Target Group seeks to manage this risk by requiring each new product to go through pre-launch reviews by various departments, including product development, actuarial, legal and underwriting. These departments have substantial experience and have developed significant expertise in identifying potential flaws in product development that could expose the Target Group to risks that are not aligned with its risk appetite. The Target Group closely monitors the performance of its new products and focuses on actively managing each part of the actuarial control cycle to minimise risk in both in-force and new products.

Pricing or Underwriting Risk

Pricing and underwriting risk refers to the possibility of product related income being inadequate to support future obligations arising from a product.

The Target 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, the Target Group believes 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 Target 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.

Claims Risk

Claims risk refers to the possibility that the frequency or severity of claims arising from insurance products exceed the levels assumed when the products were priced.

The Target Group has a Claims Settlement Committee to establish policies and procedures to supervise the settlement of claims. The Claims Settlement Committee reviews significant claims or major events, and investigates any fraudulent claims.

The Target Group reinsures a portion of the risks it underwrites in order to control its exposure to losses, to avoid the risks of concentration and to protect capital resources. Such transfers of risks do not relieve the Target Group of its primary liability and, as such, failure of reinsurers to honour their obligations could result in losses. The Target Group reduces this risk by evaluating the financial condition of reinsurers and monitoring for possible concentrations of credit risk. The Target 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 Reinsurance Committee also periodically reviews and monitors the financial stability of reinsurers.

Lapse Risk

Lapse risk refers to the possibility of actual lapse experience that diverges from the anticipated experience the Target Group 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. The Target Group carries out regular studies of persistency experience and the results are assimilated into new and in-force product management. In addition, certain of the Target Group's products include surrender charges that entitle the Target Group to additional fees upon early termination by policyholders, thereby reducing its exposure to lapse risk.

Financial Risks

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Target Group's business. The Target Group is also exposed to equity price risk arising from its equity investments in other entities. The Target Group manages such risks through its financial management policies and practices.

Credit Risk

The Target Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The key areas where the Target Group is exposed to credit risk are: (i) amounts due from issuers of debt securities; (ii) bank balances; (iii) insurance and reinsurance receivables; (iv) commercial mortgage loans; (v) other unsecured receivables; and (vi) derivative financial instruments.

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

Liquidity Risk

The Target Group is required 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. Further, strong liquidity is desired to maintain high ratings and to facilitate investment opportunities or shifts in asset allocation.

The Target Group manages this risk by setting a minimum level of liquidity cash that will be available to cover claims maturities and surrenders. Liquidity requirements are developed by the Target Group in consultation with its asset managers to ensure that the portfolio has sufficient liquidity to meet product demands. Assets are grouped into liquidity categories for the purpose of monitoring available liquidity resources. Due to the evolving nature of the investment markets, the asset types in each category may change from time to time. The portfolio will maintain assets in the appropriate liquidity categories at least equal to the requirements derive from analysis of the liabilities, including analysis of the portfolio's ability to withstand various stress scenarios. In most cases, the value of such assets will be discounted using interest rates significantly higher than current market rates to reflect the fact that the exercise of liability options often increases as rates rise. In certain market environments, an asset's classification may not accurately reflect its actual liquidity. Should the portfolio be near its policy limits, its specific holdings will be reviewed to assess more accurately its true liquidity.

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 Target 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.

Currency Risk

The Target Group's currency exchange risk is mainly related to certain policies that are not written in US dollars. However, most of the policies are denominated in US dollars. As the Target Group's investments are primarily made in US dollars, coupled with the fact that the HK dollar is pegged to the US dollar, the Target Group's management does not believe that the currency risk is material. For investments made in non-US dollars, the Target 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-US dollar assets and liabilities through a pre-specified exchange of interest and principal. Forward contracts are used to hedge movements in exchange rates.

Equity Price Risk

The portfolio of unit trusts backing linked insurance contracts, which the Target 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 Target 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.

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 Target Group manages operational risk primarily through risk and control self-assessment. The objective of risk and control self-assessment is to identify, evaluate, measure and monitor operational risks. Further, the Target Group's operational risk management team reviews losses, fraud and internal audit reporting issues and provides guidance, training and assistance to relevant personnel in implementing risk management programmes and ongoing risk management.

COMPETITION

Both the Hong Kong and Macau life insurance markets are relatively developed and are dominated by subsidiaries and branches of multinational life insurers and PRC state-owned or related enterprises, all of which may compete with the Target Group.

The Target Group has maintained a consistent market position in Hong Kong and Macau. It ranks amongst the top 12 insurers for individual life and annuity and linked life insurance businesses in Hong Kong both in terms of number of policies and office premiums and fourth amongst life insurance companies in Macau in terms of total gross premiums. However, the acquisitions of insurance companies in Hong Kong by other financial institutions which have taken place in recent years could result in additional competitors with strong financial resources, marketing and distribution capabilities and brand identities.

See the section headed "Industry Overview" in Appendix II to this circular for further details of the life insurance industry in Hong Kong and Macau.

INTELLECTUAL PROPERTY

The Target Group currently conducts its business under the "MassMutual" and "美國萬通" brand names which are owned by MMLIC in Hong Kong and Macau.

Trademarks

As of the Latest Practicable Date, the following trademarks were material to the business of the Target Group:

No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Expiry Date
1		36	MMLIC	Hong Kong	2001B08609	26 January 2027
2	MassMutual	36	MMLIC	Hong Kong	2001B08610	26 January 2027
3	MassMutual *MassMutual*	36	MMLIC	Hong Kong	2001B02634	31 January 2027
4	MassMutual Asia	36	MMLIC	Hong Kong	2001B14082	13 March 2027
5	美國萬通	36	MMLIC	Hong Kong	300084465	25 September 2023
6	美國萬通 美國萬通	36	MMLIC	Hong Kong	300084474	25 September 2023
7		36	MMLIC	Macau	N/5929	25 September 2021
8		36	MMLIC	Macau	N/5930	25 September 2021
9	MassMutual	36	MMLIC	Macau	N/5931	25 September 2021
10	*MassMutual*	36	MMLIC	Macau	N/5553	25 July 2021
11	MassMutual Asia	36	MMLIC	Macau	N/5922	25 September 2021
12	美國萬通	36	MMLIC	Macau	N/5923	25 September 2021
13	美國萬通	36	MMLIC	Macau	N/5925	25 September 2021
14	美國萬通	36	MMLIC	Macau	N/5926	25 September 2021

Domain Name

As of the Latest Practicable Date, the domain name www.massmutualasia.com was material to the business of the Target Group.

In connection with the Acquisition, MMLIC will grant the Target Company a license (i) to use certain trademarks bearing the name "MassMutual" and/or the logo for a period of two years from the date of Completion and (ii) to use certain trademarks bearing the characters "美國萬通" for a period of six months from the date of Completion. At Completion, MMLIC will also assign to the Company its rights to the standalone mark "萬通" in Hong Kong, Macau and the PRC. MMLIC, the Target Company and the Company will establish a transition committee to jointly develop a plan to transition from using the licensed marks to the replacement marks to be selected by the Target Company and the Company. The Target Company will also transfer its web pages to one or more domain names that do not incorporate any of the licensed marks. See the sections headed "Risk Factors — Risks Relating to the Business and Operations of the Target Group — Any new trademark of the Target Group may not be as well-recognised as the existing trademark of the Target Group" and "Continuing Connected Transactions".

EMPLOYEES

As of the Latest Practicable Date, the Target Group had a total of 358 permanent employees and fixed term employees. The following table shows an approximate breakdown of the employees of the Target Group by function as of the Latest Practicable Date:

Function	Number of Employees	% of Total
Management	10	2.79%
Sales and Marketing	54	15.08%
Actuarial	25	6.98%
Finance	14	3.91%
Claims	15	4.19%
Underwriting	41	11.45%
Investment	0	0%
Others	199	55.59%
Total	358	100%

As of the Latest Practicable Date, the Target Group had a total of three contract and temporary employees.

The number of the Target Group's employees shown in the above does not include individual insurance sales agents not employed by the Target Group.

The Target Group enters into employment agreements with individual employees covering matters such as salaries, employee benefits, confidentiality obligations and termination of employment. The Target Group determines the overall human resources requirements from time to time in order to cope with its business plan. In making employment decisions, the Target Group takes into account the working experience and the academic background of each applicant.

In general, the Target Group formulates its employees' compensation to include one or more elements, such as salaries, allowances, bonuses, long-term incentives and benefits, subject to applicable rules and regulations. Its compensation programmes are designed to remunerate its employees based on their performance, roles and responsibilities, skills and competencies. The Target Group also reviews the compensation of its employees annually with reference to market condition and their improvement in relation to training and academic achievement.

The Target Group has participated in a mandatory provident fund scheme as required under the laws of Hong Kong and has complied with the same. As required under the laws of Hong Kong, 5% of the employees' relevant income per month is contributed to the provident fund as mandatory contributions, subject to a maximum limit as may be imposed by the relevant regulatory authority from time to time. Employees also make voluntary contributions equal to the difference between 5% of the employee's monthly basic salary and the monthly mandatory contributions. Besides mandatory contributions, a difference between 10% of the employees' monthly basic salary and the employees' monthly mandatory contributions is made by the Target Group as voluntary contributions. While the mandatory contributions made by the Target Group are fully vested, voluntary contributions are accrued to the employees over a period of time based on the vesting schedule (from 30% of vested benefits of voluntary contributions upon completion of three years of service progressively increasing to 100% upon completion of ten years of service).

The growth of the Target Group depends on the capacities and dedication of its employees and it recognises the importance of human resources in improving its business and results of operations. The Target Group has devoted substantial attention and resources to career development of its employees and implement training programmes for its employees to assist them in enhancing their personal value. The Target Group also encourages its staff to participate in professional insurance examinations and obtain professional insurance qualifications by reimbursing the relevant fees and/or expenses to the employees.

The Target Group considers it important to have good working relationships with its employees. The Target Group has neither experienced any significant problems with its employees nor disruption to its operations due to labour disputes or industrial action. There have not been any material difficulties in the recruitment and retention of experienced employees. The Target Group believes that it has satisfactory working relationship with its employees as a whole.

The Company plans to continue the employment of the Target Group's employees and agency force after Completion. It is expected that the Target Group's senior management team will remain intact and the new shareholders of the Target Company (including the Company) will fund a retention program after Completion.

PROPERTIES

As of the Latest Practicable Date, the Target Group has entered into leases for 24 properties used for business and office purposes. The following table sets forth details of such properties:

No.	Address	Approximate Gross Floor Area (sq. ft.)	Term
1	27th Floor, MassMutual Tower, 33 Lockhart Road, Hong Kong	8,683	1 October 2016 to 30 September 2022 (with option to renew for a further term of three years)
2	4th, 7th, 8th and 12th Floors, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong	49,614	1 December 2016 to 30 November 2019 (with option to renew for a further term of three years)
3	9th Floor, TAL Building, 49 Austin Road, Kowloon, Hong Kong	5,912	1 September 2016 to 31 August 2019
4	15th Floor, TAL Building, 49 Austin Road, Kowloon, Hong Kong	5,912	1 April 2017 to 31 March 2020
5	Units 01-02, 03A, 04-06, 9th Floor, Energy Plaza, 92 Granville Road, Kowloon, Hong Kong	9,159	1 November 2017 to 31 October 2020
6	21st Floor, Tower 5, China Hong Kong City, China Ferry Terminal, 33 Canton Road, Kowloon, Hong Kong	10,055	12 September 2015 to 11 September 2020
7	17th Floor and Units 1901-1912, 19th Floor, Tower 2, Grand Century Place, Kowloon, Hong Kong	33,823	1 July 2016 to 30 June 2019 (with option to renew for a further term of three years)
8	Units 1 and 10-18, 27th Floor, Tower B, Kowloon Commerce Centre, 51 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong	14,585	1 January 2015 to 31 December 2018 (with option to renew for a further term of three years)

No.	Address	Approximate Gross Floor Area (sq. ft.)	Term
9	Rooms 802, 803 and 804A, 8th Floor, HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long, New Territories, Hong Kong	1,789	1 April 2017 to 31 March 2019
10	3rd Floor, 625 King's Road, North Point, Hong Kong	11,821	1 May 2016 to 30 April 2019
11	25th and 26th Floors, Olympia Plaza, 255 King's Road, North Point, Hong Kong	18,010	1 December 2015 to 30 November 2018
12	Rooms 1205-1207, 12th Floor, Olympia Plaza, 255 King's Road, North Point, Hong Kong	3,345	1 December 2015 to 30 November 2018
13	Rooms 1709-1710, 17th Floor, Olympia Plaza, 255 King's Road, North Point, Hong Kong	1,659	1 December 2015 to 30 November 2018
14	Room 1901, 19th Floor, Olympia Plaza, 255 King's Road, North Point, Hong Kong	1,180	1 December 2015 to 30 November 2018
15	Room 1903, 19th Floor, Olympia Plaza, 255 King's Road, North Point, Hong Kong	3,402	1 December 2017 to 30 November 2018
16	Workshop E, 6th Floor, Derrick Industrial Building, 49 Wong Chuk Hang Road, Hong Kong	1,979	1 November 2016 to 31 October 2018
17	Units 504-505, 5th Floor, Tower I, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Kowloon, Hong Kong	5,195	24 May 2017 to 23 May 2020 (with option to renew for a further term of three years)
18	6th Floor B at Avenida da Praia Grande No. 517, Edificio Comercial Nam Tung, Macau	3,976	1 September 2016 to 31 August 2018

No.	Address	Approximate Gross Floor Area (sq. ft.)	Term
19	6th Floor C at Avenida da Praia Grande No. 517, Edificio Comercial Nam Tung, Macau	2,867	1 September 2016 to 31 August 2018
20	10th Floor B at Avenida da Praia Grande No. 517, Edificio Comercial Nam Tung, Macau	3,976	23 January 2016 to 22 January 2018
21	10th Floor C at Avenida da Praia Grande No. 517, Edificio Comercial Nam Tung, Macau	2,867	23 January 2016 to 22 January 2018
22	16th Floor A, B, C at Avenida da Praia Grande No. 517, Edificio Comercial Nam Tung, Macau	9,710	1 April 2016 to 31 March 2018
23	8th Floor, Avenida da Praia Grande No. 429, Centro Comercial Praia Grande, Macau	5,520	1 March 2015 to 28 February 2021
24	19th Floor A, B, C, D and N at Avenida Xian Xing Hai No. 81 to 121, Centro Golden Dragon, Macau	8,121	1 April 2016 to 31 March 2022

During the Track Record Period and as of the Latest Practicable Date, the Target Group had not experienced any material difficulty in renewing its respective leases or leasing additional premises for its respective operations. Accordingly, the Target Group currently does not expect to have any material difficulty in renewing the leases when they expire or, if necessary, securing leases for alternative premises.

The lease agreements in respect of 14 properties leased by the Target Group contain change of control provisions which would be triggered by the Acquisition. Pursuant to such lease agreements, if the Target Group does not obtain the consent of the respective landlords to the change of control of the Target Group, the landlords would have the right to terminate the lease agreements. As of the Latest Practicable Date, the Target Group has obtained consents from the relevant landlords in respect of all such leases.

LEGAL AND REGULATORY

Licenses

Members of the Target Group are required to obtain the relevant licenses for the conduct of their respective business.

The Target Company is an authorized insurer under the IO and is licensed to carry on class A (life and annuity), class C (linked long term), class D (permanent health), class G (retirement scheme management category I), class H (retirement scheme management category II) and class I (retirement scheme management category III) long term insurance business in Hong Kong. It is also registered as a principal intermediary under the MPF Ordinance for carrying on MPF regulated activities. MMT, a subsidiary which is 100% beneficially owned by the Target Company, is an approved trustee under the MPF Ordinance. The Macau branch office of the Target Company is licensed to operate as a life insurer in Macau.

During the Track Record Period and up to the Latest Practicable Date, each of the members of the Target Group has obtained the licenses necessary for the conduct of its respective business and complied with the relevant licensing requirements in all material respects.

Legal Proceedings and Regulatory Compliance

During the Track Record Period and up to the Latest Practicable Date, none of the members of the Target Group had been involved in any actual or pending litigation, arbitration or administrative proceedings (including any involuntary bankruptcy or receivership proceedings) or any non-compliance matters that would have a material adverse impact on the business, results of operations, financial condition or reputation of the Target Group.

The Target Company has put in place internal control systems and procedures to ensure the continuous regulatory compliance of the Target Group. However, given the nature of the Target Group's business, it may from time to time become a party to various litigation or arbitration proceedings arising in the ordinary course of its business.

RESERVES

In accordance with appropriate methodologies called for by applicable regulatory and accounting standards, the Target Group establishes, and carries as liabilities, reserves which are actuarially determined amounts that are calculated to meet its obligations under its insurance products.

See the section headed "Regulatory Overview — Regulatory Framework — Hong Kong — A. Insurance — IV. Maintenance of Assets" in Appendix III and note 31 to the Accountants' Report on the Target Group in Appendix IV.

CONNECTED PERSONS

Upon Completion, the following persons, among others, will become connected persons of the Company:

- the Vendor, which will hold approximately 24.82% of the issued share capital of the Company upon Completion, 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 the Vendor, and hence an associate of the Vendor 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 United States of America and an indirect wholly-owned subsidiary of MMLIC, which is in turn the sole member of the Vendor, and hence an associate of the Vendor and a connected person of the Company under Rule 14A.13(1) of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Group (including the Target Group) proposes to carry out the following transactions (the "**Continuing Connected Transactions**") with connected persons of the Company with effect from Completion. Such transactions will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

1. **Trademark License Agreement**

Parties:	MMLIC, the Target Company and the Company.
Date:	15 December 2017
Principal terms:	MMLIC will grant to the Target Company a license (i) to use certain trademarks bearing the name "MassMutual" and/or the logo for a period of two years from the date of Completion, which may be extended by one year by written agreement of the parties and (ii) to use certain trademarks bearing the characters "美國萬通" for a period of six months from the date of Completion. At Completion, MMLIC will assign to the Company its rights to the standalone mark "萬通" in Hong Kong, Macau and the PRC, subject to the terms and conditions of the Trademark Assignment Agreement. See further "— Connected Transaction" below. The Trademark License Agreement was negotiated by the Company, the Target Company and the Vendor on an arm's length basis and entered into on normal commercial terms.

The parties will establish a transition committee to jointly develop a plan to transition from using the licensed marks to other marks to be selected by the Target Company and the Company. It is expected that the Target Company and the Company will select the replacement trademarks no later than six months after Completion. Once the replacement trademarks have been selected, the Target Company will phase out the use of the licensed marks.

Pricing terms: No consideration is payable to MMLIC under the Trademark License Agreement.

Reasons for the transaction: The licensed marks are currently used by the Target Company. The Company believes the license of such marks for a transition period will facilitate the transition of consumers' association of the Target Company with the licensed marks to an association of the Target Company with the replacement marks to be adopted.

Historical amounts: The Target Company has not paid and currently does not pay any fee to MMLIC for use of the licensed marks and accordingly, there are no historical transaction amounts.

2. **Consulting Services Agreement**

Parties: The Vendor and the Target Company.

Date: 4 August 2017

Principal terms: The Vendor will provide to the Target Company (i) a research report relating to the results of a statistical forecasting model (the "**Model**"), (ii) independent consultancy services on statistical research modelling and (iii) other independent advisory or consultancy services that are ancillary or incidental to the development of the Model (collectively, the "**Consulting Services**"). The Model is proprietary to the Vendor and consists of a series of algorithms which will enable users to identify certain forecasts and probabilities.

The initial term of the Consulting Services Agreement is three years from the date of the Consulting Services Agreement. The Consulting Services Agreement will be automatically extended for successive one-year terms. Either party may give written notice to the other party, not later than 90 days before the end of the initial term or the relevant renewal term, to terminate the Consulting Services Agreement at the end of the initial term or the relevant renewal term, as the case may be. The Company will re-assess the business needs of the Target Company and the ability of the Target Company to develop its own statistical forecasting model closer to the expiry of the initial term of the Consulting Services Agreement. If the Company considers the continued provision of Consulting Services by the Vendor to the Target Company to be beneficial to the Target Company, the term of Consulting Services Agreement may be extended. The Company will re-comply with the applicable requirements under the Listing Rules as and when the Consulting Services Agreement is renewed after the initial term.

The Consulting Services Agreement was negotiated by the Target Company and the Vendor on an arm's length basis and entered into on normal commercial terms.

Pricing terms: No consideration is payable to the Vendor under the Consulting Services Agreement.

Reasons for the transaction: The Company believes that the Consulting Services will assist the Target Company in the analysis of its historical customer data and mortality experience in an effort to develop a forecasting model which will in turn assist the Target Company to enhance its products and services offering.

Historical amounts: The Target Company has not paid and currently does not pay any fee to the Vendor for the Consulting Services and accordingly, there are no historical transaction amounts.

3. **Transitional Services Agreement**

Parties: The Vendor and the Target Company.

Date: 15 December 2017

Principal terms: The Vendor will provide certain treasury and financial reporting services relating to investment or portfolio management and other information technology related services to the Target Company.

The services will be provided for an initial term of one year from the date of Completion, provided that the term of any service may be terminated earlier by the Target Company 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 the Target Company 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 the Target Company is able to provide to itself, or find alternative service providers for, such services, the Target Company 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, the Target Company and the Vendor on an arm's length basis and entered into on normal commercial terms.

Pricing terms:

The Target Company will pay to the Vendor 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, the Vendor will refund to the Target Company 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 the Target Company 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 the Target Company to the Vendor 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 the Target Company would have to incur if the Target Company were to provide the same services to itself. The Company considered that the fees payable by the Target Company to the Vendor are no less favourable than the prevailing market price offered by other competent independent third party providers or the costs and expenses that the Target Company would have to incur if the Target Company 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 the Vendor to the Target Company, the Company considers it is beneficial to and in the interests of the Target Company for the Target Company to obtain the services under the Transitional Services Agreement from the Vendor in order to facilitate the transition and to minimize any business interruption on the Target Group.

Reasons for the transaction: The services under the Transitional Services Agreement are currently provided by the Vendor to the Target Company. The Company believes the continued provision of such services by the Vendor to the Target Company for a period of one year from Completion will facilitate the transition and minimize business interruption to the Target Company.

Historical amounts: The Target Company has not paid and currently does not pay any fee to the Vendor for the services and accordingly, there are no historical transaction amounts.

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

Basis of caps: The annual caps were determined based on the pricing term of the Transitional Services Agreement.

4. **Policies Endorsement Fee Agreement**

Parties: MMLIC and the Target Company.

Date: 15 December 2017

Principal terms:

Between 2004 and 2014, the Target Company underwrote approximately 300 life insurance policies which included a claims payment endorsement by MMLIC, which would be triggered in the event of insolvency of the Target Company. 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 of a triggering event, namely the solvency ratio of the Target Company ceasing to be at least 150% and such cessation not being remedied within a certain agreed period, a change of control of the Target Company, or the independent Shareholders of the Company failing to approve the fee payable to MMLIC for maintaining its endorsement to the outstanding policies, MMLIC will have the right to require the Target Company to cede to MMLIC the rights and obligations of the Target Company under the life insurance policies which include the claims payment endorsement by MMLIC, and the Target Company shall transfer assets (of a value equivalent to the obligations or liabilities of the Target Company attributable to such life insurance policies) to MMLIC. The Company and the Target Company 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 the Target Company in good faith if any triggering event takes place.

The initial term of the Policies Endorsement Fee Agreement will be three years from the date of Completion. 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 the Target Company between 2004 and 2014 and no such policies which include such claims payment endorsement by MMLIC have been underwritten by the Target Company 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, the Target Company and the Vendor on an arm's length basis and entered into on normal commercial terms.

Pricing terms:

The Target Company 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.

The reason for the Target Company entering into the Policies Endorsement Fee Agreement is that certain life insurance policies underwritten by the Target Company included a claims payment endorsement by MMLIC which would be triggered in the event of insolvency of the Target Company. Given that the claims payment endorsement by MMLIC is a term of the relevant life insurance policies and the Target Company 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 the Target Company 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 will not result in any change to the terms of their existing policies, including the claims payment endorsement by MMLIC.

Historical amounts:

The Target Company has not paid and currently does not pay any fee to MMLIC for the claims payment endorsement and accordingly, there are no historical transaction amounts.

The account value of the outstanding policies as of 31 December 2014, 31 December 2015 and 31 December 2016 are set out below:

	Account Value as of 31 December (HK$'000)		
	2014	**2015**	**2016**
Account value	2,966,109	2,989,084	2,997,079

Annual caps: The maximum aggregate annual amount of fees payable by the Target Company 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 31 December (HK$'000)		
	2018	**2019**	**2020**
Total fees	5,611	5,835	6,068

Basis of caps: The annual caps were determined based on the number of outstanding policies, the historical account value, the maturity dates of the outstanding policies, as well as the projected interests to be accrued to such policies (calculated based on historical interest rates of around 4% credited to the policies), assuming no early redemption and no new issue of policies.

5. **Barings Investment Advisory Agreement**

Parties: Barings LLC and the Target Company.

Date: 15 December 2017

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

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 the Target Company. As described in "Letter from the Board — Strategic Cooperation Agreement", Barings LLC will manage all fixed income portfolio investments for the Target Company for a period of three years from Completion.

The initial term of the Barings Investment Advisory Agreement will be three years from the date of Completion. 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 the Target Company's fixed income investment portfolio. The Company shall re-assess the investment needs of the Target Company 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 the Target Company to be beneficial to the Target Company, 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, the Target Company and the Vendor on an arm's length basis and entered into on normal commercial terms.

Pricing terms: The Target Company 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) the preferred partner status granted by the Company to the Vendor under the Strategic Cooperation Agreement.

The Company has assessed the business needs of the Target Company for the services under the Barings Investment Advisory Agreement. The Company considered (i) the historical amounts of fees paid by the Target Company 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, the Target Company invests policy premiums, to generate sufficient return for satisfying future insurance claims and dividend obligations. Barings LLC has assisted the Target Company 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 the Target Company's long term asset allocation strategies.

Historical amounts: The historical amounts of fees paid by the Target Company to Barings LLC are set out below:

	Historical Transaction Amount for the Year Ended 31 December			Historical Transaction Amount for the Six Months Ended 30 June
	2014	**2015**	**2016**	**2017**
		(HK$'000)		
Total fees	24,500	32,500	38,700	22,400

Annual caps: The maximum aggregate annual amount of fees payable by the Target Company 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 31 December (US$'000 and HK$'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)

Basis of caps: The annual caps were determined based on the type of the assets managed by Barings LLC, the historical value of assets managed by Barings LLC, the growth of such value in the past, the historical amounts of fees paid to Barings LLC and the expected type and amount of assets to be managed by Barings LLC.

The Trademark License Agreement, the Consulting Services Agreement, the Transitional Services Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement were entered into prior to Completion. Upon Completion, the Vendor, MMLIC and Barings LLC, being the counterparties to the Trademark License Agreement, the Consulting Services Agreement, the Transitional Services Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement (as the case may be), will become connected persons of the Company and the transactions contemplated thereunder will become continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Since (i) no consideration is payable under the Trademark License Agreement and the Consulting Services Agreement and (ii) the Trademark License Agreement and the Consulting Services Agreement were entered into on normal commercial terms, the transactions under the Trademark License Agreement and the Consulting Services Agreement will be fully exempt from the annual review, annual reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Regarding the Transitional Services Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement, according to Rule 14A.60 of the Listing Rules, the Company will comply with the annual review and disclosure requirements under Chapter 14A of the Listing Rules upon them becoming continuing connected transactions of the Company.

VIEWS OF THE DIRECTORS

In the view of the Directors (including the independent non-executive Directors), it is in the interests of the Group to continue with the Continuing Connected Transactions after Completion, and such transactions were entered into in the ordinary and usual course of business of the Target Group on normal commercial terms, and the terms of such transactions and the relevant proposed annual caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES TO SAFEGUARD SHAREHOLDERS' INTERESTS

In order to ensure the transactions under the Transitional Services Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders, the Group will implement the following internal control measures:

(i) for the Transitional Services Agreement, the finance department and the information technology department of the Target Company will monitor the services provided by the Vendor under the Transitional Services Agreement, namely treasury and financial reporting services relating to investment or portfolio management and other information technology related services, to ensure that such services are provided by the Vendor, and the consideration paid by the Target Company are in accordance with the terms of the Transitional Services Agreement. The finance department and the information technology department of the Target Company will report to the finance department of the Company on a quarterly basis for the finance department of the Company to ensure that the terms of the Transitional Services Agreement are complied with;

(ii) for the Policies Endorsement Fee Agreement, the actuarial department of the Target Company will monitor the expiry or lapse of the outstanding policies which included a claims payment endorsement by MMLIC and will report to the finance department of the Target Company for it to calculate the annual fee payable by the Target Company to MMLIC. The actuarial department and the finance department of the Target Company will report to the finance department of the Company on a half-yearly basis the account value of the outstanding policies and the annual fee payable calculated in accordance with the terms of the Policies Endorsement Fee Agreement for the finance department of the Company to ensure that the terms of the Policies Endorsement Fee Agreement and the relevant annual caps are being complied with;

(iii) for the Barings Investment Advisory Agreement, the assets and type and amount of assets to be managed by Barings LLC will be determined by the investment committee of the Target Company. The Company is entitled to nominate three out of the four members of the investment committee. Since the fee rates charged by Barings LLC are based on asset types, the Company may, through its representatives in the investment committee, monitor the assets and type and amount of assets to be managed by Barings LLC. Barings LLC will calculate the amount of fees payable by the Target Company based on the type and amount of the assets managed by Barings LLC. The finance department of the Target Company will review the calculation and report to the finance department of the Company on a quarterly basis to ensure that the terms of the Barings Investment Advisory Agreement and the relevant annual caps are being complied with; and

(iv) the finance department of the Company will collate the information and supporting documents as requested by the independent non-executive Directors or the auditors of the Company in order for them to conduct annual reviews of the Transitional Services Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement.

In accordance with the requirements under the Listing Rules, the independent non-executive Directors will provide an annual confirmation to the Board as to whether the Transitional Services Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement have been entered into in the ordinary and usual course of business of the Enlarged Group, are on normal commercial terms and are in accordance with the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and the auditors will provide an annual confirmation to the Board as to whether anything has come to their attention that causes them to believe that the Transitional Services Agreement, the Policies Endorsement Fee Agreement and the Barings Investment Advisory Agreement have not been approved by the Board, and not in accordance with the pricing policies of the Group in all material respects, are not entered into in accordance with the relevant agreement governing the transactions in all material respects or have exceeded the annual caps.

CONNECTED TRANSACTION

In addition to the Continuing Connected Transactions, MMLIC and the Company will enter into the Trademark Assignment Agreement at Completion. Pursuant to the Trademark Assignment Agreement, MMLIC will assign to the Company its rights to the standalone mark "萬通" in Hong Kong, Macau and the PRC, subject to certain limitations on use and disposition. MMLIC will retain rights in certain other marks that incorporate the characters "萬通". If, within four years after the date of Completion, the Company transfers or allows to lapse its rights in the standalone mark "萬通", or there is a change of control of the Company, or MMLIC considers (in its reasonable judgment) that the use of the standalone mark "萬通" creates a material risk to its ability to own, use, enforce or register rights in any mark owned by it as of Completion or causes material reputational loss or harm to MMLIC, MMLIC will have the right to require the Company to assign back the mark to MMLIC for no consideration.

No consideration is payable to MMLIC for the assignment of the mark under the Trademark Assignment Agreement. The transaction under the Trademark Assignment Agreement will constitute a fully exempt connected transaction of the Company.

BOARD OF DIRECTORS OF THE TARGET COMPANY

The following table sets out certain information of the directors of the Target Company as of the date of this circular and their roles and responsibilities in the Target Company:

Name	Age	Position	Date of appointment as a Director of the Target Company	Date of joining the Target Company	Principal responsibilities	Relationship with other Directors of the Target Company
Thomas Joseph Finnegan, Jr.	82	Independent Non-executive Director	30 August 2003	30 August 2003	Providing independent judgment to the Board	None
Jark Pui Lee (李澤培)	78	Independent Non-executive Director	30 August 2003	30 August 2003	Providing independent judgment to the Board	None
Keng Puang Tay (鄭慶藩)	60	Managing Director and Chief Executive Officer	9 June 2009	1 December 1996	Overseeing the strategic development and management of the Target Group	None
Eric William Partlan	44	Director	1 December 2013	1 December 2013	Member of the Investment Committee	None
Victor Ka Lin Yip (葉嘉年)	50	Director, Chief Operating Officer and Chief Actuary	1 July 2015	14 October 1996	Supervising the insurance and agency operations and the actuarial activities of the Target Group	None
Adnan Omar Ahmed	50	Director	1 February 2017	1 February 2017	Member of the Investment Committee	None

Mr. Thomas Joseph Finnegan, Jr., aged 82, is an independent non-executive director of the Target Company. Mr. Finnegan joined the Target Group and was appointed to his current position in August 2003. He previously worked at MMLIC from June 1966 until his retirement in February 1998 and served as vice president, secretary and associate general counsel of MMLIC from June 1984 to February 1998. As a member of the senior management team, he was responsible for all corporate governance and board matters of MMLIC. Mr. Finnegan was an independent director of MassMutual Mercuries Life Insurance Co., Ltd. from May 2008 to November 2010.

Mr. Finnegan completed his juris doctor degree at Columbia University School of Law in New York, the United States in June 1961. In June 1957, he received a bachelor of arts degree from Fordham University in New York, the United States. Mr. Finnegan was admitted to the Bar of the Commonwealth of Massachusetts in June 1967 and to the Bar of the State of New York in December 1961.

Mr. Jark Pui Lee (李澤培), aged 78, is an independent non-executive director of the Target Company. Mr. Lee was appointed in August 2003. Mr. Lee has held various positions in Lippo Group. He was an executive director of Lippo Limited, a company listed on the Stock Exchange (Stock Code: 226), from July 1992 to March 2015 and has been a non-executive director since March 2015. From 1969 to 1985, Mr. Lee was Secretary General of The Chinese Manufacturers' Association of Hong Kong.

Mr. Lee graduated from The University of Hong Kong with a bachelor of arts degree with first class honours in 1962.

Mr. Keng Puang Tay (鄭慶藩), aged 60, is the managing director and the chief executive officer of the Target Company. He is a member of the Investment Committee, the Reinsurance Committee and the Risk Management Committee of the Target Company. Mr. Tay has over 36 years of experience in the life insurance industry. He joined the Target 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 the Target Company operating the Target Group's MPF business. During this period, he also served as senior vice president of the Target Company.

Mr. Tay graduated from Newport University in the United States 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.

Mr. Eric William Partlan, aged 44, is a director and a member of the Investment Committee of the Target Company. He joined the Target Group and was appointed to his current position in December 2013. Mr. Partlan has worked at MMLIC since January 2013 and is currently vice president of investment management group. He was head of investment risk of enterprise risk management from January 2010 to December 2012. From April 2004 to December 2009, he was managing director in the correlation products group at Babson Capital Management LLC (now known as Barings LLC), a global investment management organization.

Mr. Partlan graduated with a master of business administration degree and a master of science degree in mechanical engineering from the Massachusetts Institute of Technology in the United States in June 2002. In August 2000, he received a master of science degree in industrial engineering from Georgia Institute of Technology in the United States. He obtained a bachelor of science degree in mechanical engineering and a bachelor of arts degree in accounting from Michigan State University in the United States in December 1996 and August 1996, respectively. Mr. Partlan was designated as a chartered alternative investment analyst and was enrolled as a member of CFA Institute.

Mr. Victor Ka Lin Yip (葉嘉年), aged 50, is a director and the chief operating officer and chief actuary of the Target Company. He is a member of the Investment Committee, the Underwriting Committee, the Reinsurance Committee, the Claims Settlement Committee and the Risk Management Committee of the Target Company. Mr. Yip joined the Target Group in October 1996. He was appointed as director, chief operating officer and chief actuary, and senior vice president and chief actuary in July 2015, October 2009 and July 2007, respectively. He previously served as vice president and actuary from July 2001 to June 2007 assistant vice president and assistant actuary from January 1998 to July 2001, and as actuarial manager from October 1996 to January 1998.

Mr. Yip graduated from the University of Toronto with a bachelor's degree in science in November 1988. He was enrolled as a fellow member of the Society of Actuaries (FAS) in March 1998.

Mr. Adnan Omar Ahmed, aged 50, is a director and a member of the Investment Committee of the Target Company. He joined the Target Group and was appointed to his current position in February 2017. Mr. Ahmed has served at MMLIC as executive vice president from September 2015 to the present. He was chief human resources officer of MMLIC from October 2015 to January 2017, and he has been chairman, president and chief executive officer of MassMutual International LLC since January 2017. In addition, Mr. Ahmed has been a director of each of Human Capital Leadership Institute Pte Ltd since July 2017, MassMutual Life Insurance Company (Japan) since February 2017 and Temasek Management Services Pte Ltd since April 2011. He was also a director of MassMutual Foundation, Inc. from February 2016 to February 2017.

Mr. Ahmed worked at Citigroup Inc. from July 2010 to October 2015 and held positions including managing director, head of channel and enterprise services and head of human resources for Europe, Middle East and Africa.

From June 1993 to June 2010, Mr. Ahmed served at Morgan Stanley & Company, Inc. and held various positions including chief administrative officer, managing director and head of infrastructure of Asia.

Mr. Ahmed obtained a bachelor of arts degree in political science and international relations and a bachelor of science degree in computer science in May 1988 and a master's degree in business administration in December 1990, all from Tulane University in the United States.

Expected Change to the Board of Directors of the Target Company

Upon Completion, it is expected that the board of directors of the Target Company will comprise eight directors, including any independent non-executive directors as required by any applicable law or regulatory authority. Pursuant to the Investor Rights Agreement, the Vendor shall be entitled to nominate one candidate to the board of directors of the Target Company for an initial term of three years commencing upon Completion. The appointment of any proposed new director of the Target Company will be subject to the approval or non-objection by the HKIA.

SENIOR MANAGEMENT OF THE TARGET COMPANY

The following table sets out certain information in respect of the senior management of the Target Company as of the date of this circular and their roles and responsibilities in the Target Company:

Name	Age	Position	Date of appointment to senior management position	Date of joining the Target Company	Principal responsibilities
Keng Puang Tay (鄭慶藩)	60	Managing Director and Chief Executive Officer	9 June 2009	1 December 1996	Overseeing the strategic development and management of the Target Group
Victor Ka Lin Yip (葉嘉年)	50	Director, Chief Operating Officer and Chief Actuary	9 October 2009	14 October 1996	Supervising the insurance and agency operations and the actuarial activities of the Target Group
Anthony Wing Lok Kwok (郭榮樂)	44	Chief Financial Officer	1 July 2015	27 March 2000	Overseeing the accounting and financial management of the Target Group

Mr. Keng Puang Tay (鄭慶藩), aged 60, is the managing director and the chief executive officer of the Target Company. Please refer to his biography under the paragraph headed "— Board of Directors of the Target Company" above.

Mr. Victor Ka Lin Yip (葉嘉年), aged 50, is a director and the chief operating officer and chief actuary of the Target Company. Please refer to his biography under the paragraph headed "— Board of Directors of the Target Company" above.

Mr. Anthony Wing Lok Kwok (郭榮樂), aged 44, is the chief financial officer of the Target Company. He is a member of the Investment Committee and the Risk Management Committee of the Target Company. Mr. Kwok joined the Target Group in March 2000 and was appointed to his current position in July 2015. He was vice president and head of the finance team from March 2014 to June 2015. Prior to joining the finance department, he held various positions in the actuarial department, ranging from assistant manager to vice president and head of the actuarial team.

From May 1998 to September 1999, he worked at the Office of the Commissioner of Insurance of the Government of the HKSAR as an assistant insurance officer. He previously worked at FWD Life Insurance Company (Bermuda) Limited (formerly known as ING Life / East Asia Aetna Insurance) as actuarial officer from February 1997 to April 1998 and actuarial assistant in the actuarial department from July 1995 to February 1997.

Mr. Kwok received his bachelor's degree in economics from The University of Hong Kong in November 1995. He was designated as a chartered financial analyst in September 2003 and was enrolled as a fellow member of the Society of Actuaries (FAS) in September 2001.

It is expected that the senior management team of the Target Group will remain intact after Completion.

You should read the following discussion and analysis together with the Target Group's financial information as of and for each of the three years ended 31 December 2014, 2015 and 2016 and as of and for the six months ended 30 June 2016 and 2017 and the accompanying notes thereto, which is set forth in the Accountants' Report on the Target Group included as Appendix IV to this circular. The Accountants' Report on the Target Group has been prepared in accordance with HKFRS. The basis of preparation is set forth in note 2 to the Accountants' Report on the Target Group.

BUSINESS OVERVIEW

The Target Company is one of the leading insurance companies in Hong Kong which offers a wide range of insurance and wealth management products, including universal life insurance, deferred annuity and investment-linked assurance products, as well as MPF products. For the year ended 31 December 2016, the Target Company had premium and fee income from insurance contracts of approximately HK$3,586 million. As of 31 December 2016, the Target had total assets of approximately HK$44,460 million and total equity of approximately HK$6,783 million. As of 30 June 2017, the Target Company had approximately 350 employees and more than 441,000 in-force individual policies. In addition, the Target Company has developed a tied agency force of approximately 2,920 agents as of 30 June 2017.

Financial overview of the Target Group's business

The Target Company measures its business volumes by referring to the total premium and fee income, TPI, reported under the 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. TPI provides an indication of longer term business volumes by taking into account changes in the mix of regular and single premium business. There are two key drivers of TPI, namely the persistency of the renewal premiums generated by the Target Company's in-force portfolio and its new business. In preparing the financial statements in accordance with HKFRS, the Target Company 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.

The Target Group considers TPI as an important measure of the Target Group's operating performance and believes it is frequently used by analysts, investors and other interested parties in the evaluation of insurance companies. The Target Group's management also uses TPI as an additional measurement tool for purposes of business decision-making. TPI is not a measure of operating performance under HKFRS or other generally accepted accounting principles and should not be considered as a substitute for, or superior to, profit before tax in accordance with HKFRS. TPI can be substantially affected if for example there is early termination of policies by a significant number of the policyholders of the Target Group.

Business volume - TPI

The Target Group had TPI of HK$5,041, HK$5,625 million and HK$6,875 million for each of the years ended 31 December 2014, 2015 and 2016. TPI for the six months ended 30 June 2017 amounted to HK$3,156 million, representing a decrease of 7.7% from the six months ended 30 June 2016.

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

(i) By geographical region

	For the year ended 31 December						For the six months ended 30 June			
	2014		**2015**		**2016**		**2016**		**2017**	
	(HK$ million)	*%*	*(HK$ million)*	*%*	*(HK$ million)*	*%*	*(HK$ million)*	*%*	*(HK$ million)*	*%*
							(unaudited)			
Hong Kong	4,509	89	4,986	89	6,039	88	3,041	89	2,684	85
Macau	532	11	639	11	836	12	377	11	472	15
	5,041	100	5,625	100	6,875	100	3,418	100	3,156	100

(ii) By distribution channel

	For the year ended 31 December									For the six months ended 30 June					
	2014			**2015**			**2016**			**2016**			**2017**		
	Hong Kong	**Macau**	**Total**	**Hong Kong**	**Macau**	**Total**	**Hong Kong**	**Macau**	**Total**	**Hong Kong**	**Macau**	**Total**	**Hong Kong**	**Macau**	**Total**
										(unaudited)					
	(HK$ million)														
Tied agency	3,055	472	3,527	3,319	551	3,870	3,653	715	4,368	1,704	322	2,026	1,753	404	2,157
Banks and other financial institution	185	46	231	279	52	331	325	74	399	152	34	186	194	49	243
Brokers and non-tied agency	1,269	14	1,283	1,388	36	1,424	2,061	47	2,108	1,185	21	1,206	737	19	756
	4,509	532	5,041	4,986	639	5,625	6,039	836	6,875	3,041	377	3,418	2,684	472	3,156

(iii) By product type

	For the year ended 31 December									For the six months ended 30 June					
	2014			2015			2016			2016			2017		
	Hong Kong	Macau	Total	Hong Kong	Macau	Total	Hong Kong	Macau	Total	Hong Kong	Macau	Total	Hong Kong	Macau	Total
										(unaudited)					
	(HK$ million)														
Regular premium — First year	972	142	1,114	872	180	1,052	1,091	244	1,335	425	121	546	415	117	532
Regular premium — Renewal	3,192	348	3,540	3,595	419	4,014	4,157	543	4,700	1,990	239	2,229	2,134	310	2,444
Single premium	343	40	383	517	38	555	789	48	837	625	16	641	134	44	178
Fee income	2	2	4	2	2	4	2	1	3	1	1	2	1	1	2
	4,509	532	5,041	4,986	639	5,625	6,039	836	6,875	3,041	377	3,418	2,684	472	3,156

Profit before taxation

For the years ended 31 December 2014, 2015 and 2016, the Target Company recorded profit before taxation of approximately HK$670.9 million, HK$709.0 million and HK$1,166.1 million, respectively, representing a growth in profit before taxation of approximately 5.7% in 2015 and 64.5% in 2016. For the six months ended 30 June 2017, the Target Company's profit before taxation amounted to HK$277.5 million, representing a growth of 1.5% from the profit before taxation for corresponding period in 2016.

The historical financial information included in the Accountants' Report on the Target Group set forth in Appendix IV to this circular represents the consolidated results prepared in accordance with HKFRS. These results are discussed in "— Results of Operations" in this section.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The financial condition and results of operations of the Target Group, as well as the comparability of its results of operations between periods, are affected by a number of factors, including: (i) economic conditions and demographic fundamentals in Hong Kong and Macau; (ii) customer sentiment and policyholder behaviour; (iii) competition and premium rates; (iv) regulatory environment; (v) fluctuations in market interest rates and credit risk; (vi) fluctuations in equity markets; (vii) frequency and severity of claims; (viii) performance of investment portfolio; (ix) reinsurance market; (x) product mix and multi-channel distribution; and (xi) drivers of profitability.

Economic conditions and demographic fundamentals in Hong Kong and Macau

Economic growth trends, household savings rates, demographic profiles and life insurance penetration rates are some of the key factors affecting the performance of the life insurance industry in Hong Kong and Macau. As the Target Group's business operation is conducted substantially in Hong Kong, and it also operates in Macau through a branch office, the Target Group's business is susceptible to adverse trends in the life insurance market in Hong Kong and Macau. If the economic conditions in the Hong Kong and Macau deteriorate, or the impact on the Target Group's business is different from what it expects, its financial condition and results of operations may be materially and adversely affected.

Customer sentiment and policyholder behaviour

As an insurer with a relatively long-established track record, a significant portion of the Target Group's business is on a regular premium basis, which has provided the Target Group with a regular stream of renewal premiums. However, customer sentiment and actual policyholder behaviour (such as policy take-up rates, premium holidays, lapses and surrenders) may differ from its expectations due to factors that are outside of the Target Group's control. In particular, persistency varies over time and from one type of product to another. Persistency measures the proportion of customers who continue to maintain their policies with the Target Group, which it calculates by reference to the percentage of insurance policies remaining in-force from month to month, as measured by premiums. Factors that cause policy take-up, lapse and surrender rates to vary over time include changes in investment performance of the assets underlying the contract (in the case of investment-linked contracts), changes in the rate of policyholder dividends declared relative to competitors, regulatory changes that make alternative products more attractive, customer perception of the insurance industry in general and the Target Group in particular, and general economic conditions in Hong Kong. These factors can cause the results of operations of the Target Group and the financial position of its business to fluctuate from year to year.

Competition and premium rates

The Target Group operates in competitive market. The life insurance market in Hong Kong is a comparatively developed market with many competitive market players. Competition in the Hong Kong market is based primarily on the types of insurance policies offered, price and distribution capability. In determining the premium rates for its insurance policies, the Target Group primarily considers factors such as historical claims frequency and severity, claims payment, competition and the pricing of similar products in the market and analysis from the actuaries. Overall market conditions, such as the level of underwriting capacity and the severity of price competition in respect of any particular insurance policy, also influence the premium rates for its insurance policies. When market prices for insurance policies drop as a result of increased price competition or otherwise, its premiums and fee income from insurance policies may decrease and it may elect not to engage in price competition with its competitors for certain products which may decrease the number of insurance policies written by the Target Group. As a result, business and results of operations and future business of the Target Group may be adversely affected.

Regulatory environment

The Target Group's business operation, which is conducted substantially in Hong Kong, is highly regulated. The Target Group is subject to the regulatory oversight of a number of financial services, insurance, securities and related regulators, as described in the section headed "Regulatory Overview" set out in Appendix III to this circular. In particular, HKIA stipulates requirements for paid-up capital, solvency margin, fitness and properness of directors and controllers, adequacy of reinsurance arrangements, annual reporting, maintenance of assets, actuarial review of insurance liabilities, corporate governance and asset management, etc. Implementation and interpretation of the laws, rules and regulations may change from time to time and such changes could have a material adverse effect on the business of the Target Group. If any of its business segments are subject to more stringent legal or regulatory restrictions in the future, this could have a material adverse effect on its product range, distribution network, capital requirements, day-to-day operations and consequently, its business, financial conditions and results of operations.

The Target Group's efforts to comply with changes in regulations may lead to increased operating and administrative expenses. In addition, pursuant to the insurance and securities laws, rules and regulations in Hong Kong, the Target Group is restricted to a specified range of investment activities. These restrictions may limit the Target Group's ability to diversify investment risks and improve returns on its investment portfolio, thereby affecting its results of operations as well as liquidity and solvency positions.

Fluctuations in market interest rates and credit risk

The Target Group is affected by fluctuations in market interest rates as a substantial portion of its investment portfolio is held in debt securities, particularly fixed income government securities. Movements in interest rates may affect the level and timing of recognition of gains and losses on debt securities and other investments held in its investment portfolio. A sustained period of lower interest rates would generally reduce the investment yield of its investment portfolio over time as higher yielding investments mature or are redeemed and proceeds are reinvested in new investments with lower yields. However, declining interest rates would also increase realised and unrealised gains on its existing investments. Conversely, rising interest rates should, over time, increase its investment income, but may reduce the market value of its investment portfolio. The Target Group's holding of debt securities also exposes it to corporate, sovereign and other credit risk.

In addition, interest rate risk arises from its insurance and investment contracts with guaranteed features. These contracts carry the risk that interest income from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable as interest rates fall or fail to meet customer expectations for participating products. In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may increase. These events may result in cash payments by the Target Group requiring the sale of invested assets at a time of declining prices, which may result in realised losses.

Fluctuations in equity markets

Fluctuations in equity markets may affect the Target Group's investment returns and sales of many of its investment-linked products. The Target Group's exposure to equity markets is significantly less than its exposure to debt markets, with equity securities representing approximately 3.48%, 4.01%, 5.04% and 5.64% of the total carrying value of the total investments as of each of 31 December 2014, 2015 and 2016 and as of 30 June 2017, respectively. In general, the investment risk in respect of investments in unit trusts held to back linked insurance contracts is borne by holders of the Target Group's linked insurance contracts, such as variable universal life insurance products, whereas the investment risk associated with investments in unit trusts backing non-linked insurance contracts, such as fixed universal life products, is borne by the Target Group's shareholders.

Sales of linked insurance contracts typically decrease in periods of protracted or steep declines in equity markets and increase in periods of rising equity markets. In particular, customers may be reluctant to commit to new linked insurance contracts in times of uncertainty or market volatility, although some customers with regular premium paying policies may choose to maintain their payments of regular premiums as markets decline, following a strategy of dollar cost averaging. Policy loans, surrenders and withdrawals may increase at times of declining equity markets. In addition, lower investment returns for te Target Group's linked insurance contracts would also reduce the asset management and other fees the Target Group earns, certain of which are based on the account balance of these contracts.

Frequency and severity of claims

The Target Group's reported financial results are affected by the frequency and severity of claims, which may vary from the assumptions that it makes both when it designs and prices its products and when it calculates its insurance contract liabilities. Claims experience varies over time and from one type of product to another, and may be impacted by specific events and changes in macroeconomic conditions, population demographics, mortality, morbidity and other factors.

Performance of investment portfolio

Net investment income represented approximately 32.3%, 16.4%, 23.7% and 48.2% of the Target's Group total revenue for each of the three years ended 31 December 2016 and the six months ended 30 June 2017 respectively. As of 31 December 2014, 2015 and 2016 and 30 June 2017, the carrying value of its investment portfolio, comprising debt securities, equity securities and unit trusts was approximately HK$26,460.9 million, HK$29,175.6 million, HK34,958.7 million and HK$37,845.8 million respectively, which represented approximately 76.4%, 76.2%, 78.6% and 79.8% of the total assets of the Group respectively. The results of operations and financial position of the Target Group are affected by the quality and performance of our investment portfolio.

Its investment portfolio mainly comprises of government bonds, corporate bonds, unlisted equity securities, unit trusts and mortgage loans. The performance of its investment portfolio is affected by inflation, fluctuation in credit and liquidity conditions, the performance and volatility of capital markets, asset values, etc. Any significant deterioration in one or more of these factors could have an adverse impact on the value of, and the income generated by, its investment portfolio and could have a material adverse effect on the business, financial position and results of operations of the Target Group.

Reinsurance market

The Target Group, as an authorised insurer, shall reinsure a portion of the risks it underwrites to reduce its risk exposure, to protect its capital resources and to maintain stability in its operations. Reinsurance is particularly important to the management of risks in the insurance business of the Target Group.

The Target Group enters into reinsurance treaties with reinsurers. Premiums ceded to reinsurer for each of the three years ended 31 December 2016 and the six months ended 30 June 2017 were approximately HK$195.0 million, HK$179.8 million, HK$255.0 million and HK$282.1 million, respectively, representing approximately 7.5%, 5.7%, 7.1% and 15.0%, respectively, of the total premiums and fee income during the corresponding periods.

The reinsurance market may vary with fluctuations in underwriting capacity in the market affecting the price at which reinsurance can be obtained. Underwriting capacity and rates in the reinsurance market, which are determined largely by underwriting conditions in the international market, may not necessarily move in tandem with those in the Hong Kong insurance market. Decrease in underwriting capacity in the reinsurance market leading to increases in reinsurance rates could raise the cost of reinsurance to the Target Group and potentially decrease its underwriting profit.

In addition, although the Target Group seeks to manage risk by entering into reinsurance arrangements only with reputable and creditworthy reinsurers, a default by any reinsurer because of risk management, solvency or other problems could expose the Target Group to losses and therefore have an adverse effect on its results of operations and financial condition.

Product mix and multi-channel distribution

The Target Group designs and distributes a broad range of traditional life, investment-linked and universal life and group insurance products. The performance of its operating units, and the revenue it generates, are affected by its ability to deliver the most suitable products to its targeted customer segments through multiple distribution channels on a timely basis. The Target Group’s ability to expand and build alternative distribution channels, including bancassurance, direct marketing and brokerage channels, may affect the performance of its operating units.

Drivers of profitability

The Target Group's profitability depends mainly on its ability to: (i) attract new customers; (ii) retain existing customers; (iii) price and manage risk on insurance products (iv) manage its investment portfolio and (v) control its expenses. Additional drivers of its profitability include:

- its ability to manage persistency. Maintaining a high level of persistency is important to its financial results, as a large block of in-force policies provides it with regular revenues in the form of renewal premiums. In addition, its ability to convert first year premiums into renewal premiums — thereby increasing the number of in-force policies — is an important factor affecting its financial condition and results of operations, as well as the long-term growth of our revenues and profitability;

- its ability to price its insurance products at a level that enables the Target Group to earn a margin over the cost of providing benefits and the expense of acquiring new policies and administering those products. The adequacy of its product pricing is, in turn, primarily a function of:

  - its mortality and morbidity experience on individual and group insurance;

  - the adequacy of its methodology for underwriting insurance policies and establishing reserves for future policyholder benefits and claims; and

  - the extent to which its actual expenses and investment performance meet its assumptions;

- its ability to actively manage its investment portfolio to earn an acceptable return while managing liquidity, credit and duration risks in its asset and policy portfolios through asset-liability management; and

- its ability to control expenses in order to maintain the target margins for its insurance products.

BASIS OF PREPARATION

The financial information of the Target Group has been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance.

The Target Group's functional currency is US dollars. The presentation currency of the financial information of the Target Group is Hong Kong dollar, the official currency of the jurisdiction in which the Target Group primarily operates.

The financial information of the Target Group has been prepared on an historical cost basis except that investments in certain debt and equity securities and derivative financial statements are stated at their fair value.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

The Target Group has identified certain accounting policies, estimates and judgments that are significant to the preparation of its financial information. These significant accounting policies, estimates and judgments are important for understanding of the financial condition and results of operations of the Target Group and are set forth in notes 3 and 4 to the Accountants' Report on the Target Group in Appendix IV to this circular. The following paragraphs discuss certain significant accounting policies, estimates and judgments applied in preparing the Target Group's financial information.

Classification of insurance and investment contracts

Contracts under which the Target 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 Target 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 Target Group from the policyholder is not significant are classified as investment contracts.

Contracts with a discretionary participation feature

Certain insurance contracts issued by the Target Group contain a discretionary participation feature (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 Target 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 Target Group; and

(iii) the profit or loss of the Target Group.

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.

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.

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.

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 and withdrawals. Dividends are also included. Reserves for accident and disability contracts are based upon mortality, morbidity and withdrawal assumptions which are based on the Target 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

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

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

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

(ii) Embedded derivatives in insurance contracts

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

The Target Group has taken advantage of the exemption available in HKFRS 4 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 Target 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 Target 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

The Target Group's deferred acquisition costs (DAC) 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 Target 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 Target Group changes its assumptions, as well as changes in prospective DAC amortisation.

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

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

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

(v) 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, 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 are written down and, if necessary, an additional provision is established. The deficiency is recognised in the income statement for the year/period.

Investment contracts

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

All investment contracts issued by the Target Group are designated by the Target 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 income statement in the period in which they arise.

Investments

The Target Group's and the company's policies for investments, other than investments in subsidiaries, are as follows:

Investments are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Transaction price includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

(i) Securities designated at fair value through profit or loss

A security is classified in this category if it meets the criteria set out below, and is so designated by management. The Target Group designates securities at fair value through profit or loss because the designation:

(1) eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

(2) applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with the Target Group's documented risk management or investment strategy, and where information about these instruments are provided internally on that basis to the Target Group's key management personnel; or

(3) relates to securities containing one or more embedded derivatives which significantly modify the cash flows resulting from the securities, and which would otherwise require separate accounting.

Financial assets so designated are classified as current assets. Any attributable transaction costs are recognised in the income statement as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in the income statement. The net gain or loss recognised in the income statement does not include any dividends or interest earned on these investments as these are recognised in accordance with the revenue recognition policies of the Target Group.

(ii) Held-to-maturity financial assets

Dated debt securities that the Target Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the statement of financial position at amortised cost less impairment losses.

(iii) Available-for-sale financial assets

Investments in debt and equity securities which do not fall into the categories mentioned in (i) and (ii) above are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses. Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the revenue recognition policies of the Target Group. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired, the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Target Group commits to purchase/sell the investments or they expire.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity costs.

Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

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.

Insurance and reinsurance receivables and other receivables

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

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.

Impairment of investments, insurance and reinsurance receivables and other receivables

Investments (other than investments in subsidiaries) that are classified as available-for-sale securities or held-to-maturity securities, insurance and reinsurance receivables and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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

- a significant or prolonged decline in the fair value of an investment in an equity or debt instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

  Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

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

- For held-to-maturity securities carried at amortised cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

- For insurance and reinsurance receivables and other receivables carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of insurance and reinsurance receivables and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against insurance and reinsurance receivables and other receivables directly and any amounts held in the allowance accountrelating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Critical accounting estimates and judgments

The preparation of the financial information of the Target Group 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. The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates.

(i) Actuarial assumptions on future policyholders' benefits

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

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

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

- 105%/115% of Hong Kong Assured Lives Mortality Table 1993 with old age adjustment (2014 and 2015: 115% 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.

2. 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.

3. Withdrawal

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

4. 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 Target Group's valuation of non-annually renewable premium traditional products is based on the discount rates ranging from 2.5% to 6.25% for the three years ended 31 December 2016 and for the six months ended 30 June 2017.

5. Renewal expenses and inflation

The level of renewal expenses is based on pricing assumptions. It is compared with the Target 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.

6. 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 Target 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:

		Changes in profit after tax and equity				
					Six months ended	
	Changes in	**Year ended 31 December**			**30 June**	
Variables	**variables**	**2014**	**2015**	**2016**	**2016**	**2017**
		(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
					(unaudited)	
Discount rate	+1%	118,852	161,238	219,728	189,080	250,841
	-1%	(133,777)	(181,514)	(247,101)	(212,665)	(281,821)
Mortality/morbidity	+10%	(32,687)	(35,768)	(36,305)	(34,154)	(38,144)
	-10%	33,433	36,278	37,085	34,952	38,932

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 Target 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 Target Group. As long as the total interest credited is higher than the guaranteed minimum amount, the Target Group has discretion on the crediting rate. The Target Group's exposure to interest rate risk associated with these types of products is therefore minimal. The Target Group may be exposed to interest rate risks in connection with traditional insurance products, which is considered inconsequential in view of the Target Group's product portfolio. As such, no sensitivity analysis for the underlying interest rate risk is performed.

These assumptions are applied consistently for the three years ended 31 December 2016 and for the six months ended 30 June 2016 and 2017.

(ii) Impairment losses on available-for-sale securities

The Target Group determines that available-for-sale securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of when a decline in fair value below its cost is not recoverable within a reasonable time period is judgemental by nature, so profit or loss could be affected by differences in judgement.

RESULTS OF OPERATIONS

The following table sets out the consolidated results of the Target Group, for each of the three years ended 31 December 2016 and the six months ended 30 June 2016 and 2017, which are derived from and should be read in conjunction with, the financial information prepared in accordance with HKFRS set out in the Accountants' Report on the Target Group in Appendix IV to this circular.

CONSOLIDATED INCOME STATEMENTS

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)* *(unaudited)*	*(HK$'000)*
Income					
Premiums and fee income	2,590,788	3,140,193	3,585,865	1,779,144	1,877,255
Premiums ceded to reinsurer	(195,042)	(179,813)	(254,969)	(96,989)	(282,097)
Net premium and fee income	2,395,746	2,960,380	3,330,896	1,682,155	1,595,158
Change in unearned revenue liability	(267,432)	48,277	(432,118)	(7,172)	(259,174)
Net earned premium and fee income	2,128,314	3,008,657	2,898,778	1,674,983	1,335,984
Net investment and other income	1,061,298	631,834	1,146,271	267,264	1,553,618
Reinsurance commission and profit commission	19,233	18,576	467,318	1,586	7,083
Total revenue	3,208,845	3,659,067	4,512,367	1,943,833	2,896,685
Benefits, losses and expenses					
Net policyholders benefit	1,302,191	983,627	1,505,446	563,946	1,681,691
Commission and related expenses	1,046,591	1,103,742	1,218,959	543,409	518,604
Management and other expenses	414,947	438,326	455,312	218,485	240,173
Change in future policyholder benefits and deferred acquisition costs	(225,756)	424,328	166,543	344,588	178,714
Total benefits, losses and expenses	2,537,973	2,950,023	3,346,260	1,670,428	2,619,182
Profit before taxation	670,872	709,044	1,166,107	273,405	277,503
Tax expenses	35,734	40,630	46,953	24,165	19,891
Profit after taxation	635,138	668,414	1,119,154	249,240	257,612

Premiums and fee income

Premiums and fee income mainly 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 of the Target Group during the corresponding period.

The following table illustrates the breakdown of the premiums and fee income of the Target Group by type of long term business for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

	For the year ended 31 December						For the six months ended 30 June			
	2014		2015		2016		2016		2017	
	(HK$'000)	%	*(HK$'000)*	%	*(HK$'000)*	%	*(HK$'000)* *(unaudited)*	%	*(HK$'000)*	%
Life and annuity and linked long term	2,506,347	96.8	3,072,786	97.9	3,517,703	98.1	1,739,360	97.8	1,832,612	97.6
Retirement scheme management category I	3,787	0.1	3,525	0.1	3,487	0.1	1,665	0.1	1,958	0.1
Retirement scheme management category III	80,654	3.1	63,882	2.0	64,675	1.8	38,119	2.1	42,685	2.3
Total	**2,590,788**	**100.0**	**3,140,193**	**100.0**	**3,585,865**	**100.0**	**1,779,144**	**100.0**	**1,877,255**	**100.0**

As of 31 December 2014, 2015 and 2016 and 30 June 2017, the total number of in force insurance policies of the Target Group in Hong Kong was 326,224, 346,331, 364,102 and 370,345, respectively. The following table sets out the number of in force policies of the Target Group in Hong Kong for each type of long term business as of 31 December 2014, 2015 and 2016 and 30 June 2017.

	As of 31 December						As of 30 June	
	2014		2015		2016		2017	
	Number of policies	%	*Number of policies*	%	*Number of policies*	%	*Number of policies*	%
Life and annuity and linked long term	322,831	99.0	343,048	99.1	360,842	99.1	367,099	99.1
Retirement scheme management categories I and III	3,393	1.0	3,283	0.9	3,260	0.9	3,246	0.9
Total	**326,224**	**100.0**	**346,331**	**100.0**	**364,102**	**100.0**	**370,345**	**100.0**

Premiums ceded to reinsurer

Premiums ceded to reinsurer represents the portion of gross premium income and fee income ceded to reinsurers which share part of the insured risk that the Target Group has assumed with respect to life and annuity and linked long term policies and retirement schemes.

The following table illustrates the breakdown of the premiums and fee income of the Target Group by type of long term business for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

	For the year ended 31 December						For the six months ended 30 June			
	2014		2015		2016		2016		2017	
	(HK$'000)	%	*(HK$'000)*	%	*(HK$'000)*	%	*(HK$'000)* *(unaudited)*	%	*(HK$'000)*	%
Life and annuity and linked long term	190,475	97.7	175,730	97.7	251,663	98.7	94,689	97.6	279,400	99.0
Retirement scheme management category III	4,567	2.3	4,083	2.3	3,306	1.3	2,300	2.4	2,697	1.0
Total	**195,042**	**100.0**	**179,813**	**100.0**	**254,969**	**100.0**	**96,989**	**100.0**	**282,097**	**100.0**

Net premium and fee income

Net premium and fee income represents gross premium income and fee income less premiums ceded to reinsurer.

Change in unearned revenue liability

Unearned revenue liability represents the amounts assessed against policyholders' account balances that represent compensation to the Target Group for services to be provided in future periods. Such amount shall not be recognised in the period assessed and will be recognised in the income statement over the period benefited on an amoritsed basis.

Net earned premium and fee income

Net earned premium and fee income represents gross premium income and fee income of the Target Group on insurance policies and retirement schemes issued or renewed during the corresponding period, with deduction of premiums ceded to reinsurer and change in unearned revenue liability.

Net investment and other income

Investment income primarily includes (i) interest income from unlisted debt securities and mortgage loans, (ii) net realised gain or loss on disposal of available-for-sale securities, (iii) net realised gain or loss on disposal of held-to-maturity securities, (iv) net realised gain or loss on disposal of securities designated at fair value through profit or loss, (v) net unrealised gain or loss on securities designated at fair value through profit or loss, (vi) dividend income, (vii) investment incentive rebate and (viii) net derivative gain or loss. The following table sets out the breakdown of the Target Group's investment income for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
				(unaudited)	
Interest income from unlisted debt securities and mortgage loans	731,309	831,771	985,912	477,407	562,927
Other interest income	285	266	238	87	96
Net realised gain/(loss) on disposal of available-for-sale securities	6,442	6,179	858	4,126	(393)
Impairment loss charged on available-for-sale securities	(4,131)	(30,609)	(9,462)	(4,750)	(12,323)
Net realised gain/(loss) on disposal of held-to-maturity securities	1,385	3,506	4,562	(1,300)	(178)
Impairment loss on held-to-maturity securities	(7,373)	(1)	(2,399)	—	—
Net realised gain/(loss) on disposal of securities designated at fair value through profit or loss	187,937	117,330	(75,647)	(75,223)	88,994
Net unrealised (loss)/gain on securities designated at fair value through profit or loss	(106,080)	(540,748)	48,990	(96,751)	774,493
Net loss on the sale of mortgage loans	—	—	(5,759)	(6,901)	—
Dividend income — unlisted	96,975	76,803	86,103	38,136	22,724
Investment incentive rebate	37,061	38,198	30,386	15,018	16,119
Net derivative gain/(loss)	88,909	94,132	483	(95,458)	(57,981)
Interest income from bank deposits	3,484	3,487	3,507	1,701	2,076
Other operating income	27,639	29,378	29,511	14,097	16,951
Other (loss)/income	(2,544)	2,142	48,988	(2,925)	140,113
Net investment and other income	**1,061,298**	**631,834**	**1,146,271**	**267,264**	**1,553,618**

Reinsurance commission and profit commission

Reinsurance commission and profit commission represents commission income and profit share received by the Target Group, as the ceding party, from the reinsurers based on the terms of the relevant reinsurance treaties. The following table illustrates the breakdown of the reinsurance commission and profit commission of the Target Group by type of long term business for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
				(unaudited)	
Life and annuity					
First year	5,386	3,585	1,677	832	906
Renewal	1,295	1,408	453,275	739	6,198
Reinsurance profit commission	9,637	11,432	11,847	—	(27)
	16,318	16,425	466,799	1,571	7,077
Linked long term					
First year	39	27	13	9	2
Renewal	27	16	11	6	4
Reinsurance profit commission	431	495	489	—	—
	497	538	513	15	6
Retirement schemes					
Management category III - Reinsurance profit commission	2,418	1,613	6	—	—
Reinsurance commission and profit commission	**19,233**	**18,576**	**467,318**	**1,586**	**7,083**

Net policyholders benefit

Net policyholders benefit primarily includes (i) net claims, policy benefits and surrenders, and (ii) interest credited to policyholders' deposits and dividends to policyholders. The following table sets out the breakdown of the Target Group's net policyholders benefit for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)* *(unaudited)*	*(HK$'000)*
Net claims, policy benefits and surrenders	368,932	471,664	451,430	219,114	221,450
Interest credited to policyholders' deposits	932,553	511,211	1,052,907	344,269	1,459,559
Dividends to policyholders	706	752	1,109	563	682
Net policyholders benefit	**1,302,191**	**983,627**	**1,505,446**	**563,946**	**1,681,691**

Net claims, policy benefits and surrenders mainly includes gross benefits incurred by the policyholders less the amount recoverable from reinsurers by the Target Group. Gross benefits comprise benefits payable for claims (including claims on death and medical claims), policy benefits and surrenders, and change in outstanding claims. The following table sets out the breakdown of the Target Group's net claims, policy benefits and surrenders by type of long term business for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)* *(unaudited)*	*(HK$'000)*
Gross benefits incurred					
Benefits payable					
- Life and annuity and linked long term	448,262	545,180	496,991	235,630	235,200
- Retirement scheme management category I	708	1,108	1,058	439	635
- Retirement scheme management category III	53,193	40,921	46,764	18,382	22,561
	502,163	587,209	544,813	254,451	258,396

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)* *(unaudited)*	*(HK$'000)*
Change in outstanding claims					
- Life and annuity and linked long term	(2,283)	(7,323)	27,520	12,755	23,278
- Retirement scheme management category III	838	963	(273)	261	(57)
	(1,445)	(6,360)	27,247	13,016	23,221
Total gross benefits incurred	**500,718**	**580,849**	**572,060**	**267,467**	**281,617**
Amount recoverable from					
Benefits recoverable					
- Life and annuity and linked long term	(134,885)	(115,075)	(102,890)	(46,314)	(52,206)
- Retirement scheme management category III	(420)	(120)	(7,609)	—	(275)
	(135,305)	(115,195)	(110,499)	(46,314)	(52,481)
Change in outstanding claims					
- Life and annuity and linked long term	3,390	7,216	(12,521)	(1,914)	(7,711)
- Retirement scheme management category III	129	(1,206)	2,390	(125)	25
	3,519	6,010	(10,131)	(2,039)	(7,686)
Total amount recoverable	**(131,786)**	**(109,185)**	**(120,630)**	**(48,353)**	**(60,167)**
Net claims, policy benefits and surrenders	**368,932**	**471,664**	**451,430**	**219,114**	**221,450**

Interest credited to policyholders' deposits represents interest and/or investment income payable or paid by the Target Group to its policyholders of insurance contracts and investment contracts. The following table sets out the breakdown of the Target Group's interest credited to policyholders' deposits by type of long term business and by type of contracts for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
				(unaudited)	
Insurance contracts					
- Life and annuity and linked long term	852,330	459,733	930,555	300,652	1,329,746
- Retirement scheme management category I	804	(2,053)	2,380	4,435	9,436
	853,134	457,680	932,935	305,087	1,339,182
Investment contracts - Life and annuity and linked long term	**79,419**	**53,531**	**119,972**	**39,182**	**120,377**
Interest credited to policyholders' deposits	**932,553**	**511,211**	**1,052,907**	**344,269**	**1,459,559**

Dividends to policyholders represent dividends payable to policyholders of life and annuity and linked long term insurance contracts.

Commission and related expenses

Commission and related expenses represents commission payable or paid by the Target Group to its agents and brokers relating to the sales of its insurance and investment contracts. The following table illustrates the breakdown of commission and related expenses of the Target Group by type of long term business and by payment mode of the relevant contracts for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

	For the year ended 31 December			**For the six months ended 30 June**	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
				(unaudited)	
Life and annuity					
- Regular - First year	597,200	663,463	794,980	312,075	322,280
- Regular - Renewal	219,802	261,764	316,397	149,733	169,129
- Single premium	11,558	29,453	45,930	35,340	9,381
	828,560	954,680	1,157,307	506,148	500,790
Linked long term					
- Regular - First year	145,746	105,758	28,580	17,628	5,719
- Regular - Renewal	48,668	33,089	24,121	14,424	6,886
- Single premium	13,345	1,418	642	231	175
	207,759	140,265	53,343	32,283	12,780
Retirement schemes management					
- Management category I	157	150	156	65	102
- Management category III					
- Regular - First year	1,403	1,065	1,502	641	601
- Regular - Renewal	8,712	7,582	6,651	4,272	4,331
	10,115	8,647	8,153	4,913	4,932
Commission and related expenses	**1,046,591**	**1,103,742**	**1,218,959**	**543,409**	**518,604**

Management and other expenses

Management and other expenses mainly comprises of (i) management expenses, which primarily includes salaries and allowances to employees and directors, rental charges, advertising and promotion expenses, office expenses, depreciation, professional fees, actuarial fee, audit fee and other administrative fees, (ii) investment management fee mainly in relation to fees payable to Barings LLC for its provision of investment management services to the Target Company and (iii) other operating expenses. The following table illustrates the breakdown of management and other expenses of the Target Group for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

	For the year ended 31 December			**For the six months ended 30 June**	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)* *(unaudited)*	*(HK$'000)*
Management expenses	374,006	388,409	398,637	191,694	208,611
Investment management fee	25,446	32,411	38,679	18,066	22,377
Other operating expenses	15,495	17,506	17,996	8,725	9,185
Management and other expenses	**414,947**	**438,326**	**455,312**	**218,485**	**240,173**
Expense ratio	**8.2%**	**7.8%**	**6.6%**	**6.4%**	**7.6%**

Expense ratio is a measure of the Target Company's ability to manage its cost base as it grows its business. The expense ratio is calculated as management and other expenses as a percentage of TPI for the respective year/period. The expense ratio decreased from approximately 8.2% for the year ended 31 December 2014 to approximately 7.8% for the year ended 31 December 2015. The expense ratio further decreased to 6.6% for the year ended 31 December 2016. Such continued decrease was primarily due to the effective cost control measures undertaken by the Target Group. The Target Group has adopted various tools and programs in order to achieve operating efficiencies. In particular, it employs information technology systems including applications related to processes, sales and management support, underwriting, policy administration and financial management and analysis. The expense ratio of the Target Group is lower than most insurance companies in Hong Kong and Macau, evidencing its high operational efficiency. For the six months ended 30 June 2017, the expense ratio of the Target Group was approximately 7.6%, which remained relatively stable as compared to the average expense ratios for the three years ended 31 December 2016.

Change in future policyholder benefits and deferred acquisition costs

Change in future policyholder benefits represents the increase or decrease in future policyholders' benefits with respect to insurance contracts and investment contracts written by the Target Group. Deferred acquisition costs 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. The following table illustrates the breakdown of the change in future policyholder benefits and deferred acquisition costs of the Target Group for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017.

	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)* *(unaudited)*	*(HK$'000)*
Increase in deferred acquisition costs	(718,822)	(210,567)	(672,730)	(26,852)	(319,548)
Increase/(Decrease) in future policyholders' benefits					
- Insurance contracts					
- Life and annuity and linked long term	497,530	636,284	831,765	363,285	486,431
- Retirement scheme management category I	—	1,814	1,003	(304)	(1,364)
- Retirement scheme management category III	(2,213)	(4,349)	1,230	6,532	9,487
- Investment contracts — Life and annuity and linked long term	(2,251)	1,146	5,275	1,927	3,708
Change in future policyholder benefits and deferred acquisition costs	**(225,756)**	**424,328**	**166,543**	**344,588**	**178,714**

Tax expenses

The Target Group is mainly domiciled or operate in Hong Kong, and is subject to Hong Kong profits tax at a rate of 16.5% (2014, 2015 and 2016: 16.5%) on the estimated assessable profits arising in Hong Kong. The Target Company also operates in Macau through a branch office, and is subject to Macau complementary tax at a rate of 12.0% (2014: 9.0% to 12.0%; 2015 and 2016: 12%) of the estimated assessable profits arising in Macau.

The effective tax rates of the Target Group were approximately 5.3%, 5.7%, 4.0%, 8.8% and 7.2%, respectively for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2016 and 2017. The effective tax rates during the relevant periods were lower than the standard tax rate of Hong Kong of 16.5% and of Macau of 12.0% as Macau branch of the Target Company did not generate any taxable income during the relevant periods.

SIX MONTHS ENDED 30 JUNE 2017 COMPARED TO SIX MONTHS ENDED 30 JUNE 2016

Premiums and fee income

Premiums and fee income of the Target Group increased by approximately HK$98.2 million or 5.5% from approximately HK$1,779.1 million for the six months ended 30 June 2016 to approximately HK$1,877.3 million for the six months ended 30 June 2017. The increase was primarily due to (i) the increase in number of life and annuity and linked long term policies written in the first half of 2017 and (ii) the increase in average gross premium for the insurance policies of the Target Group.

For the six months ended 30 June 2017, life and annuity and linked long term business continued to be the Target Group's most important type of long term business in terms of its contribution to premiums and fee income, with the revenue generated from life and annuity and linked long term business contributed to 97.6% of the total premiums and fee income of the Target Group for the six months ended 30 June 2017 (six months ended 30 June 2016: 97.8%).

The premiums and fee income generated from life and annuity and linked long term business increased by approximately HK$93.2 million from approximately HK$1,739.4 million for the six months ended 30 June 2016 to approximately HK$1,832.6 million for the six months ended 30 June 2017. The increase was mainly due to (i) the increase in the number of in force life and annuity and linked long term policies, and (ii) the increase in average gross premiums receivable by the Target Group from each insurance and investment contract.

Premiums ceded to reinsurer

Premiums ceded to reinsurer increased by approximately HK$185.1 million or 190.8% from approximately HK$97.0 million for the six months ended 30 June 2016 to approximately HK$282.1 million for the six months ended 30 June 2017. The increase was primarily due to additional premiums ceded to a reinsurer under a new reinsurance and coinsurance arrangement entered into by the Target Company in November 2016 mainly concerning critical illness policies written by the Target Company.

Net premium and fee income

As a result of the foregoing, net premium and fee income of the Target Group decreased by approximately HK$87.0 million or 5.2% from approximately HK$1,682.2 million for the six months ended 30 June 2016 to approximately HK$1,595.2 million for the six months ended 30 June 2017.

Change in unearned revenue liability

Unearned revenue liability increased by approximately HK$7.2 million and HK$259.2 million for the six months ended 30 June 2016 and 2017, respectively. The fluctuation was mainly driven by the increase in the unearned fee income following the increase in the number of in force policies of the Target Group in each of the six months ended 30 June 2016 and 2017 and lower amortisation as a result of lower surrender changes recognised during the first half of 2017.

Net earned premium and fee income

As a result of the foregoing, net earned premium and fee income of the Target Group decreased by approximately HK$339.0 million or 20.2% from approximately HK$1,675.0 million for the six months ended 30 June 2016 to approximately HK$1,336.0 million for the six months ended 30 June 2017.

Net investment and other income

Net investment income increased by approximately HK$1,286.3 million or 481.2% from approximately HK$267.3 million for the six months ended 30 June 2016 to approximately HK$1,553.6 million for the six months ended 30 June 2017. The increase was primarily due to (i) the increase in the net unrealized gain on securities designated at fair value through profit or loss by approximately HK$871.3 million from a loss of approximately HK$96.8 million for the six months ended 30 June 2016 to a gain of approximately HK$774.5 million for the six months ended 30 June 2017, (ii) the increase in net realized gain on disposal of securities designated at fair value through profit or loss by approximately HK$164.2 million from a loss of approximately HK$75.2 million for the six months ended 30 June 2016 to a gain of approximately HK$89.0 million for the six months ended 30 June 2017, (iii) the increase in the interest income from unlisted debt securities and mortgage loans by approximately HK$85.5 million, which was mainly a result of the additional debt securities and mortgage loans held by the Target Company in its investment portfolio, and (iv) the increase in other income by approximately HK$143.0 million from a loss of approximately HK$2.9 million for the six months ended 30 June 2016 to approximately HK$140.1 million, which mainly represents the increase in income earned from the new reinsurance and coinsurance arrangement.

Reinsurance commission and profit commission

Reinsurance commission and profit commission increased by approximately HK$5.5 million or 343.8% from approximately HK$1.6 million for the six months ended 30 June 2016 to approximately HK$7.1 million for the six months ended 30 June 2017. The increase was mainly attributable to the increase in reinsurance commission and profit commission relating to the new reinsurance and coinsurance arrangement entered into by the Target Company with certain reinsurers in November 2016 mainly concerning critical illness policies written by the Target Company.

Net policyholders benefit

Net policyholders benefit increased by approximately HK$1,117.8 million or 198.2% from approximately HK$563.9 million for the six months ended 30 June 2016 to approximately HK$1,681.7 million for the six months ended 30 June 2017. The increase was primarily due to the increase in interest credited to policyholders' deposits in insurance contracts and investment contracts by approximately HK$1,115.3 million from HK$344.3 million for the six months ended 30 June 2016 to HK$1,459.6 million for the six months ended 30 June 2017 attributable to the increase in net realised gain and interest income from various investments as the Hong Kong stock market rose from its fall in early 2016.

Commission and related expenses

Commission and related expenses decreased by approximately HK$24.8 million or 4.6% from approximately HK$543.4 million for the six months ended 30 June 2016 to approximately HK$518.6 million for the six months ended 30 June 2017. The decrease was primarily due to the decrease in single premium and the decrease in the total commission and related expenses for linked long term policies triggered by HKIA enhanced requirements on the sale and commission of ILAS products.

Management and other expenses

Management and other expenses increased by approximately HK$21.7 million or 9.9% from approximately HK$218.5 million for the six months ended 30 June 2016 to approximately HK$240.2 million for the six months ended 30 June 2017. The increase was primarily due to the increase in the salaries, wages and other benefits of employees and senior management members of the Target Group and the increase in operating lease charges as a result of a new lease of office premises in Wanchai, Hong Kong being entered into by the Target Group towards the end of 2016. The increase was also attributable to the increase in investment management fees payable to Barings LLC in line with increased investment activities and growth in the investment portfolio of the Target Group.

Change in future policyholder benefits and deferred acquisition costs

Future policyholder benefits increased by approximately HK$371.4 million and HK$498.3 million for the six months ended 30 June 2016 and 2017, respectively. The fluctuation was mainly driven by the increase was generally in line with the increase in the number of life and annuity policies as well as the increase in premiums and fee income of such policies.

Deferred acquisition costs increased by approximately HK$26.9 million and HK$319.5 million for the six months ended 30 June 2016 and 2017, respectively. The increase was mainly driven by the lowered amortisation as a result of lower surrender charges recognised during the first half of 2017.

Profit before taxation

As a result of the foregoing, the profit before taxation increased by approximately HK$4.1 million or 1.5% from approximately HK$273.4 million for the six months ended 30 June 2016 to approximately HK$277.5 million for the six months ended 30 June 2017.

Tax expenses

Tax expenses decreased by approximately HK$4.3 million or 17.8% from approximately HK$24.2 million for the six months ended 30 June 2016 to approximately HK$19.9 million for the six months ended 30 June 2017. The decrease was primarily due to (i) the decrease in single premium and (ii) the reduction in net written premium chargeable for income tax as a result of the increase in premiums ceded to a reinsurer under the new reinsurance and coinsurance arrangement entered into by the Target Company in November 2017.

Profit after taxation

As a result of the foregoing, the profit after taxation increased by approximately HK$8.4 million or 3.4% from approximately HK$249.2 million for the six months ended 30 June 2016 to approximately HK$257.6 million for the six months ended 30 June 2017.

YEAR ENDED 31 DECEMBER 2016 COMPARED TO YEAR ENDED 31 DECEMBER 2015

Premiums and fee income

Premiums and fee income of the Target Group increased by approximately HK$445.7 million or 14.2% from approximately HK$3,140.2 million for the year ended 31 December 2015 to approximately HK$3,585.9 million for the year ended 31 December 2016. The increase was primarily due to (i) the increase in number of life and annuity and linked long term policies written in 2016 and (ii) the increase in average gross premium for the insurance policies of the Target Group.

For the year ended 31 December 2016, life and annuity and linked long term business continued to be the Target Group's most important type of long term business in terms of its contribution to premiums and fee income, with the revenue generated from life and annuity and linked long term business continued to increase as a percentage of the Target Group's total premiums and fee income for the year ended 31 December 2016. Life and annuity and linked long term business contributed to 98.1% of the total premiums and fee income of the Target Group for the year ended 31 December 2016 (year ended 31 December 2015: 97.9%).

The premiums and fee income generated from life and annuity and linked long term business increased by approximately HK$444.9 million from approximately HK$3,072.8 million for the year ended 31 December 2015 to approximately HK$3,517.7 million for the year ended 31 December 2016. The increase was mainly due to (i) the increase in the number of in force life and annuity and linked long term policies, and (ii) the increase in average gross premiums receivable by the Target Group from each insurance and investment contracts.

Premiums ceded to reinsurer

Premiums ceded to reinsurer increased by approximately HK$75.2 million or 41.8% from HK$179.8 million for the year ended 31 December 2015 to approximately HK$255.0 million for the year ended 31 December 2016. The increase was primarily due to additional premiums ceded to a reinsurer under the new reinsurance and coinsurance arrangement entered into by the Target Company concerning certain critical illness policies written by the Target Company. The increase was also in line with the increase in the premiums and fee income of the Target Group, in particular, the increase in renewal premiums.

Net premium and fee income

As a result of the foregoing, net premium and fee income of the Target Group increased by approximately HK$370.5 million or 12.5% from approximately HK$2,960.4 million for the year ended 31 December 2015 to approximately HK$3,330.9 million for the year ended 31 December 2016.

Change in unearned revenue liability

Unearned revenue liability increased by approximately HK$432.1 million for the year ended 31 December 2016. The increase was mainly driven by the increase in the unearned fee income following the increase in the number of in force policies of the Target Group in the year ended 31 December 2016.

Net earned premium and fee income

As a result of the foregoing, net earned premium and fee income of the Target Group decreased by approximately HK$109.9 million or 3.7% from approximately HK$3,008.7 million for the year ended 31 December 2015 to approximately HK$2,898.8 million for the year ended 31 December 2016.

Net investment and other income

Net investment and other income increased by approximately HK$514.5 million or 81.4% from approximately HK$631.8 million for the year ended 31 December 2015 to approximately HK$1,146.3 million for the year ended 31 December 2016. The increase was primarily due to (i) the increase in interest income from unlisted debt securities and mortgage loans by approximately HK$154.1 million and as a result of the purchase of additional government bonds in 2016 and (ii) the increase in the net unrealised gain on securities designated at fair value through profit or loss by approximately HK$589.7 million from a loss of approximately HK$540.7 million for the year ended 31 December 2015 to a gain of HK$49.0 million for the year ended 31 December 2016. The increase was partially offset by the decrease in net realised gain on disposal of securities designated at fair value through profit or loss by approximately HK$192.9 million from a gain of approximately HK$117.3 million for the year ended 31 December 2015 to a loss of HK$75.6 million for the year ended 31 December 2016.

Reinsurance commission and profit commission

Reinsurance commission and profit commission increased by approximately HK$448.7 million or 2,412.4% from approximately HK$18.6 million for the year ended 31 December 2015 to approximately HK$467.3 million for the year ended 31 December 2016. The increase was mainly attributable from a one-off non-recurring reinsurance commission of HK$450 million relating to a new reinsurance and coinsurance arrangement entered into by the Target Company with one of its reinsurers in 2016 concerning certain critical illness policies written by the Target Company.

Net policyholders benefit

Net policyholders benefit increased by approximately HK$521.8 million or 53.1% from approximately HK$983.6 million for the year ended 31 December 2015 to approximately HK$1,505.4 million for the year ended 31 December 2016. The increase was primarily due to the increase in interest credited to policyholders' deposits in insurance contracts and investment contracts by approximately HK$541.7 million from HK$511.2 million for the year ended 31 December 2015 to HK$1,052.9 million for the year ended 31 December 2016 attributable from the increase in net realised gain or disposal of various investments as the Hong Kong stock market picked up from its fall in 2016. Such increase was partially offset by the decrease in net claims, policy benefits and surrenders by approximately HK$20.3 million from HK$471.7 million for the year ended 31 December 2015 to HK$451.4 million for the year ended 31 December 2016.

Commission and related expenses

Commission and related expenses increased by approximately HK$115.3 million or 10.4% from approximately HK$1,103.7 million for the year ended 31 December 2015 to approximately HK$1,219.0 million for the year ended 31 December 2016. The increase was primarily attributable from the increase in premiums and fee income as well as the number of policies in force but was partially offset by the decrease in the total commission and related expenses for linked long term policies triggered by HKIA enhanced requirements on the sale and commission of ILAS products.

Management and other expenses

Management and other expenses increased by approximately HK$17.0 million or 3.9% from approximately HK$438.3 million for the year ended 31 December 2015 to approximately HK$455.3 million for the year ended 31 December 2016. The increase was primarily due to the increase in average salary of employees and senior management members of the Target Group and the increase in investment management fee payable to Barings LLC in line with the increased investment activities and growth in investment portfolio of the Target Group.

Change in future policyholder benefits and deferred acquisition costs

Future policyholder benefits increased by approximately HK$839.3 million for the year ended 31 December 2016. The increase was generally in line with the increase in the number of life and annuity policies as well as the increase in premiums and fee income of such policies.

Deferred acquisition costs increased by approximately HK$672.7 million for the year ended 31 December 2016. The increase was mainly driven by the increase in the deferrable commissions and acquisition expenses in relation to newly written policies.

Profit before taxation

As a result of the foregoing, the profit before taxation increased by approximately HK$457.1 million or 64.5% from approximately HK$709.0 million for the year ended 31 December 2015 to approximately HK$1,166.1 million for the year ended 31 December 2016.

Tax expenses

Tax expenses increased by approximately HK$6.4 million or 15.8% from approximately HK$40.6 million for the year ended 31 December 2015 to approximately HK$47.0 million for the year ended 31 December 2016. The increase was in line with increase in profit before taxation for the year ended 31 December 2016.

Profit after taxation

As a result of the foregoing, the profit after taxation increased by approximately HK$450.8 million or 67.4% from approximately HK$668.4 million for the year ended 31 December 2015 to approximately HK$1,119.2 million for the year ended 31 December 2016.

YEAR ENDED 31 DECEMBER 2015 COMPARED TO YEAR ENDED 31 DECEMBER 2014

Premiums and fee income

Premiums and fee income of the Target Group increased by approximately HK$549.4 million or 21.2% from approximately HK$2,590.8 million for the year ended 31 December 2014 to approximately HK$3,140.2 million for the year ended 31 December 2015. The increase was primarily due to (i) the increase in number of life and annuity and linked long term policies written in 2015, (ii) the increase in average gross premium for the insurance policies of the Target Group and (iii) the increase in surrender charge in 2015 received by the Target Company as a result of the increased number of lapsed and surrendered linked long term policies in light of the decline in the Hong Kong stock market.

For the year ended 31 December 2015, life and annuity and linked long term business continued to be the Target Group's most important type of long term business in terms of its contribution to premiums and fee income, with the revenue generated from life and annuity and linked long term business continued to increase as a percentage of the Target Group's total premiums and fee income for the year ended 31 December 2015. Life and annuity and linked long term business contributed to 97.9% of the total premiums and fee income of the Target Group for the year ended 31 December 2015 (year ended 31 December 2014: 96.8%).

The premiums and fee income generated from life and annuity and linked long term business increased by approximately HK$566.5 million from approximately HK$2,506.3 million for the year ended 31 December 2014 to approximately HK$3,072.8 million for the year ended 31 December 2015. The increase was mainly due to (i) the increase in the number of in force life and annuity and linked long term policies, (ii) the increase in average gross premiums receivable by the Target Group from each insurance and investment contracts and (iii) the increase in surrender charge in 2015 received by the Target Company as a result of the increased number of lapsed and surrendered linked long term policies in light of the decline in the Hong Kong stock market.

Premiums ceded to reinsurer

Premiums ceded to reinsurer decreased by approximately HK$15.2 million or 7.8% from approximately HK$195.0 million for the year ended 31 December 2014 to approximately HK$179.8 million for the year ended 31 December 2015. The decrease was mainly due to the Target Company ceasing to reinsure its medical policies towards the end of 2014 and therefore the associated premiums ceded to the relevant reinsurer decreased in 2015.

Net premium and fee income

As a result of the foregoing, net premium and fee income of the Target Group increased by approximately HK$564.7 million or 23.6% from approximately HK$2,395.7 million for the year ended 31 December 2014 to approximately HK$2,960.4 million for the year ended 31 December 2015.

Change in unearned revenue liability

Unearned revenue liability decreased by approximately HK$48.3 million for the year ended 31 December 2015. On the other hand, unearned revenue liability increased by approximately HK$267.4 million for the year ended 31 December 2014. The fluctuation was mainly driven by the increase in amortisation following the increase in the number of lapsed and surrendered policies of the Target Group in the year ended 31 December 2015 due to the fall in of the Hong Kong stock market.

Net earned premium and fee income

As a result of the foregoing, net earned premium and fee income of the Target Group increased by approximately HK$880.4 million or 41.4% from approximately HK$2,128.3 million for the year ended 31 December 2014 to approximately HK$3,008.7 million for the year ended 31 December 2015.

Net investment and other income

Net investment income decreased by approximately HK$429.5 million or 40.5% from approximately HK$1,061.3 million for the year ended 31 December 2014 to approximately HK$631.8 million for the year ended 31 December 2015. The decrease was primarily due to (i) the decrease in net realised gain on disposal of securities designated at fair value through profit or loss by approximately HK$70.6 million from approximately HK$187.9 million for the year ended 31 December 2014 to HK$117.3 million for the year ended 31 December 2015, and (ii) the increase in the net unrealised loss on securities designated at fair value through profit or loss by approximately HK$434.6 million from approximately HK$106.1 million for the year ended 31 December 2014 to

HK$540.7 million for the year ended 31 December 2015. The decrease was partially offset by the increase in interest income from unlisted debt securities and mortgage loans of approximately HK$100.5 million from approximately HK$731.3 million for the year ended 31 December 2014 to HK$831.8 million for the year ended 31 December 2015.

Reinsurance commission and profit commission

Reinsurance commission and profit commission decreased by approximately HK$0.6 million or 3.1% from approximately HK$19.2 million for the year ended 31 December 2014 to approximately HK$18.6 million for the year ended 31 December 2015. The decrease was mainly due to the decrease in reinsurance commission and profit commission receivable from the reinsurers regarding policies falling under retirement schemes management category III as the number of retirement schemes remained relatively stable in 2015 and the reinsurance commission and profit commission are generally received upfront and on a declining scale over the term of the retirement schemes. The decrease was also attributable to the decrease in the reinsurance commission and profit commission arising from medical policies, which reinsurance arrangement had been terminated by the Target Company towards the end of 2014.

Net policyholders benefit

Net policyholders benefit decreased by approximately HK$318.6 million or 24.5% from approximately HK$1,302.2 million for the year ended 31 December 2014 to approximately HK$983.6 million for the year ended 31 December 2015. The decrease was primarily due to the decrease in interest credited to policyholders' deposits in insurance contracts and investment contracts by approximately HK$421.4 million from HK$932.6 million for the year ended 31 December 2014 to HK$511.2 million for the year ended 31 December 2015 attributable from the decline in net realised gain on disposal of various investments as a result of the slowdown in the Hong Kong stock market in the fourth quarter of 2015. Such decrease was partially offset by the increase in net claims, policy benefits and surrenders by approximately HK$102.8 million from HK$368.9 million for the year ended 31 December 2014 to HK$471.7 million for the year ended 31 December 2015.

Commission and related expenses

Commission and related expenses increased by approximately HK$57.2 million or 5.5% from approximately HK$1,046.6 million for the year ended 31 December 2014 to approximately HK$1,103.7 million for the year ended 31 December 2015. The increase was in line with the increase in premiums and fee income as well as the number of policies in force.

Management and other expenses

Management and other expenses increased by approximately HK$23.4 million or 5.6% from approximately HK$414.9 million for the year ended 31 December 2014 to approximately HK$438.3 million for the year ended 31 December 2015. The increase was primarily due to the increase in average salary of employees and senior management members of the Target Group and the increase in investment management fee payable to Barings LLC in line with the increased investment activities and growth in investment portfolio of the Target Group.

Change in future policyholder benefits and deferred acquisition costs

Future policyholder benefits increased by approximately HK$493.1 million and HK$634.9 million, respectively, for the years ended 31 December 2014 and 2015. The continued increase in future policyholder benefits was generally in line with the increase in the number of life and annuity policies as well as the increase in premiums and fee income of such policies.

Deferred acquisition costs increased by approximately HK$718.8 million and HK$210.6 million, respectively, for the years ended 31 December 2014 and 2015. The fluctuation was primarily due to the increase in the number of lapsed and surrendered policies in 2015, which led to the acceleration of the amortization of the acquisition costs (including commissions and underwriting expenses) applicable to such lapsed and surrendered policies.

Profit before taxation

As a result of the foregoing, the profit before taxation increased by approximately HK$38.2 million or 5.7% from approximately HK$670.9 million for the year ended 31 December 2014 to approximately HK$709.0 million for the year ended 31 December 2015.

Tax expenses

Tax expenses increased by approximately HK$4.9 million or 13.7% from approximately HK$35.7 million for the year ended 31 December 2014 to approximately HK$40.6 million for the year ended 31 December 2015. The increase was in line with increase in profit before taxation for the year ended 31 December 2015.

Profit after taxation

As a result of the foregoing, the profit after taxation increased by approximately HK$33.3 million or 5.2% from approximately HK$635.1 million for the year ended 31 December 2014 to approximately HK$668.4 million for the year ended 31 December 2015.

LIQUIDITY AND CAPITAL RESOURCES

Overview

In the insurance industry, liquidity generally refers to the ability of an insurance company to generate adequate amounts of cash from its normal operations, including its investment portfolio, in order to meet its financial commitments, which are principally obligations under its insurance policies.

The principal cash inflows of the Target Group come from insurance premiums, annuity sales and investment income. The principal sources of funds generated by the Target Group's insurance operations are generally affected by fluctuations in the level of policy surrenders, withdrawals, maturities, benefits and claims. Future catastrophic events, the timing and effect of which are inherently unpredictable, may also create increased liquidity requirements for our insurance operations. The Target Group's operating units may face liquidity pressure in the form of unexpected cash demands that could arise from an increase in claims arising from its life insurance contracts, as well as the level of policyholders terminating policies. The Target Group closely monitors and manages liquidity risk by setting a minimum level of liquidity cash that will be available to cover claims, maturities and surrenders.

Liquidity is also available from the Target Group's portfolio of investment assets. The Target Group's investments generally comprise highly liquid and marketable securities, which generally could be liquidated to meet cash needs. The Target Group's cash and cash equivalents were approximately HK$692.7 million, HK$848.3 million, HK$816.5 million and HK$971.6 million as of 31 December 2014, 2015 and 2016 and 30 June 2017, respectively. The Target Group generates substantial cash flows from operations as a result of most premiums being received in advance. Its positive operating cash flows, along with the portion of its investment portfolio that is held in liquid securities, have historically met the then liquidity requirements of its insurance operations, as evidenced by the growth of its investment portfolio.

The Target Group's uses of funds include payments for policyholders benefit (including claims and benefits payable on policy surrenders, interest payable to policyholders for their deposits, dividends to policyholders, commission and related expenses, investment management fee and management and other operating expenses.

Cash flows

The following table sets out a summary of the Target Group's consolidated statements of cash flows for the periods indicated.

	For the year ended 31 December			**For the six months ended 30 June**	
	2014	**2015**	**2016**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)* *(unaudited)*	*(HK$'000)*
Net cash (used in)/generated from operating activities	(240,342)	170,003	929,139	60,031	152,688
Net cash used in investing activities	(2,912,826)	(3,362,191)	(5,267,135)	(2,320,440)	(1,522,803)
Cash generated from financing activities	3,127,838	3,347,846	4,306,116	2,207,265	1,525,223
Net (decrease)/increase in cash and cash equivalents	(25,330)	155,658	(31,880)	(53,144)	155,108
Cash and cash equivalents, beginning of year/period	718,018	692,688	848,346	848,346	816,466
Cash and cash equivalents, end of year/period	**692,688**	**848,346**	**816,466**	**795,202**	**971,574**

Net cash (used in)/generated from operating activities

Cash generated from operating activities primarily consist of cash premiums received for insurance products the Target Group issued. Cash used in operating activities primarily consist of cash payments of insurance claims and policyholders' benefits, reinsurance premium, commission income and other management and operating expenses. Net cash used in operating activities amounted to approximately HK$240.3 million for the year ended 31 December 2014, while net cash generated from operating activities were approximately HK$170.0 million for the year ended 31 December 2015 and further increased to approximately HK$929.1 million for the year ended 31 December 2016. In addition, the net cash generated from operating activities was approximately HK$60.6 million and approximately HK$152.7 million, for the six months ended 30 June 2016 and 2017, respectively. The net cash generated from operating activities was primarily attributable to the increase in total premiums and fee income as the Target Group continued to expand its business.

Net cash used in investing activities

Cash generated from investing activities primarily consist of proceeds from sale of investments, including available-for-sales securities, held-to-maturity securities, sale of securities designated at fair value through profit or loss and mortgage loans. Cash used in investing activities mainly related to payment for the purchases of available-for-sales securities, held-to-maturity securities, securitiesdesignated at fair value through profit or loss and mortgage loans. Net cash used in investing activities were approximately HK$2,912.8 million, HK$3,362.2 million and HK$5,267.1 million for the years ended 31 December 2014, 2015 and 2016, respectively. For the six months ended 30 June 2016 and 2017, net cash used in investing activities amounted to HK$2,320.4 million and HK$1,522.8 million, respectively. The fluctuation in net cash used in investing activities was primarily attributable from the continued increase in net purchases of investments, in particular, the investments in available-for-sales securities and held-to-maturity securities which mainly comprise of unlisted fixed interest securities such as government bonds, as well as securities designated at fair value through profit or loss which mainly represent investment in unit trusts. Such cash outlay on investment activities was partially offset by cash generated from the proceeds received by the Target Group from the sale, maturity and/or repayment of unlisted debt securities, unit trusts and mortgage loans.

Cash generated from financing activities

Cash from financing activities were mainly generated from policyholders' account deposits for investment contracts, while cash used in financing activities mainly represented policyholders' account withdrawals for investment contracts. Cash generated from financing activities were HK$3,127.8 million, HK$3,347.8 million and HK$4,306.1 million for each of the years ended 31 December 2014, 2015 and 2016 and HK$2,207.3 million and HK$1,525.2 million for each of the six months ended 30 June 2016 and 30 June 2017, respectively. The fluctuation in cash generated from financing activities was generally in line with the changes in the amount of deposits placed by policyholders pursuant to investment contracts written by the Target Group during respective years/periods.

Solvency ratio

Solvency ratio is a measure of capital adequacy for insurance companies in Hong Kong. The Target Company is required by the HKIA to maintain a surplus of assets over its liabilities with a specified solvency margin of no less than 150%. The Target Company's solvency ratio depends on its ability to increase its capital base timely and adequately to meet the growth of its business. The solvency ratio is calculated by dividing total available capital by regulatory minimum capital. Total available capital is the amount of assets in excess of liabilities measured in accordance with the IO and regulatory minimum capital is the minimum required margin of solvency calculated in accordance with the IO.

The following table sets forth the solvency ratios as of 31 December 2014, 2015 and 2016 and 30 June 2017.

	As of 31 December			**As of 30 June**
	2014	**2015**	**2016**	**2017**
Total available capital *(HK$ million)*	2,742	2,712	3,551	3,599
Regulatory minimum capital *(HK$ million)*	1,062	1,200	1,406	1,508
Solvency ratio (%)	258	226	253	239

The Target Company has fully complied with the solvency margin requirements for each of the years ended 31 December 2014, 2015 and 2016 and the six months ended 30 June 2017. The continued improvement in the solvency ratio since 2014 was primarily due to (i) increase in cash inflows from operating activities generated from premiums and fee income from insurance contracts and investment contracts written by the Target Group and (ii) the increase in the use of reinsurance.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets out the consolidated statements of financial position of the Target Group as of 31 December 2014, 2015 and 2016 and 30 June 2017, which are derived from and should be read in conjunction with, the financial information prepared in accordance with HKFRS set out in the Accountants' Report on the Target Group in Appendix IV to this circular.

	As of 31 December			As of 30 June
	2014	**2015**	**2016**	**2017**
	(HK'000)	*(HK'000)*	*(HK'000)*	*(HK'000)*
Assets				
Fixed assets	25,111	44,753	61,321	73,146
Statutory deposits	1,506	1,512	1,518	1,518
Deferred acquisition costs	6,703,431	7,429,423	7,769,240	7,710,557
Investments	26,460,903	29,175,630	34,958,707	37,845,765
Advance reinsurance premiums	7,838	7,217	8,752	8,752
Reinsurers' share of outstanding claims	24,798	18,787	28,919	36,604
Insurance and reinsurance receivables	70,681	99,267	148,068	179,726
Other receivables	476,945	477,333	462,934	386,467
Deposits with banks maturing more than three months	161,250	174,250	204,250	204,250
Cash and cash equivalents	692,688	848,346	816,466	971,574
	34,625,151	38,276,518	44,460,175	47,418,359
Liabilities				
Insurance contract provisions	26,841,621	29,398,573	33,013,609	35,274,823
Investment contract liabilities	2,450,985	2,860,608	3,650,637	3,836,104
Outstanding claims	95,158	88,797	116,044	139,265
Reinsurance premium payables	86,888	121,754	211,296	277,775
Other payables	553,361	578,421	678,212	442,059
Tax payable	1,412	5,548	7,036	26,926
	30,029,425	33,053,701	37,676,834	39,996,952
Net Assets	**4,595,726**	**5,222,817**	**6,783,341**	**7,421,407**
Capital and reserves				
Share capital	896,000	896,000	896,000	896,000
Retained profits	3,116,857	3,785,271	4,904,425	5,162,037
Reserves	582,869	541,546	982,916	1,363,370
Total Equity	**4,595,726**	**5,222,817**	**6,783,341**	**7,421,407**

Assets

As of 31 December 2014, 2015 and 2016 and 30 June 2017, total assets of the Target Group amounted to approximately HK$34,625.2 million, HK$38,276.5 million, HK$44,460.2 million and HK$47,418.4 million, respectively. Significant assets of the Target Group included (i) investments, (ii) deferred acquisition costs, (iii) insurance and reinsurance receivables and other receivables and (iv) cash and cash equivalents, statutory deposits and deposits with banks maturing more than three months.

Investments

Investments mainly comprised of fixed interest securities, such as government bonds and other unlisted fixed interest securities, unit trusts investments, equity securities and other variable interest securities. Investments are mainly accounted for and categorised into (i) available-for-sale securities, (ii) held-to-maturity, (iii) securities designated at fair value through profit or loss and (iv) loans and receivables. The following table sets out the breakdown of the Target Group's investments as of 31 December 2014, 2015 and 2016 and 30 June 2017.

	As of 31 December			As of 30 June
	2014	**2015**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Securities designated at fair value through profit or loss — Unit trusts	**7,491,639**	**6,905,954**	**6,705,751**	**7,355,299**
Available-for-sale securities				
Debt securities				
Fixed interest securities				
- Government	13,057	42,725	337,877	210,229
- Others	5,295,537	6,341,281	8,206,454	9,377,070
Variable interest securities	393,236	288,237	291,880	163,679
Equity securities	921,655	1,169,898	1,763,355	2,133,196
Unit trusts	510,875	538,960	353,927	362,939
Sub-total	7,134,360	8,381,101	10,953,493	12,247,113
Held-to-maturity				
Debt securities				
Fixed interest securities				
- Government	1,343,035	1,647,569	1,860,726	1,897,783
- Others	5,410,406	6,112,763	8,042,174	8,545,493
Variable interest securities	2,020,972	1,977,196	2,359,507	2,345,964
Sub-total	8,774,413	9,737,528	12,262,407	12,789,240
Loans and receivables — Mortgage loans	**3,060,491**	**4,151,047**	**5,037,056**	**5,454,113**
Total investments	**26,460,903**	**29,175,630**	**34,958,707**	**37,845,765**

The maturity profile of the Target Group's debt securities and loans and receivables (mainly mortgage loans) range from 1 year or less to more than 10 years. In particular, a majority of debt securities held by the Target Group has a term of more than 10 years, whilst over 75% of the total mortgage loan invested by the Target Group has a term of more than 5 years.

The total amount of equity securities set out above includes the Target Company's investment in MassMutual Life Insurance Company K.K., a joint stock corporation incorporated under the laws of Japan. As of 30 June 2017, the Target Company holds 10% interest in MassMutual Life Insurance Company K.K. (31 December 2014 and 2015: 9.46% and 31 December 2016: 10%). The fair value of the equity interest held by the Target Company in MassMutual Life Insurance Company K.K. amounted to HK$669.3 million, HK$866.3 million, HK$1,225.2 million and HK$1,419.8 million as of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, respectively. There was no income recognisable from MassMutual Life Insurance Company K.K. in the Target Group's income statements for the three years ended 31 December 2016 and the six months ended 30 June 2017. It is a condition precedent to the Completion of the Share Purchase Agreement that the Target Company shall have transferred all of its interest in MassMutual Life Insurance Company K.K., by way of dividend distribution to the Vendor.

Total investments increased by HK$2,714.7 million or 10.3% from HK$26,460.9 million as of 31 December 2014 to HK$29,175.6 million as of 31 December 2015 and further by HK$5,783.1 million or 19.8% to HK$34,958.7 million as of 31 December 2016. The Target Group focused its investments in fixed interest debt securities with an aim to generate more stable investment returns. The Target Group had decreased its investment in variable interest debt securities and unit trusts, being the primary underlying investment assets of the Target Group's ILAS products, and which product has been reformed upon HKMA tightening controls on the sale of ILAS products. The increase in overall investment assets was generally in line with the growth of the Target Group's business, in particular, the premiums and fee income earned by the Target Group. It was also attributable to the increased purchases of financial investments as well as the increase in the associated realised or unrealised gain on such financial investments. As of 30 June 2017, total investments reached HK$37,845.8 million, representing an increase of approximately 8.3% compared to the total investments as of 31 December 2016. Such increase was primarily a result of the increase in investments made during the first half of 2017 in line with the growth in premiums and fee income earned by the Target Group during the period, as well as the general increase in the fair value of the investment assets held by the Target Group as a result of an overall favorable economic climate and various global stock markets continuing to rise.

As of each year end, the Target Group's investments were individually assessed to determine the amount of impairment on the basis of a material decline in their fair value below cost and adverse changes in the market which indicated that the cost of the Target Group's investment in them may not be recovered. As of each of 31 December 2014, 2015 and 2016 and 30 June 2017, the fair value of individually impaired investments amounted to HK$51.5 million, HK$13.8 million, HK$18.6 million and HK$4.6 million, respectively. The impairment losses on these investments were recognised in the consolidated income statement for the respective year/period and mainly represented the impairment loss charged on available-for-sale and held-to-maturity debt securities issued by energy and commodity companies, both being industries significantly affected by the fall in the Hong Kong capital markets in 2015.

Deferred acquisition costs

Deferred acquisition costs, or DAC, represent the portion of commissions, volume-related sales bonuses, employee compensation and payroll-related fringe benefits and other expenses directly related to time spent on underwriting, policy issuance and processing, medical and inspection, sales force contract selling and other direct costs, and which are applicable to the unexpired period of the policy term. The balance is amortised over the terms of the insurance policies as premium is earned or in proportion to anticipated premiums or estimated gross profit.

The deferred acquisition costs increased by approximately HK$726.0 million or 10.8% from approximately HK$6,703.4 million as of 31 December 2014 to approximately HK$7,429.4 million as of 31 December 2015. It was further increased by approximately HK$339.8 million or 4.6% to HK$7,769.2 million as of 31 December 2016. Such continued increase was primarily attributable to the continued increase in amount of acquisition costs deferred due to the increase in number of policies underwritten over the years, and which policies have a longer policy term, as well as the increase in commission and related expenses. The increase in deferred acquisition costs would be partially offset by the movement in the amount of deferred acquisition costs being amortized and allocated to the Target Company's income statement and fair value reserve. The amortization of deferred acquisition costs allocated to the Target Company's income statement increased by approximately 136.0% in 2015 as compared to that of 2014 to approximately HK$993.4 million. This was primarily due to the increase in the number of lapsed and surrendered policies in 2015 due to the fall in the Hong Kong stock market, which led to the acceleration of the amortization of the acquisition costs applicable to such lapsed and surrendered policies. The decrease in amortization of deferred acquisitions costs allocated to the Target Company's income statement by approximately 38.9% in 2016 as compared to that of 2015 to approximately HK$607.4 million was in line with the changes in the number of in-force policies and new policies written in 2016. As of 30 June 2017, deferred acquisition costs remained relatively stable at approximately HK$7,710.6 million, representing a slight decrease of approximately 0.8% compared to the deferred acquisition costs as of 31 December 2016.

Insurance and reinsurance receivables

Insurance and reinsurance receivables represented loans to policyholders, direct premium receivables and claims recoverable from reinsurers. The following table sets out the breakdown of the Target Group's insurance and reinsurance receivables as of 31 December 2014, 2015 and 2016 and 30 June 2017.

	As of 31 December			As of 30 June
	2014	**2015**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Loans to policyholders	3,550	3,194	3,001	2,726
Direct premium receivables	13,077	8,081	4,821	16,900
Reinsurance recoverable	54,054	87,992	140,246	160,100
Total insurance and reinsurance receivables	**70,681**	**99,267**	**148,068**	**179,726**

The insurance and reinsurance receivable increased by approximately HK$28.6 million or 40.4% from approximately HK$70.7 million as of 31 December 2014 to approximately HK$99.3 million as of 31 December 2015. It was further increased by approximately HK$48.8 million or 49.1% to HK$148.1 million as of 31 December 2016. Such continued increase was primarily due to the continued increase in reinsurance recoverable over the years. The increase in reinsurance recoverable was generally in line with the growth in the premiums ceded to reinsurer and the rate of claims of the Target Group for the respective year/period. In particular, the growth in reinsurance recoverable as of 31 December 2016 was mainly a result of the increased amount recovered by the Target Company under the new reinsurance and coinsurance arrangement entered into by the Target Company with one of its reinsurers in 2016 concerning certain critical illness policies written by the Target Company. As of 30 June 2017, insurance and reinsurance receivables amounted to HK$179.7 million, representing an increase of approximately 21.3% compared to the insurance and reinsurance receivables as of 31 December 2016. Such increase was primarily a result of (i) the increase in direct premium receivables from policyholders regarding insurance contracts and (ii) the increase in reinsurance recoverable by the Target Company, which was in line with the increase in outstanding claims of the Target Group.

Insurance receivables turnover days were calculated by average direct premium receivables divided by premiums and fee income and multiplied by 365 days for the three years ended 31 December 2016 or 183 days for the six months ended 30 June 2017. The insurance receivables turnover days were 1 day, 1 day, 0.6 day and 1 day for each of the three years ended 31 December 2016 and the six months ended 30 June 2017, respectively. The insurance receivables turnover days was very low for each of the years and period, which implies efficient management of debtors by the Target Group.

Other receivables

Other receivables mainly represented accrued investment income, derivative financial instruments and loans to agents and key management personnel. The following table sets out the breakdown of the Target Group's other receivables as of 31 December 2014, 2015 and 2016 and 30 June 2017.

	As of 31 December			As of 30 June
	2014	**2015**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Amount due from the immediate holding company	66	—	—	76
Utility and rental deposits	20,061	20,821	24,787	25,483
Loans to agents and staff	93,672	68,023	38,826	21,546
Accrued investment income	163,036	177,257	210,315	260,026
Derivative financial instruments	110,707	160,339	118,659	7,002
Others	89,403	50,893	70,347	72,334
Total other receivables	**476,945**	**477,333**	**462,934**	**386,467**

The balances of other receivables maintained fairly stable at around HK$470.0 million as of each of 31 December 2014, 2015 and 2016. The Target Group had recorded increased accrued investment income in 2016 as a result of the continued expansion of its investment portfolio. On the other hand, derivative financial instruments (mainly interest rate swaps, currency swaps and forward contracts) decreased over the years mainly due to the continuously low interest rates as well as the weakening and depreciation of certain currencies in which the derivative financial instruments was denominated. As of 30 June 2017, other receivables amounted to HK$386.5 million, representing a decrease of approximately 16.5% compared to the other receivables as of 31 December 2016. Such decrease was primarily a result of the continued decrease in receivables arising from derivative financial instruments due to the depreciation of the underlying currencies of the derivative financial instruments against US dollars.

Statutory deposit

The Target Company maintained a time deposit of approximately HK$1.5 million throughout the three years ended 31 December 2016 and the six months ended 30 June 2017 as a statutory deposit pursuant to section 77(2)(e) of the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong). All statutory deposits are expected to be recovered after more than one year.

Deposits with banks maturing more than three months

Deposits with banks maturing more than three months were approximately HK$161.3 million, HK$174.3 million, HK$204.3 million and HK$204.3 million as of 31 December 2014, 2015 and 2016 and 30 June 2017, respectively. The deposits with banks maturing more than three months were held in compliance with the technical reserves requirements under the Macau Insurance Ordinance and in particular, such deposits were pledged to banks in favor of AMCM to guarantee such technical reserves. The steady increase in the deposits with banks maturing more than three months was in line with the minimum reserves requirement under the Macau Insurance Ordinance.

Cash and cash equivalents

Cash and cash equivalents represented deposits with banks and short term investments maturing no more than three months and cash at bank and in hand. Cash and cash equivalents amounted to approximately HK$692.7 million, HK$848.3 million, HK$816.5 million and HK$971.6 million as of 31 December 2014, 2015 and 2016 and 30 June 2017, respectively. The cash and cash equivalents are mainly denominated in US dollars and HK$, whilst a small portion of the cash and cash equivalents are held in MOP, British Pounds, Australian Dollars, Euros, RMB, Japanese Yen and Singapore Dollars. Cash and cash equivalents are mainly generated from the Target Group's operating and financing activities.

Liabilities

As of 31 December 2014, 2015 and 2016 and 30 June 2017, total liabilities of the Target Group amounted to approximately HK$30,029.4 million, HK$33,053.7 million, HK$37,676.8 million and HK$39,997.0 million, respectively. Significant liabilities of the Target Group included (i) insurance contract provisions, (ii) investment contract liabilities, (iii) other payables, (iv) reinsurance premium payables and (v) outstanding claims.

Insurance contract provisions

Insurance contract provisions mainly represented (i) policyholders' deposits, (ii) future policyholders' benefits and unearned revenue liability relating to the Target Group's individual and group life policies. Insurance contract provisions amounted to HK$26,841.6 million, HK$29,398.6 million, HK$33,013.6 million and HK$35,274.8 million as of 31 December 2014, 2015 and 2016 and 30 June 2017, respectively. The insurance contract provisions is positively related to premiums and fee income during the relevant period. The increase in insurance contract provisions by HK$2,557.0 million or 9.5% as of 31 December 2015 and further by HK$3,615.0 million or 12.3% as of 31 December 2016 was primarily due to the growth of the Target Group's business and the resultant increase in its premiums and fee income. The trend continued into the first half of 2017 and the insurance contract provisions as of 30 June 2017 increased by HK$2,261.2 million or 6.8% as compared to that of 31 December 2016.

Investment contract liabilities

Investment contract liabilities mainly represented (i) policyholders' deposits, (ii) future policyholders' benefits and unearned revenue liability relating to the Target Group's linked long term products. Investment contract liabilities amounted to HK$2,451.0 million, HK$2,860.6 million, HK$3,650.6 million and HK$3,836.1 million as of 31 December 2014, 2015 and 2016 and 30 June 2017, respectively. The increase in investment contract liabilities by HK$409.6 million or 16.7% as of 31 December 2015 and further by HK$790.0 million or 27.6% as of 31 December 2016 and by HK$185.5 million or 5.1% as of 30 June 2017 was primarily in line with the growth in the Target Group's business and a general increase in investment return provided to the policyholders of its linked long term insurance policies.

Other payables

Other payables mainly represented commission payables and other payables. The following table sets out the breakdown of the Target Group's other receivables as of 31 December 2014, 2015 and 2016 and 30 June 2017.

	As of 31 December			As of 30 June
	2014	**2015**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Amount due to the ultimate holding company	56	60	50	49
Amount due to the immediate holding company	—	3	—	—
Commission payables	200,949	189,434	245,247	82,708
Derivative financial instruments	24,474	—	4,362	9,447
Other payables	327,882	388,924	428,553	349,855
Total other payables	**553,361**	**578,421**	**678,212**	**442,059**

The balances of other payables amounted to approximately HK$553.4 million, HK$578.4 million, HK$678.2 million as of 31 December 2014, 2015 and 2016, respectively. The increase in other payables from 31 December 2014 to 31 December 2016 was mainly attributable from the increase in commission payables which were generally in line with the increase in the Target Group's number of policies in force and premiums and fee income. Such increase was also due to the increase in other payables attributable to the increase in staff costs and compensation, actuarial fee, audit fee and investment management fees over the years. As of 30 June 2017, the total other payables amounted to approximately HK$442.1 million, representing a decrease of approximately 34.8% from the total other payables as of 31 December 2016. The decrease was mainly attributable to the decrease in commission payables as of 30 June 2017 in January 2017 as a result of the settlement of outstanding commission and the 2016 year end bonuses by the Target Company.

Reinsurance premium payables

Reinsurance premium payable mainly represented premiums ceded to reinsurer. Reinsurance premium payable amounted to approximately HK$86.9 million, HK$121.8 million, HK$211.3 million and HK$277.8 million as of 31 December 2014, 2015 and 2016 and 30 June 2017, respectively. The continued increase in the reinsurance premium payable of the Target Group was primarily due to the increase in the use of reinsurance in line with the growth of the premiums and fee income for the respective year/period. In particular, the growth in reinsurance premium payables as of 31 December 2016 and 30 June 2017 was mainly attributable to the additional amount payable under the new reinsurance and coinsurance arrangement entered into by the Target Company with a reinsurer in November 2016 concerning certain critical illness policies written by the Target Company.

Reinsurance premium payables turnover days were calculated by average reinsurance premium payables divided by premiums ceded to reinsurer and multiplied by 365 days for the three years ended 31 December 2016 or 183 days for the six months ended 30 June 2017. The reinsurance premium payable turnover days were 148 days, 212 days, 238 days and 159 days for each of the three years ended 31 December 2016 and the six months ended 30 June 2017 respectively. The increasing trend of reinsurance premium payables turnover days from 31 December 2014 to 31 December 2016 was primarily due to the increase in average reinsurance premium payable over the years caused by the extension of the payment terms pursuant to the reinsurance treaties. The reinsurance premium payable turnover days decreased to 159 days for the six months ended 30 June 2017 primarily due to the enhancement of the operational efficiency of the Target Company.

Outstanding claims

Outstanding claims liabilities comprise of (i) outstanding claims, also known as case reserves, which are the reserves assigned to known claims as of the year/period end date and (ii) liabilities provided for incurred but not reported claims the accident date of which fall on or before each year/period end date, but which were not reported to the Company and recorded in the accounting records until after the year/period end date. Outstanding claims amounted to HK$95.2 million, HK$88.8 million, HK$116.0 million and HK$139.3 million as of 31 December 2014, 2015 and 2016 and 30 June 2017, respectively. The fluctuation in outstanding claims are generally in line with the fluctuations in net claims and surrenders of the Target Group over the years.

INDEBTEDNESS

As of the close of business on 31 October 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Target Group has no debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities.

CONTINGENT LIABILITIES

Other than those incurred in the normal course of the Target Group's insurance business, there was no outstanding litigation nor any other contingent liabilities as of 31 October 2017.

COMMITMENTS

Capital commitments

The Target Group had capital commitments amounting to HK$20.2 million as of each of 31 December 2015 and 2016, and 30 June 2016 and 2017 (31 December 2014: nil). Such capital commitment represents commitment arising from the deployment of a new life system of the Target Group.

Operating lease commitment

The following table sets out the aggregate future minimum lease payments under non-cancellable operating lease as of the dates indicated.

	Year ended 31 December			Six months ended 30 June
	2014	**2015**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Within 1 year	58,535	62,638	81,838	80,927
After 1 year but within 5 years	48,975	96,732	156,414	120,604
	107,510	**159,370**	**238,252**	**201,531**

Operating lease payments represent rentals payable by the Target Group for its office premises. Leases are negotiated for an average term of 3 years.

Investment commitments

The Target Group's investment commitments contracted for amounted to approximately HK$235.0 million, HK$268.5 million, HK$443.2 million, HK$402.9 million and HK$466.8 million at 31 December 2014, 2015 and 2016, and 30 June 2016 and 2017.

Off-balance sheet commitments and arrangement

Save as disclosed under the section headed "Financial Information of the Target Group — Commitments" above, as of the Latest Practicable Date, the Target Group does not have any off-balance sheet arrangements.

QUANTITATIVE AND QUALITATIVE RISKS

The Target Group is exposed to a variety of insurance and financial risks, including insurance, credit, liquidity, interest rate, currency and equity price risks.

Insurance risk

Insurance risk refers to the risk of possible occurrences of insured events and the uncertainty of payment per claim incurred due to an insured event and the payment time. For further details of insurance risks exposure of the Target Group, the risk management objectives, the policies for mitigating insurance risks and the concentration of insurance risks, please refer to the section headed "Business of the Target Group — Risk Management — Principal Risk Exposures — Insurance Risks" in this circular and note 5(a)(i) to the Accountants' Report on the Target Group set forth in Appendix IV to this circular.

Credit risk

The Target Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. For further details of credit risk exposure of the Target Group, the risk management objectives and the policies for mitigating credit risk, please refer to the section headed "Business of the Target Group — Risk Management — Principal Risk Exposures — Financial Risks — Credit Risk" in this circular and note 5(a)(ii)(1) to the Accountants' Report on the Target Group set forth in Appendix IV to this circular.

Liquidity risk

Liquidity risk refers to the possibility that cash will not be available to settle liabilities when due. For further details of liquidity risk exposure of the Target Group, the risk management objectives, the policies for mitigating liquidity risk and detailed liquidity risk analysis, please refer to the section headed "Business of the Target Group — Risk Management — Principal Risk Exposures — Financial Risks — Liquidity Risk" in this circular and note 5(a)(ii)(2) to the Accountants' Report on the Target Group set forth in Appendix IV to this circular.

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. For further details of interest rate risk exposure of the Target Group, the risk management objectives, the policies for mitigating interest rate risk, the interest rate profile and sensitivity analysis on changes in interest rate, please refer to the section headed "Business of the Target Group — Risk Management — Principal Risk Exposures — Financial Risks — Interest Rate Risk" in this circular and note 5(a)(ii)(3) to the Accountants' Report on the Target Group set forth in Appendix IV to this circular.

Currency risk

The Target Group's currency exchange risk is mainly related to certain policies that are not written in the US dollars. However, most of the policies are denominated in the US dollars. For further details of currency risk exposure of the Target Group arising from financial assets or financial liabilities, please refer to the section headed "Business of the Target Group — Risk Management — Principal Risk Exposures — Financial Risks — Currency Risk" in this circular and note 5(a)(ii)(4) to the Accountants' Report on the Target Group set forth in Appendix IV to this circular.

Equity price risk

The portfolio of unit trusts backing insurance contracts, which the Target Group carries on its statement of financial position at fair value, has exposure to price risk. For further details of equity price risk exposure of the Target Group and the sensitivity analysis on changes in market value of the Target Group's unit trusts backing non-linked insurance contracts, please refer to the section headed "Business of the Target Group — Risk Management — Principal Risk Exposures — Financial Risks — Equity Price Risk" in this circular and note 5(a)(ii)(5) to the Accountants' Report on the Target Group set forth in Appendix IV to this circular.

CAPITAL EXPENDITURES

For each of the three years ended 31 December 2016 and the six months ended 30 June 2017, the Target Group incurred capital expenditures of approximately HK$9.3 million, HK$30.5 million, HK$26.5 million and HK$16.5 million, respectively. The Target Group's capital expenditures mainly relate to purchase of fixed assets, which mainly include leasehold improvements and computer hardware and software. Such capital expenditures were incurred for the purpose of operations expansion and to increase operating efficiency. The Target Group has historically funded its capital expenditures with its internal financial resources. The following table sets forth, for the periods indicated, the capital expenditures of the Target Group.

	As of 31 December			As of 30 June
	2014	**2015**	**2016**	**2017**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*	*(HK$'000)*
Leasehold improvements	1,987	3,662	2,716	3,312
Office furniture	260	575	727	360
Office equipment	346	339	291	—
Computer equipment — hardware	3,549	2,390	4,745	916
Computer equipment — software	3,108	23,579	18,030	11,917
	9,250	**30,545**	**26,509**	**16,505**

DISTRIBUTABLE RESERVES

As of 30 June 2017, total retained profits of the Target Company were approximately HK$5,138.7 million. In addition, as of 30 June 2017, total available capital of the Target Company amounted to approximately HK$3,575.6 million, representing a solvency ratio of 237% over the regulatory minimum capital of approximately HK$1,507.7 million as of 30 June 2017.

RELATED PARTY TRANSACTIONS

For the three years ended 31 December 2016 and the six months ended 30 June 2017, the Target Company had paid investment management fee to Barings LLC for the management of the Target Company's investment portfolio. The total amount of investment management fee paid to Barings LLC amounted to approximately HK$24.5 million, HK$32.5 million and HK$38.7 million for each of the years ended 31 December 2014, 2015 and 2016 and HK$18.1 million and HK$22.4 million for each of the six months ended 30 June 2016 and 2017, respectively. The investment management fee was calculated at rates based on asset type with fee rates ranging from 4.5 basis points to 100 basis points. Going forward, the Target Company will continue to engage Barings LLC for the provision of investment management services to the Target Company. For further details, please refer to the section headed "Continuing Connected Transactions" in this circular.

The remuneration for key management personnel of the Target Group, including amounts paid to the Target Company's directors and the interest-free car loan granted by the Company to certain director of the Target Company also constituted related party transactions under HKFRS. For details, please see note 33(a) to the Accountants' Report on the Target Group set forth in Appendix IV to this circular.

NO BUSINESS INTERRUPTION

The directors of the Target Company have confirmed that there has not been any interruption in the business of the Target Group which may have or has had a significant effect on the financial position of the Target Group in the 12 months preceding the date of this circular.

NO MATERIAL CHANGE

There had been no material change in the financial or trading position or outlook of the Target Group since the date to which the latest published audited consolidated financial statements of the Target Group were made up, being 30 June 2017, up to the Latest Practicable Date.

SHARE CAPITAL

(a) **Share Capital**

As of the Latest Practicable Date, the Company had only one class of shares in issue, namely ordinary shares.

The Company does not have any authorised share capital nor any nominal value in its Shares.

The following table sets out the share capital of the Company (a) as of the Latest Practicable Date; and (b) immediately after allotment and issue of the Consideration Shares (assuming there is no change in the issued share capital of the Company other than the issue of the Consideration Shares since the Latest Practicable Date up to Completion):

(i) ***As of the Latest Practicable Date:***

Issued and fully paid
Number of Shares

2,423,326,394	Shares
2,423,326,394	Shares

(ii) ***Immediately after allotment and issue of the Consideration Shares:***

Issued share capital
Number of Shares

2,423,326,394	Shares in issue as of the Latest Practicable Date
800,000,000	Consideration Shares to be allotted and issued pursuant to the Share Purchase Agreement
3,223,326,394	Shares in issue immediately upon Completion

The above table assumes that the Acquisition becomes unconditional and will be completed in accordance with the relevant terms and conditions.

Since 31 December 2016 (the date to which the latest published audited financial statements of the Company were made up) to the Latest Practicable Date, the Company has issued 23,990,000 Shares as fully paid for the share award scheme adopted by the Board on 12 December 2016. Save as disclosed above, the Company has not issued any Shares since 31 December 2016 up to the Latest Practicable Date.

(b) **Options, warrants and convertible securities**

As of the Latest Practicable Date, the Company does not have any outstanding options, derivatives, warrants or securities which were convertible or exchangeable into Shares.

RANKING

All the issued Shares are listed on the Stock Exchange and rank pari passu in all respects with each other including the rights in respect of dividends, voting and return of capital.

The Consideration Shares will rank equally among themselves and pari passu in all respects with the Shares in issue on the date of the allotment and issue of the Consideration Shares.

PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, upon Completion and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public (within the meaning as defined under Rule 8.24 of the Listing Rules). The issue of the Consideration Shares will not cause the Company not to comply with the minimum public float requirement under the Listing Rules.

GENERAL MANDATES

By the resolutions of the Shareholders passed in the annual general meeting of the Company held on 21 June 2017, the Directors have been granted general and unconditional mandates to exercise the powers of the Company to:

(a) allot, issue and deal with new Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company then in issue (the "**Issue Mandate**");

(b) repurchase Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company then in issue (the "**Repurchase Mandate**"); and

(c) extend the Issue Mandate by an amount representing the aggregate nominal value of Shares purchased by the Company pursuant to the Repurchase Mandate.

The Issue Mandate and the Repurchase Mandate will expire at the earliest of: (a) the conclusion of the next annual general meeting of the Company; or (b) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors under this resolution; or (c) the expiration of the period within which the next annual general meeting of the Company is required to be held by the Articles of Association, the Companies Ordinance or any applicable laws of Hong Kong.

PRE-EMPTIVE RIGHT

Pursuant to the Investor Rights Agreement, subject to independent Shareholders' approval requirement, the Vendor shall have the right to subscribe for (on a pro rata basis) Shares proposed to be issued by the Company (including any issuance pursuant to a general mandate), except for Shares proposed to be issued to employees and officers of the Company pursuant to any employee benefit or stock option plans approved by the Board or the Shareholders. The Vendor's preemptive right is not dependent on the Vendor holding a certain threshold percentage of Shares and such right exists as long as the Vendor is a Shareholder and the Investor Rights Agreement is not terminated.

Any preemptive issuance of Shares to the Vendor (even if such issuance will not constitute a connected transaction of the Company under the Listing Rules) will be made pursuant to a specific mandate and be subject to independent Shareholders' approval requirement, and the Vendor will be required to abstain from voting on the relevant resolutions.

Biographies of the two individuals nominated by the Vendor to act as non-executive Directors with effect from Completion are set out below:

Mr. Adnan Omar Ahmed

Please refer to Mr. Ahmed's biography under the section headed "Directors and Senior Management of the Target Group — Board of Directors of the Target Company".

Mr. Gareth Ross

Mr. Ross, aged 42, has been an executive team member, head of digital and customer experience and senior vice president of advanced analytics and target markets of MMLIC since May 2014. At MMLIC, he was previously vice president of sales and distribution strategy from January 2011 to May 2014, vice president of strategy from June 2009 to December 2010 and vice president of financial planning analysis from April 2008 to June 2009. In addition, he has been a director of each of Society of Grownups since October 2017, MassMutual International LLC since June 2016 and Coverpath Inc. (now known as Haven Life Insurance Agency, LLC) since March 2014. Prior to joining MMLIC, he worked at Capmark Financial Inc. from 2006 to 2008. He worked at General Motors Company from 2004 to 2006.

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

As of the Latest Practicable Date, neither Mr. Adnan Omar Ahmed nor Mr. Gareth Ross has served as a director in other listed companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years, or has any relationship with any Director, senior management member or substantial shareholder of the Company (as defined under the Listing Rules).

As of the Latest Practicable Date, neither Mr. Adnan Omar Ahmed nor Mr. Gareth Ross had any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed in this circular, the Board is not aware of other matter in relation to Mr. Adnan Omar Ahmed and Mr. Gareth Ross that needs to be brought to the attention of the Shareholders or other information to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

This section contains information and statistics relating to the industry in which the Target Group operates. The industry information and data set forth in this section have been extracted or derived from publicly available government and official sources, which have not been independently verified. The Company and the Directors have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. While the Directors believe that the sources of such information are appropriate and the Directors have taken reasonable care in the reproduction and extraction of such information, the Company, the Vendor and their respective directors, officers, employees, agents, advisers or representatives make no representation as to the correctness or accuracy of such information and accordingly such information and statistics should not be unduly relied on. No industry or research report was commissioned by the Company or its connected persons or their respective associates for the purpose of providing relevant industry information data, statistics and analysis for inclusion in this circular.

INSURANCE INDUSTRY IN HONG KONG

The insurance industry is one of the key financial services industries in Hong Kong. According to the press release published by the HKIA dated 3 October 2017 and the website of the Census and Statistics Department of Hong Kong, the total general and long term insurance premium was HK$451.7 billion in 2016, representing approximately 18.1% of the GDP of Hong Kong. The table below outlines key macroeconomic and insurance industry data for the years indicated:

	As of / For the year ended 31 December			**CAGR**
	2014	**2015**	**2016**	**2014-2016**
Macroeconomic data				
- GDP (at current market prices) (HK$ billion)	2,258.2	2,398.4	2,491.0	5.0%
- GDP growth rate (%)	5.7	6.1	3.9	N/A
- Population (mid-year) (in thousands)	7,241.7	7,291.3	7,336.6	0.7%
- Per capita GDP (HK$)	311,835	328,945	339,531	4.3%
Insurance industry data				
- Premium income (HK$ billion)	339.3	374.1	451.7	15.4%
- Long term insurance business (office premiums)	295.7	328.1	406.2	17.2%
- General insurance business (gross premiums)	43.6	46.0	45.5	2.2%
- Annual growth rate (%)				
- Long term insurance business	14.7	11.0	23.8	N/A
- General insurance business	4.4	5.4	(1.0)	N/A
- Penetration rate (%)				
- Long term insurance business	13.1	13.7	16.3	N/A
- General insurance business	1.9	1.9	1.8	N/A
- Density rate (HK$)				
- Long term insurance business	40,832	45,005	55,367	16.5
- General insurance business	6,026	6,307	6,206	1.5

Sources: Websites of the Census and Statistics Department of The Government of the Hong Kong Special Administrative Region (www.censtatd.gov.hk) and the HKIA (www.ia.org.hk)

Number of policies and premiums

The insurance industry consists of two sectors, namely long term insurance and general insurance. In 2016, the long term insurance sector accounted for about 89.9% of the total premium income, while the general insurance sector took up the remaining 10.1%.

There are nine classes of long term insurance business under the IO, namely Class A (Life and annuity), Class B (Marriage and birth), Class C (Linked long term), Class D (Permanent health), Class E (Tontines), Class F (Capital Redemption), Class G (Retirement scheme management category I), Class H (Retirement scheme management category II) and Class I (Retirement scheme management category III). These classes of insurance business can be further categorized into four main sub-sectors, namely individual life business, group life business, retirement scheme and other business. Other business mainly includes annuity, permanent health and capital redemption business. Around 96.9% and 94.7% of the long term insurance business in terms of number of policies and office premiums, respectively in 2016 was attributable to individual life business, as stated in the Summary on Hong Kong Insurance Business Statistics 2016 published by the HKIA on 3 October 2017.

Individual life business consists of investment-linked business and non-investment-linked business, which accounted for approximately 12.4% and 87.6% of the total office premiums of individual life in-force business in 2016 respectively, as stated in the Summary on Hong Kong Insurance Business Statistics 2016 published by the HKIA on 3 October 2017.

The following table sets out the total number of policies and office premiums of in-force business of the four main sub-sectors within the long term insurance business of the industry for the three years ended 31 December 2014, 31 December 2015 and 31 December 2016:

	Number of policies (in thousands, except for percentages)				Office premiums / contributions (in HK$ millions, except for percentages)			
	For the year ended 31 December			CAGR	For the year ended 31 December			CAGR
	2014	2015	2016	2014-2016	2014	2015	2016	2014-2016
Individual life								
- Non-linked (Class A)	9,181.6	9,814.0	10,487.1	6.9%	208,964.4	250,506.3	337,107.0	27.0%
- Linked (Class C)	1,629.1	1,547.2	1,463.3	-5.2%	68,120.3	58,782.2	47,529.0	-16.5%
Group life (Classes A, C and I)	20.2	19.7	19.4	-2.0%	2,946.4	3,191.5	3,254.5	5.1%
Retirement scheme (Classes G and H)	67.2	52.8	61.2	-4.6%	7,898.0	7,777.5	8,547.2	4.0%
Other business								
- Annuity (Classes A and C)	98.4	109.4	119.3	10.1%	6,750.5	6,791.5	8,524.6	12.4%
- Others (Classes B, D, E and F)	178.9	179.5	186.9	2.2%	1,013.0	1,096.2	1,241.5	10.7%
Total	11,175.4	11,722.6	12,337.2	5.1%	295,692.6	328,145.2	406,203.8	17.2%

Source: Annual statistics for long term business for 2014, 2015 and 2016 on the website of the HKIA (www.ia.org.hk)

Individual life and annuity and linked individual life businesses, being classes A and C long term life business, accounted for over 97% and 96% of the Target Company's total number of policies and office premiums, respectively, for the three years ended 31 December 2016. The Target Company maintains a market share of over 2.9% in terms of number of policies and about 2.0% in terms of office premiums for the three years ended 31 December 2016, and ranks amongst the top 12 insurers of individual life and annuity and linked individual life businesses within the long term insurance business industry in Hong Kong both in terms of number of policies and office premiums.

Recent development

Based on the Summary on January — June 2017 Provisional Statistics on Hong Kong Insurance Business published by the HKIA on 1 September 2017, in the first half of 2017, the total office premiums of long term in-force business were HK$211.2 billion. Office premiums of non-linked individual life and annuity business amounted to HK$181.2 billion while those of linked individual life and annuity business amounted to HK$15.1 billion, which accounted for 92.0% and 7.7% of the total individual life business, respectively. Contributions of retirement scheme business reached HK$12.2 billion. New office premiums (excluding retirement scheme business) of long term business for the first half of 2017 amounted to HK$80.9 billion, of which HK$75.0 billion was attributable from non-linked individual life and annuity business and HK$5.4 billion was attributable from linked individual life and annuity business.

Authorized insurers

Insurance products are developed by authorized insurers, which are authorized by the HKIA under the IO. As of 30 June 2017, there are a total of 159 authorized insurers in Hong Kong. The following table sets out the number of authorized insurers conducting business in Hong Kong as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017:

Number of authorized insurers as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017

	As of 31 December			As of 30 June
	2014	**2015**	**2016**	**2017**
Pure long term insurance business	44	45	47	47
- Local	16	17	19	19
- Overseas	28	28	28	28
Pure general insurance business	95	93	94	93
- Local	59	58	57	58
- Overseas	36	35	37	35
Composite business	19	19	19	19
- Local	11	11	11	11
- Overseas	8	8	8	8
Total	158	17	160	159
- Local	86	86	8	88
- Overseas	72	71	73	71

Source: OCI Annual Reports for 2014, 2015 and 2016 and the member of authorized insurers by place of incorporation published on website of the HKIA (www.ia.org.hk)

The following table sets out the total number of authorized insurers by class of long term insurance business as of 30 June 2017 which the Target Company is authorized to carry out:

	Number of Authorized insurers		
Class of long term insurance business	**Local**	**Overseas**	**Total**
A (Life and annuity)	29	33	62
C (Linked long term)	16	29	45
D (Permanent health)	14	21	35
G (Retirement scheme management category I)	9	11	20
H (Retirement scheme management category II)	7	8	15
I (Retirement scheme management category III)	19	22	41

Source: Number of authorized insurers by class of insurance business published on the website of the HKIA (www.ia.org.hk)

Agents and brokers

Insurance products developed by the authorized insurers can be marketed directly by its marketing arm or through insurance intermediaries such as insurance agents and brokers. An insurance agent represents a person who holds himself out to advise on or arrange contracts of insurance in or from Hong Kong as an agent or sub-agent of one or more authorized insurers. An appointed insurance agent shall not represent more than four insurers, of whom no more than two shall be long term business insurers. As such, an insurance agent can only arrange contracts of insurance developed by limited number of authorized insurers.

An insurance broker represents a person who carries on the business of negotiating or arranging contracts of insurance in or from Hong Kong as the agent of the policyholder or potential policyholder or advising on matters related to insurance. An insurance broker provides advice to the insuring public and helps them analyze their insurance needs and chooses the suitable insurance products. Therefore, an insurance broker can arrange a variety of contracts of insurance. All authorized insurance brokers shall be a member of one of the two approved bodies of insurance brokers, namely The Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association.

The primary difference between insurance agents and insurance brokers is that insurance agents represent product issuers to promote their insurance products to the customers, whereas insurance brokers represent customers and provide them with advice on insurance products offered by one or more product issuers.

Number of agents and brokers in Hong Kong as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017

	As of 31 December			As of 30 June
	2014	**2015**	**2016**	**2017**
Agents				
- Individual agents	46,079	53,816	63,148	63,166
- Pure long term	24,630	30,400	37,367	35,743
- Pure general	1,123	1,257	1,357	1,507
- Composite	20,326	22,159	24,424	25,916
- Responsible officers representing insurance agencies	2,480	2,493	2,482	2,447
- Technical representatives	24,988	25,263	24,353	26,228
Brokers				
- Authorized insurance brokers	657	733	756	761
- Members of The Hong Kong Confederation of Insurance Brokers	266	278	280	283
- Members of Professional Insurance Brokers Association	391	455	476	478
- Registered chief executives/technical representatives	9,736	9,397	9,452	8,939

Source: Websites of the HKIA (www.ia.org.hk), the HKFI (www.hkfi.org.hk), The Hong Kong Confederation of Insurance Brokers (www.hkcib.org) and the Professional Insurance Brokers Association (www.piba.org.hk)

As of 30 June 2017, the Target Company has developed a tied agency force of close to 2,000 agents in Hong Kong, representing approximately 5.59% of the total registered individual agents selling pure long term insurance products and 3.17% of all registered individual agents. The Target Company also utilizes approximately 400 broker and 60 agency intermediaries, which mainly sell annuity products of the Target Company, as of 30 June 2017.

LIFE INSURANCE INDUSTRY IN MACAU

Based on the Statistical Data of the Insurance Sector available on the website of the AMCM, as of 31 December 2016, the insurance industry in Macau was made up of 23 insurance companies, 11 of which were life companies and the remaining 12 were involved in non-life business. In terms of origin, nine were local companies and the remaining 14 were branches of overseas companies incorporated in Hong Kong and four other countries. The Target Company's branch office in Macau is registered as a branch of an insurance company incorporated overseas and is licensed to operate in Macau as a life insurer and as a private pension fund manager.

The table below sets out the total gross premiums generated from insurers operating in Macau for the years indicated:

Total gross premiums (MOP million)	As of / For the year ended 31 December 2014	2015	2016	CAGR 2014-2016
Life	6,932.5	12,037.8	18,368.4	62.8%
Non-life	1,953.2	2,078.1	2,155.8	4.1%
Total	8,885.7	14,115.9	20,524.2	52.0%

Source: Annual reports of the AMCM published on the website of the AMCM (www.amcm.gov.mo)

Based on the Statistics of Life Insurance Operations in Macau for the year ended 31 December 2016, the total gross premiums from the life insurance operations in Macau amounted to MOP18,368.4 million (2015: MOP12,037.8 million), of which the Target Company had a total gross premiums of MOP849.6 million in 2016 (2015: MOP647.7 million), representing a market share of approximately 4.63% (2015: 5.38%) and ranking fourth (2015: fourth) in Macau's life insurance sector.

The table below sets out the total number of insurance intermediaries by category as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 November 2017.

	As of 31 December 2014	2015	2016	As of 30 November 2017
Insurance salesman	1,235	1,312	1,450	1,522
Insurance agents (individuals)	2,870	3,670	4,239	4,484
Corporate agents	71	75	80	84
- With head office in Macau	59	62	67	72
- With head office overseas	12	13	13	12
Corporate brokers	11	11	11	11
- With head office in Macau	3	3	3	3
- With head office overseas	8	8	8	8
Total	4,187	5,068	5,780	6,101

Source: Statistical Data of the Insurance Sector as of each of 31 December 2014, 2015 and 2016 and 30 November 2017 published on the website of the AMCM (www.amcm.gov.mo)

As of 30 November 2017, the Target Company has a tied agency force of over 900 agents in Macau, representing approximately 20.07% of all registered individual agents and approximately 14.75% of the total number of insurance intermediaries in Macau.

MPF BUSINESS IN HONG KONG

Development of MPF in Hong Kong

Before the implementation of the MPF system, only around one-third of the Hong Kong workforce had some form of retirement protection which included statutory pensions and provident funds for civil servants and school teachers, and retirement schemes set up by employers voluntarily for their employees. With the expectations of a rapidly ageing population in Hong Kong which the proportion of the population over the age of 65 rising from approximately 16% in 2016 to an expected 29% by 2036, the need for a more adequate means of retirement protection was imminent. The MPF system was launched in Hong Kong in December 2000 and has become part of the lives of most Hong Kong residents.

MPF Participants

According to the Census and Statistics Department and returns submitted by the trustees to the MPFA, more than 65% of each of employers, relevant employees and self-employed persons in Hong Kong has enrolled in MPF schemes by the end of June 2017. The enrollment rate of employers and relevant employees have gradually risen to close to 100% and remained so up to 30 June 2017. In particular, there were approximately 2.58 million participating members of the MPF schemes as of 30 June 2017. The enrollment rate of self-employed persons was approximately 68% in the first six months of 2017.

The following table sets out the number of participating members, enrolment rates and number of MPF accounts (including contribution accounts and personal accounts) in Hong Kong as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017:

Number of participating members, enrolment rates and number of MPF accounts as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017

As of	Employer Participating Employers	Employer Enrolment rate	Relevant Employee Participating members	Relevant Employee Enrolment rate	Self-employed Participating members	Self-employed Enrolment rate	Number of contribution accounts	Number of personal accounts
	('000)	*(%)*	*('000)*	*(%)*	*('000)*	*(%)*	*('000)*	*('000)*
31 December 2014	271	99	2,507	99	208	66	3,693	4,862
31 December 2015	276	100	2,549	100	205	68	3,778	5,120
31 December 2016	277	100	2,584	100	202	68	3,866	5,362
30 June 2017	279	100	2,580	100	202	68	3,919	5,390

Source: *Mandatory Provident Fund Schemes Statistical Digest of December 2014, December 2015, December 2016 and June 2017 published by the MPFA*

Notes: A contribution account is primarily used to receive and hold mandatory contributions and voluntary contributions (if any) paid in respect of a scheme member's current employment or current self-employment for investment. The accumulated contributions together with the investment returns are called accrued benefits. A personal account is primarily used to receive and hold accrued benefits in respect of a scheme member's former employment or former self-employment which are transferred from a contribution account, and also the part of accrued benefits derived from employee mandatory contributions during current employment which are transferred from a contribution account by an employee scheme member.

According to the Mandatory Provident Fund Schemes Statistical Digest of June 2017 published by the MPFA, up to 73% of the employed population of Hong Kong are covered under the MPF schemes and 12% are covered under other retirement schemes, such as Civil Service Pension Scheme and MPF exempted Occupational Retirement Schemes Ordinance schemes. Domestic employees and employees who are aged above 65 or below 18 are not required to join any local retirement scheme according to Hong Kong law. Only 2% of the employed population in Hong Kong are required to join MPF schemes but have not done so.

Number of schemes and total contributions

There are three main types of MPF schemes, namely master trust scheme, industry scheme and the employer sponsored scheme. The following table sets out the number of registered MPF schemes by scheme type as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017.

Number of registered MPF schemes by scheme type

Scheme type	As of 31 December 2014	2015	2016	As of 30 June 2017
Master Trust Scheme	35	35	33	33
Industry Scheme	2	2	2	2
Employer Sponsored Scheme	1	1	1	1
Total	38	38	36	36

Source: Mandatory Provident Fund Schemes Statistical Digest of December 2014, December 2015, December 2016 and June 2017 published by the MPFA

The following table sets out the total contributions received and benefits paid under all registered MPF schemes in Hong Kong for the three years ended 31 December 2014, 31 December 2015 and 31 December 2016 and for the six months ended 30 June 2017.

	Contributions received (HK$ million)				Benefits paid (HK$ million)			
	For the year ended 31 December			For the six months ended 30 June	For the year ended 31 December			For the six months ended 30 June
	2014	2015	2016	2017	2014	2015	2016	2017
Mandatory(1)	46,866	51,557	53,852	28,354	10,103	11,445	12,284	7,857
Voluntary(2)	7,735	8,697	9,487	5,195	3,783	3,833	4,001	2,677
Special Voluntary(3)	5,075	6,676	6,584	1,251	4,641	6,168	6,200	1,107
Total	59,676	66,929	69,923	34,799	18,527	21,448	22,485	11,641

Source: Mandatory Provident Fund Schemes Statistical Digest of December 2014, December 2015, December 2016 and June 2017 published by the MPFA

Notes:

(1) Mandatory contributions represent MPF contributions mandated by law made by both employer and employee in accordance with the employee's relevant income, and which comprise employer and employee mandatory contributions.

(2) Voluntary contributions represent extra contributions made by employer or employee on top of their mandatory contributions.

(3) Special voluntary contributions refers to voluntary MPF contributions paid directly by a relevant employee to the trustee. Unlike general voluntary contributions, these contributions are non-employment related and the contributions do not go through the employer. The withdrawal of accrued benefits is neither tied to employment nor subject to preservation requirements.

The Target Company, through MMT acting as the trustee, operates the MASS Mandatory Provident Fund Scheme, being a master trust scheme opens to employees or participating employers, self-employed persons and persons with accrued benefits transferred from other schemes. For the year ended 31 December 2016, the Target Company received total contributions of HK$297.4 million under the MASS Mandatory Provident Fund Scheme, representing approximately 0.43% of the total contributions received by all MPF schemes, and the total benefits paid by the Target Company amounted to HK$177.4 million under the MASS Mandatory Provident Fund Scheme, representing approximately 0.79% of the total contributions received by all MPF schemes.

As of each of 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017, there were a total of 458, 459, 484 and 485 approved constituent funds, respectively, which comprised 6 fund types, namely, mixed assets fund, equity fund, MPF conservative fund, guaranteed fund, bond fund and money market fund and others. The total net asset value of approved constituent funds of MPF schemes increased to approximately HK$646,342.0 million as of 31 December 2016 from approximately HK$565,083.0 million as of 31 December 2014, representing a CAGR of approximately 6.9%. As of 31 December 2016, the net asset value of the MPF Scheme of the Target Company reached HK$2,379.1 million, representing 0.37% of all MPF schemes. As of 30 June 2017, total net asset value of approved constituent funds of MPF schemes increased to approximately HK$745,730.0 million, representing a growth of 15.38% from that of 31 December 2016.

Approved trustees and MPF intermediaries

As of 30 June 2017, there were a total of 18 approved trustees and 32,114 registered MPF intermediaries comprising 412 registered principal intermediaries and 31,702 subsidiary intermediaries. A principal intermediary is a business entity registered by the MPFA as an intermediary for selling, marketing or giving advice on MPF schemes. A subsidiary intermediary is a person registered by the MPF as an intermediary for selling, marketing or giving advice on MPF schemes on behalf of the principal intermediary to which the person is attached.

The following table sets out the total number of registered MPF intermediaries by frontline regulator as of 31 December 2014, 31 December 2015 and 31 December 2016 and 30 June 2017.

	As of 31 December			As of 30 June 2017
	2014	2015	2016	
Registered MPF Intermediaries	32,251	32,833	33,022	32,114
- Principal intermediary	389	400	408	412
- Subsidiary intermediary	31,862	32,433	32,614	31,702
By frontline regulator				
- Principal intermediary	389	400	408	412
- HKIA	337	351	360	365
- HKMA	18	18	18	18
- SFC	34	31	30	29
- Subsidiary intermediary (Note)	30,774	31,520	30,642	30,072
- HKIA	25,123	25,842	26,386	26,773
- HKMA	5,226	5,278	3,878	2,924
- SFC	425	400	378	375
- Total	31,163	31,920	31,050	30,484
- HKIA	25,460	26,193	26,746	27,138
- HKMA	5,244	5,296	3,896	2,942
- SFC	459	431	408	404

Source: Mandatory Provident Fund Schemes Statistical Digest of December 2014, December 2015, December 2016 and June 2017 published by the MPFA

Note: A subsidiary intermediary may be attached to more than one principal intermediary or none (normally, for a period not exceeding 90 days). All subsidiary intermediaries are assigned to their principal intermediary's frontline regulator. Therefore, depending on the specific circumstances, a subsidiary intermediary may be assigned to more than one frontline regulator or may not have any frontline regulator.

PENSION BUSINESS IN MACAU

Based on the Report on Private Pension Funds 2016 published by the AMCM, there were a total of 1,032 registered pension plans, of which over 83% were corporate pension plans and among which 15 were offered by the Target Company.

The total number of scheme members of all registered pension plans in Macau amounted to 142,237 as of 31 December 2016, representing a slight increase of 3.5% as compared with 31 December 2015. It also represents approximately 36.5% of the employed population of 389,700 in Macau as of 31 December 2016 based on the statistics set out in the Macao in Figures 2017 published by the Government of Macao Special Administrative Region Statistics and Census Service.

As of 31 December 2016, total pension fund assets under management of the Target Company amounted to MOP140.9 million (2015: MOP128.1 million), representing 0.83% of the total pension fund assets under management in Macau of MOP16,993.8 million (2015: MOP14,421.1 million).

OVERVIEW

The Target Company is a limited liability company incorporated in Hong Kong and is principally engaged in the insurance business in Hong Kong and is therefore subject to local regulatory oversight. The Target Company is an insurer authorized under the IO to carry out Class A (Life and annuity), Class C (Linked long term), Class D (Permanent health), Class G (Retirement scheme management category I), Class H (Retirement scheme management category II) and Class I (Retirement scheme management category III) long term insurance business in and from Hong Kong. In addition, the Target Company is a member of the HKFI, a self-regulatory industry body that issues codes of practice and guidances that are binding on its members in relation to, among other things, the administration of insurance agents and the provision of insurance products and services. The Target Company also operates in Macau through a branch office and is licensed to sell life insurance products in and from Macau.

In addition, the mandatory provident fund schemes offered by MMT in Hong Kong are regulated under a separate statutory regime by the MPFSO as administered by the Mandatory Provident Fund Schemes Authority. The Target Company is a principal intermediary registered under the MPFSO to carry on MPF regulated activities under the MPFSO. MMT is an approved trustee under the MPFSO.

REGULATORY FRAMEWORK — HONG KONG

A. Insurance

I. *The Insurance Authority*

The main source of statutory regulation of the insurance market and insurance businesses in Hong Kong is the IO and its subsidiary regulations, which set out requirements for the authorization, ongoing compliance and reporting obligations of insurers and insurance intermediaries.

The OCI was previously the regulatory body set up for the regulation of the insurance industry in Hong Kong. In line with international supervisory principles and to keep pace with the rapid developments of the insurance industry, the HKIA, which is an independent insurance authority being both financially and operationally independent of the Hong Kong government, has, from 26 June 2017, replaced and took over the regulatory functions of the OCI, which is a government department. The policy objectives of setting up the HKIA are to modernize the regulatory infrastructure to facilitate the stable development of the insurance industry, provide better protection for policyholders and align with international practice that insurance regulators should be financially and operationally independent of the government and the industry. The IO stipulates that the HKIA will be vested with appropriate powers of inspection, investigation, imposition of disciplinary sanctions and prohibition of license application of insurance intermediaries in relation to a regulated activity or authorization application of insurers for any class of insurance business in a specified period. The HKIA will be empowered to make rules, adopt standards of conduct and publish codes and guidelines, as well as to consider, review and propose reforms of the law relating to insurance business and the systems for regulating authorized insurers and licensed insurance intermediaries.

To ensure that the HKIA is financially independent of the Hong Kong Government, it is proposed that the HKIA should be financed by fees payable by (i) authorized insurers and insurance intermediaries, (ii) user fees for providing specific services by the HKIA and (iii) a levy of 0.1% on insurance premiums for all insurance policies under the Insurance (Levy) Order and the Insurance (Levy) Regulation. The Insurance (Levy) Regulation have been approved by the Legislative Council and will come into operation on 1 January 2018.

The final stage of the regulatory reform implementing the new statutory regulatory and licensing regime is expected to commence within two years from 26 June 2017. At present, the three SROs, including the Insurance Agents Registration Board established by the HKFI, The Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association, supervise insurance intermediaries (including insurance agents and brokers). Within two years from 26 June 2017, the HKIA will take over the regulation of insurance intermediaries from the three SROs and will regulate insurance intermediaries through overseeing the SROs accorded with regulatory authority to administer registration of insurance intermediaries and to investigate their misconduct. See "— XII. The Code of Conduct for Insurers", "— XIII. The Insurance Claims Complaints Bureau" and "— XIV. Regulation of Insurance Intermediaries" in this section.

II. ***Authorization under the IO***

Companies carrying on insurance business in or from Hong Kong must obtain authorization from the HKIA. Authorization will be granted only to insurers meeting certain requirements set out in section 8 of the IO, which focuses on, among other things, the following items:

- adequacy of capital;
- adequacy of solvency;
- fitness and properness of management and shareholders; and
- adequate reinsurance arrangements.

In addition, an authorized insurer must meet certain other criteria contained in the authorization guidelines issued by the HKIA, which are intended to ensure that the insurer is financially sound and competent to provide an adequate level of services to the insured public. These conditions continue to apply to an authorized insurer after its authorization. An authorized insurer is expected to have an office in Hong Kong with a professional management and staff establishment appropriate to the nature and scale of its operations, and its own senior management team, comprising a locally-based chief executive and adequate team head to oversee its key functions.

Types of Insurance Business under the IO

The IO requirements vary depending on the type of insurance business being undertaken by an insurer. The IO defines two main types of business as follows:

- long-term business covers those types of insurance business in which policies are typically in place for long periods and includes life and annuity, linked long-term, permanent health and retirement scheme management policies; and

- general business covers all business other than long-term business, including accident and sickness, fire, property, motor vehicle, general liability, financial loss and legal expenses insurance.

Both types of business defined in the IO include reinsurance as well as direct insurance business. With the exception of certain capital requirements in the case of pure reinsurers who do not undertake any direct insurance business, the authorization criteria are the same for both direct insurers and reinsurers.

An authorized insurer that undertakes both long-term and general business is referred to by the HKIA as a composite insurer.

In addition to these main types of business, the IO imposes further requirements on authorized insurers conducting insurance business relating to liabilities or risks in respect of which persons are required by law to be insured ("**Statutory Business**"), including employees' compensation insurance and third-party insurance in respect of motor vehicles.

The Target Company is an insurer authorized under the IO to carry out long term insurance business under Class A (Life and annuity), Class C (Linked long term), Class D (Permanent health), Class G (Retirement scheme management category I), Class H (Retirement scheme management category II) and Class I (Retirement scheme management category III).

Adequacy of capital

Section 8(3)(b) of the IO sets the following minimum paid up capital requirements for insurers depending on the type of business they intend to undertake. The minimum paid-up capital is currently HK$10 million, or HK$20 million for a composite insurer or for an insurer wishing to carry on Statutory Business.

Adequacy of solvency

Pursuant to sections 8(3)(a) and 35AA of the IO, an authorized insurer is required to maintain at all times an excess of assets over liabilities of not less than a required solvency margin. The objective is to provide a reasonable safeguard against the risk that the insurer's assets may be inadequate to meet its liabilities arising from unpredictable events, such as adverse fluctuations in its operating results or the value of its assets and liabilities.

For long term business insurers, the IO stipulates that the solvency margin required shall be the greater of HK$2 million and an amount specified under the Insurance (Margin of Solvency) Rules (Chapter 41F of the Laws of Hong Kong), which sets out a series of calculations to be used depending on the particular class of long term business involved and which is generally 4% of the mathematical reserves and 0.3% of the capital at risk.

To determine whether a long term business insurer meets the solvency margin requirements, its assets and liabilities are valued in accordance with the Insurance (Determination of Long Term Liabilities) Rules (Chapter 41E of the Laws of Hong Kong), which sets out the bases for the determination of the amount of long term business liabilities. An authorized insurer is required to adopt prudent provisions and assumptions, particularly on interest rates, when valuing the amount of long-term business liabilities. Among other things, valuation methods are specified for calculating the yields on assets and the amount of future premiums payable under an insurance contract.

Fitness and properness of management and shareholders

The IO requires that all directors, controllers, key persons in control functions and an appointed actuary of an insurer must be "fit and proper" persons to hold such positions. Section 9 of the IO defines an authorized insurer's controllers as including, among others, (i) a managing director of the authorized insurer or its holding company, (ii) a chief executive officer of the authorized insurer or its holding company (only if the holding company is also an insurer), (iii) a person (A) in accordance with whose directions or instructions the directors of the authorized insurer or its holding company (or any of them) are accustomed to act or (B) who, alone or with any associate or through a nominee, is entitled to exercise, or control the exercise of, 15% or more of the voting power at a general meeting of the authorized insurer or its holding company. Sections 13A, 13AC and 13AE of the IO require approval from the HKIA to be obtained prior to the appointment of the managing director, chief executive, director or key persons in control functions (including risk management, financial control, compliance, internal audit, actuarial and intermediary management functions) of the authorized insurer. Section 13B of the IO requires a person intending to become, alone or with their associate or through a nominee, entitled to exercise, or control the exercise of, 15% or more of the voting power at any general meeting of an authorized insurer is also required to seek HKIA's approval before becoming so entitled. Section 14 of the IO requires an authorized insurer to notify the HKIA of any change in the directors, controllers or key persons in control functions of an authorized insurer. In addition, section 15 of the IO requires that an authorized insurer which is incorporated in Hong Kong and carries on long term business must obtain the HKIA's prior approval for the appointment of an actuary. The HKIA has the power under the IO to raise objection and/or may revoke any approval given to any person if it appears that such person proposed to be appointed, become or has been appointed or become a controller, director, key persons in control functions or an appointed actuary of the authorized insurer is not fit and proper to hold that position.

Pursuant to section 14A of the IO, in determining whether a person is a fit and proper person, the HKIA must have regard to (i) the education or other qualifications or experience of the person, (ii) the person's ability to act competently, honestly and fairly, (iii) the reputation, character, reliability and integrity of the person, (iv) the person's financial status or solvency, (v) whether any disciplinary action has been taken against the person by the HKMA, the SFC, the MPFA or any other authority or regulatory organization, whether in Hong Kong or elsewhere, which in the HKIA's opinion, performs a function similar to those of the HKIA, (vi) if the person is a company in a group of companies, any information in the possession of the HKIA, (vii) the state of affairs of any other business which the person carries on or proposes to carry on and (viii) any other matter that the HKIA considers relevant in making the determination.

To provide general guidance as to how the HKIA assess the suitability of the relevant persons in fulfilling their roles in an insurer and the factors for determining the fitness and properness of a person, the HKIA has published the Guideline on "Fit and Proper" Criteria under the Insurance Ordinance (Cap. 41) (GL4). Under GL4,

- a controller or a director who is an individual, a key person in control function and an appointed actuary should possess appropriate professional and/or formal qualifications and knowledge, as well as skills and pertinent experience within the insurance and financial industries or other related businesses commensurate with the degree of their influence and their respective job duties and roles in the insurer's business. He/she should have an appropriate level of commitment to perform his/her role. He or she should be able to demonstrate integrity through character, personal behavior and business conduct. For this purpose, the HKIA may, amongst other things, take into account whether he/she has previously been found to have acted fraudulently or dishonestly, disqualified as a director, subject to disciplinary actions or regulatory investigations, convicted of a criminal office, refused or restricted from the right to carry on any business or profession by any regulatory authority, involved in the management of any body corporate that was insolvent or wound-up or that failed to comply with legal or regulatory requirements, or adjudicated bankrupt or have failed to satisfy any judgment debt; and

- a controller or director which is a body corporate be financially sound and stable. The HKIA may, among other things, consider whether it is subject to receivership, administration, liquidation or other similar proceedings, has failed to satisfy any judgment debt, has been refused or restricted from the right to carry on any business or profession by any regulatory authority, has been subject to disciplinary actions or regulatory investigations, has been a controller or director of any body corporate which has been insolvent or which failed to comply with legal or regulatory requirements, or which has a controller or director who fails to meet the requirements of fitness and properness for an individual. Where a body corporate intends to become or has become a shareholder controller of an insurer, the HKIA may also take into account whether the body corporate has sufficient financial resources to acquire or support the operations of the insurer.

After obtaining authorization, an authorized insurer is required to continue to comply with the approval and notification requirements in respect of any appointment of or changes in its controllers, directors, key persons in control functions or appointed actuary. These requirements aim at ensuring that the persons to be appointed or have been appointed, as appropriate, as controllers, directors, key persons in control functions or appointed actuary of an insurer are fit and proper.

As the Company will become controller of the Target Company under the IO upon the completion of the Acquisition, the Company is required to obtain the approval of the HKIA prior to completion of the Acquisition.

Adequacy of reinsurance arrangements

Section 8(3)(c) of the IO requires all insurers to have adequate reinsurance arrangements in force in respect of the risks of those classes of insurance business they carry out, or to justify why such arrangements are not necessary. The HKIA has issued a Guideline on Reinsurance (GL17) which sets out the general guiding principles of the HKIA in assessing the adequacy of the reinsurance arrangements of an insurer. In considering the adequacy of reinsurance arrangements, the HKIA will generally take into account, among other things, the following factors:

- reinsurance management framework of the insurer;
- type of reinsurance arrangements;
- maximum retention of the insurer;
- spread of risks among reinsurers; and
- security of reinsurers.

III. ***Appeals***

The Insurance Appeals Tribunal, which has the jurisdiction to review specified decisions and to hear and determine questions or issues arising out of such reviews, has been established pursuant to the IO. These specified decisions include decisions made by the HKIA to refuse or revoke authorization, to refuse or revoke approvals of controllers, directors, key persons in control functions and appointed actuaries under sections 13A, 13AC, 13AE, 13B and 15 of the IO or to impose conditions on authorizations or approvals. If a party to a review is dissatisfied with the decision of the Insurance Appeals Tribunal, it may appeal to the Court of Appeal.

IV. ***Maintenance of Assets***

Sections 22 to 23 of the IO require authorized insurers carrying on long term business to keep separate accounts and funds for each class of long term businesses and to maintain funds in excess of the liabilities of that part of the business to which those funds relate in an amount calculated on the basis of the solvency margin for that fund. The assets representing a fund in respect of the long term business of an insurer which are, based on an actuarial report, required to be so maintained shall be applied only for the purposes of that part of the business to which the fund relates.

The HKIA has also issued a Guideline on Reserve Provision for Class G of Long Term Business (GL7) to reinforce and enhance the required standard of provision for Class G business. Policies classified under Class G of long term business are mainly offered as retirement scheme contracts under the MPFSO or Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong). An insurer authorized to carry on Class G long term business is required, among other things, to maintain a designated fund for each series of Class G insurance policies with broadly identical contract terms within the Class G business fund. In respect of each designated fund, an insurer must have sufficient assets to meet the required provision for all liabilities attributable to the insurance policies concerned.

V. ***Accounting and Reporting Requirements***

The IO requires insurers to maintain proper books and accounts which must exhibit and explain all transactions entered into by them in the course of their business. Insurers must submit information including audited financial statements, a directors' report and statistics relating to the valuation of their insurance business and outstanding claims to the HKIA on an annual basis.

Authorized insurers carrying on long term business are also required to appoint an actuary to conduct an annual actuarial investigation and submit a report to the HKIA on their financial condition in respect of the long-term business. The appointed actuary is responsible for advising on all actuarial aspects of the financial management of an insurer's long term business including proper premium setting, a prudent reserving policy, a suitable investment allocation, appropriate reinsurance arrangements and due reporting of irregularities to the HKIA.

VI. ***Corporate Governance of Authorized Insurers***

The HKIA has issued a Guideline on the Corporate Governance of Authorized Insurers (GL10), which aims to enhance the integrity and general well-being of the insurance industry by providing assistance to authorized insurers for the evaluation and formulation of their internal practices and procedures. This guidance note sets out the minimum standard of corporate governance expected of authorized insurers. This guidance note covers the following key items:

- governance structure;
- roles and responsibilities of the board of directors;
- board matters;
- board committees;
- risk management and internal control systems;
- committees;
- remuneration matters; and
- servicing of customers.

VII. ***Asset Management***

In order to ensure that an authorized insurer will meet its contractual liabilities to policyholders, its assets must be managed in a sound and prudent manner, taking into account the profile of liabilities and risks of the insurer. The HKIA has issued a Guideline on Asset Management by Authorized Insurers (GL13), which aims to describe the essential elements of a sound asset management system and reporting framework across the full range of investment activities. This guidance note provides a checklist for assessing how insurers should control the risks associated with their investment activities and includes guidance and commentary on the following key items:

- asset liability management;
- investment process, policy and procedures;
- investment mandate given by the board of directors to senior management;
- risk management function;
- internal controls; and
- audit in respect of the authorized insurer's asset management functions.

In order to assess how authorized insurers control the risks associated with their investment activities, the HKIA may periodically request information from authorized insurers, including accessing information through on-site inspections and discussion with authorized insurers.

VIII. ***Outsourcing***

As outsourcing arrangements may increase an insurer's dependence on other parties and increase its risk profile, insurers are expected to adopt a sound and responsive management framework in formulating and monitoring outsourcing arrangements. For this purpose, the HKIA has issued a Guideline on Outsourcing (GL14) which aims to help insurers to identify and mitigate risks associated with outsourcing without hindering the efficiency and effectiveness of their operation. GL14 clarifies that outsourcing does not diminish the obligations of the insurer to comply with applicable laws and requires insurers to develop a framework to assess the materiality of an outsourcing arrangement, to assess the risks from such an arrangement (including risks specific to overseas service providers), to conduct due diligence in selecting a service provider, to enter into a legally binding agreement in respect of such an arrangement, to monitor and control such an arrangement and to put in place contingency plans in the event of undesired contingencies affecting the service provider.

Under GL14, an insurer should notify the HKIA when it is planning to enter into a new material outsourcing arrangement or significantly vary an existing one. Unless otherwise justifiable by the insurer, the notification should be made at least three months before the day on which the new arrangement is proposed to be entered into or the existing arrangement is proposed to be varied significantly. The insurer should satisfy the HKIA that it has taken into account and properly addressed all the essential issues in GL14 and the HKIA may require the insurer to take necessary action to address particular concerns. The HKIA may extend the three month prior notification period if the insurer is not able to address those concerns within the period.

IX. ***Powers of Inspection***

Under section 41B of the IO, the HKIA has the power to appoint inspectors to ascertain whether an insurer is complying with, has complied with or is likely to be able to comply with the IO, a notice or requirement under the IO or any condition of authorization or otherwise under the IO. An inspector may, at any reasonable time, enter the premises used by an insurer, inspect and make copies of business records of the insurer and make inquiries concerning the business of the insurer or any transaction or activity undertaken by the insurer. An inspector may require an insurer to give the inspector access to or produce its business records and to answer questions concerning any business record or transaction or activity undertaken by it.

X. ***Powers of Investigation and Discipline***

Under section 41D of the IO, if the HKIA (i) has reasonable cause to believe that a provision of the IO may have been contravened, a person may have been involved in defalcation, fraud, misfeasance or other misconduct in relation to the carrying on of insurance business, or a person has carried on or is carrying on insurance business in a manner that is not in the interests of policyholders or potential policyholders or the public interest, or (ii) for the purpose of considering whether to exercise its disciplinary powers, the HKIA has reason to enquire if a director or controller is or was guilty of misconduct or is or was not a fit and proper person, it may direct its employees to investigate.

An investigator may require a person to produce records or documents, to give an explanation in respect of such records or documents, to attend before the investigator and answer questions relating to any matter under investigation, to answer in writing any written question relating to any matter under investigation or to give the investigator all other assistance that the person is able to give. Under section 41G of the IO, a person is not excused from complying with any such requirement of an investigator only on the ground that to do so might tend to incriminate the person. However, if before giving an answer to a question or an explanation, a person claims that the answer or explanation might tend to incriminate him, the question and answer or the explanation are not, with the exception of a charge for perjury or like offences, admissible in evidence against the person in criminal proceedings in a court of law.

The HKIA may exercise disciplinary powers over an insurer if the insurer is or was guilty of misconduct or if it is of the opinion that a director or controller, past or present, is or was not fit and proper. These disciplinary powers include the power to revoke or suspend the authorization of the insurer, whether in relation to all or any class or classes of insurance business, to reprimand the insurer publicly or privately or to order the insurer to pay a pecuniary penalty not exceeding HK$10 million or three times the amount of profit gained or loss avoided as a result of the misconduct or the conduct of the director or controller leading to its opinion that such director or controller is or was not fit and proper.

XI. ***Power of Intervention***

The HKIA is empowered under Part V of the IO to intervene in an authorized insurer's business and take appropriate actions in the following circumstances:

- where the HKIA considers that the exercise of this power is desirable for protecting the interests of existing and potential policyholders against the risk that the authorized insurer may be unable to meet its liabilities or to fulfil the reasonable expectations of existing or potential policyholders;

- where it appears to the HKIA that the authorized insurer or its holding company has failed to satisfy any of its obligations under the IO;

- where it appears to the HKIA that the authorized insurer has provided misleading or inaccurate information to it for the purposes of the IO;

- where the HKIA is not satisfied as to the adequacy of the authorized insurer's reinsurance arrangements;

- where there exists a ground on which the HKIA would be prohibited from authorizing the insurer if it were to make an application for authorization on the basis that the insurer fails to meet paid-up capital requirements or any person who is a director or controller of the authorized insurer is not a fit and proper person; or

- where there appears to the HKIA that the authorized insurer fails to meet prescribed margins of solvency.

The HKIA may exercise certain powers of intervention, whether or not any of the above circumstances exist, at any time during the five-year period following authorization of the authorized insurer or a person becoming a controller of an insurer.

The actions that the HKIA may take in intervening in an authorized insurer's business include:

- restrictions on the authorized insurer effecting new business;

- restrictions on types of investments an authorized insurer may make, or requirements that the authorized insurer realize certain types of investments within a specified period;

- requirements that an authorized insurer maintain assets in Hong Kong equal to the whole or a specified portion of the liabilities arising from its Hong Kong business, and that these assets be held in the custody of a trustee approved by the HKIA;

- limits on the amount of premium income an insurer may receive during a specified period in respect of certain classes of business;

- requirements that the authorized insurer has to conduct a special actuarial investigation on its long term business to produce information and documents and to accelerate submission by the insurer; and

- if other powers of intervention would not appropriately safeguard the interests of policyholders or potential holders, require the authorized insurer to take such action as the HKIA considers appropriate, including the appointment of an adviser or a manager to assume control of an authorized insurer or the requirement to make a deposit with a bank in the name of the HKIA as trustee.

XII. ***The Code of Conduct for Insurers***

As part of the self-regulatory initiatives taken by the industry, the HKFI has published The Code of Conduct for Insurers. This code seeks to describe the expected standard of good insurance practice in the establishment of insurance contracts and claims settling; promote the disclosure of relevant and useful information to customers; facilitate the education of customers about their rights and obligations under insurance contracts; foster a high professional standard in the transaction of insurance business; and encourage insurers to promote and enhance the industry's public image and standing. This code applies to all general insurance members and life insurance members of the HKFI and applies to insurance effected in Hong Kong by individual policyholders resident in Hong Kong and insured in their private capacity only. As a condition of membership of the HKFI, all general insurance members and life insurance members undertake to abide by this code and use their best endeavors to ensure that their staff and insurance agents observe its provisions.

The Target Company is a member of the HKFI.

XIII. ***The Insurance Claims Complaints Bureau***

The Insurance Claims Complaints Bureau was established by the HKFI to implement self-regulation in the interpretation and handling of insurance claims complaints arising from all types of personal insurance policies taken out by residents of Hong Kong. The Insurance Claims Complaints Panel was established by the Insurance Claims Complaints Bureau with the objective of providing independent and impartial adjudication of complaints between insurers and their policyholders. The Insurance Claims Complaints Panel is in charge of handling claims complaints from both policyholders themselves and their beneficiaries and rightful claimants. The Insurance Claims Complaints Panel, in making its rulings, is required to act in conformity with the terms of the relevant policy, general principles of good insurance practice, any applicable rule of law or judicial authority, and any codes and guidelines issued from time to time by the HKFI.

XIV. ***Regulation of Insurance Intermediaries***

General provisions

Insurance intermediaries are defined under the IO as either insurance agents or insurance brokers. The key difference between the two types of insurance intermediaries is that insurance agents act as agents or subagents of insurers, while insurance brokers act as agents of policyholders and potential policyholders.

Under the IO, a person is prohibited from holding himself/herself out as an insurance agent or insurance broker unless such person is properly appointed or authorized respectively. A person is also prohibited from holding himself/herself out as an appointed insurance agent and an authorized insurance broker at the same time. It is an offence under the IO for an authorized insurer to effect a contract of insurance through, or accept insurance business referred to it by, an insurance intermediary who has not been properly appointed or authorized.

Registration and administration of appointed insurance agents and insurance brokers

To act as an insurance agent, a person is required to be appointed by an authorized insurer and registered with the IARB established by the HKFI. An appointed insurance agent shall not represent more than four insurers, of whom no more than two shall be long term business insurers. Under section 66 of the IO, an authorized insurer is required to keep a register of appointed insurance agents and to make such register available for public inspection at its registered office, principal place of business or the office of its authorized representative in Hong Kong or at a place the HKIA approves (currently being the registered office of HKFI). An authorized insurer is required to give the HKIA details of the registration or removal of its appointed insurance agents within seven days of such registration or removal. Alternatively, the authorized insurer may provide such details to the IARB, and in so doing the insurer concerned is considered as having complied with this requirement. Upon receipt of such notification by the insurer, the IARB shall update the register accordingly.

An authorized insurer is required to comply with the Code of Practice for the Administration of Insurance Agents issued by the HKFI and endorsed by the HKIA pursuant to section 67 of the IO in its administration of insurance agents. The Code of Practice for the Administration of Insurance Agent specifies the rules and procedures governing the registration and de-registration of insurance agents, the power of the IARB to handle complaints and to take disciplinary actions against insurance agents, the requirements for the administration of insurance agents by insurers, the fit and proper criteria of insurance agents, the conduct requirements for insurance agents and the minimum requirements of agency agreements. Section 68 of the IO specifies that an authorized insurer is responsible for the actions of its appointed insurance agents in their dealings with clients in respect of the issue of insurance contracts and related insurance business. The authority has the power to direct the de-registration of an appointed insurance agent.

An insurance broker in Hong Kong must either be a member of a self-regulatory body of insurance brokers approved under section 70 of the IO or authorized under section 69 of the IO. Currently, there are two approved bodies of insurance brokers, namely The Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association and all authorized insurance brokers in Hong Kong are members of one of them. The HKIA liaises closely with the two bodies of insurance brokers on policy issues regarding the exercise of their self-regulatory functions.

Bancassurance

While banks are predominantly regulated by the HKMA, banks selling insurance as an insurance agency must also be registered with the IARB and comply with the requirements of Part X of the IO. The members of staff that participate in the insurance activities of the bank must also be registered as technical representatives and are required to take the relevant exams and fulfil the continuing professional development criteria.

Licensing of insurance intermediaries and conduct regulation

Currently, the three SROs supervise insurance intermediaries and are subject to a self-regulatory system. The HKIA shall take over the duties of the three SROs and exercise new statutory powers to license and regulate insurance intermediaries. It is expected that such transition will be completed by June 2019.

Upon the licensing of insurance intermediaries and conduct regulations becoming effective, a person would require a license granted by the HKIA to carry on regulated activities, which cover activities in relation to giving advice on insurance and sale and after-sale administration of insurance policies (such as policy renewal or insurance claims), in the course of its business or employment or for reward. It would be an offence for a person who is not a licensed insurance intermediary to carry on any regulated activity or to hold out as a licensed insurance intermediary.

The categorization of licences under the new statutory licensing regime will mirror the existing five categories of registration under the current self-regulatory system to ensure a smooth transition. All pre-existing insurance intermediaries validly registered with the current SROs before the commencement of the statutory licensing regime would deemed as licensees under the new regime for three years. The proposed categorization of licenses under the new statutory licensing regime is as follows:

	Insurance agent	**Insurance broker**
Licence to business entities	• Licensed insurance agencies	• Licensed insurance broker companies
License to individuals	• Licensed individual insurance agents • Licensed technical representatives (agent)	• Licensed technical representatives (broker)

In addition, under the new statutory licensing regime, a licensed insurance agency or licensed broker company would be required to appoint at least one responsible officer who should ensure that internal control systems and procedures are in place to promote compliance with conduct requirements within a body corporate.

XV. ***Anti-Money Laundering and Counter-Terrorist Financing***

The AMLO provides for, inter alia, the statutory requirements relating to customer due diligence and record-keeping for financial institutions, and the powers of relevant authorities including the HKIA to supervise compliance with the AMLO. All authorized insurers, reinsurers, appointed insurance agents and authorized insurance brokers carrying on or advising on long term insurance business have to comply with the requirements under the AMLO and the Guideline on Anti-Money Laundering and Counter-Terrorist Financing published by the SFC.

To keep the insurance institutions abreast of the latest anti-money laundering and counter-terrorist financing developments, the HKIA, in cooperation with the FSTB and the Joint Financial Intelligence Unit, convened two anti-money laundering seminars for the insurance industry in December 2016. The HKIA also worked with the Vocational Training Council and developed an anti-money laundering and counter-terrorist financing course for the insurance industry which has been launched since the fourth quarter of 2012.

XVI. ***The risk-based capital framework for the insurance industry in Hong Kong***

The IO and its regulations, together with the guidelines issued by the HKIA, prescribe a capital adequacy framework for authorized insurers operating in Hong Kong. For the existing capital adequacy framework, capital adequacy is assessed based on an insurer's solvency margin. In current regime, while the IO stipulates a minimum solvency requirement of 100%, the HKIA adopts a solvency ratio benchmark of 150% for long term insurers (including the Target Company). In recent years, it has been recognized globally that the capital adequacy framework should take into account different risk factors of different insurers, and be conducive to enhance the corporate governance, ERM and public disclosure practices of insurers. The International Association of Insurance Supervisors has issued new Insurance Core Principles in relation to RBC requirements in late 2011. All insurance supervisors, including the HKIA, are obliged to comply with these new Insurance Core Principles as soon as practicable. Accordingly, the HKIA plans to move towards an RBC regime, establishing a clear and consistent valuation standard (including explicit best estimates of technical provisions and risk margins) and risk-sensitive capital requirements, supported by continued enhancement of corporate governance, ERM and public disclosure. The HKIA commissioned a consultancy study in 2012-2013 for developing an RBC framework that is appropriate for Hong Kong's insurance industry.

Under the RBC regime, it is proposed that the protection of policyholders will be strengthened by relating capital adequacy to the risk exposure of the insurer. An insurer exposed to higher risks is required to hold a higher amount of capital. Apart from capital adequacy, a solvency regime also includes other qualitative and technical requirements, in particular on corporate governance, ERM and disclosure requirements at the group level. These proposed developments will also enable a more structured approach for macro-prudential surveillance, enhancing the supervisory capacity to identify, assess and mitigate vulnerabilities. The move towards developing an RBC framework does not necessarily imply a need to increase or decrease capital for individual insurers. The framework seeks to, consistent with international practice, make capital requirements more sensitive to the level of risk that individual insurers and insurance groups are bearing. The three-month consultation on the proposed RBC framework for the insurance industry of Hong Kong ended on 15 December 2014.

It is intended by the HKIA that the RBC regime will be developed in the following phases:

- Phase I involving the development of the framework and key approaches has completed.

- Phase II involving development of detailed rules of the RBC regime has commenced. The HKIA commissioned a consultancy study to formulate detailed rules for conducting the qualitative impact studies ("**QIS**"). Four industry focus groups comprising representatives from the industry have been established to discuss technical aspects identified from the Consultation Conclusions on a Risk-based Capital Framework for the insurance industry of

Hong Kong published on 30 September 2015. The HKIA aims at developing guidance and proforma for the QIS to be conducted in the second half of 2017, which seeks to obtain sufficient and appropriate data on quantitative and qualitative impact on insurers. Completed QIS shall be submitted to the HKIA by 1 December 2017.

- Phase III will involve amendment of legislation. At least two to three years will be needed to complete all the preparatory tasks including public consultations.

- Phase IV will be the implementation phase. The new RBC regime should be rolled out in phases with a sufficiently long run-in period, so that insurers will have adequate time to understand the requirements thoroughly, and be able to achieve full compliance incrementally.

XVII. ***Proposed establishment of a policyholders' protection fund***

To better protect policyholders' interest, maintain market stability in the event of insurer insolvency and enhance public confidence in and competitiveness of the insurance industry, the Hong Kong government intends to establish a policyholders' protection fund as a safety net for policyholders. The Hong Kong government is preparing the enabling legislation for establishing the policyholders' protection fund.

B. **Mandatory Provident Fund Schemes**

I. ***The Mandatory Provident Fund Schemes Authority***

Companies that operate compulsory retirement schemes in Hong Kong are regulated under the MPFSO. The MPFA is the body established to act as the regulatory authority under the MPFSO and, among other things, is responsible for (i) approving and supervising trustees of MPF schemes, (ii) registering MPF schemes and making rules for the administration of such schemes, and (iii) registering MPF intermediaries and otherwise regulating the sales and marketing of MPF schemes.

II. ***Approved trustee***

All applicants must be approved by the MPFA before they can act as trustees for MPF schemes. The MPFA may approve an application for a company incorporated in Hong Kong to be a trustee if it is satisfied, amongst other things, that (i) the company is likely to perform, in a proper manner, the duties of an approved trustee under the MPFSO, (ii) the company has at least five directors, all of whom are natural persons and one of whom must be independent, (iii) the company has no business other than trust business, (iv) all of the controllers are of good reputation and character and have not been found guilty of an offence involving fraud or dishonesty, (v) the chief executive and the majority of the directors, have the skill, knowledge, experience and qualifications that are necessary for the successful administration of provident fund schemes, (vi) the company will comply with prescribed capital adequacy requirements and (vii) has sufficient presence and control in Hong Kong and sufficient expertise and management resources in Hong Kong to conduct its operations effectively. The authorization granted by the MPFA to an approved trustee to carry on MPF business in or from Hong Kong does not have a definitive term.

MMT, a wholly-owned subsidiary of the Target Company, is an approved trustee. Under the Trustee Ordinance, no member of a trust company shall at any time hold shares in the capital of the company to an amount exceeding one-fifth of the issued capital of the company. There is no restriction under the Trustee Ordinance on different member companies in the same group holding all the shares in the capital of a trust company. MMT is currently owned as to 20% by the Target Company, 20% by MassMutual Guardian Limited, 20% by MassMutual Services Limited, 20% by Protective Capital (International) Limited and 20% by Mr. Keng Puang Tay on trust for the Target Company. Each of MassMutual Guardian Limited, MassMutual Services Limited, Protective Capital (International) Limited is a wholly-owned subsidiary of the Target Company. Prior to Completion, the 20% interest held in MMT by Mr. Keng Puang Tay on trust for the Target Company will be transferred to MassMutual Asia Investors Limited, a wholly-owned subsidiary of the Target Company.

III. ***Controllers***

Under sections 42B to 42D of the Mandatory Provident Fund Schemes (General) Regulation (Chapter 485A of the Laws of Hong Kong), no person may become a controller of an approved trustee without the prior written consent of the MPFA. Such consent may be subject to such reasonable conditions as the MPFA may impose. The MPFA may only give consent if it is satisfied that the person is of good reputation and character and has not been found guilty of an offence involving fraud or dishonesty.

Under section 2 of the MPFSO, the following persons are controllers of an approved trustee that is a company:

(a) the chief executive officer and directors of the company;

(b) a person in accordance with whose instructions those directors are accustomed to act;

(c) a natural person who, alone or together with an associate, a close relative or an employee of the person, or a company of which the person is a director, or through a nominee, controls at least 15% of the voting shares of the company (a substantial shareholder); or

(d) another company that, alone or with any associate, or any employee of an associate, of that other company, or through a nominee, controls at least 15% of the voting shares of the first-mentioned company.

Where a person proposes to become a chief executive officer or a director of an approved trustee, the MPFA must be satisfied that the person acting as the chief executive officer has, or a majority of the directors have, the skill, knowledge, experience and qualifications that are, in the opinion of the MPFA, necessary for the successful administration of provident fund schemes.

Under section 62 of the Mandatory Provident Fund Schemes (General) Regulation (Chapter 485A of the Laws of Hong Kong), an approved trustee must notify the MPFA of the occurrence of an event of a significant nature. An event of a significant nature includes any change or proposed change of any controller of the approved trustee.

Under section 42E of the Mandatory Provident Fund Schemes (General) Regulation (Chapter 485A of the Laws of Hong Kong), a person who has become a controller of an approved trustee may be served a notice by the MPFA objecting to the person continuing to be a controller of the approved trustee on the grounds that (i) the person appointed is no longer a person of good reputation and character or has been found guilty of an offence involving fraud or dishonesty, and (ii) the person continuing to be a controller of the approved trustee is not in the interests of the members of the scheme administered by the approved trustee.

IV. ***Supervision of approved trustee***

The MPFA adopts a proactive, risk-based supervisory approach in supervising MPF approved trustees, with a view to helping them develop good corporate governance, proper risk management and a strong compliance culture within their organizations. This approach encompasses both on-site inspections and off-site monitoring, the scope of which is determined in part by the risk profile of each MPF approved trustee. In terms of on-site inspections, the MPFA carries out thematic reviews on approved trustees to check on specific areas of their operations. Approved trustees are required to rectify internal control weaknesses identified during these inspections, and non-compliance issues, if any. In terms of off-site monitoring, approved trustees are also required to submit returns, audited financial statements and reports in respect of themselves and the schemes under their trusteeship, on a monthly, quarterly and annual basis. Based on such returns, reports and financial information, the MPFA will carry out investigations and follow-up actions if irregularities, deficiencies or contravention of the MPF legislation are identified. Moreover, the MPFA takes follow-up actions on issues identified from complaints against approved trustees by scheme participants. The MPFA also maintains a regular dialogue with the approved trustees through liaison group, sharing sessions and working groups on various issues, including administration and operational matters, as well as initiatives to enhance the MPF system.

The MPFA also issues various codes and guidelines to approved trustees, ensuring that they act in compliance with statutory requirements and supervising the work of their appointed service providers. The service providers are responsible for scheme administration and record keeping, formulation of investment strategies and decisions, and custody of scheme assets respectively.

V. ***MPF intermediaries***

Pursuant to the MPFSO, only registered MPF intermediaries are allowed to sell MPF scheme products or provide advice on MPF scheme products. Registered MPF intermediaries must act in the best interests of clients and comply with a set of statutory conduct requirements when they sell MPF schemes or provide advice on MPF products. To facilitate compliance, the MPFA has issued Guidelines on Conduct Requirements for Registered Intermediaries on the standards of conduct. The MPFA is the authority to administer the registration of MPF intermediaries. The MPFA has issued Guidelines on MPF Intermediary Registration and Notification of Changes setting out the approval criteria and application procedures. In addition, intermediaries must report any relevant change in writing to the MPFA within seven working days. For principal intermediaries, relevant changes include the principal intermediary ceases to carry on any regulated activity, a subsidiary intermediary ceases to be a responsible officer of the principal intermediary, a change in the addresses of any contact details of the principal intermediaries or the acquisition, suspension or cessation of the requisite qualification. For subsidiary intermediaries, relevant changes include a change in the name, address or any contact details of the subsidiary intermediary, the acquisition suspension or cessation of the requisite qualification or upon the subsidiary intermediary ceases to be a responsible officer of the principal intermediary.

The MPFA has the power to impose disciplinary actions on MPF intermediaries. On the other hand, the HKIA is given the statutory role for monitoring compliance of registered MPF intermediaries, of whom the HKIA has been assigned as the frontline regulator, with the conduct requirements stipulated in the MPFSO. If the HKIA has reasonable cause to believe that the registered MPF intermediaries may have failed to comply with the statutory conduct requirements, the HKIA may exercise the investigation powers under the MPFSO for investigating the suspected non-compliance. An intermediary who fails to report relevant changes commits an offence and may be liable to a fine of up to HK$50,000.

The Target Company is a principal intermediary registered under the MPFSO to carry on MPF regulated activities under the MPFSO.

VI. ***MPF products***

All MPF schemes must be registered with the MPFA and authorised by the SFC. The SFC is responsible for considering the qualifications and experience of the investment manager of an MPF scheme and the disclosures in the offering document for the scheme. The SFC is also responsible for authorising the offering documents and marketing materials of authorised MPF products.

Under the SFC Code on MPF Products, the offering document of an MPF registered scheme must contain minimum disclosures, which will vary for the scheme itself and its pooled investment funds. Any change in the offering document must be submitted to the SFC for prior approval. The SFC may require scheme participants to be notified.

The MPFA is responsible for all other aspects of the regulation of MPF Schemes. The registration and approval of MPF schemes and funds involves detailed review which focuses on compliance with MPF legislation and protection of the interests of MPF scheme members.

MMT is the trustee of the MASS Mandatory Provident Fund Scheme, a master trust scheme open to the employees of participating employers, self-employed persons and persons with accrued benefits transferred from other schemes. The MASS Mandatory Provident Fund Scheme has been registered as a master trust scheme with the MPFA on 31 January 2000.

VII. ***Anti-Money Laundering and Counter-Terrorism Financing***

At present, approved trustees of MPF schemes are not subject to specific statutory regulation in respect of anti-money laundering and counter-terrorism financing. However, the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Bill 2017 proposes that trust companies be subject to (i) a requirement to be licensed with the Registrar of Companies, which will include a requirement for its directors and ultimate owner(s) to be approved, and (ii) prescribed customer due diligence requirements.

As proposed, the definition of an "ultimate owner" means a person who (i) owns or controls, directly or indirectly, more than 25% of the issued share capital of the trust company, (ii) is directly or indirectly entitled to exercise or control the exercise of more than 25% of the voting power at the general meetings of the trust company, or (iii) exercises ultimate control over the management of the trust company.

When the bill was introduced, the Hong Kong government proposed an implementation timetable beginning in March 2018. The bill was introduced by first reading in June 2017 and a bills committee in respect thereof was formed in July 2017. As presently drafted, the bill does not exempt trustees approved by the MPFA or trustees registered with the Registrar of Companies from licensing thereunder. The timetable and the requirements of the bill remain uncertain.

C. **Investment-linked assurance schemes**

Companies that wish to deal in and advise on securities in Hong Kong must be licensed to do so under the SFO, and the marketing and promotion of certain financial products and schemes that involve investment in securities is also regulated under the SFO and subsidiary legislation enacted thereunder. The SFC is the body responsible for licensing, supervision and enforcement pursuant to the SFO. Licensed corporations under the SFO are subject to financial adequacy and reporting requirements and directors, senior management and individuals responsible for investment activities must satisfy suitability and qualification requirements and be approved by the SFC.

Under the SFO, unless exempted, no person may issue an offer or invitation to the public to enter into an agreement to acquire or subscribe for securities, to enter into a regulated investment agreement or to acquire an interest in or to participate in a collective investment scheme unless the issue is authorized by the SFC. Authorization may be subject to such conditions as the SFC considers appropriate.

The marketing to the public of investment-linked products and schemes, including ILAS, as well as MPF products is subject to authorization by the SFC. For the purpose of providing guidance as to how the SFC will exercise its discretion to authorize these products and the issue of offers or invitations thereof, the SFC has published the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Products and the SFC Code on MPF Products (see "B. Mandatory Provident Fund Schemes — VI. MPF products" in this section), which set specific requirements for the structure of ILAS and MPF schemes, as well as the post-authorization requirements.

Under the Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Products, an issuer of an ILAS must be an authorized insurer and the offering document for an ILAS must contain minimum disclosures, including product features and risk factors, to enable prospective investors to make an informed judgment of any investment in the scheme. Any change in the controlling shareholder of the issuer of an ILAS is subject to prior SFC approval. The SFC may require any such change to be notified to scheme holders and any change in the offering document resulting from a change in controlling shareholder is subject to SFC approval.

Under the SFC Code on MPF Products, the offering document of an MPF registered scheme must contain minimum disclosures, which will vary for the scheme itself and its pooled investment funds. Any change in the offering document must be submitted to the SFC for prior approval. The SFC may require scheme participants to be notified.

As of the Latest Practicable Date, the Target Company has 12 ILAS schemes authorized by the SFC.

On the other hand, in selling ILAS products, banks (being bancassurance partners) and their staff are regulated and supervised by the HKMA. The HKMA has tightened controls on the sale of ILAS by imposing additional requirements including commission disclosures, key facts statements, customer's declarations and post-sale controls in 2013. Furthermore, the HKIA has put a ban on the payment of advance commissions for ILAS products. Insurers are only permitted to pay commission on an earned basis. This move aims to reduce mis-selling and sales based on misrepresentation. Accordingly to the guidelines of the HKIA, payment of indemnity commissions or any agreement for paying commissions in advance is strictly banned for ILAS products. Commission should be paid at a frequent interval over a suitable duration to facilitate an improved after-sales service. In addition, the HKIA increased the minimum death benefit that insurers are required to provide with ILAS products from 101% of each policy's account value to 105%.

REGULATORY FRAMEWORK — MACAU

I. *Insurance authority*

In Macau, the authority for the supervision, coordination and inspection of insurance activity rests with the Chief Executive of Macau, while the actual execution of these functions is carried out by the AMCM through its Insurance Supervision Department.

II. *Macau Insurance Ordinance*

The Macau Insurance Ordinance, Decree-Law No. 27/97/M, enacted on 30 June 1997, regulates the business of insurance companies in Macau, while the Insurance Agents and Brokers Ordinance, Decree-Law No. 38/89/M, enacted on 5 June 1989, as amended by Administrative Regulation No. 27/2001 and Administrative Regulation No. 14/2003, regulates the insurance intermediary sector. Under the Macau Insurance Ordinance, insurance companies can be licensed as a locally incorporated company, a branch with head office overseas or a representative office. A foreign insurer must be licensed and have been in operation for more than five years in its country or territory of origin, must have sound business and financial ability and have no record of material violation of laws and regulations in order to be permitted to establish a branch. A foreign insurer will only be permitted to carry on in Macau, through its authorized branch, the class of insurance for which it is licensed and which it effectively operates in its jurisdiction. The Target Company's branch office in Macau is registered as a branch of an insurance company incorporated overseas and is licensed to operate in Macau as a life insurer and as a private pension fund manager.

The authorization granted by the AMCM to an insurer to carry on insurance business in Macau does not have a definitive term. Authorized insurers are subject to the payment of an annual supervisory fee announced by the AMCM.

There is no specific ownership restriction for an insurer in Macau. However, as part of the application process, the applicant must submit in relation to every founder member which is a corporate entity, the identification of the members of the administrative bodies together with biographical details and the composition of share capital and a list of shareholders with 10% or more of the said capital for consideration by the AMCM.

Once authorized, insurers have to comply with various requirements of the Macau Insurance Ordinance, including, among others, submission of quarterly and yearly accounts, setting up of technical reserves, guaranteeing of technical reserves with assets and maintain a margin of solvency. In addition, insurers authorized to carry on their activity in Macau shall be subject to the payment of an annual supervisory fee. The amount of supervisory fee for each year shall be fixed by AMCM by way of notice in the month of December of each year.

III. ***Agents and Brokers Ordinance***

The Agents and Brokers Ordinance, Decree-Law 38/89/M of 5 June, regulates the insurance intermediary sector in Macau. Pursuant to the Agents and Brokers Ordinance, it is compulsory for any person, individual or body corporate, wishing to conduct insurance intermediary business in Macau to obtain the necessary license. Under the Agents and Brokers Ordinance, insurance intermediaries are classified into three categories, including insurance agents (individuals or corporate entities which act in the name of and on behalf of one or more insurers), insurance salesman (individuals who are simultaneously employees of insurance companies or insurance brokers and who act, whilst carrying on the business of an intermediary, in the name of and on behalf of the respective insurance company or broker), and insurance brokers (corporate entities, formed with the exclusive object of carrying on the business of an insurance intermediary, who act in the name of and on behalf of the insured). In addition, the Agents and Brokers Ordinance also sets out the respective authorization procedures, their rights and obligations, the supervisory powers of AMCM, the sanctions applicable in case of non-compliance and the powers of intervention.

The following is the text of a report on MassMutual Asia Limited received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF MASSMUTUAL ASIA LIMITED TO THE DIRECTORS OF YUNFENG FINANCIAL GROUP LIMITED

Introduction

We report on the historical financial information of MassMutual Asia Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages IV-4 to IV-118, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2014, 31 December 2015 and 31 December 2016 and for the six months ended 30 June 2017 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IV-4 to IV-118 forms an integral part of this report, which has been prepared for inclusion in the circular of Yunfeng Financial Group Limited (the "Company") dated 21 December 2017 (the "Circular") in connection with the proposed acquisition of the Target Group by the Company.

Directors' responsibility for Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2014, 31 December 2015, 31 December 2016 and 30 June 2017 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Target Group which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended 30 June 2016 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Target Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page IV-4 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
21 December 2017

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared by the directors of the Target Company based on previously issued consolidated financial statements of the Target Group for the Relevant Periods ("Previously Issued Financial Statements"). The Previously Issued Financial Statements were audited by KPMG under separate terms of engagement with the Target Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Historical Financial Statements").

Consolidated income statements
for the year ended 31 December 2014, 2015, 2016 and
six months ended 30 June 2016 and 2017
(Expressed in Hong Kong dollars)

		Year ended 31 December			Six months ended 30 June	
	Note	**2014**	**2015**	**2016**	**2016**	**2017**
		$	*$*	*$*	*$*	*$*
					(Unaudited)	
Income						
Premiums and fee income	6	2,590,787,526	3,140,192,836	3,585,864,525	1,779,144,192	1,877,254,618
Premiums ceded to reinsurer		(195,042,382)	(179,813,221)	(254,968,549)	(96,989,093)	(282,096,372)
Net premium and fee income		2,395,745,144	2,960,379,615	3,330,895,976	1,682,155,099	1,595,158,246
Change in unearned revenue liability		(267,431,770)	48,277,181	(432,117,737)	(7,172,272)	(259,173,552)
Net earned premium and fee income		2,128,313,374	3,008,656,796	2,898,778,239	1,674,982,827	1,335,984,694
Net investment and other income	8	1,061,297,782	631,834,580	1,146,271,036	267,264,542	1,553,617,898
Reinsurance commission and profit commission		19,233,588	18,575,641	467,318,210	1,586,201	7,082,948
		3,208,844,744	3,659,067,017	4,512,367,485	1,943,833,570	2,896,685,540
Benefits, losses and expenses						
Net policyholders benefit	9	1,302,191,130	983,626,536	1,505,446,115	563,946,236	1,681,691,229
Commission and related expenses	10	1,046,591,321	1,103,742,231	1,218,959,223	543,409,134	518,604,272
Management and other expenses		414,946,954	438,326,157	455,311,915	218,484,815	240,173,180
Change in future policyholder benefits and deferred acquisition costs	11	(225,756,736)	424,327,633	166,543,312	344,587,922	178,714,262
		2,537,972,669	2,950,022,557	3,346,260,565	1,670,428,107	2,619,182,943
Profit before taxation	7	670,872,075	709,044,460	1,166,106,920	273,405,463	277,502,597
Tax expenses	12	35,734,274	40,630,243	46,952,520	24,165,579	19,890,697
Profit after taxation		635,137,801	668,414,217	1,119,154,400	249,239,884	257,611,900

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of comprehensive income for the year ended 31 December 2014, 2015, 2016 and six months ended 30 June 2016 and 2017
(Expressed in Hong Kong dollars)

		Year ended 31 December			Six months ended 30 June	
	Note	**2014**	**2015**	**2016**	**2016**	**2017**
		$	*$*	*$*	*$*	*$*
					(Unaudited)	
Profit for the year/period after taxation		635,137,801	668,414,217	1,119,154,400	249,239,884	257,611,900
Other comprehensive income for the year/period						
Items that may be reclassified subsequently to profit or loss:						
Net movement in the fair value reserve during the year/period recognised in other comprehensive income	15	277,313,874	(187,405,345)	517,019,948	867,067,046	432,990,360
Unrealised (loss)/gain related to amortisation of deferred acquisition costs	19	(295,576,749)	515,425,741	(332,913,057)	(721,470,091)	(378,230,735)
Unrealised gain/(loss) related to amortisation of unearned revenue liability - Insurance contract provisions	25(iii)	194,819,969	(351,355,780)	243,060,605	557,930,180	304,434,305
Unrealised gain/(loss) related to amortisation of unearned revenue liability - Investment contract liabilities	26(iii)	9,204,169	(17,987,763)	14,201,870	32,165,127	21,260,640
		185,761,263	(41,323,147)	441,369,366	735,692,262	380,454,570
Total comprehensive income for the year/period	31	820,899,064	627,091,070	1,560,523,766	984,932,146	638,066,470
Total comprehensive income attributable to:						
Equity shareholders of the Target Company		820,899,064	627,091,070	1,560,523,766	984,932,146	638,066,470

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of financial position
at 31 December 2014, 2015 and 2016 and 30 June 2017
(Expressed in Hong Kong dollars)

	Note	As at 31 December 2014	2015	2016	As at 30 June 2017
		$	$	$	$
Assets					
Fixed assets	16	25,111,141	44,752,610	61,320,778	73,146,213
Statutory deposits	17	1,505,700	1,511,723	1,517,819	1,517,819
Investments in subsidiaries	18	—	—	—	—
Deferred acquisition costs	19	6,703,430,955	7,429,423,466	7,769,240,066	7,710,557,121
Investments	20	26,460,903,058	29,175,630,316	34,958,707,064	37,845,764,991
Advance reinsurance premiums	21	7,838,048	7,217,239	8,752,419	8,752,419
Reinsurers' share of outstanding claims	27	24,797,622	18,787,370	28,918,485	36,604,368
Insurance and reinsurance receivables	22	70,680,732	99,266,857	148,068,367	179,725,453
Other receivables	23	476,944,837	477,332,576	462,933,790	386,466,808
Deposits with banks maturing after more than three months	24	161,250,000	174,250,000	204,250,000	204,250,000
Cash and cash equivalents	24	692,688,518	848,346,192	816,466,397	971,573,908
		34,625,150,611	38,276,518,349	44,460,175,185	47,418,359,100
Liabilities					
Insurance contract provisions	25	26,841,621,067	29,398,572,655	33,013,609,149	35,274,822,975
Investment contract liabilities	26	2,450,984,898	2,860,607,780	3,650,636,948	3,836,103,467
Outstanding claims	27	95,157,622	88,797,092	116,044,389	139,265,219
Reinsurance premium payables	28	86,888,012	121,754,098	211,296,377	277,775,150
Other payables	29	553,361,199	578,421,603	678,212,229	442,059,029
Tax payable	30	1,412,141	5,548,379	7,035,585	26,926,282
		30,029,424,939	33,053,701,607	37,676,834,677	39,996,952,122
NET ASSETS		4,595,725,672	5,222,816,742	6,783,340,508	7,421,406,978
CAPITAL AND RESERVES					
Share capital	31	896,000,000	896,000,000	896,000,000	896,000,000
Retained profits		3,116,856,441	3,785,270,658	4,904,425,058	5,162,036,958
Reserves	31	582,869,231	541,546,084	982,915,450	1,363,370,020
TOTAL EQUITY		4,595,725,672	5,222,816,742	6,783,340,508	7,421,406,978

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of changes in equity for the year ended 31 December 2014, 2015, 2016 and six months ended 30 June 2016 and 2017
(Expressed in Hong Kong dollars)

	Note	Share capital $	Fair value reserve $	Retained profits $	Total $
At 1 January 2014		896,000,000	397,107,968	2,481,718,640	3,774,826,608
Profit for the year		—	—	635,137,801	635,137,801
Other comprehensive income for the year	31(a)	—	185,761,263	—	185,761,263
At 31 December 2014		896,000,000	582,869,231	3,116,856,441	4,595,725,672
At 1 January 2015		896,000,000	582,869,231	3,116,856,441	4,595,725,672
Profit for the year		—	—	668,414,217	668,414,217
Other comprehensive income for the year	31(a)	—	(41,323,147)	—	(41,323,147)
At 31 December 2015		896,000,000	541,546,084	3,785,270,658	5,222,816,742
At 1 January 2016		896,000,000	541,546,084	3,785,270,658	5,222,816,742
Profit for the year		—	—	1,119,154,400	1,119,154,400
Other comprehensive income for the year	31(a)	—	441,369,366	—	441,369,366
At 31 December 2016		896,000,000	982,915,450	4,904,425,058	6,783,340,508
At 1 January 2016		896,000,000	541,546,084	3,785,270,658	5,222,816,742
Profit for the period		—	—	249,239,884	249,239,884
Other comprehensive income for the period	31(a)	—	735,692,262	—	735,692,262
At 30 June 2016 (unaudited)		896,000,000	1,277,238,346	4,034,510,542	6,207,748,888
At 1 January 2017		896,000,000	982,915,450	4,904,425,058	6,783,340,508
Profit for the period		—	—	257,611,900	257,611,900
Other comprehensive income for the period	31(a)	—	380,454,570	—	380,454,570
At 30 June 2017		896,000,000	1,363,370,020	5,162,036,958	7,421,406,978

The accompanying notes form part of the Historical Financial Information.

Consolidated cash flow statements
for the year ended 31 December 2014, 2015, 2016 and
six months ended 30 June 2016 and 2017
(Expressed in Hong Kong dollars)

		Year ended 31 December			Six months ended 30 June	
	Note	**2014**	**2015**	**2016**	**2016**	**2017**
		$	*$*	*$*	*$*	*$*
					(Unaudited)	
Operating activities						
Profit before taxation		670,872,075	709,044,460	1,166,106,920	273,405,463	277,502,597
Adjustments for:						
Interest income from bank deposits		(3,484,329)	(3,487,372)	(3,506,748)	(1,700,660)	(2,076,119)
Depreciation	16	11,301,511	10,902,414	9,907,653	4,932,479	4,679,575
Effect of shadow accounting on change in deferred acquisition costs and unearned revenue liability		(91,552,611)	146,082,198	(75,650,582)	(131,374,784)	(52,535,790)
Loss on disposal of fixed assets		19,403	741	33,339	—	—
Net realised investment (gain)/ loss	8	(195,763,422)	(127,015,037)	75,985,326	79,298,050	(88,423,255)
Net unrealised loss/(gain) on securities designated at fair value through profit or loss	8	106,080,203	540,748,090	(48,990,254)	96,750,691	(774,492,730)
Impairment loss	8	11,504,193	30,609,387	11,861,005	4,750,496	12,322,652
Net derivative (gain)/loss	8	(88,908,379)	(94,132,149)	(482,500)	95,458,113	57,981,498
Interest credited to policyholders' deposits	9(b)	932,553,487	511,211,331	1,052,907,553	344,269,307	1,459,558,757
Amortization of investments		(26,734,495)	(31,469,533)	(21,819,233)	(12,592,191)	(12,418,794)
Operating cash flow before working capital changes		1,325,887,636	1,692,494,530	2,166,352,479	753,196,964	882,098,391
Increase in statutory deposits		(5,700)	(6,023)	(6,096)	—	—
(Increase)/decrease in deferred acquisition costs		(423,245,785)	(725,992,511)	(339,816,600)	694,618,570	58,682,945
Primary change		(718,822,534)	(210,566,770)	(672,729,657)	(26,851,521)	(319,547,790)
Effect of shadow accounting		295,576,749	(515,425,741)	332,913,057	721,470,091	378,230,735
Decrease/(increase) in advance reinsurance premiums		7,931,173	620,809	(1,535,180)	—	—
Decrease/(increase) in reinsurer's share of outstanding claims		3,518,853	6,010,252	(10,131,115)	(2,039,256)	(7,685,883)
(Increase)/decrease in insurance and investment receivable		(13,708,614)	(28,938,576)	(48,994,794)	12,493,073	(31,945,366)
(Increase)/decrease in other receivables		(70,504,370)	49,311,055	(27,240,331)	(61,197,146)	(36,310,503)
Decrease in policyholders' deposits		(1,568,991,694)	(1,848,443,191)	(1,968,085,935)	(1,032,139,131)	(969,841,680)

	Note	Year ended 31 December 2014	2015	2016	Six months ended 30 June 2016	2017
		$	$	$	$ (Unaudited)	$
Increase in future policyholders' benefits		493,065,798	634,894,403	839,272,969	371,439,443	498,262,052
Increase/(decrease) in unearned revenue liability		63,407,632	321,066,362	174,855,262	(582,923,035)	(66,521,393)
Primary change		267,431,770	(48,277,181)	432,117,737	7,172,272	259,173,552
Effect of shadow accounting		(204,024,138)	369,343,543	(257,262,475)	(590,095,307)	(325,694,945)
(Decrease)/increase in outstanding claims		(1,444,363)	(6,360,530)	27,247,297	13,016,483	23,220,830
Increase in reinsurance premium payables		15,487,106	34,866,086	89,542,279	10,185,031	66,478,773
Increase/(decrease) in other payables		153,809,838	69,512,248	104,201,729	(91,236,640)	(244,150,404)
Decrease in tax reserve certificates		136,062,716	—	—	—	—
Others		(167,815,508)	7,462,476	(31,057,534)	(25,383,194)	(19,599,675)
Cash (used in)/generated from operating activities		(46,545,282)	206,497,390	974,604,430	60,031,162	152,688,087
Tax paid		(193,796,308)	(36,494,005)	(45,465,314)	—	—
Net cash (used in)/generated from operating activities		(240,341,590)	170,003,385	929,139,116	60,031,162	152,688,087
Investing activities						
Payment for purchase of fixed assets	16	(9,250,203)	(30,544,624)	(26,509,160)	(11,317,241)	(16,505,010)
Payment for purchase of available-for-sales securities		(1,257,002,649)	(2,355,235,189)	(4,109,873,406)	(1,938,581,304)	(1,530,845,490)
Payment for purchase of held-to-maturity securities		(1,733,129,244)	(1,515,740,543)	(3,543,188,067)	(1,876,018,750)	(1,416,284,602)
Payment for purchase of securities designated at fair value through profit or loss		(5,389,817,631)	(4,078,776,487)	(2,885,723,815)	(1,362,555,013)	(1,525,574,770)
Payments of purchases of mortgage loans		(1,062,446,609)	(1,438,473,473)	(1,383,955,529)	(475,298,415)	(601,867,701)
Payments of purchases of policy loans		(497,258)	(355,103)	(389,267)	(224,531)	(252,595)
Payments of purchases of derivatives		—	—	—	(8,381,060)	—
Proceeds from sale of available-for-sales securities		784,629,458	873,746,862	2,072,103,069	1,248,170,598	676,106,002
Proceeds from maturity of held-to-maturity securities		419,814,587	603,922,687	1,046,597,154	359,300,463	901,857,556
Proceeds from sale of securities designated at fair value through profit or loss		5,123,962,802	4,241,043,958	3,059,270,203	1,486,639,258	1,739,514,049
Proceeds from sales, maturities and repayments of mortgage loans		192,133,594	347,044,199	492,734,281	284,599,130	185,639,191

	Note	Year ended 31 December			Six months ended 30 June	
		2014	2015	2016	2016	2017
		$	$	$	$	$
					(Unaudited)	
Proceeds from the maturity and repayments of policy loans		580,671	707,554	582,551	327,764	540,875
Proceeds from sale of derivatives		6,722,032	48,420	37,752,301	—	61,672,736
Placement of deposits with bank maturing more than three months		(10,000,000)	(13,000,000)	(30,000,000)	(30,000,000)	—
Proceeds from redemption of deposits with bank maturing more than three months		18,150,000	—	—	—	—
Interest received		3,324,072	3,420,463	3,464,961	2,899,293	3,196,574
Net cash used in investing activities		(2,912,826,378)	(3,362,191,276)	(5,267,134,724)	(2,320,439,808)	(1,522,803,185)
Financing activities						
Policyholders' account deposits for insurance and investment contracts		4,107,122,554	4,432,660,575	5,312,427,357	2,696,609,067	2,269,394,687
Policyholders' account withdrawals for insurance and investment contracts		(979,284,891)	(1,084,815,010)	(1,006,311,544)	(489,344,261)	(744,172,078)
Cash generated from financing activities		3,127,837,663	3,347,845,565	4,306,115,813	2,207,264,806	1,525,222,609
Net (decrease)/increase in cash and cash equivalents		(25,330,305)	155,657,674	(31,879,795)	(53,143,840)	155,107,511
Cash and cash equivalents, beginning of year/period	24	718,018,823	692,688,518	848,346,192	848,346,192	816,466,397
Cash and cash equivalents, end of year/period	24	692,688,518	848,346,192	816,466,397	795,202,352	971,573,908

The accompanying notes form part of the Historical Financial Information.

Notes to the Historical Financial Information of the Target Group
(Expressed in Hong Kong dollars)

1 General information

MassMutual Asia Limited (the "Target Company") is a private company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 27/F, MassMutual Tower, 33 Lockhart Road, Wanchai, Hong Kong.

The principal activity of the Target Company is the writing of long term assurance business. The principal activities and other particulars of the subsidiaries are set out in note 18 to the Historical Financial Information.

2 Basis of preparation of the Historical Financial Information

The Historical Financial Information for the year ended 31 December 2014, 2015, 2016 and six months ended 30 June 2016 and 2017 comprise the Target Company and its subsidiaries (together referred to as the "Target Group").

The Historical Financial Information of the Target Group has 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. Significant accounting policies adopted by the Target Group are set out in note 3.

The measurement basis used in the preparation of the Historical Financial Information 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 notes 3(f) and 3(g).

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing the Historical Financial Information, the Target Group has adopted all applicable new and revised HKFRSs for the "Relevant Periods", except for any new standards or interpretations that are not yet effective for the accounting period beginning 1 January 2018. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2018 are set out in note 37.

The preparation of the Historical Financial Information 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 Historical Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out in note 3 have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information for the six months ended 30 June 2016 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Historical Financial Information.

The Historical Financial Information contained in this Accountants' Report does not constitute Target Group's statutory annual financial statements for either of the years ended 31 December 2014, 2015 or 2016 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:

As the Target Company is a private company, it is not required to deliver its Historical Financial Information to the Registrar of Companies, and has not delivered its Historical Financial Information to the Registrar of Companies directly.

The Target Group's auditor has reported on the Historical Financial Information for each of the year ended 31 December 2014, 2015 and 2016. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Companies Ordinance.

3 **Significant accounting policies**

(a) ***Functional and presentation currency***

The Target Group's functional currency is United States dollar. The presentation currency of the Historical Financial Information is Hong Kong dollar, the official currency of the jurisdiction in which the Target Group primarily operates.

(b) ***Subsidiaries***

Subsidiaries are entities controlled by the Target Group. The Target 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 Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. 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.

In the Target Company's statement of financial position, an investment in subsidiaries is stated at cost less impairment losses (see note 3(l)).

(c) ***Classification of insurance and investment contracts***

Contracts under which the Target 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 Target 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 Target 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 Target 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 Target 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 Target Group; and

(iii) the profit or loss of the Target Group.

(d) ***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.

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.

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.

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 Target 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 Target 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 statement over the period benefited, using the same assumptions and factors utilised to amortise deferred acquisition costs.

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

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

(ii) *Embedded derivatives in insurance contracts*

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

The Target Group has taken advantage of the exemption available in HKFRS 4 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 Target 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 Target 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 Target 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 Target 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 Target Group changes its assumptions, as well as changes in prospective DAC amortisation.

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

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

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

(v) *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, 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 are written down and, if necessary, an additional provision is established. The deficiency is recognised in the income statement for the year/period.

(e) ***Investment contracts***

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

All investment contracts issued by the Target Group are designated by the Target 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 income statement in the period in which they arise.

(f) ***Investments***

The Target Group's and the Target Company's policies for investments, other than investments in subsidiaries, are as follows:

Investments are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Transaction price includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

(i) *Securities designated at fair value through profit or loss*

A security is classified in this category if it meets the criteria set out below, and is so designated by management. The Target Group designates securities at fair value through profit or loss because the designation:

(1) eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

(2) applies to a group of financial assets, financial liabilities or both that is managed and its performance evaluated on a fair value basis, in accordance with the Target Group's documented risk management or investment strategy, and where information about these instruments are provided internally on that basis to the Target Group's key management personnel; or

(3) relates to securities containing one or more embedded derivatives which significantly modify the cash flows resulting from the securities, and which would otherwise require separate accounting.

Financial assets so designated are classified as current assets. Any attributable transaction costs are recognised in the income statement as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in the income statement . The net gain or loss recognised in the income statement does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in notes 3(p)(iii) and 3(p)(iv).

(ii) *Held-to-maturity financial assets*

Dated debt securities that the Target Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the statement of financial position at amortised cost less impairment losses (see note 3(l)).

(iii) *Available-for-sale financial assets*

Investments in debt and equity securities which do not fall into the categories mentioned in (i) and (ii) above are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 3(l)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with polices set out in notes 3(p)(iii) and 3(p)(iv), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 3(l)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Target Group commits to purchase/sell the investments or they expire.

(iv) *Loans and receivables*

Loans and receivables are non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity costs.

Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

(g) ***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.

(h) ***Fixed assets***

Fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 3(l)).

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

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

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

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

(i) ***Operating lease charges***

Where the Target 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.

(j) ***Insurance and reinsurance receivables and other receivables***

Insurance and reinsurance receivables and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) ***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.

(l) ***Impairment of assets***

(i) *Impairment of investments, insurance and reinsurance receivables and other receivables*

Investments (other than investments in subsidiaries: see note 3(l)(ii)) that are classified as available-for-sale securities or held-to-maturity securities, insurance and reinsurance receivables and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

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

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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

— a significant or prolonged decline in the fair value of an investment in an equity or debt instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

  Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

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

— For held-to-maturity securities carried at amortised cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

— For insurance and reinsurance receivables and other receivables carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of insurance and reinsurance receivables and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against insurance and reinsurance receivables and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

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

— fixed assets; and

— investments in subsidiaries in the Target Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— 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 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 whenever 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 to reduce the carrying amount of the 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

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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/period in which the reversals are recognised.

(m) ***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 Target Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(n) ***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/period 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.

(o) ***Income tax***

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

Current tax is the expected tax payable on the taxable income for the year/period, 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 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.

(p) ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) The accounting policies for the recognition of revenue from insurance contracts are disclosed in note 3(d).

(ii) Fee income from investment contracts is recognised as revenue when services are rendered.

(iii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income is recognised as it accrues using the effective interest method.

(v) Management and administration fee income are recognised when services are rendered.

(q) ***Translation of foreign currencies***

Foreign currency transactions during the year/period 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 the 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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(r) ***Related parties***

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

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

(2) has significant influence over the Target Group; or

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

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

(1) The entity and the Target 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 Target Group or an entity related to the Target Group;

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

(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).

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

4 **Accounting estimates and judgements**

(a) ***Actuarial assumptions on future policyholders' benefits***

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

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

(i) *Mortality*

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

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

	Year ended 31 December			**Six months ended 30 June**	
	2014	**2015**	**2016**	**2016**	**2017**
				(unaudited)	
Hong Kong Assured Lives Mortality Table 1993 with old age adjustment	115%	115%	105%/115%	105%/115%	105%/115%

— 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 Target 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 Target Group's valuation of non-annually renewable premium traditional products is based on the discount rates as follows.

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
				(unaudited)	
Discount rates	2.5%-6.25%	2.5%-6.25%	3.18%-6.25%	3.18%-6.25%	3.18%-6.25%

(v) *Renewal expenses and inflation*

The level of renewal expenses is based on pricing assumptions. It is compared with the Target 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 Target 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	**Changes in variables**	**Changes in profit after tax and equity**				
		Year ended 31 December			**Six months ended 30 June**	
		2014	**2015**	**2016**	**2016**	**2017**
		$	*$*	*$*	*$*	*$*
					(unaudited)	
Discount rate	+1%	118,852,384	161,238,362	219,727,891	189,079,865	250,841,288
	-1%	(133,776,572)	(181,513,700)	(247,101,047)	(212,665,222)	(281,821,259)
Mortality/morbidity	+10%	(32,686,821)	(35,767,531)	(36,304,660)	(34,153,994)	(38,143,919)
	-10%	33,432,791	36,278,471	37,085,302	34,951,684	38,932,226

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 Target 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 Target Group. As long as the total interest credited is higher than the guaranteed minimum amount, the Target Group has discretion on the crediting rate. The Target Group's exposure to interest rate risk associated with these types of products is therefore minimal. The Target Group may be exposed to interest rate risks in connection with traditional insurance products, which is considered inconsequential in view of the Target Group's product portfolio. As such, no sensitivity analysis for the underlying interest rate risk is performed.

These assumptions are applied consistently in the three years ended 31 December 2016 and the six months ended 30 June 2016 and 2017.

(b) ***Investment in a fellow subsidiary***

The Target Group's investment in a fellow subsidiary is classified as an available-for-sale equity security. It is carried at fair value on the statement of financial position and it is usually possible to determine its fair value within a reasonable range of estimates. The fair value of the unlisted equity security is estimated using a discounted cash flow analysis to determine the appraisal value. The assumptions that are considered included the expected number and timing of deaths, surrenders, discount rates, renewal expenses, portfolio yields and new business growth. The appraisal value will be increased with lower discount rates, reduced expense projections, higher portfolio yields or increased sales volume and vice versa.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision.

(c) ***Impairment losses on available-for-sale securities***

The Target Group determines that available-for-sale securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of when a decline in fair value below its cost is not recoverable within a reasonable time period is judgemental by nature, so profit or loss could be affected by differences in judgement.

5 Insurance and financial risk management

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

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

The Target 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 Target 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 Target 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 Target Group's reserves for the settlement of claims, reviews significant claims or major events, and investigates any fraudulent claims.

The Target 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 Target Group of its primary liability and, as such, failure of reinsurers to honour their obligations could result in losses. The Target Group reduces this risk by evaluating the financial condition of reinsurers and monitoring for possible concentrations of credit risk. The Target 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**	
$'000	*$'000*	*%*	*$'000*	*%*
2014				
0-500	24,626,008	17	34,038,973	50
501-750	16,105,756	11	34,360,368	50
751-1,000	21,576,961	15	—	—
1,001-1,500	23,070,207	16	—	—
1,501-2,000	16,333,347	12	—	—
2,001-2,500	8,943,340	6	—	—
>2,500	33,056,199	23	—	—
Total	143,711,818	100	68,399,341	100
2015				
0-500	25,558,765	17	35,356,009	47
501-750	17,349,874	11	33,461,341	45
751-1,000	23,163,617	15	5,688,082	8
1,001-1,500	25,208,279	17	—	—
1,501-2,000	17,348,299	11	—	—
2,001-2,500	9,685,321	6	—	—
>2,500	35,229,086	23	—	—
Total	153,543,241	100	74,505,432	100

$'000	Sum insured before reinsurance $'000	%	Sum insured after reinsurance $'000	%
2016				
0-500	26,257,963	16	35,461,097	48
501-750	18,355,629	11	28,859,087	39
751-1,000	24,601,976	15	9,741,851	13
1,001-1,500	26,813,855	17	—	—
1,501-2,000	18,346,244	11	—	—
2,001-2,500	10,109,269	6	—	—
>2,500	37,812,048	24	—	—
Total	162,296,984	100	74,062,035	100
Six months ended 30 June 2016 (unaudited)				
0-500	25,703,454	17	35,733,446	47
501-750	17,822,066	11	32,864,169	43
751-1,000	23,717,862	15	7,728,247	10
1,001-1,500	25,901,842	17	—	—
1,501-2,000	17,610,954	11	—	—
2,001-2,500	9,715,046	6	—	—
>2,500	36,025,020	23	—	—
Total	156,496,244	100	76,325,862	100
Six months ended 30 June 2017				
0-500	26,578,021	16	35,899,321	47
501-750	18,829,335	11	28,867,910	38
751-1,000	24,967,386	15	11,061,487	15
1,001-1,500	27,653,133	17	—	—
1,501-2,000	18,483,339	11	—	—
2,001-2,500	10,168,529	6	—	—
>2,500	38,297,840	24	—	—
Total	164,977,583	100	75,828,718	100

(ii) *Financial risks*

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

(1) Credit risk

The Target 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 Target Group is exposed to credit risk are:

— amounts due from issuers of debt securities;

— bank balances;

— insurance and reinsurance receivables;

— commercial mortgage loans;

— other unsecured receivables; and

— derivative financial instruments.

The Target Group manages its financial assets to limit credit risk by diversifying its portfolio among various security types and industry sectors. The Target 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 2014, 2015, 2016 and 30 June 2017, 0.10%, 0.04%, 0.03% and 0.02% of the Target Group's debt securities represented investments in asset-backed and mortgage-backed securities in the United States of America which are exposed to sub-prime credit risks. The Target 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 2014, 2015, 2016 and 30 June 2017, the Target Group had no direct subprime exposure through the origination of residential mortgage loans or purchases of unsecuritised mortgage whole-loan pools. The Target Group has implemented a stringent review process for determining the fair value of securities containing these risk characteristics. At 31 December 2014, 2015, 2016 and 30 June 2017, 88%, 87%, 88% and 89% of the debt securities have Standard and Poor's ratings of BBB, or Moody's ratings of Baa2 or above or equivalent ratings from other reputable rating agencies. For the three years ended 31 December 2016 and the six months ended 30 June 2016 and 2017, impairment losses amounting to \$11,504,193, \$30,609,387, \$11,861,005, \$4,750,496 and \$12,322,652 were recognised in the consolidated income statements. Further details of the impairment losses are set out in note 20.

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 Target 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 Target Group's exposure to credit risk arising from insurance and reinsurance receivables and other receivables are set out in notes 22 and 23.

(2) Liquidity risk

The Target 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 Target 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 the Target Group's and the Target Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Target Group and the Target Company can be required to pay:

The Target Group

	As at 31 December												As at 30 June			
	2014				2015				2016				2017			
	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	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
	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
Reinsurance premium payables	86,888,012	86,888,012	86,888,012	—	121,754,098	121,754,098	121,754,098	—	211,296,377	211,296,377	211,296,377	—	277,775,150	277,775,150	277,775,150	—
Other payables	553,304,827	553,304,827	553,304,827	—	578,357,595	578,357,595	578,357,595	—	678,162,396	678,162,396	678,162,396	—	442,009,737	442,009,737	442,009,737	—
Amount due to the ultimate holding company	56,372	56,372	56,372	—	60,550	60,550	60,550	—	49,833	49,833	49,833	—	49,292	49,292	49,292	—
Amount due to the immediate holding company	—	—	—	—	3,458	3,458	3,458	—	—	—	—	—	—	—	—	—
	640,249,211	640,249,211	640,249,211	—	700,175,701	700,175,701	700,175,701	—	889,508,606	889,508,606	889,508,606	—	719,834,179	719,834,179	719,834,179	—

The Target Company

	As at 31 December							
	2014				2015			
	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
	$	$	$	$	$	$	$	$
Reinsurance premium payables	86,888,012	86,888,012	86,888,012	—	121,754,098	121,754,098	121,754,098	—
Amount due to subsidiaries	84,446,960	84,446,960	84,446,960	—	84,526,922	84,526,922	84,526,922	—
Loan from a subsidiary	78,857,299	78,857,299	—	78,857,299	85,357,299	85,357,299	—	85,357,299
Other payables	548,531,797	548,531,797	548,531,797	—	572,829,632	572,829,632	572,829,632	—
Amount due to the ultimate holding company	56,372	56,372	56,372	—	60,550	60,550	60,550	—
Amount due to the immediate holding company	—	—	—	—	3,458	3,458	3,458	—
	798,780,440	798,780,440	719,923,141	78,857,299	864,531,959	864,531,959	779,174,660	85,357,299

	As at 31 December				As at 30 June			
	2016				2017			
	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
	$	$	$	$	$	$	$	$
Reinsurance premium payables	211,296,377	211,296,377	211,296,377	—	277,775,150	277,775,150	277,775,150	—
Amount due to subsidiaries	84,458,563	84,458,563	84,458,563	—	87,148,478	87,148,478	87,148,478	—
Loan from a subsidiary	91,107,299	91,107,299	—	91,107,299	91,107,299	91,107,299	—	91,107,299
Other payables	671,976,498	671,976,498	671,976,498	—	435,537,692	435,537,692	435,537,692	—
Amount due to the ultimate holding company	49,833	49,833	49,833	—	49,292	49,292	49,292	—
Amount due to the immediate holding company	—	—	—	—	—	—	—	—
	1,058,888,570	1,058,888,570	967,781,271	91,107,299	891,617,911	891,617,911	800,510,612	91,107,299

(ii) *Liabilities under insurance and investment contracts*

The following table presents the estimated timing of payments for the amounts recognised in the statements 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.

The Target Group and the Target Company

	As at 31 December									As at 30 June		
	2014			2015			2016			2017		
	Total	One year or less	More than 1 year	Total	One year or less	More than 1 year	Total	One year or less	More than 1 year	Total	One year or less	More than 1 year
	$	$	$	$	$	$	$	$	$	$	$	$
Insurance contract provisions	26,841,621,067	2,346,189,717	24,495,431,350	29,398,572,655	2,326,320,692	27,072,251,963	33,013,609,149	2,560,046,381	30,453,562,768	35,274,822,975	2,348,308,255	32,926,514,720
Investment contract liabilities	2,450,984,898	150,085,693	2,300,899,205	2,860,607,780	173,776,250	2,686,831,530	3,650,636,948	209,360,314	3,441,276,634	3,836,103,467	211,202,771	3,624,900,696
Outstanding claims	95,157,622	95,157,622	—	88,797,092	88,797,092	—	116,044,389	116,044,389	—	139,265,219	139,265,219	—
	29,387,763,587	2,591,433,032	26,796,330,555	32,347,977,527	2,588,894,034	29,759,083,493	36,780,290,486	2,885,451,084	33,894,839,402	39,250,191,661	2,698,776,245	36,551,415,416

(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 Target 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 the interest rate profile of the Target Group's and the Target Company's financial assets and financial liabilities at the end of the reporting period.

The Target Group

	As at 31 December						As at 30 June	
	2014		2015		2016		2017	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
	%	$	%	$	%	$	%	$
Financial assets								
Statutory deposits	0.39	1,505,700	0.40	1,511,723	0.43	1,517,819	0.45	1,517,819
Debt securities and mortgage loans	4.62	17,536,734,407	4.42	20,560,818,618	4.24	26,135,673,963	4.17	27,994,330,852
Loans to agents and staff	1.21	93,672,019	1.04	68,023,256	1.46	38,826,271	2.33	21,545,951
Cash and cash equivalents and deposits with banks maturing more than three months	0.52	853,938,518	0.59	1,022,596,192	0.65	1,020,716,397	0.76	1,175,823,908
Interest rate swaps	0.75	21,922,343	2.10	30,936,306	6.09	4,353,141	1.24	4,407,314
Financial liability								
Loan from a subsidiary	—	—	—	—	—	—	—	—

The Target Company

	As at 31 December						As at 30 June	
	2014		2015		2016		2017	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
	%	$	%	$	%	$	%	$
Financial assets								
Statutory deposits	—	—	—	—	—	—	—	—
Debt securities and mortgage loans	4.62	17,536,734,407	4.42	20,560,818,618	4.24	26,135,673,963	4.17	27,994,330,852
Loans to agents and staff	1.21	93,672,019	1.04	68,023,256	1.46	38,826,271	2.33	21,545,951
Cash and cash equivalents and deposits with banks maturing more than three months	0.52	853,174,006	0.59	1,021,922,519	0.65	1,020,239,264	0.76	1,174,868,987
Interest rate swaps	0.75	21,922,343	2.10	30,936,306	6.09	4,353,141	1.24	4,407,314
Financial liability								
Loan from a subsidiary	1.50	78,857,299	1.50	85,357,299	1.50	91,107,299	1.50	91,107,299

(ii) *Sensitivity analysis*

While it is more difficult to measure the interest sensitivity of the insurance liabilities than that of the related assets, to the extent that the Target Group can measure such sensitivities the Target Company 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 2014, 2015, 2016 and 30 June 2017, it is estimated that a general increase/decrease of one percentage point in interest rates would decrease/increase the Target Group's profit after tax by approximately $46,357,984, $41,743,529, $11,621,730 and $17,717,595 and decrease/increase the equity by approximately $481,980,981, $562,178,516, $677,602,687 and $772,111,163 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. The analysis is performed on the same basis for the Relevant Periods.

(4) Currency risk

The Target 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 Target 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 Target 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 Target Group's and the Target Company's 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.

The Target Group

	As at 31 December 2014							
	United States Dollars	Hong Kong Dollars	Macau Patacas	British Pounds	Australian Dollars	Euros	Chinese Yuan	Japanese Yen
Financial assets								
Statutory deposits	—	1,505,700	—	—	—	—	—	—
Investments	25,191,560,786	442,224,113	—	83,277,476	11,204,952	51,765,974	—	680,869,757
Insurance and reinsurance receivables	47,119,145	23,474,595	86,992	—	—	—	—	—
Other receivables	215,411,918	149,626,316	—	750,463	33,622	424,591	—	(9,397)
Cash and cash equivalents and deposits with banks maturing more than three months	473,464,753	334,872,113	27,667,815	307,435	14,896,470	2,644,229	8,261	75,331
Derivative financial instruments	110,707,325	—	—	—	—	—	—	—
	26,038,263,927	951,702,837	27,754,807	84,335,374	26,135,044	54,834,794	8,261	680,935,691
Financial liabilities								
Reinsurance premium payables	83,065,609	3,822,403	—	—	—	—	—	—
Derivative financial instruments	24,473,967	—	—	—	—	—	—	—
Other payables	389,169,915	139,717,317	—	—	—	—	—	—
Investment contract liabilities	1,317,508,412	1,115,024,134	18,452,352	—	—	—	—	—
Outstanding claims	36,457,387	58,027,369	672,866	—	—	—	—	—
	1,850,675,290	1,316,591,223	19,125,218	—	—	—	—	—
Notional amount of currency-related derivative contracts	(6,473,444,094)	7,091,804,715	—	—	—	—	—	(543,537,500)

	As at 31 December 2015								
	United States Dollars	Hong Kong Dollars	Macau Patacas	British Pounds	Australian Dollars	Euros	Chinese Yuan	Japanese Yen	Singapore Dollars
Financial assets									
Statutory deposits	—	1,511,723	—	—	—	—	—	—	—
Investments	28,396,904,767	509,419,131	—	82,970,015	9,914,182	168,362,082	—	8,060,139	—
Insurance and reinsurance receivables	91,551,121	7,622,002	93,734	—	—	—	—	—	—
Other receivables	194,690,241	121,412,015	—	24,604	(93,938)	263,797	—	696,647	—
Cash and cash equivalents and deposits with banks maturing more than three months	572,185,481	398,389,641	49,206,162	111,984	2,383,110	119,592	149,423	48,830	1,969
Derivative financial instruments	160,339,210	—	—	—	—	—	—	—	—
	29,415,670,820	1,038,354,512	49,299,896	83,106,603	12,203,354	168,745,471	149,423	8,805,616	1,969
Financial liabilities									
Reinsurance premium payables	121,394,188	359,910	—	—	—	—	—	—	—
Derivative financial instruments	—	—	—	—	—	—	—	—	—
Other payables	438,711,527	139,710,076	—	—	—	—	—	—	—
Investment contract liabilities	1,461,457,499	1,372,112,617	27,037,664	—	—	—	—	—	—
Outstanding claims	27,318,029	61,178,854	300,209	—	—	—	—	—	—
	2,048,881,243	1,573,361,457	27,337,873	—	—	—	—	—	—
Notional amount of currency-related derivative contracts	(8,657,444,095)	9,389,878,504	—	—	—	—	—	(660,883,245)	—

	As at 31 December 2016								
	United States Dollars	Hong Kong Dollars	Macau Patacas	British Pounds	Australian Dollars	Euros	Chinese Yuan	Japanese Yen	Singapore Dollars
Financial assets									
Statutory deposits	—	1,517,819	—	—	—	—	—	—	—
Investments	34,152,143,670	651,528,881	—	66,762,451	12,554,618	63,651,084	—	12,066,360	—
Insurance and reinsurance receivables	96,023,620	51,943,747	101,000	—	—	—	—	—	—
Other receivables	236,734,577	106,492,039	—	304,512	810,405	140,358	—	(206,407)	—
Cash and cash equivalents and deposits with banks maturing more than three months	509,066,163	473,265,924	32,594,962	1,000,291	1,646,223	2,761,385	123,243	256,276	1,930
Derivative financial instruments	118,658,306	—	—	—	—	—	—	—	—
	35,112,626,336	1,284,748,410	32,695,962	68,067,254	15,011,246	66,552,827	123,243	12,116,229	1,930
Financial liabilities									
Reinsurance premium payables	156,411,268	54,885,109	—	—	—	—	—	—	—
Derivative financial instruments	4,361,862	—	—	—	—	—	—	—	—
Other payables	514,864,947	158,985,420	—	—	—	—	—	—	—
Investment contract liabilities	1,956,558,489	1,655,823,496	38,254,963	—	—	—	—	—	—
Outstanding claims	38,940,504	76,712,702	391,183	—	—	—	—	—	—
	2,671,137,070	1,946,406,727	38,646,146	—	—	—	—	—	—
Notional amount of currency-related derivative contracts	(9,068,002,939)	8,308,997,300	—	—	—	—	—	(322,553,000)	—

	As at 30 June 2017								
	United States Dollars	Hong Kong Dollars	Macau Patacas	British Pounds	Australian Dollars	Euros	Chinese Yuan	Japanese Yen	Singapore Dollars
Financial assets									
Statutory deposits	—	1,517,819	—	—	—	—	—	—	—
Investments	37,054,069,638	573,782,808	—	82,622,075	19,478,451	102,967,785	—	12,844,234	—
Insurance and reinsurance receivables	96,026,208	83,594,385	104,860	—	—	—	—	—	—
Other receivables	282,875,946	96,174,845	—	88,634	19,721	296,039	—	10,347	—
Cash and cash equivalents and deposits with banks maturing more than three months	839,307,774	300,066,288	30,161,162	134,449	2,511,066	3,087,852	182,611	370,670	2,036
Derivative financial instruments	7,001,276	—	—	—	—	—	—	—	—
	38,279,280,842	1,055,136,145	30,266,022	82,845,158	22,009,238	106,351,676	182,611	13,225,251	2,036
Financial liabilities									
Reinsurance premium payables	196,991,566	80,783,584	—	—	—	—	—	—	—
Derivative financial instruments	9,446,822	—	—	—	—	—	—	—	—
Other payables	236,627,923	195,984,284	—	—	—	—	—	—	—
Investment contract liabilities	2,037,588,936	1,750,816,035	47,698,496	—	—	—	—	—	—
Outstanding claims	53,741,901	85,151,820	371,498	—	—	—	—	—	—
	2,534,397,148	2,112,735,723	48,069,994	—	—	—	—	—	—
Notional amount of currency-related derivative contracts	(11,304,780,700)	12,544,787,908	—	—	—	(4,463,701)	—	(1,277,096,530)	—

The Target Company

	As at 31 December 2014							
	United States Dollars	**Hong Kong Dollars**	**Macau Patacas**	**British Pounds**	**Australian Dollars**	**Euros**	**Chinese Yuan**	**Japanese Yen**
Financial assets								
Investments	25,191,560,786	442,224,113	—	83,277,476	11,204,952	51,765,974	—	680,869,757
Insurance and reinsurance receivables	47,119,145	23,474,595	86,992	—	—	—	—	—
Other receivables	215,411,918	145,482,776	—	750,463	33,622	424,591	—	(9,397)
Cash and cash equivalents and deposits with banks maturing more than three months	473,443,377	334,128,977	27,667,815	307,435	14,896,470	2,644,229	8,261	75,331
Derivative financial instruments	110,707,325	—	—	—	—	—	—	—
	26,038,242,551	945,310,461	27,754,807	84,335,374	26,135,044	54,834,794	8,261	680,935,691
Financial liabilities								
Reinsurance premium payables	83,065,609	3,822,403	—	—	—	—	—	—
Amounts due to subsidiaries	—	84,446,959	—	—	—	—	—	—
Loan from a subsidiary	—	78,857,299	—	—	—	—	—	—
Derivative financial instruments	24,473,967	—	—	—	—	—	—	—
Other payables	388,440,138	135,674,064	—	—	—	—	—	—
Investment contract liabilities	1,317,508,412	1,115,024,134	18,452,352	—	—	—	—	—
Outstanding claims	36,457,387	58,027,369	672,866	—	—	—	—	—
	1,849,945,513	1,475,852,228	19,125,218	—	—	—	—	—
Notional amount of currency-related derivative contracts	(6,473,444,094)	7,091,804,715	—	—	—	—	—	(543,537,500)

	As at 31 December 2015								
	United States Dollars	Hong Kong Dollars	Macau Patacas	British Pounds	Australian Dollars	Euros	Chinese Yuan	Japanese Yen	Singapore Dollars
Financial assets									
Investments	28,396,904,767	509,419,131	—	82,970,015	9,914,182	168,362,082	—	8,060,139	—
Insurance and reinsurance receivables	91,551,121	7,622,002	93,734	—	—	—	—	—	—
Other receivables	194,690,241	116,915,199	—	24,604	(93,938)	263,797	—	696,647	—
Cash and cash equivalents and deposits with banks maturing more than three months	572,164,183	397,737,266	49,206,162	111,984	2,346,137	156,565	149,423	48,830	1,969
Derivative financial instruments	160,339,210	—	—	—	—	—	—	—	—
	29,415,649,522	1,031,693,598	49,299,896	83,106,603	12,166,381	168,782,444	149,423	8,805,616	1,969
Financial liabilities									
Reinsurance premium payables	121,394,188	359,910	—	—	—	—	—	—	—
Amounts due to subsidiaries	—	84,526,922	—	—	—	—	—	—	—
Loan from a subsidiary	—	85,357,299	—	—	—	—	—	—	—
Derivative financial instruments	—	—	—	—	—	—	—	—	—
Other payables	437,926,682	134,966,958	—	—	—	—	—	—	—
Investment contract liabilities	1,461,457,499	1,372,112,617	27,037,664	—	—	—	—	—	—
Outstanding claims	27,318,029	61,178,854	300,209	—	—	—	—	—	—
	2,048,096,398	1,738,502,560	27,337,873	—	—	—	—	—	—
Notional amount of currency-related derivative contracts	(8,657,444,095)	9,389,878,504	—	—	—	—	—	(660,883,245)	—

	As at 31 December 2016								
	United States Dollars	Hong Kong Dollars	Macau Patacas	British Pounds	Australian Dollars	Euros	Chinese Yuan	Japanese Yen	Singapore Dollars
Financial assets									
Investments	34,152,143,670	651,528,881	—	66,762,451	12,554,618	63,651,084	—	12,066,360	—
Insurance and reinsurance receivables	96,023,620	51,943,747	101,000	—	—	—	—	—	—
Other receivables	236,734,577	101,621,872	—	304,512	810,405	140,358	—	(206,407)	—
Cash and cash equivalents and deposits with banks maturing more than three months	509,044,865	472,810,089	32,594,962	1,000,291	1,646,223	2,761,385	123,243	256,276	1,930
Derivative financial instruments	118,658,306	—	—	—	—	—	—	—	—
	35,112,605,038	1,277,904,589	32,695,962	68,067,254	15,011,246	66,552,827	123,243	12,116,229	1,930
Financial liabilities									
Reinsurance premium payables	156,411,268	54,885,109	—	—	—	—	—	—	—
Amounts due to subsidiaries	—	84,458,563	—	—	—	—	—	—	—
Loan from a subsidiary	—	91,107,299	—	—	—	—	—	—	—
Derivative financial instruments	4,361,862	—	—	—	—	—	—	—	—
Other payables	513,926,357	153,738,112	—	—	—	—	—	—	—
Investment contract liabilities	1,956,558,489	1,655,823,496	38,254,963	—	—	—	—	—	—
Outstanding claims	38,940,504	76,712,702	391,183	—	—	—	—	—	—
	2,670,198,480	2,116,725,281	38,646,146	—	—	—	—	—	—
Notional amount of currency-related derivative contracts	(9,068,002,939)	8,308,997,300	—	—	—	—	—	(322,553,000)	—

	As at 30 June 2017								
	United States Dollars	Hong Kong Dollars	Macau Patacas	British Pounds	Australian Dollars	Euros	Chinese Yuan	Japanese Yen	Singapore Dollars
Financial assets									
Investments	37,054,069,638	573,782,808	—	82,622,075	19,478,451	102,967,785	—	12,844,234	—
Insurance and reinsurance receivables	96,026,208	83,594,385	104,860	—	—	—	—	—	—
Other receivables	282,875,946	89,886,849	—	88,634	19,721	296,039	—	10,347	—
Cash and cash equivalents and deposits with banks maturing more than three months	839,286,476	299,132,665	30,161,162	134,449	2,511,066	3,087,852	182,611	370,670	2,036
Derivative financial instruments	7,001,276	—	—	—	—	—	—	—	—
	38,279,259,544	1,046,396,707	30,266,022	82,845,158	22,009,238	106,351,676	182,611	13,225,251	2,036
Financial liabilities									
Reinsurance premium payables	196,991,566	80,783,584	—	—	—	—	—	—	—
Amounts due to subsidiaries	—	87,148,478	—	—	—	—	—	—	—
Loan from a subsidiary	—	91,107,299	—	—	—	—	—	—	—
Derivative financial instruments	9,446,822	—	—	—	—	—	—	—	—
Other payables	235,555,910	190,584,252	—	—	—	—	—	—	—
Investment contract liabilities	2,037,588,936	1,750,816,035	47,698,496	—	—	—	—	—	—
Outstanding claims	53,741,901	85,151,820	371,498	—	—	—	—	—	—
	2,533,325,135	2,285,591,468	48,069,994	—	—	—	—	—	—
Notional amount of currency-related derivative contracts	(11,304,780,700)	12,544,787,908	—	—	—	(4,463,701)	—	(1,277,096,530)	—

(5) Equity price risk

The portfolio of unit trusts backing linked insurance contracts, which the Target Group carries on its statements 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 Target Group carries on its statements 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 2014, 2015, 2016 and 30 June 2017, the unit trusts backing non-linked insurance contracts were classified as available-for-sale securities at their fair value of $510,874,449, $538,959,607, $353,927,318 and $362,938,992 respectively.

At 31 December 2014, 2015, 2016 and 30 June 2017, it is estimated that an increase/decrease of 10% in the market value of the Target Group's unit trusts backing non-linked insurance contracts, with all other variables held constant, would have increased/decreased the Target Group's total equity by $51,087,445, $53,895,961, $35,392,732 and $36,293,899 respectively. The analysis is performed on the same basis for the Relevant Periods.

(iii) *Fair value measurement*

(1) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Target 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 Target 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 Target 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 Target 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 Target 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 Target 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 Target 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 Target 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.

As at 31 December 2014

	The Target Group and the Target Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	*$*	*$*	*$*
Recurring fair value measurements				
Assets				
Available-for-sale securities:				
- Debt securities	—	4,127,053,776	1,574,776,361	5,701,830,137
- Unlisted equity securities	—	—	921,655,109	921,655,109
- Unit trusts	—	434,901,285	75,973,164	510,874,449
Designated at fair value through profit or loss:				
- Unit trusts	—	7,491,639,093	—	7,491,639,093
Derivative financial instruments:				
- Interest rate swaps	—	21,922,343	—	21,922,343
- Currency swaps	—	—	—	—
- Credit default swaps	—	—	—	—
- Forward contracts	—	88,784,982	—	88,784,982
	—	12,164,301,479	2,572,404,634	14,736,706,113
Liabilities				
Derivative financial instruments:				
- Currency forwards	—	274,128	—	274,128
- Currency swaps	—	24,199,839	—	24,199,839
Investment contract liabilities	—	2,450,984,898	—	2,450,984,898
	—	2,475,458,865	—	2,475,458,865

As at 31 December 2015

	The Target Group and the Target Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	*$*	*$*	*$*
Recurring fair value measurements				
Assets				
Available-for-sale securities:				
- Debt securities	—	4,332,418,634	2,339,824,787	6,672,243,421
- Unlisted equity securities	—	—	1,169,898,080	1,169,898,080
- Unit trusts	39,661,042	442,388,267	56,910,298	538,959,607
Designated at fair value through profit or loss:				
- Unit trusts	—	6,905,954,011	—	6,905,954,011
Derivative financial instruments:				
- Interest rate swaps	—	30,936,306	—	30,936,306
- Currency swaps	—	8,828,692	—	8,828,692
- Forward contracts	—	120,574,211	—	120,574,211
	39,661,042	11,841,100,121	3,566,633,165	15,447,394,328
Liabilities				
Derivative financial instruments:				
- Currency forwards	—	—	—	—
- Currency swaps	—	—	—	—
Investment contract liabilities	—	2,860,607,780	—	2,860,607,780
	—	2,860,607,780	—	2,860,607,780

As at 31 December 2016

	The Target Group and the Target Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	*$*	*$*	*$*
Recurring fair value measurements				
Assets				
Available-for-sale securities:				
- Debt securities	—	5,738,275,829	3,097,934,648	8,836,210,477
- Unlisted equity securities	—	—	1,763,354,706	1,763,354,706
- Unit trusts	123,306,074	—	230,621,244	353,927,318
Designated at fair value through profit or loss:				
- Unit trusts	—	6,705,751,077	—	6,705,751,077
Derivative financial instruments:				
- Interest rate swaps	—	4,353,141	—	4,353,141
- Currency swaps	—	5,860,182	—	5,860,182
- Forward contracts	—	108,444,983	—	108,444,983
	123,306,074	12,562,685,212	5,091,910,598	17,777,901,884
Liabilities				
Derivative financial instruments:				
- Currency forwards	—	3,432,913	—	3,432,913
- Currency swaps	—	928,949	—	928,949
Investment contract liabilities	—	3,650,636,948	—	3,650,636,948
	—	3,654,998,810	—	3,654,998,810

As at 30 June 2017

	The Target Group and the Target Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	*$*	*$*	*$*
Recurring fair value measurements				
Assets				
Available-for-sale securities:				
- Debt securities	—	6,441,458,298	3,309,519,580	9,750,977,878
- Unlisted equity securities	—	—	2,133,196,096	2,133,196,096
- Unit trusts	362,924,250	—	14,742	362,938,992
Designated at fair value through profit or loss:				
- Unit trusts	—	7,355,299,051	—	7,355,299,051
Derivative financial instruments:				
- Interest rate swaps	—	4,407,312	—	4,407,312
- Currency swaps	—	(1,140,473)	—	(1,140,473)
- Forward contracts	—	3,734,437	—	3,734,437
	362,924,250	13,803,758,625	5,442,730,418	19,609,413,293
Liabilities				
Derivative financial instruments:				
- Currency forwards	—	(3,766,105)	—	(3,766,105)
- Currency swaps	—	13,212,927	—	13,212,927
Investment contract liabilities	—	3,836,103,467	—	3,836,103,467
	—	3,845,550,289	—	3,845,550,289

There were no significant transfers between instruments in Level 1 and Level 2 during the three years ended 31 December 2016 and the six months ended 30 June 2017.

Valuation techniques and inputs used in Level 2 and Level 3 fair value measurements

The Target 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 Target 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 Target Group's valuation techniques.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	As at 31 December 2014 Range Min	Max	Weighted average	2015 Range Min	Max	Weighted average	2016 Range Min	Max	Weighted average	As at 30 June 2017 Range Min	Max	Weighted average
Debt securities available-for-sale securities:														
- ABS	Matrix pricing and Discounted Cash Flow ("DCF")	Credit spread	182 basis points ("BPS")	182BPS	182BPS	64BPS	170BPS	149BPS	105BPS	135BPS	118BPS	—	—	—
- Corporate securities	Matrix pricing and DCF	Credit spread	27BPS	470BPS	207BPS	47BPS	1,250BPS	233BPS	74BPS	1,250BPS	174BPS	77BPS	1,250BPS	159BPS
- Redeemable preferred	Matrix pricing and DCF	Credit spread	—	—	—	240BPS	250BPS	243BPS	103BPS	103BPS	103BPS	86BPS	86BPS	86BPS
- Equities, available-for-sale securities	Actuarial Appraisal Value	Solvency margin ratio	350%	350%	350%	350%	350%	350%	450%	450%	450%	450%	450%	450%
		Discount rate	8.80%	8.80%	8.80%	10.36%	10.36%	10.36%	8.04%	8.04%	8.04%	9.59%	9.59%	9.59%
		Portfolio yield	171BPS	435BPS	243BPS	147BPS	454BPS	240BPS	159BPS	394BPS	244BPS	189BPS	386BPS	261BPS

Investments in limited liability partnerships classified as Level 3 are excluded from the table above due to limitations in obtaining the underlying inputs used by certain third party sources in determining fair value.

A description of the sensitivity of the estimated fair value to changes in the significant unobservable in puts for the more significant asset and liability classes is as follows:

Structured securities comprised of ABS and MBS — Internally-priced structured securities classified in Level 3 are primarily valued using a discounted cash flow technique. Unobservable inputs include the prepayment rate, default rate, loss severity, liquidity premium and comparable security spreads. In isolation, an increase in prepayment rate or a decrease in default rate or loss severity would generally result in an increase in fair value, although the interrelationships between these inputs depend on specific market conditions. However, in stressed markets, prepayment rates tend to decrease, while default rates and loss severities tend to increase. These changes will result in a decrease in fair value. In other cases where a liquidity premium and/or comparable security spreads and yields are used, a significant increase in either of these inputs can produce a significant decrease in fair value.

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 Target Company uses an estimated liquidation value of the borrower or underlying assets. The Target 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 2014, 2015, 2016 and 30 June 2017, it is estimated that with all other variables held constant, a decrease/increase in credit spread by 100 BPS would have increased/decreased the Target Group's other comprehensive income by $8,273,000, $1,764,234, $44,881,921 and $103,282,295 respectively.

Equity securities, available-for-sale securities — Internally-priced Level 3 equity securities are primarily non-publically traded. Significant increases/(decreases) to interest rates, portfolio yields and solvency requirements could cause a significant increase/(decrease) to the equity value. As at 31 December 2014, 2015, 2016 and 30 June 2017, a decrease/increase in portfolio yield of available-for-sale equity securities by 10 BPS would have decreased/increased the Target Group's other comprehensive income by $44,300,000, $49,000,000, $70,600,000 and $69,000,000 respectively.

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

	The Target Group and the Target Company $
Available-for-sale debt securities:	
At 1 January 2014	1,009,477,604
Net realised losses recognised in profit or loss during the year	(570,453)
Payment for purchases	533,753,805
Issuances	(1,693,185)
Settlements	(62,504,560)
Sales	(2,302,888)
Net unrealised gains recognised in other comprehensive income during the year	71,807,269
Transfer into Level 3	26,808,769
Transfer out of Level 3	—
At 31 December 2014	1,574,776,361
At 1 January 2015	1,574,776,361
Net realised losses recognised in profit or loss during the year	(2,199)
Payment for purchases	968,975,983
Issuances	(1,302,817)
Settlements	(119,393,827)
Sales	(11,006)
Net unrealised losses recognised in other comprehensive income during the year	(91,504,991)
Transfer into Level 3	105,628,447
Transfer out of Level 3	(97,341,164)
At 31 December 2015	2,339,824,787
At 1 January 2016	2,339,824,787
Net realised losses recognised in profit or loss during the year	(3,827,611)
Payment for purchases	796,905,555
Issuances	(702,797)
Settlements	(106,535,177)
Sales	(1,243,409)
Net unrealised gains recognised in other comprehensive income during the year	77,013,628
Transfer into Level 3	1,006,416,422
Transfer out of Level 3	(1,009,916,750)
At 31 December 2016	3,097,934,648

	The Target Group and the Target Company *$*
At 1 January 2017	3,097,934,648
Net realised gains recognised in profit or loss during the period	157,093
Payment for purchases	221,764,265
Issuances	33,923,377
Settlements	(29,240,726)
Sales	(41,643,530)
Net unrealised gains recognised in other comprehensive income during the period	67,973,969
Transfer into Level 3	—
Transfer out of Level 3	(41,349,516)
At 30 June 2017	3,309,519,580
Unlisted available-for-sale equity securities:	
At 1 January 2014	858,134,264
Net unrealised gains recognised in other comprehensive income during the year	63,520,845
At 31 December 2014	921,655,109
At 1 January 2015	921,655,109
Net unrealised gains recognised in other comprehensive income during the year	248,242,971
At 31 December 2015	1,169,898,080
At 1 January 2016	1,169,898,080
Net unrealised gains recognised in other comprehensive income during the year	593,456,626
At 31 December 2016	1,763,354,706
At 1 January 2017	1,763,354,706
Net unrealised gains recognised in other comprehensive income during the period	369,841,390
At 30 June 2017	2,133,196,096

The gains or losses arising from the disposal of the unlisted available-for-sale equity securities are presented in "Net investment and other income" in the consolidated income statement. The net unrealised gains arising from the remeasurement of the unlisted available-for-sale equity securities are recognised in fair value reserve in other comprehensive income.

	The Target Group and the Target Company
	$
Available-for-sale unit trusts:	
At 1 January 2014	—
Net realised gains recognised in profit or loss during the year	716,143
Payment for purchases	24,638,492
Issuances	10,155
Settlements	(8,602,308)
Sales	(716,141)
Net unrealised gains recognised in other comprehensive income during the year	778,807
Transfer into Level 3	59,148,016
Transfer out of Level 3	—
At 31 December 2014	75,973,164
At 1 January 2015	75,973,164
Net realised losses recognised in profit or loss during the year	(1,871,360)
Payment for purchases	—
Sales	(5,399,131)
Net unrealised losses recognised in other comprehensive income during the year	(11,792,375)
Transfer into Level 3	—
Transfer out of Level 3	—
At 31 December 2015	56,910,298

	The Target Group and the Target Company
	$
At 1 January 2016	56,910,298
Net realised losses recognised in profit or loss during the year	(3,912,586)
Payment for purchases	—
Issuances	2,274,046
Sales	(26,644,952)
Net unrealised losses recognised in other comprehensive income during the year	(18,179,934)
Transfer into Level 3	245,932,045
Transfer out of Level 3	(25,757,673)
At 31 December 2016	230,621,244
At 1 January 2017	230,621,244
Net realised losses recognised in profit or loss during the period	497,779
Payment for purchases	—
Issuances	—
Settlement	(6,250,918)
Sales	(1,237,998)
Net unrealised losses recognised in other comprehensive income during the period	4,717,447
Transfer into Level 3	—
Transfer out of Level 3	(228,332,812)
At 30 June 2017	14,742

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

The carrying amounts of the Target Group's and the Target Company's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2014, 2015 and 2016 and 30 June 2017 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	As at 31 December 2014		Fair value measurements as at 31 December 2014 categorised into		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
The Target Group and the Target Company:					
Held-to-maturity debt securities	8,774,413,107	9,556,986,355	—	7,811,050,488	1,745,935,867
Loans and receivables	3,060,491,163	3,136,305,112	—	—	3,136,305,112

	As at 31 December 2015		Fair value measurements as at 31 December 2015 categorised into		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
The Target Group and the Target Company:					
Held-to-maturity debt securities	9,737,528,307	10,083,158,055	—	8,199,798,399	1,883,359,656
Loans and receivables	4,151,046,890	4,190,546,326	—	—	4,190,546,326

	As at 31 December 2016		Fair value measurements as at 31 December 2016 categorised into		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
The Target Group and the Target Company:					
Held-to-maturity debt securities	12,262,406,742	12,657,198,613	—	10,646,965,352	2,010,233,261
Loans and receivables	5,037,056,744	5,020,331,839	—	—	5,020,331,839

	As at 30 June 2017		Fair value measurements as at six months ended 30 June 2017 categorised into		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
The Target Group and the Target Company:					
Held-to-maturity debt securities	12,789,240,285	13,489,597,528	—	11,530,928,097	1,958,669,431
Loans and receivables	5,454,112,689	5,506,799,025	—	—	5,506,799,025

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.

(iv) *Financial assets and liabilities subject to offsetting, enforceable master netting arrangements*

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

The Target Group and the Target Company

	As at 31 December 2014					
	Gross	Gross amounts offset	Net amount	Due and accrued	Collateral posted	Net amount
	$	*$*	*$*	*$*	*$*	*$*
Derivative assets	112,205,848	(1,498,523)	110,707,325	—	(110,370,000)	337,325
Derivative liabilities	25,972,490	(1,498,523)	24,473,967	—	(18,158,400)	6,315,567

As at 31 December 2015

	Gross	Gross amounts offset	Net amount	Due and accrued	Collateral posted	Net amount
	$	*$*	*$*	*$*	*$*	*$*
Derivative assets	160,362,959	(23,749)	160,339,210	8,535,673	(170,898,000)	(2,023,117)
Derivative liabilities	23,749	(23,749)	—	—	—	—

As at 31 December 2016

	Gross	Gross amounts offset	Net amount	Due and accrued	Collateral posted	Net amount
	$	*$*	*$*	*$*	*$*	*$*
Derivative assets	135,471,658	(16,813,352)	118,658,306	1,117,334	(115,450,436)	4,325,204
Derivative liabilities	21,175,214	(16,813,352)	4,361,862	150,761	(10,218,000)	(5,705,377)

As at 30 June 2017

	Gross	Gross amounts offset	Net amount	Due and accrued	Collateral posted	Net amount
	$	*$*	*$*	*$*	*$*	*$*
Derivative assets	26,067,339	(19,066,063)	7,001,276	1,324,670	(16,692,078)	(8,366,132)
Derivative liabilities	28,512,885	(19,066,063)	9,446,822	659,689	(4,758,000)	5,348,511

The Target 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 Target 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 Target 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 Target 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 Target Group's exposure. The Target 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 Target Group monitors this exposure as part of its management of the Target 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.

(b) ***Claims development***

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

6 Premiums and fee income

The principal activity of the Target Company is the writing of long term assurance business.

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$*	*$*
				(Unaudited)	
Premiums and fee income from insurance contracts	2,560,698,986	3,102,446,201	3,516,994,236	1,747,357,708	1,845,830,521
Fee income from investment contracts	30,088,540	37,746,635	68,870,289	31,786,484	31,424,097
	2,590,787,526	3,140,192,836	3,585,864,525	1,779,144,192	1,877,254,618

7 Profit before taxation

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

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$*	*$*
				(Unaudited)	
(a) *Staff costs*					
Salaries, wages and other benefits	186,717,884	198,809,572	223,010,096	105,392,724	110,082,741
Contributions to defined contribution retirement plans					
— staff	12,419,248	12,690,462	14,585,161	7,522,370	7,586,685
— agents	21,697,209	22,089,323	26,000,047	9,174,318	9,015,886
	220,834,341	233,589,357	263,595,304	122,089,412	126,685,312
(b) *Other items*					
Trustee fee income	(19,553,110)	(20,840,944)	(20,539,418)	(9,747,772)	(11,893,131)
Auditors' remuneration (note)	2,352,827	2,354,947	2,413,820	1,177,474	1,206,909
Depreciation	11,301,511	10,902,414	9,907,653	4,932,479	4,679,575
Net foreign exchange gain	(4,123,747)	(5,674,679)	(9,888,966)	(3,672,029)	(3,150,311)
Operating lease charges in respect of properties	58,589,416	62,761,381	69,915,787	33,119,854	41,615,953

Note: Auditors' remuneration for the three years ended 31 December 2016, and the six months ended 30 June 2016 and 2017 of $1,325,945, $1,325,945, $1,359,094, $679,547 and $679,547 respectively has been absorbed by the immediate holding company.

8 Net investment and other income

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$*	*$*
				(Unaudited)	
Interest income from unlisted debt securities and mortgage loans	731,309,121	831,770,980	985,912,262	477,407,478	562,926,688
Other interest income	285,182	265,475	238,624	87,270	95,607
Net realised gain/(loss) on disposal of available-for-sale securities	6,441,750	6,178,584	857,836	4,126,058	(392,877)
Impairment loss charged on available-for-sale securities	(4,131,206)	(30,608,762)	(9,461,667)	(4,750,496)	(12,322,652)
Net realised gain/(loss) on disposal of held-to-maturity securities	1,384,972	3,505,974	4,562,208	(1,300,083)	(178,391)
Impairment loss on held-to-maturity securities	(7,372,987)	(625)	(2,399,338)	—	—
Net realised gain/(loss) on disposal of securities designated at fair value through profit or loss	187,936,700	117,330,479	(75,646,800)	(75,222,622)	88,994,523
Net unrealised (loss)/gain on securities designated at fair value through profit or loss	(106,080,203)	(540,748,090)	48,990,254	(96,750,691)	774,492,730
Net loss on the sale of mortgage loans	—	—	(5,758,570)	(6,901,403)	—
Dividend income - unlisted	96,975,295	76,803,026	86,102,540	38,136,192	22,724,566
Investment incentive rebate	37,061,171	38,198,126	30,385,709	15,018,339	16,118,656
Net derivative gain/(loss)	88,908,379	94,132,149	482,500	(95,458,113)	(57,981,498)
Interest income from bank deposits	3,484,329	3,487,372	3,506,748	1,700,660	2,076,119
Other operating income	27,639,273	29,377,899	29,511,109	14,096,641	16,951,521
Other (loss)/income	(2,543,994)	2,141,993	48,987,621	(2,924,688)	140,112,906
	1,061,297,782	631,834,580	1,146,271,036	267,264,542	1,553,617,898

Included in net realised gain/(loss) on disposal of available-for-sale securities is an amount of ($4,354,701), ($6,760,977), ($15,392,465), $10,899,700 and ($5,293,508) for the three years ended 31 December 2016 and the six months ended 30 June 2016 and 2017 respectively which was previously recorded as unrealised (loss)/gain on available-for-sale securities in the fair value reserve.

Total interest income on financial assets not at fair value through profit or loss amounted to $731,594,756, $832,036,455, $986,150,886, $477,494,748 and $563,022,295 respectively for the three years ended 31 December 2016 and the six months ended 30 June 2016 and 2017.

9 Net policyholders benefit

	Note	Year ended 31 December 2014	2015	2016	Six months ended 30 June 2016	2017
		$	$	$	$	$
					(Unaudited)	
Gross claims, policy benefits and surrenders	(a)	500,718,419	580,848,441	572,059,879	267,467,602	281,617,502
Amount recoverable from reinsurers	(a)	(131,786,343)	(109,184,725)	(120,630,210)	(48,353,434)	(60,167,378)
Interest credited to policyholders' deposits	(b)	932,553,487	511,211,331	1,052,907,553	344,269,307	1,459,558,757
Dividends to policyholders	(c)	705,567	751,489	1,108,893	562,761	682,348
		1,302,191,130	983,626,536	1,505,446,115	563,946,236	1,681,691,229

(a) ***Claims, policy benefits and surrenders***

	Year ended 31 December 2014 Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	$	$	$
Gross benefits incurred:				
— Benefits payable	448,261,586	708,336	53,192,860	502,162,782
— Change in outstanding claims	(2,282,729)	—	838,366	(1,444,363)
	445,978,857	708,336	54,031,226	500,718,419
Amount recoverable from reinsurers:				
— Benefits recoverable	(134,885,335)	—	(419,861)	(135,305,196)
— Change in outstanding claims	3,390,153	—	128,700	3,518,853
	(131,495,182)	—	(291,161)	(131,786,343)

	Year ended 31 December 2015			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	*$*	*$*	*$*
Gross benefits incurred:				
— Benefits payable	545,179,562	1,108,074	40,921,335	587,208,971
— Change in outstanding claims	(7,323,048)	—	962,518	(6,360,530)
	537,856,514	1,108,074	41,883,853	580,848,441
Amount recoverable from reinsurers:				
— Benefits recoverable	(115,074,977)	—	(120,000)	(115,194,977)
— Change in outstanding claims	7,215,855	—	(1,205,603)	6,010,252
	(107,859,122)	—	(1,325,603)	(109,184,725)

	Year ended 31 December 2016			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	*$*	*$*	*$*
Gross benefits incurred:				
— Benefits payable	496,991,145	1,058,091	46,763,346	544,812,582
— Change in outstanding claims	27,519,924	—	(272,627)	27,247,297
	524,511,069	1,058,091	46,490,719	572,059,879
Amount recoverable from reinsurers:				
— Benefits recoverable	(102,890,320)	—	(7,608,775)	(110,499,095)
— Change in outstanding claims	(12,520,974)	—	2,389,859	(10,131,115)
	(115,411,294)	—	(5,218,916)	(120,630,210)

	Six months ended 30 June 2016			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	$	$	$
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Gross benefits incurred:				
— Benefits payable	235,629,764	439,399	18,381,957	254,451,120
— Change in outstanding claims	12,755,482	—	261,000	13,016,482
	248,385,246	439,399	18,642,957	267,467,602
Amount recoverable from reinsurers:				
— Benefits recoverable	(46,314,178)	—	—	(46,314,178)
— Change in outstanding claims	(1,914,256)	—	(125,000)	(2,039,256)
	(48,228,434)	—	(125,000)	(48,353,434)

	Six months ended 30 June 2017			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	$	$	$
Gross benefits incurred:				
— Benefits payable	235,199,799	635,711	22,561,162	258,396,672
— Change in outstanding claims	23,277,830	—	(57,000)	23,220,830
	258,477,629	635,711	22,504,162	281,617,502
Amount recoverable from reinsurers:				
— Benefits recoverable	(52,206,494)	—	(275,000)	(52,481,494)
— Change in outstanding claims	(7,710,884)	—	25,000	(7,685,884)
	(59,917,378)	—	(250,000)	(60,167,378)

Benefits payable comprise claims, policy benefits and surrenders.

(b) ***Interest credited to policyholders' deposits***

	Year ended 31 December 2014			
	Life and annuity and linked long term	**Retirement scheme management category I**	**Retirement scheme management category III**	**Total**
	$	*$*	*$*	*$*
Insurance contracts	852,330,507	803,952	—	853,134,459
Investment contracts	79,419,028	—	—	79,419,028
	931,749,535	803,952	—	932,553,487

	Year ended 31 December 2015			
	Life and annuity and linked long term	**Retirement scheme management category I**	**Retirement scheme management category III**	**Total**
	$	*$*	*$*	*$*
Insurance contracts	459,733,123	(2,053,005)	—	457,680,118
Investment contracts	53,531,213	—	—	53,531,213
	513,264,336	(2,053,005)	—	511,211,331

	Year ended 31 December 2016			
	Life and annuity and linked long term	**Retirement scheme management category I**	**Retirement scheme management category III**	**Total**
	$	*$*	*$*	*$*
Insurance contracts	930,554,979	2,380,412	—	932,935,391
Investment contracts	119,972,162	—	—	119,972,162
	1,050,527,141	2,380,412	—	1,052,907,553

	Six months ended 30 June 2016			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	*$*	*$*	*$*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Insurance contracts	300,652,284	4,435,448	—	305,087,732
Investment contracts	39,181,575	—	—	39,181,575
	339,833,859	4,435,448	—	344,269,307

	Six months ended 30 June 2017			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	*$*	*$*	*$*
Insurance contracts	1,329,746,351	9,435,482	—	1,339,181,833
Investment contracts	120,376,924	—	—	120,376,924
	1,450,123,275	9,435,482	—	1,459,558,757

(c) ***Dividends to policyholders***

	Year ended 31 December 2014			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	*$*	*$*	*$*
Insurance contracts	705,567	—	—	705,567

	Year ended 31 December 2015			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	$	$	$
Insurance contracts	751,489	—	—	751,489

	Year ended 31 December 2016			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	$	$	$
Insurance contracts	1,108,893	—	—	1,108,893

	Six months ended 30 June 2016			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	$	$	$
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Insurance contracts	562,761	—	—	562,761

	Six months ended 30 June 2017			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	$	$	$
Insurance contracts	682,348	—	—	682,348

10 **Commission and related expenses**

	Year ended 31 December 2014			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	$	$	$
Insurance contracts	1,011,558,625	156,995	10,115,243	1,021,830,863
Investment contracts	24,760,458	—	—	24,760,458
	1,036,319,083	156,995	10,115,243	1,046,591,321

	Year ended 31 December 2015			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	$	$	$
Insurance contracts	1,064,217,107	149,980	8,647,065	1,073,014,152
Investment contracts	30,728,079	—	—	30,728,079
	1,094,945,186	149,980	8,647,065	1,103,742,231

	Year ended 31 December 2016			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	$	$	$
Insurance contracts	1,164,774,015	156,051	8,152,861	1,173,082,927
Investment contracts	45,876,296	—	—	45,876,296
	1,210,650,311	156,051	8,152,861	1,218,959,223

	Six months ended 30 June 2016			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	*$*	*$*	*$*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Insurance contracts	503,082,679	65,163	4,912,506	508,060,348
Investment contracts	35,348,786	—	—	35,348,786
	538,431,465	65,163	4,912,506	543,409,134

	Six months ended 30 June 2017			
	Life and annuity and linked long term	Retirement scheme management category I	Retirement scheme management category III	Total
	$	*$*	*$*	*$*
Insurance contracts	504,276,181	101,569	4,932,479	509,310,229
Investment contracts	9,294,043	—	—	9,294,043
	513,570,224	101,569	4,932,479	518,604,272

11 **Change in future policyholder benefits and deferred acquisition costs**

		Year ended 31 December			Six months ended 30 June	
	Note	2014	2015	2016	2016	2017
		$	*$*	*$*	*$*	*$*
					(unaudited)	
Increase in deferred acquisition costs	19	(718,822,534)	(210,566,770)	(672,729,657)	(26,851,521)	(319,547,790)
Increase in future policyholders' benefits — insurance contracts	25(ii)	495,317,284	633,748,611	833,998,420	369,512,268	494,554,147
(Decrease)/increase in future policyholders' benefits — investment contracts	26(ii)	(2,251,486)	1,145,792	5,274,549	1,927,175	3,707,905
		(225,756,736)	424,327,633	166,543,312	344,587,922	178,714,262

12 **Income tax in the consolidated income statements**

(a) ***Taxation in the consolidated income statements represents:***

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$*	*$*
				(Unaudited)	
Current tax — Hong Kong Profits Tax					
Provision for the year/period	35,756,998	40,637,520	47,673,102	24,165,579	19,890,697
Over-provision in respect of prior years	(22,724)	(7,277)	(720,582)	—	—
	35,734,274	40,630,243	46,952,520	24,165,579	19,890,697
Deferred tax					
Origination and reversal of temporary differences	—	—	—	—	—
	35,734,274	40,630,243	46,952,520	24,165,579	19,890,697
Macau Complementary Tax					
Balance of Complementary Tax provision relating to prior year	—	—	—	—	—
	35,734,274	40,630,243	46,952,520	24,165,579	19,890,697

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2014, 2015 and 2016: 16.5%) of the estimated assessable profits for the year/period. The provision for Macau Complementary Tax is calculated at tax rate of 12.0% (2014: 9.0% to 12.0%; 2015 and 2016: 12.0%) of the estimated assessable profits for the year/period.

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

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$*	*$*
				(Unaudited)	
Profit before taxation	670,872,075	709,044,460	1,166,106,920	273,405,463	277,502,597
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	112,450,781	120,462,887	194,518,916	51,194,882	50,829,319
Tax effect of surplus transferred from Hong Kong long term individual life business	(115,646,392)	(127,614,629)	(199,186,891)	(66,848,239)	(63,659,513)
Notional tax on net premiums written in respect of Hong Kong long term individual life business	35,054,039	39,248,919	47,382,170	24,041,715	19,760,900
Tax effect of non-taxable revenue	(394,774)	(188,329)	(159,066)	(61,157)	(66,465)
Tax effect of non-deductible expenses	70,993	99,263	95,600	47,800	47,800
Tax adjustment in respect of prior years	(22,724)	(7,277)	(720,582)	—	—
Tax effect of movement in unused tax losses not recognised	4,222,351	8,629,409	5,022,373	15,790,578	12,978,656
Actual tax expense	35,734,274	40,630,243	46,952,520	24,165,579	19,890,697

13 **Directors' emoluments**

Directors' emoluments comprise payments to directors by the Target Company and its subsidiaries in connection with the management of the affairs of the Target Company and its subsidiaries. The amounts paid and payable to each director of the Target Company are as follows:

	Year ended 31 December 2014				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary Bonuses	Retirement Scheme contributions	Total
Executive directors					
Keng Puang Tay	—	4,330,898	6,023,702	433,090	10,787,690
Michael Thomas Rollings	—	—	—	—	—
Michael James O'Conner	—	—	—	—	—
Eric William Partlan	—	—	—	—	—
Independent non-executive directors					
Jark Pui Lee	120,000	—	—	—	120,000
Thomas Joseph Finnegan Jr	58,500	—	—	—	58,500
	178,500	4,330,898	6,023,702	433,090	10,966,190

	Year ended 31 December 2015				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary Bonuses	Retirement Scheme contributions	Total
Executive directors					
Keng Puang Tay	—	4,504,134	5,975,484	450,413	10,930,031
Michael Thomas Rollings	—	—	—	—	—
Michael James O'Conner	—	—	—	—	—
Eric William Partlan	—	—	—	—	—
Victor Ka Lin Yip	—	—	—	—	—
Independent non-executive directors					
Jark Pui Lee	120,000	—	—	—	120,000
Thomas Joseph Finnegan Jr	58,500	—	—	—	58,500
	178,500	4,504,134	5,975,484	450,413	11,108,531

	Year ended 31 December 2016				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary Bonuses	Retirement Scheme contributions	Total
Executive directors					
Keng Puang Tay	—	4,751,861	7,191,977	475,186	12,419,024
Michael James O'Conner	—	—	—	—	—
Eric William Partlan	—	—	—	—	—
Victor Ka Lin Yip	—	2,895,865	3,504,644	289,587	6,690,096
Elaine Anne Sarsynski	—	—	—	—	—
Independent non-executive directors					
Jark Pui Lee	120,000	—	—	—	120,000
Thomas Joseph Finnegan Jr	58,500	—	—	—	58,500
	178,500	7,647,726	10,696,621	764,773	19,287,620

	Six months ended 30 June 2016				
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary Bonuses**	**Retirement Scheme contributions**	**Total**
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
Executive directors					
Keng Puang Tay	—	2,375,931	—	237,593	2,613,524
Michael James O'Conner	—	—	—	—	—
Eric William Partlan	—	—	—	—	—
Victor Ka Lin Yip	—	1,447,932	—	144,793	1,592,725
Elaine Anne Sarsynski	—	—	—	—	—
Independent non-executive directors					
Jark Pui Lee	60,000	—	—	—	60,000
Thomas Joseph Finnegan Jr	29,250	—	—	—	29,250
	89,250	3,823,863	—	382,386	4,295,499

	Six months ended 30 June 2017				
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary Bonuses**	**Retirement Scheme contributions**	**Total**
Executive directors					
Keng Puang Tay	—	2,482,848	—	248,285	2,731,133
Eric William Partlan	—	—	—	—	—
Victor Ka Lin Yip	—	1,516,710	—	151,671	1,668,381
Elaine Anne Sarsynski	—	—	—	—	—
Adnan Ormar Ahmed	—	—	—	—	—
Independent non-executive directors					
Jark Pui Lee	60,000	—	—	—	60,000
Thomas Joseph Finnegan Jr	29,250	—	—	—	29,250
	89,250	3,999,558	—	399,956	4,488,764

14 **Individual with highest emoluments**

Of the five individuals with the highest emoluments, the number of directors whose emoluments are disclosed in note 13 were 1, 1, 2, 2 and 2 respectively for the three years ended 2016 and the six months ended 30 June 2016 and 2017. The aggregate of the emoluments in respect of the other individuals of 4, 4, 3, 3 and 3 respectively for the three years ended 2016 and the six months ended 30 June 2016 and 2017 are as follows:

	Year ended 31 December			**Six months ended 30 June**	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$* *(Unaudited)*	*$*
Salaries and other emoluments	13,564,736	14,214,203	12,064,024	6,032,012	6,280,550
Discretionary bonuses	12,208,000	12,391,000	10,636,671	—	—
Retirement scheme contributions	1,356,474	1,421,420	1,206,402	603,201	628,055
	27,129,210	28,026,623	23,907,097	6,635,213	6,908,605

The emoluments of the individuals of 4, 4, 3, 3 and 3 for the three years ended 2016 and the six months ended 30 June 2016 and 2017 with the highest emoluments are within the following bands:

	Year ended 31 December			**Six months ended 30 June**	
	2014	**2015**	**2016**	**2016**	**2017**
$	*Number of Individuals*	*Number of Individuals*	*Number of Individuals*	*Number of Individuals* *(Unaudited)*	*Number of Individuals*
1,500,001 - 2,000,000	—	—	—	1	1
2,000,001 - 2,500,000	—	—	—	1	1
2,500,001 - 3,000,000	—	—	—	1	1
5,500,001 - 6,000,000	2	2	—	—	—
6,000,001 - 6,500,000	—	—	1	—	—
7,000,001 - 7,500,000	1	—	—	—	—
7,500,001 - 8,000,000	—	1	—	—	—
8,000,001 - 8,500,000	1	1	1	—	—
9,000,001 - 9,500,000	—	—	1	—	—
	4	4	3	3	3

15 **Other comprehensive income**

Reclassification adjustments relating to components of other comprehensive income

		Year ended 31 December			Six months ended 30 June	
	Note	**2014**	**2015**	**2016**	**2016**	**2017**
		$	*$*	*$*	*$*	*$*
					(Unaudited)	
Available-for-sale securities:						
Changes in fair value recognised during the year/period		243,332,623	(232,718,429)	487,836,692	855,277,667	423,424,806
Reclassification adjustments for amounts transferred to profit or loss:						
Net (gain)/loss on disposal		4,354,701	6,760,977	15,392,465	10,889,700	(5,293,508)
Impairment loss	8	11,504,193	30,609,387	11,861,005	4,750,496	12,322,652
Amortisation of unrealised loss/(gain) on securities transferred from available-for-sale to held-to-maturity		18,122,357	7,942,720	1,929,786	(3,850,817)	2,536,410
Net movement in the fair value reserve during the year/period recognised in other comprehensive income		277,313,874	(187,405,345)	517,019,948	867,067,046	432,990,360

16 **Fixed assets**

The Target Group

	Leasehold improvements	Office furniture	Office equipment	Computer equipment - hardware	Computer equipment - software	Total
	$	$	$	$	$	$
Cost:						
At 1 January 2014	35,415,549	3,513,272	6,920,655	17,199,443	34,610,361	97,659,280
Additions	1,986,918	260,194	345,713	3,548,746	3,108,632	9,250,203
Disposals	(1,206,280)	—	(181,052)	(1,393,020)	(3,845,811)	(6,626,163)
At 31 December 2014	36,196,187	3,773,466	7,085,316	19,355,169	33,873,182	100,283,320
Accumulated depreciation:						
At 1 January 2014	26,654,679	2,288,780	5,410,774	13,513,461	22,609,734	70,477,428
Charge for the year	3,767,832	510,221	613,071	2,234,959	4,175,428	11,301,511
Written back on disposals	(1,186,877)	—	(181,052)	(1,393,020)	(3,845,811)	(6,606,760)
At 31 December 2014	29,235,634	2,799,001	5,842,793	14,355,400	22,939,351	75,172,179
Net book value:						
At 31 December 2014	6,960,553	974,465	1,242,523	4,999,769	10,933,831	25,111,141
Cost:						
At 1 January 2015	36,196,187	3,773,466	7,085,316	19,355,169	33,873,182	100,283,320
Additions	3,661,985	574,765	338,944	2,389,859	23,579,071	30,544,624
Disposals	(1,824,635)	(400,210)	—	(2,390,306)	—	(4,615,151)
At 31 December 2015	38,033,537	3,948,021	7,424,260	19,354,722	57,452,253	126,212,793
Accumulated depreciation:						
At 1 January 2015	29,235,634	2,799,001	5,842,793	14,355,400	22,939,351	75,172,179
Charge for the year	3,508,390	441,711	586,956	2,064,623	4,300,734	10,902,414
Written back on disposals	(1,824,634)	(400,210)	—	(2,389,566)	—	(4,614,410)
At 31 December 2015	30,919,390	2,840,502	6,429,749	14,030,457	27,240,085	81,460,183
Net book value:						
At 31 December 2015	7,114,147	1,107,519	994,511	5,324,265	30,212,168	44,752,610

	Leasehold improvements	Office furniture	Office equipment	Computer equipment - hardware	Computer equipment - software	Total
	$	$	$	$	$	$
Cost:						
At 1 January 2016	38,033,537	3,948,021	7,424,260	19,354,722	57,452,253	126,212,793
Additions	2,715,653	727,175	290,947	4,745,304	18,030,081	26,509,160
Disposals	—	—	(2,000,333)	—	(1,617,736)	(3,618,069)
At 31 December 2016	40,749,190	4,675,196	5,714,874	24,100,026	73,864,598	149,103,884
Accumulated depreciation:						
At 1 January 2016	30,919,390	2,840,502	6,429,749	14,030,457	27,240,085	81,460,183
Charge for the year	3,027,834	472,898	545,483	2,197,235	3,664,203	9,907,653
Written back on disposals	—	—	(1,966,994)	—	(1,617,736)	(3,584,730)
At 31 December 2016	33,947,224	3,313,400	5,008,238	16,227,692	29,286,552	87,783,106
Net book value:						
At 31 December 2016	6,801,966	1,361,796	706,636	7,872,334	44,578,046	61,320,778
Cost:						
At 1 January 2017	40,749,190	4,675,196	5,714,874	24,100,026	73,864,598	149,103,884
Additions	3,311,665	359,870	—	915,941	11,917,534	16,505,010
Disposals	—	—	—	—	—	—
At 30 June 2017	44,060,855	5,035,066	5,714,874	25,015,967	85,782,132	165,608,894
Accumulated depreciation:						
At 1 January 2017	33,947,224	3,313,400	5,008,238	16,227,692	29,286,552	87,783,106
Charge for the period	1,250,732	259,129	109,160	1,561,339	1,499,215	4,679,575
Written back on disposals	—	—	—	—	—	—
At 30 June 2017	35,197,956	3,572,529	5,117,398	17,789,031	30,785,767	92,462,681
Net book value:						
At 30 June 2017	8,862,899	1,462,537	597,476	7,226,936	54,996,365	73,146,213

The Target Company

	Leasehold improvements	Office furniture	Office equipment	Computer equipment - hardware	Computer equipment - software	Total
	$	$	$	$	$	$
Cost:						
At 1 January 2014	35,415,549	3,513,272	6,920,655	17,199,443	31,782,695	94,831,614
Additions	1,986,918	260,194	345,713	3,548,746	2,922,997	9,064,568
Disposals	(1,206,280)	—	(181,052)	(1,393,020)	(3,845,811)	(6,626,163)
At 31 December 2014	36,196,187	3,773,466	7,085,316	19,355,169	30,859,881	97,270,019
Accumulated depreciation:						
At 1 January 2014	26,654,679	2,288,780	5,410,774	13,513,461	19,782,068	67,649,762
Charge for the year	3,767,832	510,221	613,071	2,234,959	4,150,677	11,276,760
Written back on disposals	(1,186,877)	—	(181,052)	(1,393,020)	(3,845,811)	(6,606,760)
At 31 December 2014	29,235,634	2,799,001	5,842,793	14,355,400	20,086,934	72,319,762
Net book value:						
At 31 December 2014	6,960,553	974,465	1,242,523	4,999,769	10,772,947	24,950,257
Cost:						
At 1 January 2015	36,196,187	3,773,466	7,085,316	19,355,169	30,859,881	97,270,019
Additions	3,661,985	574,765	338,944	2,389,859	23,542,713	30,508,266
Disposals	(1,824,635)	(400,210)	—	(2,390,306)	—	(4,615,151)
At 31 December 2015	38,033,537	3,948,021	7,424,260	19,354,722	54,402,594	123,163,134
Accumulated depreciation:						
At 1 January 2015	29,235,634	2,799,001	5,842,793	14,355,400	20,086,934	72,319,762
Charge for the year	3,508,390	441,711	586,956	2,064,623	4,261,183	10,862,863
Written back on disposals	(1,824,634)	(400,210)	—	(2,389,566)	—	(4,614,410)
At 31 December 2015	30,919,390	2,840,502	6,429,749	14,030,457	24,348,117	78,568,215
Net book value:						
At 31 December 2015	7,114,147	1,107,519	994,511	5,324,265	30,054,477	44,594,919

	Leasehold improvements	Office furniture	Office equipment	Computer equipment - hardware	Computer equipment - software	Total
	$	*$*	*$*	*$*	*$*	*$*
Cost:						
At 1 January 2016	38,033,537	3,948,021	7,424,260	19,354,722	54,402,594	123,163,134
Additions	2,715,653	727,175	290,947	4,745,304	18,030,081	26,509,160
Disposals	—	—	(2,000,333)	—	—	(2,000,333)
At 31 December 2016	40,749,190	4,675,196	5,714,874	24,100,026	72,432,675	147,671,961
Accumulated depreciation:						
At 1 January 2016	30,919,390	2,840,502	6,429,749	14,030,457	24,348,117	78,568,215
Charge for the year	3,027,834	472,898	545,483	2,197,235	3,619,804	9,863,254
Written back on disposals	—	—	(1,966,994)	—	—	(1,966,994)
At 31 December 2016	33,947,224	3,313,400	5,008,238	16,227,692	27,967,921	86,464,475
Net book value:						
At 31 December 2016	6,801,966	1,361,796	706,636	7,872,334	44,464,754	61,207,486
Cost:						
At 1 January 2017	40,749,190	4,675,196	5,714,874	24,100,026	72,432,675	147,671,961
Additions	3,311,665	359,870	—	915,941	11,917,534	16,505,010
Disposals	—	—	—	—	—	—
At 30 June 2017	44,060,855	5,035,066	5,714,874	25,015,967	84,350,209	164,176,971
Accumulated depreciation:						
At 1 January 2017	33,947,224	3,313,400	5,008,238	16,227,692	27,967,921	86,464,475
Charge for the period	1,250,732	259,129	109,160	1,561,339	1,477,016	4,657,376
Written back on disposals	—	—	—	—	—	—
At 30 June 2017	35,197,956	3,572,529	5,117,398	17,789,031	29,444,937	91,121,851
Net book value:						
At 30 June 2017	8,862,899	1,462,537	597,476	7,226,936	54,905,272	73,055,120

17 **Statutory deposits**

The Target Group

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
Statutory deposits	1,505,700	1,511,723	1,517,819	1,517,819

The Target Company

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
Statutory deposits	—	—	—	—

The Target Group has deposited in the name of the Director of Accounting Services with a bank a sum of $1,505,700, $1,511,723, $1,517,819 and $1,517,819 respectively at 31 December 2014, 2015 and 2016, and 30 June 2017 pursuant to section 77(2)(e) of the Hong Kong Trustee Ordinance.

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

18 **Investments in subsidiaries**

The Target Company

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
Unlisted shares, at cost	156,619,062	156,619,062	156,619,062	156,619,062

The following list contains the details of the Target Company's subsidiaries which principally affected the results, assets or liabilities of the Target Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Target Company	Principal activities
Protective Capital (International) Limited	Hong Kong	78,610,000 shares	100%	Provision of general services
MassMutual Services Limited	Hong Kong	2 shares	100%	Provision of general services
MassMutual Guardian Limited	Hong Kong	2 shares	100%	Provision of general services
MassMutual Trustees Limited	Hong Kong	73,000,000 shares	100%	Provision of trustee services
MassMutual Insurance Consultants Limited	Hong Kong	50,000 shares	100%	Provision of agency services to non-life insurers
MassMutual Asia Investors Limited	Hong Kong	5,000,000 shares	100%	Provision of general services

19 Deferred acquisition costs

The Target Group and the Target Company

	As at 31 December									As at 30 June		
	2014			2015			2016			2017		
	Insurance contracts	Investment contracts	Total	Insurance contracts	Investment contracts	Total	Insurance contracts	Investment contracts	Total	Insurance contracts	Investment contracts	Total
	$	$	$	$	$	$	$	$	$	$	$	$
At 1 January	6,121,066,235	159,118,935	6,280,185,170	6,542,916,831	160,514,124	6,703,430,955	7,224,439,257	204,984,209	7,429,423,466	7,521,003,620	248,236,446	7,769,240,066
Amount deferred	1,112,854,019	26,873,983	1,139,728,002	1,168,633,387	35,290,582	1,203,923,969	1,223,247,161	56,879,324	1,280,126,485	541,630,790	13,719,519	555,350,309
Amortisation for the year/period allocated to consolidated income statements	(408,744,958)	(12,160,510)	(420,905,468)	(977,681,977)	(15,675,222)	(993,357,199)	(612,083,845)	4,687,017	(607,396,828)	(236,190,403)	387,884	(235,802,519)
	704,109,061	14,713,473	718,822,534	190,951,410	19,615,360	210,566,770	611,163,316	61,566,341	672,729,657	305,440,387	14,107,403	319,547,790
Amortisation for the year/period allocated to fair value reserve	(282,258,465)	(13,318,284)	(295,576,749)	490,571,016	24,854,725	515,425,741	(314,598,953)	(18,314,104)	(332,913,057)	(353,511,308)	(24,719,427)	(378,230,735)
At 31 December/30 June	6,542,916,831	160,514,124	6,703,430,955	7,224,439,257	204,984,209	7,429,423,466	7,521,003,620	248,236,446	7,769,240,066	7,472,932,699	237,624,422	7,710,557,121

The amount of deferred acquisition costs expected to be recognised as expense after more than one year is $6,021,265,750, $6,786,121,683, $7,074,887,621 and $7,113,329,657 at 31 December 2014, 2015 and 2016, and 30 June 2017 respectively.

20 **Investments**

The Target Group and the Target Company

	Designated at fair value through profit or loss	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	$	$	$	$	$
As at 31 December 2014					
Debt securities:					
— Unlisted	—	5,701,830,137	8,774,413,107	—	14,476,243,244
Mortgage loans	—	—	—	3,060,491,163	3,060,491,163
	—	5,701,830,137	8,774,413,107	3,060,491,163	17,536,734,407
Equity securities:					
— Unlisted (note (a))	—	921,655,109	—	—	921,655,109
Unit trusts:					
— Unlisted	7,491,639,093	510,874,449	—	—	8,002,513,542
Total	7,491,639,093	7,134,359,695	8,774,413,107	3,060,491,163	26,460,903,058
Market value of listed securities	—	—	—	—	—
As at 31 December 2015					
Debt securities:					
— Unlisted	—	6,672,243,421	9,737,528,307	—	16,409,771,728
Mortgage loans	—	—	—	4,151,046,890	4,151,046,890
	—	6,672,243,421	9,737,528,307	4,151,046,890	20,560,818,618
Equity securities:					
— Unlisted (note (a))	—	1,169,898,080	—	—	1,169,898,080
Unit trusts:					
— Unlisted	6,905,954,011	538,959,607	—	—	7,444,913,618
Total	6,905,954,011	8,381,101,108	9,737,528,307	4,151,046,890	29,175,630,316
Market value of listed securities	—	—	—	—	—

	Designated at fair value through profit or loss	Available-for-sale securities	Held-to-maturity securities	Loans and receivables	Total
	$	$	$	$	$
As at 31 December 2016					
Debt securities:					
— Unlisted	—	8,836,210,477	12,262,406,742	—	21,098,617,219
Mortgage loans	—	—	—	5,037,056,744	5,037,056,744
	—	8,836,210,477	12,262,406,742	5,037,056,744	26,135,673,963
Equity securities:					
— Unlisted (note (a))	—	1,763,354,706	—	—	1,763,354,706
Unit trusts:					
— Unlisted	6,705,751,077	353,927,318	—	—	7,059,678,395
Total	6,705,751,077	10,953,492,501	12,262,406,742	5,037,056,744	34,958,707,064
Market value of listed securities	—	—	—	—	—
As at 30 June 2017					
Debt securities:					
— Unlisted	—	9,750,977,878	12,789,240,285	—	22,540,218,163
Mortgage loans	—	—	—	5,454,112,689	5,454,112,689
	—	9,750,977,878	12,789,240,285	5,454,112,689	27,994,330,852
Equity securities:					
— Unlisted (note (a))	—	2,133,196,096	—	—	2,133,196,096
Unit trusts:					
— Unlisted	7,355,299,051	362,938,992	—	—	7,718,238,043
Total	7,355,299,051	12,247,112,966	12,789,240,285	5,454,112,689	37,845,764,991
Market value of listed securities	—	—	—	—	—

Notes:

(a) The investment in unlisted equity securities include an investment in MassMutual Life Insurance Company ("MM Japan"), a fellow subsidiary incorporated in Japan. As at 31 December 2014, 2015 and 2016 and 30 June 2017, the equity interests held by the Target Group in MM Japan were 9.46%, 9.46%, 10.00% and 10.00% respectively and the fair value of such equity interests amounted to $669,368,458, $866,282,937, $1,225,165,890 and $1,419,833,337 respectively.

(b) Investments of $1,568,238,734, $1,770,164,429, $2,189,233,094 and $2,192,812,706 at 31 December 2014, 2015 and 2016 and 30 June 2017 respectively 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 Target Group's and the Target Company's investments that is expected to be recoverable within one year is at 31 December 2014, 2015 and 2016, and 30 June 2017 is $8,697,086,531, $8,076,490,744, $7,450,254,343 and $8,821,176,778 respectively and the portion that is expected to be recoverable after more than one year is $17,763,816,527, $21,099,139,572, $27,508,452,721 and $29,024,588,213 respectively.

(d) Fair value of individually impaired investments is as follows:

The Target Group and the Target Company

		As at 31 December		**As at 30 June**
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
Available-for-sale debt securities	19,726,973	13,779,957	18,597,967	4,616,435
Held-to-maturity debt securities	31,787,921	11,396	—	—

As at 31 December 2014, 2015, 2016 and 30 June 2017 the Target Group's and the Target Company's investments were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market which indicated that the cost of the Target Group's and the Target Company's investment in them may not be recovered. Impairment losses on these investments were recognised in the consolidated income statement in accordance with the policy set out in note 3(l)(i).

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

The Target Group and the Target Company

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	$	$	$	$
Fixed maturities due in				
— 1 year or less	599,589,667	462,931,217	333,101,451	366,303,647
— 1 to 5 years	1,963,900,680	1,777,115,013	2,284,384,514	2,888,268,375
— 5 to 10 years	4,079,581,350	5,214,111,589	6,526,214,485	6,204,303,447
— More than 10 years	7,833,171,547	8,955,613,909	11,954,916,769	13,081,342,694
	14,476,243,244	16,409,771,728	21,098,617,219	22,540,218,163
Mortgage loans due in				
— 1 year	94,983,322	168,645,909	57,570,318	23,479,445
— 2 years	146,929,254	96,175,884	36,902,697	37,123,694
— 3 years	110,284,867	36,539,029	218,188,987	235,436,519
— 4 years	47,583,046	234,403,955	316,960,387	316,703,968
— 5 years	217,000,248	328,354,599	279,330,106	278,369,636
— More than 5 years	2,443,710,426	3,286,927,514	4,128,104,249	4,562,999,427
	3,060,491,163	4,151,046,890	5,037,056,744	5,454,112,689

(f) Interests in collective Investment schemes

(i) Included in financial assets designated at fair value through profit or loss and available-for-sale financial assets on the Target Company's statements 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 Target Company with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated equity price risk (see note 5(a)(ii)(5)) and the capital commitments. The maximum exposure to loss, which represents the maximum loss that the Target Company could be required to report as a result of its involvement with these collective investment schemes regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments (see note 20).

(ii) In addition, the Target Company's subsidiary, MassMutual Trustees Limited is the sponsor of Mass Mandatory Provident Fund scheme ('MPF scheme') as specified in the respective trust deeds. Management fee and trustee fee income that the Target Group recognised in profit or loss in return for the administration services provided to MPF Scheme that the Target Group sponsored amounted to $19,553,110, $20,840,944, $20,539,418, $9,747,772 and $11,893,131 respectively for the three years ended 31 December 2016 and the six months ended 30 June 2016 and 2017.

The policyholders invest directly into such MPF scheme, as such, the Target 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.

21 Advance reinsurance premiums

Analysis of movement in advance reinsurance premiums

The Target Group and the Target Company

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
At 1 January	15,769,221	7,838,048	7,217,239	8,752,419
Other movements	(7,931,173)	(620,809)	1,535,180	—
At 31 December/30 June	7,838,048	7,217,239	8,752,419	8,752,419

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

22 Insurance and reinsurance receivables

The Target Group and the Target Company

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
Loans to policyholders	3,550,269	3,194,102	3,001,246	2,726,196
Direct premium receivables	13,076,838	8,080,454	4,821,090	16,899,493
Reinsurance recoverable	54,053,625	87,992,301	140,246,031	160,099,764
	70,680,732	99,266,857	148,068,367	179,725,453

At 31 December 2014, 2015, 2016 and 30 June 2017, none of the Target Group's and the Target Company's insurance and reinsurance receivables were past due or impaired.

All of the insurance and reinsurance receivables are expected to be recovered within one year.

23 **Other receivables**

The Target Group

		As at 31 December			As at 30 June
	Note	**2014**	**2015**	**2016**	**2017**
		$	*$*	*$*	*$*
Amounts due from subsidiaries	(i)	—	—	—	—
Less: Allowance for bad debts	(ii)	—	—	—	—
		—	—	—	—
Amount due from the immediate holding company	(i)	66,149	—	—	75,864
Utility and rental deposits	(iii)	20,060,914	20,820,907	24,787,203	25,483,256
Loans to agents and staff	(iv)	93,672,019	68,023,256	38,826,271	21,545,951
Accrued investment income	(v)	163,035,911	177,256,656	210,314,903	260,026,265
Derivative financial instruments	(v)	110,707,325	160,339,210	118,658,306	7,001,276
Others	(v)	89,402,519	50,892,547	70,347,107	72,334,196
		476,944,837	477,332,576	462,933,790	386,466,808

The Target Company

		As at 31 December			As at 30 June
	Note	**2014**	**2015**	**2016**	**2017**
		$	*$*	*$*	*$*
Amounts due from subsidiaries	(i)	8,616,214	8,866,646	9,411,233	8,918,278
Less: Allowance for bad debts	(ii)	(8,616,214)	(8,866,646)	(9,411,233)	(8,918,278)
		—	—	—	—
Amount due from the immediate holding company	(i)	66,150	—	—	75,864
Utility and rental deposits	(iii)	20,060,914	20,820,907	24,787,203	25,483,256
Loans to agents and staff	(iv)	93,672,019	68,023,256	38,826,271	21,545,951
Accrued investment income	(v)	163,035,911	177,256,656	210,314,903	260,026,265
Derivative financial instruments	(v)	110,707,325	160,339,210	118,658,306	7,001,276
Others	(v)	85,258,979	46,395,731	65,476,940	66,046,200
		472,801,298	472,835,760	458,063,623	380,178,812

Notes:

(i) The amounts due from subsidiaries and the immediate holding company are unsecured, interest free and have no fixed terms of repayment.

(ii) Impairment of amounts due from subsidiaries

Impairment losses in respect of amounts due from subsidiaries are recorded using an allowance account unless the Target Company is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against amounts due from subsidiaries directly (see note 3(l)(i)).

The movement in the allowance for doubtful debts during the year/period is as follows:

The Target Company

	As at 31 December			As at 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
At 1 January	8,137,342	8,616,214	8,866,646	9,411,233
Impairment loss recognised/(recovered)	478,872	250,432	544,587	(492,955)
At 31 December/30 June	8,616,214	8,866,646	9,411,233	8,918,278

At 31 December 2014, 2015 and 2016, and 30 June 2017, the amounts due from subsidiaries of $8,616,214, $8,866,646, $9,411,233 and $8,918,278 respectively were individually determined to be impaired. The individually impaired receivables related to subsidiaries that had net liabilities and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $8,616,214, $8,866,646, $9,411,233 and $8,918,278 respectively were recognised. The Target Company does not hold any collateral over these balances.

(iii) The amount of utility and rental deposits expected to be recovered after more than one year is $15,457,866, $7,592,664, $22,696,390 and $23,551,238 respectively at 31 December 2014, 2015 and 2016, and 30 June 2017.

(iv) Included in other loans to agents and staff are loans to key management personnel of $404,833, $1,390,019, $1,376,179, $1,690,855 and $1,036,853 respectively at 31 December 2014, 2015 and 2016, and 30 June 2016 and 2017.

(v) Except for the above, all of the other receivables are expected to be recovered within one year.

(vi) Except for the amounts due from subsidiaries as stated in (ii) above, none of the other receivables are past due or impaired at 31 December 2014, 2015 and 2016, and 30 June 2017.

24 **Deposits with original maturing after more than three months and cash and cash equivalents**

The Target Group

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	$	$	$	$
Deposits with banks maturing after more than three months	161,250,000	174,250,000	204,250,000	204,250,000
Deposits with banks and short term investments maturing no more than three months	297,912,393	404,602,528	358,675,126	389,739,920
Cash at bank and in hand	394,776,125	443,743,664	457,791,271	581,833,988
Cash and cash equivalents in the consolidated cash flow statements	692,688,518	848,346,192	816,466,397	971,573,908
	853,938,518	1,022,596,192	1,020,716,397	1,175,823,908

The Target Company

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	$	$	$	$
Deposits with banks maturing more than three months	161,250,000	174,250,000	204,250,000	204,250,000
Deposits with banks and short term investments maturing no more than three months	297,912,393	404,602,528	358,675,126	389,739,920
Cash at bank and in hand	394,011,613	443,069,991	457,314,138	580,879,067
Cash and cash equivalents in the consolidated cash flow statements	691,924,006	847,672,519	815,989,264	970,618,987
	853,174,006	1,021,922,519	1,020,239,264	1,174,868,987

The Target Group has pledged fixed deposits of $161,250,000, $174,250,000, $204,250,000 and $204,250,000 respectively at 31 December 2014, 2015 and 2016, and 30 June 2017 to banks in favour of the Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.

25 Insurance contract provisions

The Target Group and the Target Company

		As at 31 December			As at 30 June
	Note	**2014**	**2015**	**2016**	**2017**
		$	*$*	*$*	*$*
Policyholders' deposits	(i)	23,740,296,318	25,376,116,756	28,033,942,987	29,874,447,104
Future policyholders' benefits	(ii)	1,864,151,211	2,497,899,822	3,331,898,242	3,826,452,389
Unearned revenue liability	(iii)	1,237,173,538	1,524,556,077	1,647,767,920	1,573,923,482
		26,841,621,067	29,398,572,655	33,013,609,149	35,274,822,975

Notes:

(i) Policyholders' deposits

Analysis of movement in policyholders' deposits

	Year ended 31 December			Six months ended 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
At 1 January	21,509,631,468	23,740,296,318	25,376,116,756	28,033,942,987
Premiums received during the year/period	3,640,664,242	3,792,160,872	4,426,363,481	2,067,091,004
Net fees and charges deducted from account balances	(1,539,118,564)	(1,814,921,039)	(1,903,098,242)	(933,404,176)
Interest credited to account balances	853,134,459	457,680,118	932,935,391	1,339,181,833
Redemptions due for payment in current year/period	(794,292,589)	(890,917,487)	(843,358,748)	(643,077,146)
Others movements	70,277,302	91,817,974	44,984,349	10,712,602
At 31 December/30 June	23,740,296,318	25,376,116,756	28,033,942,987	29,874,447,104

(ii) Future policyholders' benefits

Analysis of movement in future policyholders' benefits

	Year ended 31 December			Six months ended 30 June
	2014	2015	2016	2017
	$	$	$	$
At 1 January	1,368,833,927	1,864,151,211	2,497,899,822	3,331,898,242
Movement during the year/period	495,317,284	633,748,611	833,998,420	494,554,147
At 31 December/30 June	1,864,151,211	2,497,899,822	3,331,898,242	3,826,452,389

(iii) Unearned revenue liability

	Year ended 31 December			Six months ended 30 June
	2014	2015	2016	2017
	$	$	$	$
At 1 January	1,175,066,704	1,237,173,538	1,524,556,077	1,647,767,920
Amount deferred	564,037,983	623,219,761	672,784,560	360,647,584
Amortisation for the year/period allocated to consolidated income statements	(307,111,180)	(687,193,002)	(306,512,112)	(130,057,717)
	256,926,803	(63,973,241)	366,272,448	230,589,867
Amortisation for the year/period allocated to fair value reserve	(194,819,969)	351,355,780	(243,060,605)	(304,434,305)
At 31 December/30 June	1,237,173,538	1,524,556,077	1,647,767,920	1,573,923,482

(iv) The amount of insurance contract provisions expected to be settled after more than one year is $24,495,431,350, $27,072,251,963, $30,453,562,768 and $32,926,514,720 respectively at 31 December 2014, 2015 and 2016, and 30 June 2017.

26 Investment contract liabilities

The Target Group and the Target Company

					As at
		As at 31 December			30 June
	Note	**2014**	**2015**	**2016**	**2017**
		$	*$*	*$*	*$*
Policyholders' deposits	(i)	2,310,550,037	2,685,343,304	3,418,454,504	3,592,890,073
Future policyholders' benefits	(ii)	19,839,433	20,985,225	26,259,774	29,967,679
Unearned revenue liability	(iii)	120,595,428	154,279,251	205,922,670	213,245,715
		2,450,984,898	2,860,607,780	3,650,636,948	3,836,103,467

Notes:

(i) Policyholders' deposits

Analysis of movement in policyholders' deposits:

				Six months
	Year ended 31 December			ended 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
At 1 January	2,049,815,431	2,310,550,037	2,685,343,304	3,418,454,504
Contributions received during the year/period	372,364,117	531,214,191	818,759,860	173,321,224
Net fee and charges deducted from account balances	(30,088,540)	(37,746,635)	(68,870,289)	(31,424,097)
Interest credited to account balances	79,419,028	53,531,213	119,972,162	120,376,924
Redemptions due for payment in current year/period	(159,776,461)	(171,559,618)	(134,842,175)	(87,179,646)
Others movements	(1,183,538)	(645,884)	(1,908,358)	(658,836)
At 31 December/30 June	2,310,550,037	2,685,343,304	3,418,454,504	3,592,890,073

(ii) Future policyholders' benefits

Analysis of movement in future policyholders' benefits:

	Year ended 31 December			Six months ended 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
At 1 January	22,090,919	19,839,433	20,985,225	26,259,774
Movement during the year/period	(2,251,486)	1,145,792	5,274,549	3,707,905
At 31 December/30 June	19,839,433	20,985,225	26,259,774	29,967,679

(iii) Unearned revenue liability

Analysis of movement in unearned revenue liability:

	Year ended 31 December			Six months ended 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
At 1 January	119,294,630	120,595,428	154,279,251	205,922,670
Amount deferred	20,876,218	28,736,582	61,675,430	27,622,168
Amortisation for the year/period allocated to consolidated income statement	(10,371,251)	(13,040,522)	4,169,859	961,517
	10,504,967	15,696,060	65,845,289	28,583,685
Amortisation for the year/period allocated to fair value reserve	(9,204,169)	17,987,763	(14,201,870)	(21,260,640)
At 31 December/30 June	120,595,428	154,279,251	205,922,670	213,245,715

(iv) The amount of the investment contract liabilities expected to be settled after more than one year is $2,300,899,205, $2,686,831,530, $3,441,276,634 and $3,624,900,696 respectively at 31 December 2014, 2015 and 2016, and 30 June 2017.

27 Outstanding claims

The Target Group and the Target Company

	As at 31 December									As at 30 June		
	2014			2015			2016			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	$	$	$	$	$	$	$	$	$	$	$	$
Outstanding claims	68,956,627	(24,797,622)	44,159,005	60,451,440	(18,787,370)	41,664,070	82,455,134	(28,918,485)	53,536,649	101,407,991	(36,604,368)	64,803,623
Claims incurred but not reported	26,200,995	—	26,200,995	28,345,652	—	28,345,652	33,589,255	—	33,589,255	37,857,228	—	37,857,228
	95,157,622	(24,797,622)	70,360,000	88,797,092	(18,787,370)	70,009,722	116,044,389	(28,918,485)	87,125,904	139,265,219	(36,604,368)	102,660,851
Amount expected to be settled within one year	95,157,622	(24,797,622)	70,360,000	88,797,092	(18,787,370)	70,009,722	116,044,389	(28,918,485)	87,125,904	139,265,219	(36,604,368)	102,660,851

Analysis of movements in outstanding claims:

The Target Group and the Target Company

	Year ended 31 December									Six months ended 30 June		
	2014			2015			2016			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	$	$	$	$	$	$	$	$	$	$	$	$
Balance at 1 January	96,601,985	(28,316,475)	68,285,510	95,157,622	(24,797,622)	70,360,000	88,797,092	(18,787,370)	70,009,722	116,044,389	(28,918,485)	87,125,904
Current year/period claims	497,161,976	(131,786,343)	365,375,633	578,703,784	(109,184,725)	469,519,059	566,816,276	(120,630,210)	446,186,066	277,349,529	(60,167,378)	217,182,151
Current year/period claims paid	(442,917,353)	109,944,371	(332,972,982)	(539,230,731)	95,418,940	(443,811,791)	(503,203,555)	95,077,336	(408,126,219)	(204,868,526)	32,192,908	(172,675,618)
Previous year claims paid	(59,245,429)	25,360,825	(33,884,604)	(47,978,240)	19,776,037	(28,202,203)	(41,609,027)	15,421,759	(26,187,268)	(53,528,146)	20,288,587	(33,239,559)
Movement in incurred but not reported reserve	3,556,443	—	3,556,443	2,144,657	—	2,144,657	5,243,603	—	5,243,603	4,267,973	—	4,267,973
Balance at 31 December/30 June	95,157,622	(24,797,622)	70,360,000	88,797,092	(18,787,370)	70,009,722	116,044,389	(28,918,485)	87,125,904	139,265,219	(36,604,368)	102,660,851

28 **Reinsurance premium payables**

All of the reinsurance premium payables are expected to be settled within one year.

29 **Other payables**

The Target Group

	Note	As at 31 December 2014 $	2015 $	2016 $	As at 30 June 2017 $
Amounts due to the ultimate holding company		56,372	60,550	49,833	49,292
Amounts due to the immediate holding company	(i)	—	3,458	—	—
Amounts due to subsidiaries	(i)	—	—	—	—
Loan from a subsidiary	(ii)	—	—	—	—
Commission payables	(iii)	200,948,918	189,433,683	245,247,699	82,707,497
Derivative financial instruments	(iii)	24,473,967	—	4,361,862	9,446,822
Other payables	(iii)	327,881,942	388,923,912	428,552,835	349,855,418
		553,361,199	578,421,603	678,212,229	442,059,029

The Target Company

	Note	As at 31 December 2014 $	2015 $	2016 $	As at 30 June 2017 $
Amounts due to the ultimate holding company		56,372	60,550	49,833	49,292
Amounts due to the immediate holding company	(i)	—	3,458	—	—
Amounts due to subsidiaries	(i)	84,446,960	84,526,922	84,458,563	87,148,478
Loan from a subsidiary	(ii)	78,857,299	85,357,299	91,107,299	91,107,299
Commission payables	(iii)	200,219,139	188,648,837	244,309,109	81,635,486
Derivative financial instruments	(iii)	24,473,967	—	4,361,862	9,446,822
Other payables	(iii)	323,838,691	384,180,795	423,305,527	344,455,384
		711,892,428	742,777,861	847,592,193	613,842,761

Notes:

(i) The amounts due to the immediate holding company and subsidiaries are unsecured, interest free and repayable on demand.

(ii) The loan from a subsidiary is unsecured, interest-bearing at an annual rate of 1.50% (2014, 2015 and 2016: 1.50%) and repayable on 3 July 2017.

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

30 Income tax in the statements of financial position

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

The Target Group

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	$	*$*	*$*	*$*
Provision for Hong Kong Profits Tax for the year/period	35,756,998	40,637,520	47,673,102	19,890,697
Provisional Profits Tax paid	(35,005,435)	(35,769,720)	(40,637,517)	—
	751,563	4,867,800	7,035,585	19,890,697
Balance of Profits Tax provision relating to prior years	660,578	680,579	—	7,035,585
	1,412,141	5,548,379	7,035,585	26,926,282
Macau Complementary Tax				
Balance of Complementary Tax provision relating to prior year	—	—	—	—
	1,412,141	5,548,379	7,035,585	26,926,282
Amount of tax payable expected to be settled within one year	751,563	4,867,800	7,035,585	7,035,585
Amount of taxation payable expected to be settled after more than one year	660,578	680,579	—	19,890,697

The Target Company

	As at 31 December			As at 30 June
	2014	2015	2016	2017
	$	*$*	*$*	*$*
Provision for Hong Kong Profits Tax for the year/period	34,630,707	39,324,998	46,486,322	19,035,665
Provisional Profits Tax paid	(34,211,352)	(34,630,706)	(39,324,996)	—
	419,355	4,694,292	7,161,326	19,035,665
Balance of Profits Tax provision relating to prior years	660,578	680,579	—	7,161,326
	1,079,933	5,374,871	7,161,326	26,196,991
Macau Complementary Tax				
Balance of Complementary Tax provision relating to prior year	—	—	—	—
	1,079,933	5,374,871	7,161,326	26,196,991
Amount of tax payable expected to be settled within one year	419,355	4,694,292	7,161,326	7,161,326
Amount of taxation payable expected to be settled after more than one year	660,578	680,579	—	19,035,665

(b) ***Deferred tax assets not recognised:***

The Target Group has not recognised deferred tax assets in respect of tax losses of $66,882,926, $123,498,684, $152,018,816 and $257,303,210 respectively at 31 December 2014, 2015 and 2016 and 30 June 2017 as the directors considered that it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Except for tax losses arising in a foreign tax jurisdiction of $33,916,557 which will expire on 31 December 2017, tax losses of $69,054,911 which will expire on 31 December 2018 and tax losses of $34,430,974 which will expire on 31 December 2019, these tax losses do not expire under the current tax legislation.

31 **Capital and reserves**

(a) ***The Target Group***

	Share capital	Fair value reserve (note)	Retained profits	Total
	$	$	$	$
At 1 January 2014	896,000,000	397,107,968	2,481,718,640	3,774,826,608
Total comprehensive income for the year	—	185,761,263	635,137,801	820,899,064
At 31 December 2014	896,000,000	582,869,231	3,116,856,441	4,595,725,672
At 1 January 2015	896,000,000	582,869,231	3,116,856,441	4,595,725,672
Total comprehensive income for the year	—	(41,323,147)	668,414,217	627,091,070
At 31 December 2015	896,000,000	541,546,084	3,785,270,658	5,222,816,742
At 1 January 2016	896,000,000	541,546,084	3,785,270,658	5,222,816,742
Total comprehensive income for the year	—	441,369,366	1,119,154,400	1,560,523,766
At 31 December 2016	896,000,000	982,915,450	4,904,425,058	6,783,340,508
At 1 January 2016	896,000,000	541,546,084	3,785,270,658	5,222,816,742
Total comprehensive income for the period	—	735,692,262	249,239,884	984,932,146
At 30 June 2016 (unaudited)	896,000,000	1,277,238,346	4,034,510,542	6,207,748,888
At 1 January 2017	896,000,000	982,915,450	4,904,425,058	6,783,340,508
Total comprehensive income for the period	—	380,454,570	257,611,900	638,066,470
At 30 June 2017	896,000,000	1,363,370,020	5,162,036,958	7,421,406,978

(b) ***The Target Company***

	Share capital	Fair value reserve *(note)*	Retained profits	Total
	$	*$*	*$*	*$*
At 1 January 2014	896,000,000	397,107,968	2,479,582,533	3,772,690,501
Total comprehensive income for the year	—	185,761,263	629,119,314	814,880,577
At 31 December 2014	896,000,000	582,869,231	3,108,701,847	4,587,571,078
At 1 January 2015	896,000,000	582,869,231	3,108,701,847	4,587,571,078
Total comprehensive income for the year	—	(41,323,147)	662,165,220	620,842,073
At 31 December 2015	896,000,000	541,546,084	3,770,867,067	5,208,413,151
At 1 January 2016	896,000,000	541,546,084	3,770,867,067	5,208,413,151
Total comprehensive income for the year	—	441,369,365	1,113,692,938	1,555,062,303
At 31 December 2016	896,000,000	982,915,449	4,884,560,005	6,763,475,454
At 1 January 2016	896,000,000	541,546,084	3,770,867,067	5,208,413,151
Total comprehensive income for the period	—	735,692,262	241,627,852	977,320,114
At 30 June 2016 (unaudited)	896,000,000	1,277,238,346	4,012,494,919	6,185,733,265
At 1 January 2017	896,000,000	982,915,449	4,884,560,005	6,763,475,454
Total comprehensive income for the period	—	380,454,570	254,189,746	634,644,316
At 30 June 2017	896,000,000	1,363,370,019	5,138,749,751	7,398,119,770

Note: The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policy in note 3(f).

(c) ***Issued share capital***

The Target Group and the Target Company

	Year ended 31 December						Six months ended 30 June	
	2014		**2015**		**2016**		**2017**	
	No. of shares	*Amount*	*No. of shares*	*Amount*	*No. of shares*	*Amount*	*No. of shares*	*Amount*
Ordinary shares, issued and fully paid:								
At 1 January and 31 December/ 30 June	896,000,000	896,000,000	896,000,000	896,000,000	896,000,000	896,000,000	896,000,000	896,000,000

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Target Company do not have a par value.

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 Target Company. All ordinary shares rank equally with regard to the Target Company's residual assets.

(d) ***Capital management***

The Target Group's primary objectives when managing capital are to safeguard the Target 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 Target Group consists of share capital and reserves as shown in the statements of financial position. In respect of the Target Group's insurance operations in Hong Kong and Macau, the regulators are interested in ensuring that the Target Company 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 Companies Ordinance and the Macau Insurance Ordinance, the Target Company has to meet the requirements on solvency margin. If the Target Company fails to comply with the requirements, the regulators may require the Target Company 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. The Target Company complied with the solvency margin requirements for the three years ended 31 December 2016 and the six months ended 30 June 2016 and 2017.

32 **Commitments**

(a) ***Capital commitments***

The Target Group has capital commitments amounted to HK$20.2 million as of 31 December 2015 and 2016, and 30 June 2016 and 2017 (31 December 2014: Nil). The amount was not provided for in the Historical Financial Information.

(b) ***Operating lease commitments***

At 31 December 2014, 2015 and 2016, and 30 June 2017, the total minimum lease payments under non-cancellable operating leases are payable as follows:

The Target Group and the Target Company

	Year ended 31 December			Six months ended 30 June
	2014	**2015**	**2016**	**2017**
	$	*$*	*$*	*$*
Within 1 year	58,534,600	62,638,039	81,837,743	80,926,855
After 1 year but within 5 years	48,975,071	96,731,594	156,413,973	120,604,034
	107,509,671	159,369,633	238,251,716	201,530,889

(c) ***Investment commitments***

In the normal course of business, the Target Group enters into commitments to purchase certain investments. The Target Group has investment commitments contracted for amounted to $235,025,887, $268,534,750, $443,162,039, $402,896,153 and $466,772,428 at 31 December 2014, 2015 and 2016, and 30 June 2016 and 2017. The amount was not provided in the Historical Financial Information.

33 Material related party transactions

(a) *Transactions with key management personnel*

The remuneration for key management personnel, including amounts paid to the Target Company's directors disclosed in note 13 to the Historical Financial Information, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
				(unaudited)	
Short term employee benefits	56,026,326	57,303,434	62,340,425	15,356,753	16,047,543
Post employment benefits	2,847,912	2,939,911	3,071,351	1,535,675	1,604,754
	58,874,238	60,243,345	65,411,776	16,892,428	17,652,297

Total remuneration is included in "staff costs" in note 7(a) to the Historical Financial Information.

A Director, Mr. Victor Ka Lin Yip, has entered an interest-free car loan with the Target Company with 36 monthly repayment instalments. The principal amount payable of the loan is $569,000 with the car as the security. As at 31 December 2014, 2015 and 2016 and 30 June 2016 and 2017, the loan amounted to $Nil, $410,944, $221,278, $316,111 and $126,444 respectively. The maximum balance outstanding during the three years ended 31 December 2016, and the six months ended 30 June 2016 and 2017 is $Nil, $569,000, $410,944, $410,944 and $221,278 respectively. There was no amount due but unpaid, nor any provision made against the principal amount of the loan at 31 December 2014, 2015 and 2016, and 30 June 2016 and 2017.

(b) *Transactions with other related parties*

	Year ended 31 December			Six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$*	*$*
				(unaudited)	
Investment management fee paid (note)	(24,445,770)	(32,411,211)	(38,666,312)	(18,066,123)	(22,325,879)

Note: The Target Company paid an investment management fee to a fellow subsidiary for the management of the Target Company's investment portfolio.

On 30 November 2016, the Target Company purchased 942 shares of MassMutual Life Insurance Company common stock for $68,430,640 which increased the Target Company's ownership of MassMutual Life Insurance Company to 17,465 shares which is 10%.

34 Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

35 **Company-level statements of financial position at 31 December 2014, 2015 and 2016, and 30 June 2017**

		As at 31 December			As at 30 June
	Note	**2014**	**2015**	**2016**	**2017**
		$	*$*	*$*	*$*
Assets					
Fixed assets	16	24,950,257	44,594,919	61,207,486	73,055,120
Statutory deposits	17	—	—	—	—
Investments in subsidiaries	18	156,619,062	156,619,062	156,619,062	156,619,062
Deferred acquisition costs	19	6,703,430,955	7,429,423,466	7,769,240,066	7,710,557,121
Investments	20	26,460,903,058	29,175,630,316	34,958,707,064	37,845,764,991
Advance reinsurance premiums	21	7,838,048	7,217,239	8,752,419	8,752,419
Reinsurers' share of outstanding claims	27	24,797,622	18,787,370	28,918,485	36,604,368
Insurance and reinsurance receivables	22	70,680,732	99,266,857	148,068,367	179,725,453
Other receivables	23	472,801,298	472,835,760	458,063,623	380,178,812
Deposits with banks maturing more than three months	24	161,250,000	174,250,000	204,250,000	204,250,000
Cash and cash equivalents	24	691,924,006	847,672,519	815,989,264	970,618,987
		34,775,195,038	38,426,297,508	44,609,815,836	47,566,126,333
Liabilities					
Insurance contract provisions	25	26,841,621,067	29,398,572,655	33,013,609,149	35,274,822,975
Investment contract liabilities	26	2,450,984,898	2,860,607,780	3,650,636,948	3,836,103,467
Outstanding claims	27	95,157,622	88,797,092	116,044,389	139,265,219
Reinsurance premium payables	28	86,888,012	121,754,098	211,296,377	277,775,150
Other payables	29	711,892,428	742,777,861	847,592,193	613,842,761
Tax payable	30	1,079,933	5,374,871	7,161,326	26,196,991
		30,187,623,960	33,217,884,357	37,846,340,382	40,168,006,563
NET ASSETS		4,587,571,078	5,208,413,151	6,763,475,454	7,398,119,770
CAPITAL AND RESERVES					
Share capital	31	896,000,000	896,000,000	896,000,000	896,000,000
Retained profits		3,108,701,847	3,770,867,067	4,884,560,005	5,138,749,751
Reserves	31	582,869,231	541,546,084	982,915,449	1,363,370,019
TOTAL EQUITY		4,587,571,078	5,208,413,151	6,763,475,454	7,398,119,770

36 **Immediate and ultimate controlling party**

At 31 December 2014, 2015 and 2016, and 30 June 2017, the directors consider the immediate parent and ultimate controlling party of the Target Group to be MassMutual International LLC and Massachusetts Mutual Life Insurance Company respectively, both of which are incorporated in the United States of America. Massachusetts Mutual Life Insurance Company produces financial statements available for public use.

37 **Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods**

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a number of amendments and new standard which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information. These include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments (2014)*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 4, *Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts*	1 January 2018
HK(IFRIC) Interpretation 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) Interpretation 23, *Uncertainty over income tax treatments*	1 January 2019

The Target Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Target Group has identified some aspects of the new standards which may have a significant impact on the Historical Financial Information. Further details of the expected impacts are discussed below.

HKFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 requires financial assets to be classified into separate measurement categories: those measured at fair value with changes either recognised in profit or loss or in other comprehensive income and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In addition, a revised expected credit losses model with replace the incurred loss impairment model in HKAS 39. The Target Group is yet to fully assess the impact of the standard on its financial position and results of operations.

For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the new requirements for hedge accounting and financial liabilities, but the impact is not expected to be material. The standard is mandatorily effective for financial periods beginning on or after 1 January 2018, but the Target Group qualifies for a temporary exemption as explained below.

In January 2017, HKICPA issued amendments to HKFRS 4, Insurance Contracts. Applying HKFRS 9 Financial Instruments with HKFRS 4, which provides two alternative measures to address the different effective dates of HKFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of HKFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the financial reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied. Based on the amendments to HKFRS 4, the Target Group is eligible for and will elect to apply the temporary option to defer the effective date of HKFRS 9 in order to implement the changes in parallel with the forthcoming insurance contracts standard.

HKFRS 16, Leases, sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Target Group is yet to assess the full impact of the standard on its financial position and results of operations. The standard is mandatorily effective for financial periods beginning on or after 1 January 2019.

38 Non-adjusting events after the reporting period

On 17 August 2017, the immediate parent of the Target Company (as the Vendor), MassMutual International LLC, has entered into a Share Purchase Agreement with Yunfeng Financial Group Limited ("Yunfeng") and the Other Investors (as the Purchasers) to which (i) the immediate parent has conditionally agreed to sell, and Yunfeng has conditionally agreed to acquire, 537,600,000 shares in the Target Company (representing 60% of the issued share capital of the Target Company), and (ii) the immediate parent has conditionally agreed to sell, and the Other Investors have conditionally agreed to acquire, 358,400,000 shares in aggregate in the Target Company (representing 40% of the issued share capital of the Target Company).

As Yunfeng is listed at the Main Board of the Hong Kong Stock Exchange (Stock code: 376) and the acquisition constitutes a very substantial acquisition for Yunfeng under Rule 14.06(5) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") as one or more of the relevant percentage ratios under Rule 14.07 of the Listing Rules for the acquisition are over 100%. Accordingly, the acquisition is subject to the reporting, announcement and Yunfeng shareholders' approval requirements under the Listing Rules.

39 Analysis of premiums and fee income under Hong Kong Insurance Ordinance ("HKIO")

	Year ended 31 December			**Six months ended 30 June**	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$*	*$*
				(unaudited)	
Premiums and fee income under HKFRS	2,590,787,526	3,140,192,836	3,585,864,525	1,779,144,192	1,877,254,618
Effect of HKFRS 4 (Note)	2,450,074,976	2,484,759,322	3,289,376,842	1,638,829,130	1,278,560,649
Premiums and fee income under HKIO	5,040,862,502	5,624,952,158	6,875,241,367	3,417,973,322	3,155,815,267

Note: Under HKFRS 4, the Target Group may, but is not required to, unbundle the deposit component of its premium income from insurance contracts. The Target Group chooses to unbundle the deposit component of its insurance contracts in the financial information prepared in accordance with HKFRS and the deposit component is credited directly to the policyholders' deposits upon receipt. By the same token, cash values paid and payable to policyholders are debited directly to the policyholders' deposits upon payment. However, the Target Group does not unbundle the deposit component of its insurance contracts in the financial information prepared in accordance with the HKIO.

(i) ***By geographical region***

	Year ended 31 December						Six months ended 30 June			
	2014		2015		2016		2016		2017	
	$	%	$	%	$	%	$	%	$	%
							(unaudited)	(unaudited)		
Hong Kong	4,508,769,477	89%	4,986,276,225	89%	6,039,598,609	88%	3,041,075,057	89%	2,683,681,535	85%
Macau	532,093,025	11%	638,675,933	11%	835,642,758	12%	376,898,265	11%	472,133,732	15%
	5,040,862,502	100%	5,624,952,158	100%	6,875,241,367	100%	3,417,973,322	100%	3,155,815,267	100%

(ii) ***By distribution channel***

	Year ended 31 December									Six months ended 30 June					
	2014			2015			2016			2016			2017		
	Hong Kong	Macau	Total	Hong Kong	Macau	Total	Hong Kong	Macau	Total	Hong Kong	Macau	Total	Hong Kong	Macau	Total
	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
										(unaudited)	(unaudited)	(unaudited)			
Tied agency	3,055,108,463	471,855,303	3,526,963,766	3,318,948,244	550,681,338	3,869,629,582	3,653,198,801	715,176,594	4,368,375,395	1,703,686,479	321,792,777	2,025,479,256	1,753,138,736	403,804,321	2,156,943,057
Banks and other financial institution	184,664,264	46,014,971	230,679,235	278,979,267	52,157,649	331,136,916	325,225,156	73,836,823	399,061,979	152,222,978	33,939,558	186,162,536	194,251,882	48,706,374	242,958,256
Brokers and non-tied agency	1,268,996,750	14,222,751	1,283,219,501	1,388,348,714	35,836,946	1,424,185,660	2,061,174,652	46,629,341	2,107,803,993	1,185,165,600	21,165,930	1,206,331,530	736,290,917	19,623,037	755,913,954
	4,508,769,477	532,093,025	5,040,862,502	4,986,276,225	638,675,933	5,624,952,158	6,039,598,609	835,642,758	6,875,241,367	3,041,075,057	376,898,265	3,417,973,322	2,683,681,535	472,133,732	3,155,815,267

(iii) ***By product type***

	Year ended 31 December									Six months ended 30 June					
	2014			2015			2016			2016			2017		
	Hong Kong	Macau	Total	Hong Kong	Macau	Total	Hong Kong	Macau	Total	Hong Kong	Macau	Total	Hong Kong	Macau	Total
	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
										(unaudited)	*(unaudited)*	*(unaudited)*			
Regular premium - First year	971,753,726	142,355,761	1,114,109,487	872,022,986	179,955,392	1,051,978,378	1,091,654,387	243,466,980	1,335,121,367	424,974,584	121,406,210	546,380,794	415,043,070	116,969,467	532,012,537
Regular premium - Renewal	3,192,133,620	348,217,955	3,540,351,575	3,594,978,976	419,261,523	4,014,240,499	4,157,125,383	542,571,958	4,699,697,341	1,989,534,043	239,050,792	2,228,584,835	2,133,910,168	310,149,169	2,444,059,337
Single premium	342,515,089	40,099,028	382,614,117	517,110,735	38,097,797	555,208,532	788,676,301	48,259,665	836,935,966	625,533,538	15,809,519	641,343,057	133,579,154	44,206,295	177,785,449
Fee income	2,367,042	1,420,281	3,787,323	2,163,528	1,361,221	3,524,749	2,142,538	1,344,155	3,486,693	1,032,892	631,744	1,664,636	1,149,143	808,801	1,957,944
	4,508,769,477	532,093,025	5,040,862,502	4,986,276,225	638,675,933	5,624,952,158	6,039,598,609	835,642,758	6,875,241,367	3,041,075,057	376,898,265	3,417,973,322	2,683,681,535	472,133,732	3,155,815,267

40 TOTAL AVAILABLE CAPITAL UNDER HKIO

The table below sets forth a summary of the total available capital of the Target Group and the Target Company, pursuant to HKIO.

The Target Group

	As at 31 December			As at 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$*	*$*
				(unaudited)	
Total available capital	2,742,465,143	2,712,395,182	3,551,272,203	3,072,225,192	3,598,898,384

The Target Company

	As at 31 December			As at 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$*	*$*
				(unaudited)	
Total available capital	2,734,310,549	2,697,991,591	3,531,407,149	3,056,433,832	3,575,611,176

(a) ***Reconciliation of the net asset in the consolidated statements of financial position to total available capital at 31 December 2014, 2015 and 2016, and at 30 June 2016 and 2017***

	As at 31 December			As at 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
	$	*$*	*$*	*$*	*$*
				(unaudited)	
Net asset in the consolidated statements of financial position	4,595,725,672	5,222,816,742	6,783,340,508	6,207,748,888	7,421,406,978
Decrease in reserving methodology (Note (i))	3,492,401,460	3,240,166,578	2,683,481,171	2,503,368,906	2,100,879,330
Removal of deferred acquisition costs (Note (ii))	(6,703,430,955)	(7,429,423,466)	(7,769,240,066)	(6,734,804,896)	(7,710,557,121)
Removal of unearned revenue liability (Note (iii))	1,357,768,966	1,678,835,328	1,853,690,590	1,095,912,294	1,787,169,197
Total available capital (the Target Group)	2,742,465,143	2,712,395,182	3,551,272,203	3,072,225,192	3,598,898,384
Consolidation adjustment	(8,154,594)	(14,403,591)	(19,865,054)	(15,791,360)	(23,287,208)
Total available capital (the Target Company)	2,734,310,549	2,697,991,591	3,531,407,149	3,056,433,832	3,575,611,176

Notes:

(i) Difference in reserving methodology

The insurance contract provisions for the unit linked and universal type products are carried at the full account values net of adjusted back-ended surrender charges in the financial information prepared in accordance with the HKIO. No back-ended surrender charges are included in the financial information prepared in accordance with HKFRS and the policyholders' deposits for the mentioned products are simply carried at the full account value without deducting back-ended surrender charges.

(ii) Removal of deferred acquisition costs

Certain commission and other acquisition costs are deferred and amortised over the contract terms in the financial information prepared in accordance with HKFRS.

However, all commission and acquisition costs are expensed when incurred in the financial information prepared in accordance with the HKIO.

(iii) Removal of unearned revenue liability

Certain fee income is deferred and amortised over the contract terms in the financial information prepared in accordance with HKFRS. However, all fee income is recognised when incurred in the financial information prepared in accordance with the HKIO.

41 Regulatory minimum capital and solvency ratio under Insurance Companies (Margin of Solvency) Regulation

The table below sets forth a summary of the regulatory minimum capital and solvency ratio of the Target Group and the Target Company, pursuant to Insurance Companies (Margin of Solvency) Regulation.

The Target Group

		As at 31 December			As at 30 June	
	Note	**2014**	**2015**	**2016**	**2016**	**2017**
		$	*$*	*$*	*$*	*$*
					(unaudited)	
Total available capital	40	2,742,465,143	2,712,395,182	3,551,272,203	3,072,225,192	3,598,898,384
Regulatory minimum capital		1,062,321,500	1,200,056,470	1,406,188,526	1,314,759,246	1,507,701,526
Solvency ratio		258%	226%	253%	234%	239%

The Target Company

		As at 31 December			As at 30 June	
	Note	**2014**	**2015**	**2016**	**2016**	**2017**
		$	*$*	*$*	*$*	*$*
					(unaudited)	
Total available capital	40	2,734,310,549	2,697,991,591	3,531,407,149	3,056,433,832	3,575,611,176
Regulatory minimum capital		1,062,321,500	1,200,056,470	1,406,188,526	1,314,759,246	1,507,701,526
Solvency ratio		257%	225%	251%	232%	237%

42 Subsequent financial statements

No audited financial statements have been prepared by the Target Company and its subsidiaries in respect of any period subsequent to 30 June 2017.

1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the consolidated financial information of the Group for each of the years ended 31 December 2016, 31 December 2015 and 31 December 2014 and the six months ended 30 June 2017 as extracted from the annual reports of the Company for each of the years ended 31 December 2016, 31 December 2015 and 31 December 2014 and the interim report of the Company for the six months ended 30 June 2017, respectively. KPMG, the Company's auditors, has issued audit report with unqualified audit opinion for each of the years ended 31 December 2016, 31 December 2015 and 31 December 2014.

(a) Consolidated income statement

	For the year ended 31 December			For the six months ended 30 June
	2016	**2015**	**2014**	**2017**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	46,120	193,967	133,370	9,457
(Loss)/profit from operations	(316,654)	(79,192)	759,460	(232,136)
Profit/(loss) before taxation	(324,869)	(77,869)	759,327	(235,710)
Income tax	8,327	(79,172)	(450)	(989)
Profit/(loss) for the year/period	(316,542)	(157,041)	758,877	(236,699)
Profit/(loss) attributable to:				
Equity Shareholders of the Company	(316,688)	(152,419)	758,856	(236,554)
Non-controlling interests	146	(4,622)	21	(145)
	(316,542)	(157,041)	758,877	(236,699)
Earnings/(loss) per share attributable to equity shareholders of the Company				
Basic (HK$)	(0.13)	(0.21)	1.73	(9.77)
Diluted (HK$)	(0.13)	(0.21)	1.73	(9.77)
Dividend per Share	—	—	—	—

(b) **Consolidated statement of financial position**

	As of 31 December			As of 30 June
	2016	**2015**	**2014**	**2017**
	(audited)	**(audited)**	**(audited)**	**(unaudited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	4,925,597	5,087,524	1,360,843	4,898,175
Total liabilities	481,474	326,181	339,942	632,532
Net assets	4,444,123	4,761,343	1,020,901	4,265,643
Equity attributable to equity shareholders of the Company	4,443,016	4,760,307	1,014,934	4,264,646
Non-controlling interests	1,107	1,036	5,967	997
Total equity	4,444,123	4,761,343	1,020,901	4,265,643

Audited financial information of the Group for each of the years ended 31 December 2016, 31 December 2015 and 31 December 2014 and unaudited financial information of the Group for the six months ended 30 June 2017 are disclosed in the following documents which have been published on both the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (http://www.yff.com):

- the annual report of the Company for the year ended 31 December 2014 published on 29 April 2015 (pages 31 to 103);
- the annual report of the Company for the year ended 31 December 2015 published on 16 March 2016 (pages 66 to 167);
- the annual report of the Company for the year ended 31 December 2016 published on 24 March 2017 (pages 81 to 183); and
- the interim report of the Company for the six months ended 30 June 2017 published on 20 September 2017 (pages 27 to 68).

During the year ended 31 December 2014, there is a fair value gain on financial assets through profit and loss of HK$920,486,000 (for the year ended 31 December 2013: HK$8,000,000). For more details, please refer to note 5 to the audited consolidated financial information for the year ended 31 December 2014 contained in the annual report of the Company for the year ended 31 December 2014.

The Group had no items which are exceptional because of size, nature or incidence for each of the years ended 31 December 2016, 31 December 2015 and 31 December 2014 and the six months ended 30 June 2017.

For the years ended 31 December 2016, 31 December 2015 and 31 December 2014 and the six months ended 30 June 2017, there have been no significant changes to the accounting policies adopted by the Group.

2. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Following the signing of the Share Purchase Agreement, the Group continued to push forward on satisfying the conditions for the completion of the Acquisition and plan for the integration between the Group and the Target Group. In addition, the uncertainties surrounding the global economy are expected to continue plaguing the market. However, the Group will work together to withstand all the uncertainties and ramp up the effort to build up the client base and scale of asset under management. The focus of the Group remains on improving its overall operating result through effective cost control and increase of revenue streams with different strategies based on market situations.

In particular, the Group proactively increases promotion effort of the "Youyu Stock" mobile application and website, striving to crystalise the result of such effort in the near term. For the long-term development strategy of online wealth management, the recently launched the "Youyu Wealth" mobile application will continue to enhance the fund product trading process and user experience by providing different up-to-date investment information. The Group also provides employee stock ownership plan administration service through the "Youyu ekeeper" website, under which external employees are able to open accounts and inject their assets with "Youyu Stock" and "Youyu Wealth" for investment purpose. It is expected that the combination of the Group's financial technologies will provide positive impact to trading volume and amount of assets under securities brokerage business, and enhance customer loyalty to other business lines.

For further growth in offline wealth management operation, the Group has successfully locked in a handful of rare investment targets including credit linked note and distressed fund investment opportunities being managed by the top tier managers in the field.

Continuing its effort to develop various business segments, including the online and mobile stock brokerage, wealth management and employee stock ownership plan management which required continuing inputs for the building up of a client base and scale of assets under management, as disclosed in the interim report of the Company for the six months ended 30 June 2017, the Group made substantial additional cash investments in various financial assets during the six months ended 30 June 2017 resulting in the increase in the available-for-sale financial assets as at 30 June 2017 representing approximately 7.4 times of that as at 31 December 2016 for the purposes of building up a portfolio of assets under management as well as internal capital management as financed by internal cash resources and proceeds from wealth management products (including redeemable preference shares and limited partner interests) issued by the Group. The Group is subject to capital commitments in connection with some of the financial asset investments (funds managed by third parties) made. As at 30 June 2017, the Group's related commitments increased by approximately 236% as compared to that as at 31 December 2016. As compared with the six months ended 30 June 2016, whilst the Group's revenue decreased by approximately 65.5%, the Group's other operating income and gains increased by 137.0% (as partly contributed by the increase in bank and other interest income by 112.1% and the new income contributions of approximately HK$4.2 million from dividend and distribution income and disposal gain from available-for-sale investments) with the Group's net loss increased by approximately 7.1%. The Group continues to implement its business strategy of expanding its investment assets portfolio and building up of the various business platforms. There has been no material change to the trading performance and prospects of the Group's existing business segments since 30 June 2017. Shareholders may refer to the financial statements of the Group for the year ended 31 December 2016 and for the six months ended 30 June 2017 set out in Appendix V to this circular for details.

As of the Latest Practicable Date, the Group did not enter into any agreement, arrangement, understanding, intention or negotiation (concluded or otherwise) about any disposal, termination, and/or scaling-down of its existing businesses and major assets. However, the Group does, and will continue to, monitor the performance of the existing businesses in the interest of its shareholders.

3. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

(i) For the six months ended 30 June 2017

Business Review

For the six months ended 30 June 2017, the Group's major sources of revenue included subscription fees and management fees for products launched by the Group, platform fees for distribution of third-parties products, administration fees for employees stock ownership plan management services, brokerage commission income and corporate advisory fee income. In addition, the Group generated other operating income and gains from its general capital. The Group continued to build its client base and scale of asset under management. The Group's revenue and other operating income were HK$9.5 million and HK$33.2 million respectively, representing a decrease of 65.5% and an increase of 137.0% compared to the corresponding period in 2016 respectively. The decrease of revenue was mainly attributable to the decrease of consultancy and advisory revenue and securities brokerage commission during the six months ended 30 June 2017. However, the operating income (mainly derived from the Company's own capital fund management) increased significantly.

Apart from this, due to the increase in number of staff in 2016 and certain equipment and system contracts entered into in 2016, their related expenses were fully recorded in the six months ended 30 June 2017. The amortisation expense in relation to share awards granted by the Company in January 2017 was also recorded in the six months ended 30 June 2017. Therefore, overall operating expense was higher than that in the corresponding period in 2016. In addition, the fair values of certain financial assets (measured at fair value through profit or loss) held and disposed by the Group in the first six months in 2017 were lower than their values as of 31 December 2016, which resulted in a loss of HK$82.6 million. Taking into account of the above factors, the loss attributable to equity shareholders of the Company for the six months ended 30 June 2017 was HK$236.6 million (for the six months ended 30 June 2016: HK$220.8 million).

Brokerage Business

The Group launched "Youyu Stock" mobile application version 2.0 in May 2017 and upgraded the "Youyu Stock" website with the primary objective of improving the transaction process and presenting the account information in a more concise manner. The Group's new user interface design for both the mobile application and the website was able to 1) enhance the stability of the market price quotation function, 2) provide more comprehensive information on companies and 3) improve the user experiences. The Group's brokerage business was affected by the Hong Kong stock market. During the six months ended 30 June 2017, the turnover of brokerage business amounted to HK$457.6 million, representing a decrease of 62.7% as compared with the corresponding period in 2016.

Corporate Finance Consultancy Services

The Group's corporate finance business provided financial consultancy service primarily to Hong Kong listed companies. In the six months ended 30 June 2017, the Group completed 18 financial consultancy projects. During the same period, this business segment recorded an income of HK$5.4 million, representing a decrease of 78.6% as compared with the corresponding period in 2016.

Employee Stock Ownership Plan Administration

In the six months ended 30 June 2017, the Group launched the "Youyu ekeeper" website to provide employee stock ownership plan administration service and completed a system connection with its strategic partner. The long-term business plan is to develop the sustainable business model and create synergistic impact for other business lines.

Wealth Management

The Group successfully launched the "Youyu Wealth" online mobile application in April 2017. The application has received positive feedback and support from fund managers in the market as well as the social media.

On the other hand, the Group's wealth management business has made substantive progress offline in fund management, investing and financing solution services. In the six months ended 30 June 2017, the Group offered the following three offline fund products for subscriptions:

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

For the above fund products, the Group continued to attract new professional investors. As of 30 June 2017, the total capital commitment of the three offline products amounted to US$113.8 million.

General Capital Management

The Group adopted the following capital usage and management strategies:

(1) To achieve positive synergies between the Company's capital management and growth of its asset management business, and to facilitate external fundraising for such products, the Company intends to provide seed capital, as a direct investor or co-investor in fund products and high-quality early-stage private equity products developed by the Company;

(2) Used as standby capital to support the securities brokerage business and the securities financing business when needed;

(3) Towards acquisition or development of projects related to the Company's personal wealth management business or financial technologies development or into opportunities that provide synergies with other businesses of the Company; and

(4) For better effectiveness and returns in respect of the Company's capital management, and to improve cash flow management, the Company shall adopt a treasury management model that may involve (but shall not be limited to) holding fixed income instruments, high grade equity instruments and other financial investments.

For the six months ended 30 June 2017, the use of Group's general capital is as follows:

	At 30 June 2017	**At 31 December 2016**	**Change**
	HK$ million	*HK$ million*	
Fixed bank deposits and cash (note 1)	3,603.9	4,164.7	-13.5%
Mutual fund investment (note 2)	298.8	—	—
Fixed income type of investment (note 3)	154.7	75.4	105.2%
Equity and option	6.5	210.3	-96.9%
Majik Access USD Fund 3 LP	194.5	—	—
	4,258.4	4,450.4	-4.3%

Note 1: The amount included US$25 million committed for investing in Majik Access USD Fund 1 LP.

Note 2: This included investments in more than five mutual fund investments managed by different fund management companies with abundant international investment experiences. The investment portfolio of the mutual funds mainly comprised of fixed income securities and equity, with a higher proportion being fixed-income securities. The mutual funds were liquid assets and could be converted into cash upon request.

Note 3: This included both perpetual capital and loan receivable.

Financial results review

Significant financial information

Consolidated profit and loss analysis for the period ended 30 June

For the period ended 30 June	**2017**	**2016**	**Change**
	HK$ million	*HK$ million*	
Revenue	9.5	27.4	-65.3%
Other operating income and gains	33.2	14.0	137.1%
Net loss on financial assets and financial liabilities at fair value through profit or loss	(82.6)	(129.0)	-36.0%
Staff costs	(122.1)	(85.5)	42.8%
Other operating expenses	(70.1)	(59.5)	17.8%
	(232.1)	(232.6)	0.2%
Finance cost	(3.6)	—	—
Loss before taxation	(235.7)	(232.6)	1.3%
Income tax	(1.0)	11.6	—
Loss for the period	(236.7)	(221.0)	7.1%
Loss for the period attributable to:			
Equity shareholders of the Company	(236.6)	(220.9)	7.1%
Non-controlling interests	(0.1)	(0.1)	—
	(236.7)	(221.0)	7.1%

Revenue

For the six months ended 30 June 2017, revenue amounted to HK$9.5 million (2016: HK$27.4 million), representing a 65.3% decrease compared to that of the corresponding period in 2016 as follows:

For the six months ended 30 June	**2017** *HK$ million*	**2016** *HK$ million*	**Change**
Brokerage commission	0.6	2.3	-73.9%
Consultancy and advisory fees	5.4	25.1	-78.5%
Subscription fee income	1.1	—	—
Interest income from loan receivable	2.2	—	—
Other service revenue	0.2	—	—
	9.5	27.4	-65.3%

Other operating income and gains

For the six months ended 30 June 2017, other operating income and gains amounted to HK$33.2 million (2016: HK$14.0 million), representing a 137.1% increase compared to that of the corresponding period in 2016 as follows:

For the six months ended 30 June	**2017** *HK$ million*	**2016** *HK$ million*	**Change**
Bank and other interest income	27.3	12.9	111.6%
Handling and settlement fees	0.2	1.0	-80.0%
Dividend and distribution from available-for-sale financial assets	3.3	—	—
Miscellaneous income	0.7	0.1	600.0%
Gain on disposal of a subsidiary	0.8	—	—
Disposal gain of available-for-sale financial assets	0.9	—	—
	33.2	14.0	137.1%

Net loss on financial assets and financial liabilities at fair value through profit or loss

For the six months ended 30 June 2017, the net loss on financial assets and financial liabilities at fair value through profit or loss amounted to HK$82.6 million (2016: HK$129.0 million), representing a 36.0% decrease compared to that of the corresponding period in 2016 as follows:

For the six months ended 30 June	**2017**	**2016**	**Change**
	HK$ million	*HK$ million*	
Net unrealised loss on financial assets at fair value through profit or loss	(16.3)	(85.4)	-80.9%
Net realised loss on financial assets at fair value through profit or loss	(64.7)	(43.6)	48.4%
Fair value change of financial liabilities at fair value through profit or loss	(1.6)	—	—
	(82.6)	(129.0)	-36.0%

The financial assets at fair value through profit or loss investments held by the Group were mainly listed equity instruments and derivative financial instruments. When comparing the historical acquisition cost to the fair value of the financial assets, the net realised gain on financial assets would have been HK$73.1 million by the Group. However, all the financial assets were recorded and measured at fair value through profit or loss held by the Group were lower than their fair values as of 31 December 2016. As a result, the Group recorded the net realised loss of HK$64.7 million.

Staff costs

For the six months ended 30 June 2017, staff costs amounted to HK$122.1 million (2016: HK$85.5 million), including the amortisation of share based payment expense of HK$44.0 million. Excluding the non-cash share based payment expense, staff costs decreased by 6.9% compared to the corresponding period in 2016.

Other operating expenses

For the six months ended 30 June 2017, other operating expenses amounted to HK$70.1 million, representing a 17.8% increase compared to that of the corresponding period in 2016 as follows:

For the six months ended 30 June	**2017** *HK$ million*	**2016** *HK$ million*	**Change**
Information, data and communication expenses	(16.1)	(13.3)	21.1%
Legal and professional fee expenses	(28.1)	(10.5)	167.6%
Operating lease and related charges in respect of properties	(14.8)	(8.8)	68.2%
Business promotion and marketing expenses	(2.5)	(11.7)	-78.6%
Depreciation and amortisation	(8.1)	(2.8)	189.3%
Net exchange gain/ (loss)	12.5	(1.7)	—
Others	(13.0)	(10.7)	21.5%
	(70.1)	(59.5)	17.8%

Changes in owner's equity

For the six months ended 30 June	**2017** *HK$ million*	**2016** *HK$ million*
Balance at 1 January	4,444.1	4,761.3
Loss for the period	(236.7)	(221.0)
Others	58.2	1.2
Balance at 30 June	4,265.6	4,541.5
Attributable to:		
- equity shareholders of the Company	4,264.6	4,540.6
- non-controlling interests	1.0	0.9
Total equity	4,265.6	4,541.5

As of 30 June 2017, equity attributable to shareholders of the Company per share was HK$1.76 (31 December 2016: HK$1.85).

Liquidity, Financial Resources and Capital Structure

As of 30 June 2017, the Group had fixed bank deposits with original maturity over 3 months and cash and cash equivalents amounting to HK$3,603.9 million (31 December 2016: HK$4,164.7 million), as well as recorded net assets of HK$4,265.6 million, as compared to HK$4,444.1 million reported at the year end of 2016. The Group generally financed its daily operations with internal resources and had no bank or other borrowings except for HK$22.7 million of finance lease obligation as of 30 June 2017 (31 December 2016: nil) during the six months ended 30 June 2017. The Group's gearing ratio as of 30 June 2017 was 0.005 (31 December 2016: minimal), which was measured as total debt including finance lease obligation to total shareholder's equity.

Foreign Exchange Risk

The Group had assets and liabilities denominated in currencies other than its functional currency and that were subject to fluctuation in foreign exchange amounts in the different currencies. The Group was exposed to currency risk arising from various currency exposures, mainly to the extent of its bank balances in US dollar. Management of the Group monitored the foreign exchange exposure and would hedge significant foreign currency exposure should the need arise.

During the six months ended 30 June 2017, the Group did not engage in the use of other financial instruments for hedging purposes, and there were no hedging instruments outstanding as of 30 June 2017.

Material Acquisitions and Disposals of Subsidiaries and Associates

During the six months ended 30 June 2017, the Group disposed 100% shareholding of a subsidiary, Profit Trigger Limited which holds certain trade markets and web-domain for the Group, to a company which the Group's non-executive director, Mr. Ko Chun Shun, Johnson ("**Mr. Ko**") was the owner for a consideration of HK$800,000. On disposal date, the subsidiary had no asset nor liabilities and the Group recorded gain on disposal HK$800,000. From 1 January 2017 to date of disposal, the subsidiary remained dormant and did not contribute any profit or loss to the Group. On 24 February 2017, the Group conditionally agreed to dispose Reorient Financial Markets (USA), LLC and Reorient USA, LLC (the "**US Companies**") to third party for a consideration of an amount in cash equal to the net asset value of the US Companies plus US$20,000 subject to the approval of regulator. As of 30 June 2017, the transaction has not yet been completed.

Save as set out in the above, the Group did not have any material acquisitions or disposals of subsidiaries and associates during the six months ended 30 June 2017.

Charges on Assets

At the six months ended 30 June 2017, the Group did not have any charges on assets, other than a security deposit of HK$45,000,000 for bank overdraft facilities.

Commitments

As of 30 June 2017, rental payments under non-cancellable operating leases on office premises amounted to HK$34,760,000 (31 December 2016: HK$44,992,000).

As of 30 June 2017, the Group had in total, a US$84 million capital commitment (31 December 2016: US$25 million) to third-party managed funds with US$21.2 million (31 December 2016: US$3.15 million) of capital having been contributed.

As disclosed in the announcement of the Company dated 4 February 2016, 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. on the same 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 Reorient Financial Markets Limited, 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, Reorient Financial Markets Limited was committed to contribute RMB1,290,000,000 of the registered capital of the joint venture company.

Contingent Liabilities

As of 30 June 2017, the Group did not have any significant contingent liabilities.

Staffing and Remunerations

As of 30 June 2017, the Group employed a total of 230 full time employees mainly located in Hong Kong and the PRC, and stringently abided by the relevant labour laws and regulations. To foster a motivated and skilled working team, the Group provided on-the-job training and competitive remuneration packages including salaries and discretionary bonuses for employees. During the six months ended 30 June 2017, the Group also granted share award to provide incentives to the employees.

The remuneration policy and package, including the share options and share awards (if any), of the Group's employees were maintained at market level and were reviewed annually by the management. There were no significant changes in the employment, training or development policies of the Group since the publication of the annual report for the year ended 31 December 2016.

(ii) **For the year ended 31 December 2016**

Business Review

In the last quarter of 2015, a group of investors led by Yunfeng Financial Holdings Limited ("**YFHL**") completed the capital injection to the Company and the Group put in place new business development strategies. The year 2016 set the stage for the development of the Group's new business. During the year, the Group made significant investments primarily in developing its financial technology related infrastructure. Those significant investments included the establishment of the information technology and product development teams as well as the high performance trading order system. During the year, the number of employees increased by 141 and most of them were internet products and technology development design technicians. On the other hand, the Group also assembled a team of professionals with years of international and PRC market experience and expertise including financial products, risk management, legal and compliance and financial control in the financial industry. With the blend of talents in both “financial” and “technical” areas, the Group gained unique competitive advantage to realise the long term vision of becoming a “financial technology” centric wealth management and employee stock ownership plan related service platform. During the year 2016, the Group conducted a comprehensive review on the existing systems and gradually upgraded its software and hardware including the trading order system, server rooms, dedicated data transfer lines, and database management system.

Brokerage Business

The Group generated brokerage income of HK$3.8 million representing a decrease of 65.5% compared to that of year 2015. The trading volume of Hong Kong equity market decreased by 37.2% compared to that of 2015. During the year, the trading volume of the Group’s brokerage business amounted approximately to HK$2.4 billion, representing a decrease of 49.5% as compared with 2015.

Financial Consultancy and Advisory Business

The Group’s corporate finance business provided financial consultancy service primarily to Hong Kong listed companies. During 2016, the Group completed 39 financial consultancy projects and recorded an income of HK$42.3 million, representing a decrease of 76.9% as compared with 2015. The decrease was mainly attributable to the revenue generated from certain major projects recorded in 2015.

Financial Assets at Fair Value through Profit or Loss

As of 31 December 2016, the fair values of financial assets (measured at fair value through profit or loss) held by the Group was HK$210.3 million, mainly comprised of listed equity investments. On the basis of comparing the respective historical acquisition costs to the fair values of financial assets, the portfolio brought a “realised gains” of HK$51.4 million and “unrealised gain” of HK$130.0 million to the Group. However, in accordance with the prevailing accounting standards, the realised and unrealised gains/ losses of the portfolio were measured comparing the sales proceeds received during the year of fair value as of 31 December 2016 to the fair value as of 31 December 2015. Consequently, the ‘realised loss” of HK$43.6 million and “unrealised loss” of HK$32.1 million were recorded in the consolidated income statement for the year.

Consolidated financial results review

The financial highlights of the Group were as follows:

Consolidated profit and loss analysis for the year ended 31 December	**2016**	**2015**	**Change**
	HK$ million	*HK$ million*	
Revenue	46.1	194.0	-76.2%
Net loss on financial assets at fair value through profit or loss	(75.7)	(99.9)	-24.2%
Staff costs	(200.1)	(107.6)	86.0%
Other operating expenses	(122.0)	(69.1)	76.6%
Loss before taxation	(324.9)	(77.9)	317.1%
Loss for the year	(316.5)	(157.0)	101.6%
Loss attributable to owners	(316.7)	(152.4)	107.8%
Basic loss per share (*HK$*)	(0.13)	(0.21)	-38.1%
Final dividend proposed	—	—	—

Revenue

For the year 2016, revenue of the Group amounted to HK$46.1 million, representing a 76.2% decrease compared to that of 2015 as follows:

	2016	**2015**	**Change**
	HK$ million	*HK$ million*	
Turnover	2,416.9	4,782.5	-49.5%
Revenue			
Brokerage commission	3.8	11.0	-65.5%
Consultancy and advisory fees	42.3	182.9	-76.9%
Total	46.1	193.9	-76.2%

Net loss on financial assets at fair value through profit or loss

For the year 2016, the net loss on financial assets at fair value through profit or loss amounted to HK$75.7 million, representing 24.2% decrease compared to that of 2015 as follows:

	2016	2015	Change
	HK$ million	*HK$ million*	
Net unrealised (loss)/ gain on financial assets at fair value through profit or loss	(32.1)	228.0	—
Net realised loss on financial assets at fair value through profit or loss	(43.6)	(327.9)	-86.7%
Total loss on financial assets at fair value through profit or loss	(75.7)	(99.9)	-24.2%

Staff costs

For the year of 2016, staff costs amounted to HK$200.1 million, representing a 86.0% increase compared to that of 2015. The number of full time employees increased from 87 to 229 with most working in the internet products and technology development fields. The growth in staff costs was considered to be keeping pace with the Group's business developments and expansions.

Other operating expenses

For the year 2016, other operating expenses amounted to HK$122.0 million, representing a 76.6% increase compared to that of 2015 as follows:

	2016	2015	Change
	HK$ million	*HK$ million*	
Information, data and communication expenses	30.5	16.4	86.0%
Legal and professional fee expenses	20.6	7.2	186.1%
Operating lease and related charges in respect of properties	19.9	12.9	54.3%
Business promotion and marketing expenses	18.2	—	—
Depreciation and amortisation	8.0	2.5	220.0%
Others	24.8	30.1	-17.6%
Total	122.0	69.1	76.6%

Consolidated financial position analysis as of 31 December	**2016**	**2015**	**Change**
	HK$ million	*HK$ million*	
Total assets	4,925.6	5,087.5	-3.2%
Total equity	4,444.1	4,761.3	-6.7%
Owner's equity	4,443.0	4,760.3	-6.7%
- Per share (HK$)	1.85	1.98	-6.6%

The Group's total shareholders' equity amounted to approximately HK$4,444.1 million as of 31 December 2016 as compared to the total shareholders' equity of HK$4,761.3 million reported at the end of 2015. The decrease was mainly due to the operating loss and the decrease in fair value of financial asset at fair value through profit or loss.

Changes in owner's equity	**2016**	**2015**
	HK$ million	*HK$ million*
Balance at 1 January	4,761.3	1,020.9
Issue of subscription shares	—	3,878.7
Loss for the year	(316.5)	(157.0)
Others	(0.7)	18.7
Balance at 31 December	4,444.1	4,761.3
Attributable to:		
- equity shareholders of the Company	4,443.0	4,760.3
- non-controlling interests	1.1	1.0
Total equity	4,444.1	4,761.3

Liquidity and Financial Resources

As of 31 December 2016, the Group had fixed bank deposits with original maturity over 3 months and cash and cash equivalent of approximately HK$4,164.7 million (31 December 2015: HK$4,162.9 million). The Group generally financed its daily operations with internal resources and had no bank or other borrowings except for HK$2.2 million finance lease obligation with minimal impact on the Group's gearing ratio at the end of year 2016 (31 December 2015: nil).

Capital Stucture

As of 31 December 2016, the number of shares in issue and issued share capital of the Company were 2,399,336,394 (31 December 2015: 2,399,336,394) and approximately HK$4.5 million (31 December 2015: HK$4.5 million), respectively.

Equity Price Risk

The Group was exposed to equity price changes arising from equity investment and derivative instruments classified as financial assets at fair value through profit or loss held by the Group. The underlying equity securities of the Group's unlisted derivative were listed on the Stock Exchange. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss were dealt with in the consolidated income statement. On the other hand, the Group invested in available for sale financial assets with the fair value change going through reserves. The investment performance was monitored regularly as set out in the financial statements, together with an assessment of its relevance to the Group's strategic plans.

Foreign Exchange Risk

The Group had assets and liabilities denominated in currencies other than its functional currency and that were subject to fluctuation in foreign exchange amounts in the different currencies. The Group was exposed to currency risk arising from various currency exposures mainly to the extent of its bank balances in US dollar and Renminbi as set out in the financial statements. Management of the Group monitored the foreign exchange exposure and would hedge significant foreign currency exposure should the need arise.

During the year ended 31 December 2016, the Group did not engage in the use of other financial instruments for hedging purposes, and there were no hedging instruments outstanding as of 31 December 2016.

Material Acquisitions and Disposals of Subsidiaries and Associates

The Group did not have any material acquisitions and disposals of subsidiaries and associates during the year ended 31 December 2016.

Charges on Assets

As of 31 December 2016, the Group did not have any charges on assets, other than a security deposit of HK$45,600,000 for banking facilities.

Commitments

Operating lease commitments

As lessee

As of 31 December 2016, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2016	**2015**
	HK$'000	*HK$'000*
Within one year	21,345	13,733
After one year but within five years	23,647	24,450
	44,992	38,183

The Group leased a number of offices under operating leases. The leases run for an initial period of one to five years. None of the leases included contingent rentals.

Other commitments

As of 31 December 2016, capital commitments on leasehold improvement, equipment and intangible asset amounted to HK$22,422,000 (2015: nil).

As of 31 December 2016, the Group had a US$25 million capital commitment (2015: nil) to two third party managed funds with US$3.15 million capital having been contributed.

As disclosed in the announcement of the Company dated 4 February 2016, 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. on the same 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 Reorient Financial Markets Limited, Hangzhou Dr. Herbs Electronics Commerce Company Limited and Jiangsu YuWell Technology Development Co., Ltd. on 13 April 2016. Upon establishment of the joint venture company after obtaining all necessary approval as defined and disclosed in the circular, Reorient Financial Markets Limited would be committed to contribute RMB1,290,000,000 of the registered capital of the joint venture company.

As disclosed in the announcement of the Company dated 6 April 2016, Profit Mind Global Limited, a wholly-owned subsidiary of the Company, entered into a share subscription agreement to subscribe 71,428,571 ordinary shares of Culturecom Holdings Limited for a total consideration of HK$15.0 million. Pursuant to another agreement made between Culturecom Holdings Limited and Reorient Financial Markets Limited, Culturecom Holdings Limited shall pay a fee of HK$12 million to Reorient Financial Markets Limited. With the agreement and acknowledgement between Culturecom Holdings Limited and Profit Mind Global Limited, the consideration paid by Profit Mind

Global Limited to Culturecom Holdings Limited was the balance in cash after setting off against any outstanding fee payable to Reorient Financial Markets Limited. Subsequent to 31 December 2016, as disclosed in the announcement of the Company dated 10 March 2017, the Group received a notice from Culturecom Holdings Limited to terminate the share subscription agreement.

Contingent Liabilities

The Group did not have any significant contingent liabilities as of 31 December 2016.

Staffing and Remunerations

As of 31 December 2016, the Group employed a total of 229 (2015: 87) full time employees, 82 (2015: 60) of which were located in Hong Kong, 2 (2015: 2) in the United States and 145 (2015: 25) in the PRC. The remuneration of employees included salary 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 options and share awards (if any), of the Group's employees were maintained at market level and reviewed annually by the management.

(iii) **For the year ended 31 December 2015**

Business Review

The Company's strategy on future development

In November 2015, the Company completed the subscription of new shares of the Company by YFHL. The development strategy of the Company subsequent to the completion of the subscription was set out in the circular in relation to such subscription issued to shareholders by the Company on 18 August 2015. The Company has undertaken that, it would carry out a detailed review of the Group's development strategy subsequent to the completion of the subscription, and the relevant review work progressed in an orderly manner. The general direction of development of the Group was to become an innovative internet financial services institution and a wealth management platform, providing comprehensive financial and wealth management services spanning both local and overseas capital markets. The turnover and revenue of each business line were as follows:

	2015	**2014**	**Change**
	HK$ million	*HK$ million*	
Brokerage			
- Turnover	4,782.5	11,495.4	-58.0%
- Revenue	11.0	24.4	-55.0%
Consultancy and advisory fees			
- Revenue	182.9	105.7	+73.0%

Brokerage Business

The Group provides brokerage services for securities in Hong Kong, Shanghai via Shanghai-Hong Kong Stock Connect scheme and major exchanges in overseas countries.

Primarily due to market conditions in 2015, the Group recorded a 55% decrease of commission income generated from securities brokerage compared to 2014.

Financial Consultancy and Advisory Business

Financial consultancy and advisory business of the Group maintained a strong growth in 2015 and generated a total income of HK$182.9 million, representing a growth of about 73% from that in 2014. The Group received listed shares of clients as part of the fees in respect of a project. These arrangements generated gain from holding these listed shares based on their market value as of the end of year 2015, which was recorded as other income in the consolidated income statement.

Consolidated financial results

The financial highlights of the Group were as follows:

	2015	**2014**	**Change**
	HK$ million	*HK$ million*	
Revenue	194.0	133.4	+45.0%
Other net (loss)/ income	(99.9)	920.5	—
(Loss)/ profit before taxation	(77.9)	759.3	—
(Loss)/ profit for the year	(157.0)	758.9	—
(Loss)/ profit attributable to owners	(152.4)	758.9	—
Basic (loss)/ earnings per share (HK$)	(0.21)	1.73	—
Final dividend proposed	—	—	—

The net loss for the year was HK$157.0 million versus a profit of HK$758.9 million recorded in 2014. The net loss for the year was mainly due to the disposal of KuangChi Science Limited shares which resulted in a net loss of HK$471.6 million. However, when compared against the historical acquisition cost of KuangChi Science Limited, the disposal resulted in a net gain of approximately HK$429.8 million. The increase in profits tax for the year was due to the recognition of current tax provision in respect of the disposal of shares in KuangChi Science Limited and deferred tax provision for the unrealised gain from other financial assets, with a total amount of HK$61.9 million. Details of the disposal of shares in KuangChi Science Limited were as disclosed in the announcement of the Company dated 18 December 2015. The aforementioned equity investment was accounted for as financial assets at fair value through profit or loss in the Group's consolidated financial statements.

The financial assets position was monitored by the Group's Governance Committee and the Chief Executive Officer.

Consolidated other gain/ (loss) analysis for the year ended 31 December	**2015**	**2014**	**Change**
	HK$ million	*HK$ million*	
Net unrealised gain on financial assets at fair value through profit or loss	228.0	920.5	-75%
Net realised loss on financial assets at fair value through profit or loss	(327.9)	—	—
Total (loss)/ gain on financial assets at fair value through profit or loss	(99.9)	920.5	—

The significant decrease in other gain is due to net realised loss on the financial assets at fair value through profit or loss resulted from the disposal of shares in KuangChi Science Limited . The resultant net loss was based on the sale and purchase consideration for shares in KuangChi Science Limited minus the fair value of shares in KuangChi Science Limited as of 31 December 2014.

Consolidated financial position analysis as of 31 December	**2015**	**2014**	**Change**
	HK$ million	*HK$ million*	
Total assets	5,087.5	1,360.8	+2.7 times
Total equity	4,761.3	1,020.9	+3.7 times
Owner's equity	4,760.3	1,014.9	+3.7 times
- Per share (HK$)	1.98	2.23	-11%

The Group's total shareholders' equity amounted to approximately HK$4,761.3 million as of 31 December 2015 as compared to the total shareholders' equity of HK$1,020.9 million reported at the end of 2014. The significant increase was mainly due to the issuance of share capital with net proceeds of approximately HK$3,878.7 million.

Staff costs

For the year ended 31 December 2015, staff costs amounted to HK$107.6 million (2014: HK$237.5 million), representing a 54.7% decrease compared to that of 2014.

Other operating expenses

For the year ended 31 December 2015, other operating expenses amounted to HK$66.6 million (2014: HK$55.9 million), representing an increase of HK$10.7 million (19.1%) compared to that of 2014.

Liquidity, Financial Resources And Financing Activities

As of 31 December 2015, the Group had cash and cash equivalents of approximately HK$4,162.9 million (31 December 2014: HK$74.6 million). As of the end of year 2015, the current ratio was measured at 16.4 times (31 December 2014: 2.2 times). The Group had no bank or other borrowings at the end of year 2015 (31 December 2014: nil).

Capital Structure

(i) *Issue of shares under share option scheme*

During the year ended 31 December 2015, 1,165,173 share options were exercised at HK$3.65.

(ii) *Issue of subscription shares*

On 7 May 2015, the Company entered into five conditional share subscription agreements with each of YFHL, Harbour Yields Limited, Violet Passion Holdings Limited, Gentle Bright Development Limited and Chosen Global Holdings Limited. Pursuant to the share subscription agreements, the five investors conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, a total of 1,942,520,000 ordinary shares of the company at an issue price of HK$2.00 per share to the five investors in an aggregate amount of approximately HK$3,885,040,000. Out of the 1,942,520,000 shares, 1,342,976,000 shares representing 55.97% of the enlarged issued share capital were subscribed for by Jade Passion Limited, an indirect subsidiary owned as to 73.21% by YFHL. The subscription was completed on 9 November 2015, and Jade Passion Limited became the new controlling shareholder and YFHL became the ultimate controlling shareholder of the Company.

After deducting the expenses in connection with the transaction amounting to approximately HK$6,358,000, the net proceeds from the subscription were approximately HK$3,878,682,000.

Details of the issuance of subscription shares and the use of proceeds were disclosed in the Company's circular dated 18 August 2015, and as amended and disclosed in the Company's 2016 annual report.

As of 31 December 2015, the number of shares in issue and issued share capital of the Company were 2,399,336,394 (31 December 2014: 455,651,221) and approximately HK$4.5 million (31 December 2014: HK$0.6 million), respectively. The Group had no bank or other borrowings at the end of year 2015.

Equity Price Risk

The Group was exposed to equity price changes arising from equity investment and derivative instruments classified as financial assets at fair value through profit or loss held by the Group. The underlying equity securities of the Group's unlisted derivative were listed on the Stock Exchange. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are dealt with in the consolidated income statement.

At 31 December 2015, it was estimated that an increase or decrease of 5% in the price of the relevant stocks, with all other variables held constant, would have increased the Group's profit after tax (and retained earnings) by HK$17,616,000 (2014: HK$46,243,000) or decreased the Group's profit after tax (and retained earnings) by HK$17,597,000 (2014: HK$46,451,000).

Foreign Exchange Risk

The Group had assets and liabilities denominated in currencies other than its functional currency and that were subject to fluctuation in foreign exchange amounts in the different currencies. The Group considered that its exposure to US dollar was insignificant, on the grounds that the Hong Kong dollar is pegged to the US dollar. The Group was exposed to currency risk arising from various currency exposures, mainly to the extent of its bank balances in currencies other that the US dollar, such as Australian Dollars and Renminbi. Management of the Group monitored the foreign exchange exposure and would hedge significant foreign currency exposure should the need arise.

During the year ended 31 December 2015, the Group did not engage in the use of other financial instruments for hedging purposes, and there were no hedging instruments outstanding as of 31 December 2015.

Material Acquisitions and Disposals of Subsidiaries and Associates

The Group did not have any material acquisitions and disposals of subsidiaries and associates during the year ended 31 December 2015.

Charges on Assets

At the end of 2015, the Group did not have any charges on assets, other than a security deposit of HK$30,000,000 for banking facilities.

Commitments

As of 31 December 2015, rental payments under non-cancellable operating leases on office premises amounted to HK$38,183,000 (31 December 2014: HK$33,220,000).

Contingent Liabilities

The Group did not have any significant contingent liabilities as of 31 December 2015.

Staffing and Remunerations

As of 31 December 2015, the Group employed a total of 87 (2014: 73) full time employees, 60 (2014: 65) of which were located in Hong Kong, 2 (2014: 2) in the United States and 25 (2014: 6) in the PRC. The remuneration of employees included salary 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 options and share awards, of the Group's employees were maintained at market level and reviewed annually by the management.

(iii) **For the year ended 31 December 2014**

Business Review

Overall Performance

The Group's consolidated revenue for the year was HK$133.4 million, representing a 72.0% increase from HK$77.5 million recorded in 2013. In addition, the other net gain from financial assets for the year increased from HK$8.0 million in 2013 to HK$920.5 million in year 2014, representing the fair value gain in the Company's equity position. The net income for the year was HK$758.9 million versus a loss of HK$87.4 million recorded in 2013.

The net income for the year was mainly driven by the proprietary investments which have contributed HK$920.5 million in unrealized holding gains for the year.

Brokerage Business

For the year ended 31 December 2014, the total value of the transactions in relation to securities brokerage handled by the Group amounted to approximately HK$11.5 billion. The Group's commission income generated from securities brokerage amounted to approximately HK$24.4 million, representing 18.0% (2013: 56.0%) of the Group's revenue for the year.

Financial Consultancy and Advisory Business

The Group's financial advisory business finished 2014 with a strong quarter, as income generated from consultancy and advisory services was HK$105.7 million, representing 79.0% of the Group's revenue for the year ended 31 December 2014, an increase of 4.4 times as compared to the HK$19.4 million recorded in 2013.

Placing and Underwriting Business

For the year ended 31 December 2014, the total value of transactions in relation to placing and underwriting by the Group amounted to approximately HK$466.0 million. The Group's income generated from placing and underwriting amounted to approximately HK$3.1 million, representing 2.0% of the Group's revenue for the year ended 31 December 2014.

Financial Review

For the year ended 31 December 2014, the revenue of the Group amounted to HK$133.4 million (2013: HK$77.5 million), representing an increase of HK$55.9 million (72.1%) compared to that of 2013.

The Group's revenue for the year ended 31 December 2014 was as follows:

	2014 *HK$ million*	2013 *HK$ million*
Brokerage commission	24.4	43.3
Consultancy and advisory fees	105.7	19.4
Placing and underwriting commission	3.1	14.6
Interest income from clients	0.2	0.2
Total	133.4	77.5

Other operating income

For the year ended 31 December 2014, other operating income amounted to HK$2.6 million (2013: HK$1.5 million), representing an increase of HK$1.1 million (73.3%) compared to that of 2013.

	2014 *HK$ million*	2013 *HK$ million*
Handling and settlement fees	1.4	0.9
Other interest income	1.2	0.6
	2.6	1.5

Net unrealised gain on financial assets at fair value through profit or loss

For the year ended 31 December 2014, the net unrealised gain on financial assets and financial liabilities at fair value through profit or loss amounted to HK$920.5 million (2013: HK$8.0 million), representing an increase of HK$912.5 million compared to that of 2013.

	2014 *HK$'000*	2013 *HK$'000*
Net unrealised gain on financial assets at fair value through profit or loss		
- Convertible preferred shares	555,997	—
- Options	(1,357)	8,000
- Equity investment listed in Hong Kong	365,846	—
	920,486	8,000

Profit attributable to equity shareholders of the Company

For the year ended 31 December 2014, the profit attributable to equity shareholders of the Company was HK$758.9 million (2013: a loss of HK$87.4 million).

Staff costs

For the year ended 31 December 2014, staff costs amounted to HK$237.5 million (2013: HK$124.1 million), representing an increase of HK$113.4 million (91.4%) compared to that of 2013.

Other operating expenses

For the year ended 31 December 2014, other operating expenses amounted to HK$55.9 million (2013: HK$46.3 million), representing an increase of HK$9.6 million (20.7%) compared to that of 2013.

Liquidity and Financial Resources

The Group's total shareholders' equity amounted to approximately HK$1,020.9 million as of 31 December 2014 as compared to the total shareholders' equity of HK$161.1 million reported at the end of 2013. The change was attributable to the profit reported for the year ended 31 December 2014 and the issue of equity of HK$101.1 million.

As of 31 December 2014, the Group had cash and cash equivalents of approximately HK$74.6 million (31 December 2013: HK$111.1 million). As of the end of 2014, the current ratio was measured at 2.2 times (31 December 2013: 2.1 times). The Group had no bank and other borrowings at the end of 2014 (31 December 2013: nil).

Capital Structure

On 14 January 2014, the Company allotted and issued 17,805,178 new shares of the Company to Frontier Services Group Limited ("**Frontier Services**") and in return Frontier Services allotted and issued 56,976,571 new shares of Frontier Services to the Company pursuant to the share swap agreement dated 23 November 2013. Details of the share swap agreement were disclosed in the Company's announcement dated 23 November 2013.

On 26 June 2014, arrangements were made for a private placement to independent investors of 17,021,277 shares in the Company held by Gainhigh Holdings Limited ("**Gainhigh**"), at a price of HK$2.35 per share. Pursuant to a subscription agreement of the same date, Gainhigh subscribed for 17,021,277 new shares in the Company at a price of $2.35 per share. The subscription was completed on 9 July 2014 and 17,021,277 shares were issued to Gainhigh. After deducting the expenses in connection with private placement amounting to HK$99,000, the net proceeds from placement of ordinary shares is HK$39,901,000, of which approximately HK$3,105,000 was used as a funding to an associated company in the US, whose principal activity is in the provision of technical and specialist services to clients interested in the oil and gas assets and the remaining proceedings has been deployed to support the Group's general operational funding of its core business of securities broking, corporate finance and direct investments.

On 30 October 2014, 10,495,412 share options were granted by the Company under its share option scheme to eligible persons to subscribe for the same number of ordinary shares of the Company. As of 29 April 2015, 9,330,239 share options were exercised. Details of the share option scheme were disclosed in the Company's announcement dated 30 October 2014.

Equity Price Risk

The Group was exposed to equity price changes arising from equity investment and derivative instruments classified as financial assets at fair value through profit or loss held by the Group. The underlying equity securities of the Group's unlisted derivative were listed on the Stock Exchange. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss were dealt with in the consolidated income statement.

At 31 December 2014, it was estimated that an increase or decrease of 5% in the price of the relevant stocks, with all other variables held constant, would have increased the Group's profit after tax (and retained earnings) by HK$46,243,000 (2013: HK$952,000) or decreased the Group's profit after tax (and retained earnings) by HK$46,451,000 (2013: HK$932,000).

Foreign Exchange Risk

The Group had assets and liabilities denominated in currencies other than its functional currency and that were subject to fluctuation in foreign exchange amounts in the different currencies. The Group considered that its exposure to US dollar then was insignificant, on the grounds that the Hong Kong dollar is pegged to the US dollar. The Group was exposed to currency risk arising from various currency exposures, mainly to the extent of its bank balances in currencies other that the US dollar, such as Korean Won, Japanese Yen and Renminbi. Management of the Group monitored the foreign exchange exposure and would hedge significant foreign currency exposure should the need arise.

During year 2014, the Group did not engage in the use of other financial instruments for hedging purposes, and there were no hedging instruments outstanding as of 31 December 2014.

Material Acquisitions and Disposals of Subsidiaries and Associates

On 18 July 2014, the Group sold 5.25% equity interest in EQ Partners Co. Ltd, for a consideration of approximately HK$8.1 million.

Save as discussed above, the Group had no other material acquisitions, disposals of subsidiaries and associates as of 31 December 2014.

Charges on Assets

At the end of 2014, the Group did not have any charges on assets, other than a security deposit of HK$20,000,000 for a bank overdraft facility.

Commitments

As of 31 December 2014, rental payments under non-cancellable operating leases on office premises amounted to HK$33,220,000 (31 December 2013: HK$6,095,000).

On 21 February 2014, Reorient Investments Limited, a wholly-owned subsidiary of the Company, Pelagic Advisors LLC and ReOil, LLC entered into an unit purchase agreement, pursuant to which Reorient Investments Limited committed to purchase up to 600 additional Series B Units from ReOil, LLC at a purchase price per unit of US$1,000, with the amount payable upon receipt of written notice from ReOil, LLC and in six equal instalments. During the year, Reorient Investments Limited purchased 500 additional Series B Units from ReOil, LLC for a cash consideration of US$500,000. As of 31 December 2014, Reorient Investments Limited had a commitment to purchase 100 Series B Units.

On 29 May 2014, Reorient Global Limited, a wholly-owned subsidiary of the Company, entered into a subscription agreement with KuangChi Science Limited, pursuant to which, Reorient Global Limited agreed to subscribe 66,666,666 new ordinary shares of KuangChi Science Limited fully paid at the subscription price of HK$0.08 per share and 107,333,334 new preferred shares partly paid as to HK$0.004 per new preferred share (representing 5% of the subscription price of HK0.08 per preferred share), on completion of subscription dated 22 August 2014. Reorient Global Limited would fully pay up the preferred shares in two equal tranches, with the first and second tranche to be fully paid up within six months and one year of completion of the subscription agreement at 95% each tranche, respectively, payable by Reorient Global Limited to KuangChi Science Limited in accordance with the subscription agreement. The total investment amounted to approximately HK$13,920,000. Details of the transaction were disclosed in the announcement of the Company dated 21 August 2014.

On 24 November 2014, Reorient Global Limited entered into a subscription agreement with China Star Cultural Media Group Limited. Reorient Global Limited agreed to subscribe for 55,192,195 new ordinary shares and 55,192,194 new convertible preferred shares in China Star Cultural Media Group Limited for a cash consideration of HK$22,077,000, subject to the terms and conditions of the subscription agreement. The preferred shares shall be non-voting, non-redeemable and convertible to ordinary shares once they are fully paid. Details of the transaction were disclosed in the announcement of the Company dated 24 November 2014. The above subscription transaction was completed on 19 March 2015. On 15 June 2015, the 55,192,194 preferred shares were converted into ordinary shares of China Star Cultural Media Group Limited (currently known as Lajin Entertainment Network Group Limited).

Contingent Liabilities

The Group did not have any significant contingent liabilities as of 31 December 2014.

Staffing and Remunerations

As of 31 December 2014, the Group employed a total of 73 (2013: 65) full time employees, 65 (2013: 59) of which were located in Hong Kong, 2 (2013: nil) in the United States and 6 (2013: 6) in the PRC. The remuneration of employees included salary 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 options and share awards, of the Group's employees were maintained at market level and reviewed annually by the management.

4. AUDITED FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

The following is the full text of the audited financial statements of the Group for the year ended 31 December 2016 as extracted from the annual report of the Company for the year ended 31 December 2016:

Consolidated Income Statement
For the year ended 31 December 2016

	Note	**2016** *HK$'000*	**2015** *HK$'000*
Revenue	3	46,120	193,967
Other operating income	4	34,981	3,475
Net loss on financial assets at fair value through profit or loss	5	(75,688)	(99,899)
		5,413	97,543
Staff costs	6(a)	(200,094)	(107,613)
Depreciation and amortisation		(7,992)	(2,567)
Other operating expenses	6(b)	(113,981)	(66,555)
Loss from operations		(316,654)	(79,192)
Finance costs	6(c)	(97)	(60)
Share of results of associates		—	567
Provision for impairment loss of interest in an associate		—	(714)
Net provision for impairment loss	6(d)	(8,118)	(16,588)
Gain on disposal of an associate		—	18,118
Loss before taxation	6	(324,869)	(77,869)
Income tax	7(a)	8,327	(79,172)
Loss for the year		(316,542)	(157,041)
Loss attributable to equity shareholders of the Company		(316,688)	(152,419)
Profit/(loss) attributable to non-controlling interests		146	(4,622)
Loss per share attributable to equity shareholders of the Company			
Basic *(HK$)*	11(a)	(0.13)	(0.21)
Diluted *(HK$)*	11(b)	(0.13)	(0.21)

The notes on pages V-36 to V-104 form part of these financial statements. Details of dividends declared for the year are set out in note 28(d) to the financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
Loss for the year	(316,542)	(157,041)
Other comprehensive income for the year (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets: net movement in fair value reserve	(2,141)	—
Exchange differences arising on translation of results of foreign operations	(621)	(612)
Total comprehensive income for the year	(319,304)	(157,653)
Total comprehensive income for the year attributable to:		
— equity shareholders of the Company	(319,375)	(152,722)
— non-controlling interests	71	(4,931)
	(319,304)	(157,653)

The notes on pages V-36 to V-104 form part of these financial statements.

Consolidated Statement of Financial Position
At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Property and equipment	13	21,418	13,930
Goodwill and other intangible assets	14	21,512	550
Available-for-sale financial assets	18	99,853	—
Deferred tax assets	27(b)	508	—
Other non-current assets	17	10,176	15,260
Total non-current assets		153,467	29,740
Current assets			
Financial assets at fair value through profit or loss	19	210,270	410,620
Accounts receivable and accrued income	20	23,611	296,254
Other receivables, deposits and prepayments	21	15,024	18,669
Bank balance-trust and segregated accounts	22(a)	358,544	169,319
Fixed bank deposits with original maturity over 3 months		524,187	—
Cash and cash equivalents	22(a)	3,640,494	4,162,922
Total current assets		4,772,130	5,057,784
Current liabilities			
Accounts payable	23	370,677	197,621
Accrued expenses and other payables	24	55,483	48,938
Obligation under finance lease	26	842	—
Current taxation	27(a)	53,087	61,451
Total current liabilities		480,089	308,010
Net current assets		4,292,041	4,749,774
Non-current liabilities			
Obligation under finance lease	26	1,385	—
Deferred tax liabilities	27(b)	—	18,171
NET ASSETS		4,444,123	4,761,343

Consolidated Statement of Financial Position
At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
EQUITY			
Share capital	28(e)	4,499,548	4,499,548
Reserves		(56,532)	260,759
		4,443,016	4,760,307
Non-controlling interests		1,107	1,036
TOTAL EQUITY		4,444,123	4,761,343

Approved and authorised for issue by the Board on 28 March 2017 and are signed on its behalf by:

Li Ting
Executive Director and Chief Executive Officer

Huang Xin
Executive Director

The notes on pages V-36 to V-104 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

		Attributable to equity shareholders of the Company										
	Note	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 HK$'000	Exchange reserve HK$'000	Statutory Reserve HK$'000	Retained profit/ (accumulated loss) HK$'000	Sub total HK$'000	Non-controlling interests HK$'000	Total HK$'000
Balance at 1 January 2015		614,919	(23,013)	7,436	2,650	—	201	—	412,741	1,014,934	5,967	1,020,901
Changes in equity for the year ended 31 December 2015:												
Equity settled share-based transaction		—	—	15,160	—	—	—	—	—	15,160	—	15,160
Shares vested under share award scheme		—	14,971	(14,971)	—	—	—	—	—	—	—	—
Exercise of share options		5,947	—	(1,694)	—	—	—	—	—	4,253	—	4,253
Issue of subscription shares		3,885,040	—	—	—	—	—	—	—	3,885,040	—	3,885,040
Cost of issuance of subscription shares		(6,358)	—	—	—	—	—	—	—	(6,358)	—	(6,358)
Loss for the year		—	—	—	—	—	—	—	(152,419)	(152,419)	(4,622)	(157,041)
Other comprehensive income for the year		—	—	—	—	—	(303)	—	—	(303)	(309)	(612)
Balance at 31 December 2015 and 1 January 2016		4,499,548	(8,042)	5,931	2,650	—	(102)	—	260,322	4,760,307	1,036	4,761,343
Changes in equity for the year ended 31 December 2016:												
Equity settled share-based transaction		—	—	2,084	—	—	—	—	—	2,084	—	2,084
Shares vested under share award scheme	29(b)(ii)	—	7,945	(7,945)	—	—	—	—	—	—	—	—
(Loss)/ profit for the year		—	—	—	—	—	—	—	(316,688)	(316,688)	146	(316,542)
Other comprehensive income for the year		—	—	—	—	(2,141)	(546)	—	—	(2,687)	(75)	(2,762)
Appropriation to statutory reserves		—	—	—	—	—	—	219	(219)	—	—	—
Balance at 31 December 2016		4,499,548	(97)	70	2,650	(2,141)	(648)	219	(56,585)	4,443,016	1,107	4,444,123

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Operating activities			
Cash generated from operations	22(b)	132,169	179,280
Tax paid:			
— Hong Kong profit tax paid		(18,255)	—
— Overseas tax paid		(429)	—
Net cash generated from operating activities		113,485	179,280
Investing activities			
Proceeds from disposal of an associate		—	40,978
Payment for acquisition of subsidiaries, net of cash	15(c)	(1,165)	(3,338)
Payment for purchase of property and equipment		(13,149)	(10,981)
Payment for purchase of intangible asset		(8,911)	—
Deposit made to other non-current asset		(12,154)	—
Payment for acquisition of available-for-sale financial assets		(101,994)	—
Increase in fixed bank deposit placed with original maturity over 3 months		(524,187)	—
Interest received		26,320	674
Net cash (used in)/generated from investing activities		(635,240)	27,333
Financing activities			
Net proceeds from issuance of shares under share option scheme		—	3,679
Net proceeds from issuance of subscription shares	28(e)	—	3,878,682
Interest paid		—	(60)
Net cash generated from financing activities		—	3,882,301
Net (decrease)/increase in cash and cash equivalents		(521,755)	4,088,914
Cash and cash equivalents at 1 January		4,162,922	74,620
Effect of foreign exchange rate changes		(673)	(612)
Cash and cash equivalents at 31 December	22(a)	3,640,494	4,162,922
Interest received from client		27	94

The notes on pages V-36 to V-104 form part of these financial statements.

Notes to the Financial Statements

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. On 28 October 2016, the Certificate of Change of Name of the Company was issued by the Registrar of Companies in Hong Kong. Accordingly, the name of the Company has been changed from "REORIENT GROUP LIMITED 瑞東集團有限公司" to "Yunfeng Financial Group Limited 雲鋒金融集團有限公司". The registered office of the Company is Suites 3201-3204, One Exchange Square, 8 Connaught Place, Central, Hong Kong. The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (collectively the "Group") and the Group's interests in associates.

The principal activities of the Group are securities broking, placing and underwriting, provision of consultancy and advisory services and investment holding. The principal activities and other particulars of its principal subsidiaries are set out in note 15 to the financial statements.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), 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. A summary of the significant accounting policies adopted by the Group is set out 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 2(c) 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 statements.

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

— Financial assets at fair value through profit or loss (see note 2(j))

— Derivative financial instruments (see note 2(k))

— Available-for-sale financial assets (see note 2(m))

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.

(c) **Changes in accounting policies**

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these 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 account period.

(d) **Subsidiaries and non-controlling interests**

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows 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(i)(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

The Group served 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 HKRS 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 other liabilities in the consolidated statement of financial position.

(e) **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(i)(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

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

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

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

(f) **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 of 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(i)).

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.

(g) **Property and equipment**

Property and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)).

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

—	Leasehold improvements	Shorter of the unexpired term of lease and 5 years
—	Office equipment and furniture	5 years
—	Computers equipment	3-5 years

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

(h) **Leased assets**

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

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases and impairment losses (see note 2(i)(ii)).

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.

(i) **Impairment of assets**

(i) ***Impairment of investments in subsidiaries, associates, available for sale financial assets, accounts receivable and other receivables***

Investments in subsidiaries, associates, accounts receivable and other receivables that are carried at cost or amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in subsidiaries and associates, the impairment loss is measured by comparing the recoverable amount in the investment with its carrying amount in accordance with note 2(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(i)(ii).

— For accounts receivable and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

— For an available-for-sale financial assets, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period. Losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve. In respect of available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(ii) ***Impairment of other assets***

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

— property and equipment;

— intangible assets; and

— goodwill

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 to sell 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 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 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 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.

(j) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are measured initially at fair value, which normally will be equal to the transaction price. Transaction costs are expensed immediately.

The Group recognises financial assets at fair value through profit or loss on the date it becomes a party to the contractual provisions of the instrument, using trade date accounting.

Financial assets at fair value through profit or loss comprise financial assets held for trading and those designated as at fair value through profit or loss upon initial recognition, but exclude those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Financial assets at fair value through profit or loss are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income statement.

The fair value of financial assets at fair value through profit or loss is based on their quoted market prices at the end of reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions. The inputs of the valuation techniques are based on market data.

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

The Group uses the weighted average method to determine realised gains and losses to be recognised in the income statement on derecognition.

(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.

(l) **Accounts receivable and other receivables**

Accounts receivable and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less allowance for impairment of doubtful debts (see note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets as at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

(n) **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(i)(ii)). Amortisation begins when the asset is available for use, i.e. 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 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.

(o) **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.

(p) **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.

(q) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks.

(r) **Employee benefits**

(i) 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.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in profit or loss as incurred.

(iii) 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).

(s) **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 profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax 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 reporting date, 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 carrying 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 reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    - the same taxable entity; or

    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) **Provisions and contingent liabilities**

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) ***Brokerage commission income***

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed.

(ii) ***Interest income***

Interest income is recognised as it accrues using the effective interest method.

(iii) ***Handling and settlement fee income, placing and underwriting commission income and consultancy and advisory fee income***

Handling and settlement fee income, placing and underwriting commission income and consultancy and advisory fee income are recognised when the related services are rendered.

(iv) ***Consultancy and advisory fee settled with non-cash consideration***

Consultancy and advisory fee settled with non-cash transaction is recognised at the fair value of the consideration received or receivable, which represents at the transaction price of such consideration as initially determined. When the outcome of the transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period.

(v) ***Translation of foreign currencies***

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

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

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

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

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

(w) ***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.

(x) **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 party.

(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).

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

(y) **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.

3 REVENUE

The principal activities of the Group are securities broking, placing and underwriting, provision of consultancy and advisory services and investment holding.

Revenue represents the gross amount recognised during the year. An analysis of the Group's revenue for the year is as follows:

	2016	**2015**
	HK$'000	*HK$'000*
Brokerage commission	3,819	10,965
Consultancy and advisory fees	42,274	182,908
Interest income from clients	27	94
	46,120	193,967

4 OTHER OPERATING INCOME

	2016	**2015**
	HK$'000	*HK$'000*
Handling and settlement fees	458	811
Bank and other interest income	32,926	1,356
Research and other fee	1,526	1,245
Miscellaneous income	71	63
	34,981	3,475

5 NET LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2016	2015
	HK$'000	*HK$'000*
Net unrealised (loss)/gain on financial assets at fair value through profit or loss		
- Options	(20,124)	13,322
- Equity investment listed outside Hong Kong	(29,143)	19,435
- Equity investment listed in Hong Kong	17,211	195,238
	(32,056)	227,995
Net realised (loss)/gain on financial assets at fair value through profit or loss		
- Equity investment listed outside Hong Kong	—	157
- Equity investment listed in Hong Kong	(43,632)	(328,051)
	(43,632)	(327,894)
Net loss	(75,688)	(99,899)

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2016	2015
	HK$'000	*HK$'000*
(a) Staff costs		
Commission paid	84	1,312
Equity-settled share-based payment expenses *(note 29)*	2,084	15,734
Salaries, allowances and benefits in kind	166,789	84,074
Resignation and termination benefit	23,900	5,613
Social welfare	7,237	880
	200,094	107,613

The Group operates the Mandatory Provident Fund Scheme for all qualified employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the scheme, and the contribution is matched by employees but subject to a maximum amount for each employee. 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.

(b) Other operating expenses

	2016	**2015**
	HK$'000	*HK$'000*
Auditors' remuneration	1,850	1,385
Legal and professional costs	20,553	7,282
Operating lease payments-property rentals	19,854	11,822
Information, data and communication expenses	30,467	16,430
Provision for impairment loss of accounts receivable	93	389
Net exchange loss	3,609	1,277
Entertainment and travelling	5,457	5,652

(c) Finance costs

	2016	**2015**
	HK$'000	*HK$'000*
Interest expense on bank loans and overdrafts	—	51
Finance lease expense	97	9
	97	60

(d) Net provision for impairment loss of

	2016	**2015**
	HK$'000	*HK$'000*
- goodwill	1,165	3,484
- other receivables	6,953	13,104
	8,118	16,588

7 INCOME TAX

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

	2016 *HK$'000*	**2015** *HK$'000*
Current tax		
Provision for the year — Hong Kong	11,254	60,849
Provision for the year — Overseas	1,298	—
(Over)/under-provision in respect of prior years	(2,176)	152
Total current tax charge for the year	10,376	61,001
Deferred tax		
(Reversal)/origination of temporary differences	(18,703)	18,171
Total tax (credit)/charge for the year	(8,327)	79,172

The provision for Hong Kong profits tax for 2016 is calculated at 16.5% (2015: 16.5%) 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 loss at applicable tax rates:**

	2016 *HK$'000*	**2015** *HK$'000*
Loss before taxation	(324,869)	(77,869)
Notional tax on loss before taxation, calculated at the rate applicable to profit in the country concerned	(55,567)	(13,776)
Tax effect of non-deductible expenses	47,056	58,895
Tax effect of non-taxable revenue	(15,052)	(9,511)
Tax effect of utilisation of tax losses previously not recognised	(633)	(1,599)
Tax effect of tax losses not recognised	35,529	1,115
(Over)/under-provision in prior years	(2,176)	152
Taxable temporary difference reversal	(18,171)	—
Others	687	43,896
Actual tax (credit)/expense	(8,327)	79,172

8 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:

	2016							
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonus	Contributions to Mandatory Provident Fund	Sub-total	Share-based payment *(note v)*	Resignation payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chairman								
Yu Feng	—	—	—	—	—	—	—	—
Executive directors								
Huang Xin	—	—	—	—	—	—	—	—
Li Ting *(note iv)*	—	7,644	9,360	18	17,022	—	—	17,022
Brett McGonegal *(note ii)*	494	—	—	3	497	—	16,279	16,776
Non-executive directors								
Ko Chun Shun, Johnson *(note i)*	300	11	—	4	315	—	—	315
Hai Olivia Ou	—	—	—	—	—	—	—	—
Huang Youlong	—	—	—	—	—	—	—	—
Independent non-executive directors								
Chu Chung Yue, Howard	360	18	—	—	378	—	—	378
Lin Lijun	240	12	—	—	252	—	—	252
Qi Daqing *(note vi)*	209	10	—	—	219	—	—	219
Liu Zhengui *(note iii)*	75	4	—	—	79	—	—	79
Dr. Wong Yau Kar, David	300	15	—	—	315	—	—	315
Total	1,978	7,714	9,360	25	19,077	—	16,279	35,356

Notes:

i. Redesignated as non-executive director on 1 April 2016.

ii. Resigned as executive director on 2 February 2016. There is an amount of approximately HK$3,101,000 discretionary bonus accrued in 2015 and paid in 2016.

iii. Resigned as independent non-executive director on 1 April 2016.

iv. The discretionary bonus amount represents bonus accrued and approved for the year 2016. In addition, there is an amount of HK$9,360,000 discretionary bonus accrued in 2015, allocated and paid in 2016.

v. All directors are not entitled to share awards or share options as set out in note 2(r)(iii).

vi. appointed as independent non-executive director on 18 February 2016.

	2015							
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Contributions to Mandatory Provident Fund	Sub-total	Share-based payment	Resignation payment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chairman								
Yu Feng	—	—	—	—	—	—	—	—
Executive directors								
Jason Boyer	—	—	—	—	—	—	—	—
Chen Shengjie	243	—	—	12	255	—	—	255
Huang Xin	—	—	—	—	—	—	—	—
Ko Chun Shun, Johnson	285	—	28,687	14	28,986	—	—	28,986
Ko Wing Yan, Samantha	243	—	—	12	255	—	—	255
Li Ting	—	2,187	—	8	2,195	—	—	2,195
Brett McGonegal	5,930	—	26,027	18	31,975	—	—	31,975
Tsoi Tong Hoo, Tony	243	—	—	12	255	—	—	255
Non-executive directors								
Dorian M. Barak	243	12	—	—	255	—	—	255
Hai Olivia Ou	—	—	—	—	—	—	—	—
Huang Youlong	—	—	—	—	—	—	—	—
Independent non- executive directors								
Chu Chung Yue, Howard	330	17	—	—	347	—	—	347
Ding Kebai	15	1	—	—	16	—	—	16
Lin Lijun	35	2	—	—	37	—	—	37
Liu Zhengui	285	14	—	—	299	—	—	299
Dr. Wong Yau Kar, David	285	14	—	—	299	—	—	299
Total	8,137	2,247	54,714	76	65,174	—	—	65,174

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.

9 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments (including the discretionary bonus accrued and allocated in 2016 and excluding the discretionary bonus accrued in 2015, which is allocated and paid in 2016), two (2015: one, excluding the discretionary bonus accrued in 2014, which were allocated and paid during the year of 2015) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2015: four) individuals are as follows:

	2016	**2015**
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	20,823	14,378
Discretionary bonus *(note 1)*	3,609	—
Equity-settled share-based payment expenses	—	26,644
Contributions to Mandatory Provident Fund	50	57
	24,482	41,079

Note 1: For the year 2016, the amount includes the bonus accrued and allocated in 2016. For the year 2015, the bonus accrued in 2015 has not been allocated to individual.

The emoluments (including the discretionary bonus accrued and allocated in 2016 and excluding the discretionary bonus accrued in 2015, which is allocated and paid in 2016) of the five (2015: five, excluding the discretionary bonus accrued in 2014, which were allocated and paid during the year of 2015) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2016	**2015**
HK$3,500,001 to HK$4,000,000	1	—
HK$5,500,001 to HK$6,000,000	—	1
HK$7,000,001 to HK$7,500,000	1	1
HK$9,000,001 to HK$9,500,000	—	1
HK$11,500,001 to HK$12,000,000	—	1
HK$13,000,001 to HK$13,500,000	1	1
HK$16,500,001 to HK$17,000,000	1	—
HK$17,000,001 to HK$17,500,000	1	—

10 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes an approximate loss of HK$207,430,000 (2015: a profit of HK$33,068,000) which has been dealt with in the financial statements of the Company.

11 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company for the year ended 31 December 2016 of HK$316,688,000 (2015: a loss of HK$152,419,000), and the weighted average number of shares in issue during the year ended 31 December 2016 of 2,399,336,394 (2015: 733,062,612).

Weighted average number of ordinary shares

	2016	**2015**
Issued ordinary shares at 1 January	2,399,336,394	455,651,221
Effect of issue of shares under share option scheme	—	502,818
Effect of issue of subscription shares	—	276,908,573
Weighted average number of ordinary shares at 31 December	2,399,336,394	733,062,612

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to equity shareholders of the Company for the year ended 31 December 2016 of HK$316,688,000 (2015: a loss of HK$152,419,000), and the weighted average number of shares during the year ended 31 December 2016 of 2,399,336,394 (2015: 733,062,612).

Weighted average number of ordinary shares (diluted)

	2016	**2015**
Weighted average number of ordinary shares at 31 December	2,399,336,394	733,062,612
Weighted average number of ordinary shares (diluted) at 31 December	2,399,336,394	733,062,612

12 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. The Group currently has three operating segments:

(i) Securities brokerage;

(ii) Securities placing and underwriting; and

(iii) Consultancy and advisory services.

The accounting policies and the basis of segmentation 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 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**

	2016			
	Securities brokerage	**Securities placing and underwriting**	**Consultancy and advisory services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external parties	3,819	—	42,274	46,093
Interest income from clients	27	—	—	27
Allocated other operating income	2,056	—	—	2,056
Allocated operating costs	(38,785)	(5,804)	(28,387)	(72,976)
Reportable segment (loss)/profit	(32,883)	(5,804)	13,887	(24,800)
Unallocated other operating income				32,926
Net loss on financial assets at fair value through profit or loss				(75,688)
Net provision for impairment loss of other receivables				(6,953)
Provision for impairment loss of goodwill				(1,165)
Depreciation and amortisation				(7,992)
Finance costs				(97)
Unallocated legal and professional expenses				(20,100)
Taxation				8,327
Other central administrative and unallocated operating costs *(Note)*				(221,000)
Loss for the year				(316,542)

Note: The other central administrative and unallocated operating cost includes administrative expenses, research and development costs, staff costs and data and technology related expenses related to the Group's financial technology activities.

	2015			
	Securities brokerage	**Securities placing and underwriting**	**Consultancy and advisory services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external parties	10,965	—	182,908	193,873
Interest income from clients	94	—	—	94
Allocated other operating income	2,119	—	—	2,119
Allocated operating costs	(44,663)	(7,111)	(40,934)	(92,708)
Allocated finance costs	(47)	(5)	—	(52)
Reportable segment (loss)/profit	(31,532)	(7,116)	141,974	103,326
Unallocated other operating income				1,356
Net loss on financial assets at fair value through profit or loss				(99,899)
Share of results of associates				567
Gain on disposal of an associate				18,118
Provision for impairment loss of interest in an associate				(714)
Provision for impairment loss of other receivables				(13,104)
Provision for impairment loss of goodwill				(3,484)
Depreciation				(2,567)
Finance costs				(8)
Legal and professional expenses				(5,717)
Taxation				(79,172)
Other central administrative costs				(75,743)
Loss for the year				(157,041)

(b) **Segment assets and liabilities**

As the assets and liabilities are regularly reviewed by the executive directors of the Company as a whole, the measure of total assets and liabilities by operating segment is therefore not presented.

(c) **Geographical segment information**

The Group's customers, operation and administration are mainly located in Hong Kong and research and development on financial technologies divisions are located in the People's Republic China.

(d) **Information about major customers**

		Revenue from major customers	
	Operating Segment	**2016**	**2015**
		HK$'000	*HK$'000*
Customer A	Consultancy and advisory	12,000	—
Customer B	Consultancy and advisory	7,366	—
Customer C	Consultancy and advisory	3,288	—

The transactions with these customers did not account for more than 10% of the total revenue of the Group for the year ended 31 December 2015. These customers are all related parties to the Group.

13 PROPERTY AND EQUIPMENT

	Leasehold improvements	Office equipment and furniture	Computers equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 January 2015	7,127	4,158	4,781	—	16,066
Additions	5,331	1,252	3,916	726	11,225
Disposals	(5,391)	—	—	—	(5,391)
At 31 December 2015	7,067	5,410	8,697	726	21,900
At 1 January 2016	7,067	5,410	8,697	726	21,900
Additions	4,796	1,330	8,745	—	14,871
Exchange alignment	(193)	(67)	(95)	—	(355)
At 31 December 2016	**11,670**	**6,673**	**17,347**	**726**	**36,416**
Accumulated depreciation					
At 1 January 2015	6,202	2,141	2,434	—	10,777
Charge for the year	705	833	989	40	2,567
Written off on disposals	(5,374)	—	—	—	(5,374)
At 31 December 2015	1,533	2,974	3,423	40	7,970
At 1 January 2016	1,533	2,974	3,423	40	7,970
Charge for the year	2,706	1,001	3,147	242	7,096
Exchange alignment	(34)	(11)	(23)	—	(68)
At 31 December 2016	**4,205**	**3,964**	**6,547**	**282**	**14,998**
Net carrying amount					
At 31 December 2016	**7,465**	**2,709**	**10,800**	**444**	**21,418**
At 31 December 2015	5,534	2,436	5,274	686	13,930

14 GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Goodwill

	2016	**2015**
	HK$'000	*HK$'000*
Cost		
At 1 January	3,484	—
Additions	1,165	3,484
At 31 December	4,649	3,484
Accumulated impairment loss		
At 1 January	(3,484)	—
Charge for the year	(1,165)	(3,484)
At 31 December	(4,649)	(3,484)
Carrying amount		
At 31 December	—	—

The impairment loss recognised during the year relates to the Group's newly acquired subsidiary, Youyu Capital Markets (NZ) Limited. The recoverable amount of the subsidiary was based on their value in use, determined by discounting the future cash flows to be generated from the continuing use. Management consider that it is uncertain for the entity to generate future cashflows. Therefore, the carrying amount was determined to be higher than its recoverable amount and an impairment loss of HK$1,165,000 was made during 2016. The impairment loss was fully allocated to goodwill.

(b) **Other intangible assets**

	Trading Rights	Membership	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At cost				
At 1 January 2015, 31 December 2015 and 1 January 2016	6,550	—	—	6,550
Exchange alignment	—	—	(21)	(21)
Additions *(Note)*	—	2,930	18,945	21,875
At 31 December 2016	6,550	2,930	18,924	28,404
Accumulated amortisation and impairment				
At 1 January 2015, 31 December 2015 and 1 January 2016	6,000	—	—	6,000
Exchange alignment	—	—	(4)	(4)
Charge for the year	—	—	896	896
At 31 December	6,000	—	892	6,892
Carrying amount				
At 31 December 2016	550	2,930	18,032	21,512
At 31 December 2015	550	—	—	550

As of 31 December 2016, the Group had three (2015: three) trading rights in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and one (2015: one) trading right in the Hong Kong Futures Exchange Limited (the "Futures Exchange"), of which two trading rights in the Stock Exchange and one trading right in the Futures Exchange were fully amortised as of 31 December 2010. The Group also acquired one club membership with indefinite useful life similar to the trading rights.

Note: During the year, the addition of computer software amounted to HK$18,945,000 includes computer software under development totalling HK$10,896,000. The computer software was not available for use as of 31 December 2016 and therefore amortisation has not commenced.

15 INTERESTS IN SUBSIDIARIES

(a) Details of the subsidiaries principally affected the results and assets of the Group

Name of company	Place of incorporation and business	Particular of issued/ registered and fully paid-up capital *(note)*	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
Cannon Investment Advisors (HK) Limited	Hong Kong	3,910,000 shares	100%	—	100%	Provision of assets management services
Fast Capital Holdings Limited	Hong Kong	10,000 shares	100%	—	100%	Investment holding
Yunfeng Securities Limited (formerly known as REORIENT Capital Markets Limited)	Hong Kong	113,000,000 shares	100%	—	100%	Securities broking
REORIENT Finance Limited	Hong Kong	1 share	100%	100%	—	Money lending
REORIENT Financial Markets Limited	Hong Kong	125,000,000 shares	100%	—	100%	Securities broking, securities placing and underwriting, and provision of consultancy and advisory services
REORIENT Global Limited	Hong Kong	1 share	100%	100%	—	Provision of administrative services
REORIENT Holdings Limited	Hong Kong	1 share	100%	100%	—	Investment holding
REORIENT Share Award Scheme Nominee Limited	Hong Kong	1,000 shares	100%	100%	—	Administering and holding the Company's shares for the Share Award Scheme
REORIENT Financial Markets (USA) LLC	USA	550,000 shares of US$1 each	100%	—	100%	Securities broking
Reorient Strategic Limited	British Virgin Islands	1 share of US$1 each	100%	—	100%	Investment holding
Profit Trigger Limited	British Virgin Islands	1 share of US$1 each	100%	100%	—	Holding of brands and trademarks
REORIENT Asset Management Limited	British Virgin Islands	1 share of US$1 each	100%	—	100%	Investment holding

Name of company	Place of incorporation and business	Particular of issued/ registered and fully paid-up capital *(note)*	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Wise Point Holdings Limited	British Virgin Islands	1 share of US$1 each	100%	100%	—	Investment holding
Beijing Chengtong REORIENT Investment Consultancy Limited	PRC	Registered capital RMB10,000,000 Paid-up capital RMB9,892,400	51%	—	51%	Investment management, consulting and advisory services
Beijing REORIENT Universal Investment Consultancy Limited	PRC	Registered capital RMB70,000,000 Paid-up capital RMB24,581,039	100%	—	100%	Investment consulting and advisory services
Shenzhen Youyu Smart Technologies Limited (formerly known as Shenzhen Ruifu Technology Limited)	PRC	Registered capital RMB100,000,000 Paid-up capital RMB5,010,000	100%	—	100%	Technological development of computer software and hardware, technical consulting, technology services, database and computer network services
Majik Asset Management (Cayman) Limited	Cayman Islands	1 share of US1 each	100%	—	100%	Fund management
Majik Cayman GP 1 Limited	Cayman Islands	1 share of US1 each	100%	—	100%	Fund management
Majik Cayman SPV 1 Limited	Cayman Islands	1 share of US1 each	100%	—	100%	Investment holdings

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

Name of company	Place of incorporation and business	Particular of commitment *(note)*	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Majik Access USD Fund 1 L.P.	Cayman Islands	—	100%	—	100%	Investment

Note: the balance represents capital commitment being made by limited partners to the partnership. As of 31 December 2016, the first closing of limited partnership is not yet completed.

(b) **Information about material non-controlling interest**

The following table lists out the information relating to Beijing Chengtong Reorient Investment Consultancy Limited, the only subsidiary of the Group which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2016	**2015**
	HK$'000	*HK$'000*
NCI percentage	49%	49%
Current assets	2,330	2,159
Non-current assets	2	3
Current liabilities	(39)	(13)
Non-current liabilities	—	—
Net assets	2,293	2,149
Carrying amount of NCI	1,106	1,036
Revenue	—	—
Profit/(loss) for the year	299	(9,433)
Total comprehensive income	144	(10,063)
Profit/(loss) allocated to NCI	146	(4,622)
Dividend paid to NCI	—	—
Cash flows from operating activities	166	(2,660)
Cash flows from investing activities	7	20
Cash flows from financing activities	—	—

(c) **Acquisition of subsidiaries**

On 7 October 2016, Wise Point Holdings Limited, a wholly-owned subsidiary of the Company, acquired 100% interest in Youyu Capital Markets (NZ) Limited ("Youyu (NZ)") for a consideration of approximately HK$1,165,000. The goodwill of HK$1,165,000 arising from the acquisition is attributable to the exploration of potential oversea market for business opportunity. The goodwill was fully impaired during the year as set out in note 14(a) to the consolidated financial statements. None of the goodwill recognised from these acquisitions is expected to be deductible for income tax purpose.

Youyu (NZ) did not generate any revenue and income its acquisition date.

16 INTERESTS IN ASSOCIATES

	2016	**2015**
	HK$'000	*HK$'000*
Share of net assets	714	714
Goodwill	—	—
	714	714
Less: provision for impairment loss of interest in an associate	(714)	(714)
	—	—

During 2015, a petition was filed against ReOil, LLC ("ReOil") for breach of contract. Management believes that ReOil was unlikely to be able to pay the damages and has ceased operations since February 2015.

During 2016, the petition filed against ReOil was dismissed and ReOil continues to cease its operations.

The recoverable amount of the investment in ReOil was estimated based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the investment in ReOil. The carrying amount of the investment was determined to be higher than its recoverable amount and an impairment loss of HK$714,000 was recognised.

17 OTHER NON-CURRENT ASSETS

	2016	**2015**
	HK$'000	*HK$'000*
Statutory deposits with exchanges and clearing house	934	634
Rental deposits	7,984	6,689
Other deposit for acquisition of leasehold improvement and equipment	1,258	—
Other receivables	8,210	7,937
Less: provision for impairment of other receivable	(8,210)	—
	10,176	15,260

Impairment of non-current other receivable

Other receivable is fully impaired as the recoverability of loan is considered uncertain after credit assessment performed by management. The full provision of impairment for the other receivable is recognised in the consolidated income statement for the year.

The movement of the allowance for doubtful debts during the year is as follows:

	2016	**2015**
	HK$'000	*HK$'000*
At 1 January		
Provision for impairment loss recognised	8,210	—
Amount written off	—	—
At 31 December	8,210	—

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	**2015**
	HK$'000	*HK$'000*
Non-current available-for-sales financial assets		
measured at fair value		
- Investment funds	24,430	—
- Perpetual capital	75,423	—
	99,853	—

Fair value of the Group's available-for-sale financial assets are determined in the manner described in note 31(f). In the opinion of the directors of the Company, non-current available-for-sale financial assets are not expected to be realised within one year from the end of the year.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss		
Investment designated at fair value through profit or loss		
- Equity investment listed in Hong Kong	186,100	337,182
- Equity investment listed outside Hong Kong	18,700	47,844
Held for trading		
- Options	5,470	25,594
	210,270	410,620

20 ACCOUNTS RECEIVABLE AND ACCRUED INCOME

	2016	2015
	HK$'000	*HK$'000*
Accounts receivable arising from securities brokerage:		
- Cash clients	12,668	29,059
- Margin clients	26,122	26,122
- Clearing house, brokers and dealers	9,796	5
	48,586	55,186
Accounts receivable arising from consultancy and advisory services		
- Corporate clients	1,926	26,037
- Accounts receivable arising from disposal of financial assets at fair value through profit or loss	—	243,700
	50,512	324,923
Less: allowance for doubtful debts	(26,901)	(28,669)
	23,611	296,254

The balances of accounts receivable from consultancy and advisory services does not have any fees accrued (2015: HK$1,763,000) for on-going advisory projects which have not been billed.

The fair value of accounts receivable approximates its carrying amount.

(a) **Ageing analysis of accounts receivable**

The ageing analysis of accounts receivable net of allowance for doubtful debts as of the end of the reporting period is as follows:

	2016	2015
	HK$'000	*HK$'000*
Current	22,043	274,255
Less than 1 month past due	863	13,436
1 to 3 months past due	95	7,039
More than 3 months past due	610	1,524
Amounts past due	1,568	21,999
	23,611	296,254

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) **Accounts receivable which are past due but not impaired**

Included in the Group's accounts receivable balance are debtors with an aggregate carrying amount of HK$1,568,000 (2015: HK$21,999,000) which are past due at the end of the reporting period for which the Group has not made provision for impairment loss.

Accounts receivable from cash clients which are past due but not impaired represent client trades with carrying amount of HK$154,000 (2015: HK$264,000) 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 accounts receivable are publicly traded securities.

Accounts receivable from corporate clients of HK$1,414,000 (2015: HK$21,735,000) which are past due but not impaired represent accounts receivable arising from provision of corporate finance, consultancy and advisory services which have not yet been settled and aged by their invoice date. No impairment loss was provided for these balances as these clients are trade counterparties with sound credit rating and/or reputation.

(c) **Impairment of accounts receivable**

The Group has a policy for allowance for doubtful debts which is based on the evaluation of collectability, ageing analysis of accounts and management's judgement including the creditworthiness, collaterals and the past collection history of each client.

The movement of the allowance for doubtful debts during the year is as follows:

	2016	**2015**
	HK$'000	*HK$'000*
At 1 January	28,669	28,281
Provision for impairment loss recognised	94	389
Amount recovered during the year	—	(1)
Amount written off	(1,862)	—
At 31 December	26,901	28,669

Included in the allowance for doubtful debts were individually impaired accounts receivable which have financial difficulties in making payments. Among the allowance for doubtful debts, approximately HK$26,122,000 (2015: HK$26,122,000) relates to individually impaired margin clients accounts receivable, HK$267,000 (2015: HK$174,000) relates to individually impaired accounts receivable arising from the business of dealing in securities and HK$512,000 (2015: HK$2,373,000) relates to impaired accounts receivable from corporate clients.

The Group ceased providing margin financing service since 2004 and the balance represented the past due amounts due from margin clients brought forward from 2004.

(d) **Balance with related parties**

As of 31 December 2016, included in the accounts receivable from corporate clients are amounts of:

(i) At 31 December 2016, no outstanding accounts receivable (2015: HK$1,613,000) from companies where our non-executive director, Mr. Ko Chun Shun, Johnson ("Mr. Ko"), is a substantial shareholder and an executive director for one of the companies and an executive director for the other one.

(ii) At 31 December 2016, accounts receivable of HK$519,000 (2015: HK$20,620,000) are receivable from companies where Mr. Ko is a substantial shareholder.

21 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016	**2015**
	HK$'000	*HK$'000*
Rental and other deposits	665	1,976
Prepayments	6,845	9,062
Other receivables, net of provisions	7,514	7,631
	15,024	18,669

Included in the other receivable amounted to HK$8,585,000 were individually fully impaired accounts receivable which have financial difficulties in making payments. During the year, there is no additional provision made or reversed to consolidated income statement.

The fair values of other receivables, deposits and prepayments approximate their carrying amounts. The above balances are expected to be recovered within one year.

22 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2016	**2015**
	HK$'000	*HK$'000*
Deposits with bank	45,600	30,000
Fixed bank deposits with original maturity less than 3 months	3,526,079	3,900,000
Cash at bank and in hand	68,815	232,922
	3,640,494	4,162,922

As of 31 December 2016, deposits with bank amounted to HK$45,600,000 (2015: HK$30,000,000) were deposits secured for banking facilities.

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 of 31 December 2016, client money maintained in segregated accounts amounted to HK$358,544,000 (2015: HK$169,319,000).

(b) **Reconciliation of loss before taxation to cash used in operating activities:**

	Note	2016 HK$'000	2015 HK$'000
Loss before taxation		(324,868)	(77,869)
Adjustments for:			
Non-cash consideration for consultancy and advisory fees		—	(91,406)
Share of results of associates		—	(567)
Gain on disposal of an associate		—	(18,118)
Net loss on financial assets		75,688	99,899
Depreciation and amortisation		7,992	2,567
Written back on disposal of plant, property and equipment		—	17
Finance costs		97	60
Interest income		(32,357)	(1,356)
Provision for impairment loss of goodwill	14(a)	1,165	3,484
Provision for impairment loss of accounts receivable		93	389
Provision for impairment loss of other receivable		8,210	13,104
Provision for impairment loss of interest in an associate		—	714
Equity-settled share-based payment expenses		2,084	15,734
		(261,896)	(53,348)
Changes in working capital:			
Increase in other non-current assets		(1,683)	(6,404)
Net proceeds from disposal and used in acquisition of financial asset at fair value through profit or loss		368,362	328,158
Decrease in accounts receivable		28,850	159,476
Increase in other receivables, deposits and prepayments		8,081	(9,832)
Increase in bank balances - trust and segregated accounts		(189,008)	(145,320)
Increase in accounts payable		172,838	5,931
Increase/(decrease) in accrued expenses and other payables		6,774	(98,999)
Decrease in amounts due to directors		(149)	(382)
Net cash generated from operating activities		132,169	179,280

23 ACCOUNTS PAYABLE

	2016	2015
	HK$'000	*HK$'000*
Accounts payable		
- Cash clients	360,474	171,927
- Brokers and dealers	10,203	25,694
	370,677	197,621

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 the conduct of regulated activities, which amount to HK$358,469,000 (2015: HK$169,319,000).

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

(a) **Balance with related parties**

At 31 December 2016, accounts payable of HK$230,000 (2015: HK$230,000) are payable to Mr. Ko and HK$524,000 (2015: HK$139,000) are accounts payable to the related companies where Mr. Ko are substantial shareholder and director.

24 ACCRUED EXPENSES AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Accrued staff costs	41,777	38,687
Other payables and accruals	13,706	10,102
Amount due to directors	—	149
	55,483	48,938

All accrued expenses and other payables are expected to be settled within one year or will be settled in the Group's normal operating cycle.

25 EMPLOYEE RETIREMENT BENEFITS — DEFINED CONTRIBUTION RETIREMENT PLAN

The Group operates a Mandatory Provident Fund Scheme (the “MPF scheme”) 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 (2015: HK$30,000). Contributions to the plan vest immediately.

26 OBLIGATION UNDER FINANCE LEASE

At 31 December 2016, the Group had obligations under finance leases repayable as follows:

	2016		2015	
	Present Value of the Minimum lease payment	**Total minimum lease payment**	**Present Value of the Minimum lease payment**	**Total minimum lease payment**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	842	977	—	—
After one but within 2 years	907	977	—	—
After 2 years but within 5 years	478	489	—	—
	2,227	2,443	—	—
Less: finance cost		(216)		—
Present value lease obligation		2,227		—

27 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) **Current taxation in the statement of financial position represents:**

	2016	**2015**
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax for the year	53,087	61,451
Provisional Profits Tax paid	—	—
	53,087	61,451

(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:

	Accelerated tax depreciation	**Tax losses**	**Net unrealised gain on financial assets at fair value through profit or loss**	**Decelerated tax on expense incurred**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deferred tax liabilities/(assets) arising from:					
At 1 January 2015	502	(502)	—	—	—
(Credited)/charged to profit or loss	855	(14,004)	31,320	—	18,171
At 31 December 2015	1,357	(14,506)	31,320	—	18,171
At 1 January 2016	1,357	(14,506)	31,320	—	18,171
Exchange alignment	—	—	—	24	24
(Credited)/charged to profit or loss	(60)	13,209	(31,320)	(532)	(18,703)
At 31 December 2016	**1,297**	**(1,297)**	**—**	**(508)**	**(508)**

At 31 December 2016, no deferred tax asset has been recognised in respect of the tax losses of HK$627 million (2015: HK$352 million) to the extent that it is not probable that future taxable profit against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses amounting to HK$598 million (2015: HK$421 million) do not expire under current tax legislation.

28 CAPITAL, RESERVES AND DIVIDENDS

(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 on page V-34. 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	Shares held by share award scheme	Share-based payment reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	614,416	(23,013)	7,436	(116,025)	482,814
Equity settled share-based transactions	—	—	15,160	—	15,160
Shares vested under share award scheme	—	14,971	(14,971)	—	—
Exercise of share options	5,947	—	(1,694)	—	4,253
Issue of subscription shares	3,885,040	—	—	—	3,885,040
Cost of issuance of subscription shares	(6,358)	—	—	—	(6,358)
Total comprehensive income for the year	—	—	—	33,068	33,068

	Share capital	Shares held by share award scheme	Share-based payment reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2015 and 1 January 2016	4,499,045	(8,042)	5,931	(82,957)	4,413,977
Equity settled share-based transactions	—	—	2,084	—	2,084
Shares vested under share award scheme	—	7,945	(7,945)	—	—
Total comprehensive income for the year	—	—	—	(207,430)	(207,430)
At 31 December 2016	**4,499,045**	**(97)**	**70**	**(290,387)**	**4,208,631**

(b) **Nature and purpose of reserves**

(i) ***Share held by share award scheme and share-based payment reserve***

The Company's shares held by Reorient Share Award Scheme Nominee Limited for the share award scheme 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(v).

(iv) ***Statutory reserve***

Pursuant to the Company Law of the PRC, in accordance with the Company's articles of association, 10% of the net profit of the Company, 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 capitalization. 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 capitalization.

(c) **Distributability of reserves**

As of 31 December 2016, 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) (2015: nil).

(d) **Dividend**

No dividend was paid or proposed for the year ended 31 December 2016 (2015: 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:

	2016		**2015**	
	Number of shares	*HK$'000*	Number of shares	*HK$'000*
Issued and fully paid				
Balance brought forward	2,399,336,394	4,499,548	455,651,221	614,919
Issue of subscription shares less costs of issuance of subscriptions shares	—	—	1,942,520,000	3,878,682
Shares issued under share option scheme	—	—	1,165,173	5,947
Balance carried forward	2,399,336,394	4,499,548	2,399,336,394	4,499,548

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.

(i) ***Issue of subscription shares***

On 7 May 2015, the Company entered into five conditional share subscription agreements with each of Yunfeng Financial Holdings Limited, Harbour Yields Limited, Violet Passion Holdings Limited, Gentle Bright Development Limited and Chosen Global Holdings Limited (collectively, referred to as the "Investors"). Pursuant to which the Investors have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 1,942,520,000 ordinary shares of the Company ("Subscription Shares") at an issue price of HK$2.00 per Subscription Share to the Investors in an aggregate amount of HK$3,885,040,000. After deducting the expenses in connection with the transaction amounting to HK$6,358,000, the net proceeds from the subscription were HK$3,878,682,000. Out of the 1,942,520,000 Subscription Shares, 1,342,976,000 Subscription Shares representing a shareholding percentage of approximately 56% as enlarged by the issue of the Subscription Shares upon the completion of the subscription, would be subscribed for by Jade Passion Limited ("Jade Passion"), an indirect subsidiary owned as to 73.21% by YFHL. As a result, at the completion of the subscription, Jade Passion became the new controlling shareholder and YFHL became the ultimate holding company of the Company.

(ii) ***Issue of shares under share option scheme***

On 30 October 2014, 10,495,412 share options were granted by the Company under its share option scheme to eligible persons (the "Share Option Grantees") to subscribe for the same number of ordinary shares of the Company. As of 31 December 2016 and 2015, no share option remained outstanding and exercisable. Details of the grant of share options were disclosed in the Company's announcement dated 30 October 2014.

(f) **Capital management**

Capital comprises of share capital and reserves stated on the Group's and the Company's statement of financial position. The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for the shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company manages capital by regularly monitoring its current and expected liquidity requirements rather than using debt/equity analyses. Neither the Company nor its subsidiaries, except for Reorient Financial Markets Limited ("RFM"), Yunfeng Securities Limited ("YFSL") and Cannon Investment Advisors (HK) Limited ("Cannon"), is subject to externally imposed capital requirements. RFM, YFSL and Cannon are regulated by the Securities and Futures Commission ("SFC") and are required to comply with certain minimum capital requirements according to the Securities and Futures Ordinance.

The management monitors RFM, YFSL and Cannon'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 SFC. Under the FRR, RFM and YFSL must maintain its liquid capital in excess of HK$3 million or 5% of their total adjusted liabilities whichever is higher. The required information was filed with SFC on a monthly basis. RFM, YFSL and Cannon were in compliance with the capital requirements imposed by FRR during the current and prior year.

29 EMPLOYEE SHARE-BASED ARRANGEMENTS

(a) Share option scheme

(i) The number and weighted average exercise prices of share options are as follows:

	2015	
	Weighted average exercise price *HK$*	**Number of options**
Outstanding at the beginning of the year	3.65	1,165,173
Granted during the year	3.65	—
Exercised during the year	3.65	(1,165,173)
Outstanding at the end of the year		—
Exercisable at the end of the year		—

(ii) ***Fair value of share options and assumptions***

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options is measured based on the Black-Scholes Option-Pricing model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions

On the date of issuance

Fair value at measurement date	HK$1.45
Share price	HK$3.73
Exercise price	HK$3.65
Expected volatility	56.73%
Option life	3 years
Risk-free interest rate (based on Exchange Fund Notes)	0.66%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(b) **Share award scheme**

On 17 October 2014, the board of directors approved the adoption of the share award scheme. The purpose of the 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.

The fair value of the awarded shares at the date of the grant is 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 costs 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.

(i) ***Details of the awarded shares awarded***

Date of approval by Board	Date of award	Awarded Sum	Number of shares issued	Number of awarded shares awarded	Average fair value per share	Vesting period
		HK$'000			*HK$*	
30 Oct 2014	31 Oct 2014	11,042	3,025,206	3,025,206	3.65	31 Oct 2014 - 31 Dec 2014
30 Oct 2014	31 Oct 2014	904	247,660	247,660	3.65	31 Oct 2014 - 01 Feb 2015
30 Oct 2014	31 Oct 2014	1,298	355,667	355,667	3.65	31 Oct 2014 - 18 Feb 2015
30 Oct 2014	31 Oct 2014	1,620	443,791	443,791	3.65	31 Oct 2014 - 26 Feb 2015
30 Oct 2014	31 Oct 2014	2,731	748,345	748,345	3.65	31 Oct 2014 - 20 Mar 2015
30 Oct 2014	31 Oct 2014	562	153,968	153,968	3.65	31 Oct 2014 - 14 Aug 2015

Date of approval by Board	Date of award	Awarded Sum	Number of shares issued	Number of awarded shares awarded	Average fair value per share	Vesting period
		HK$'000			*HK$*	
30 Oct 2014	31 Oct 2014	3,650	1,000,000	1,000,000	3.65	31 Oct 2014 - 16 Sep 2015
30 Oct 2014	31 Oct 2014	2,835	776,666	776,666	3.65	31 Oct 2014 - 30 Oct 2015
30 Oct 2014	31 Oct 2014	1,371	375,629	375,629	3.65	31 Oct 2014 - 14 Dec 2015
30 Oct 2014	31 Oct 2014	904	247,660	247,660	3.65	31 Oct 2014 - 02 Jan 2016
30 Oct 2014	31 Oct 2014	2,732	748,345	748,345	3.65	31 Oct 2014 - 20 Mar 2016
30 Oct 2014	31 Oct 2014	562	153,968	153,968	3.65	31 Oct 2014 - 14 Aug 2016
30 Oct 2014	31 Oct 2014	3,650	1,000,000	1,000,000	3.65	31 Oct 2014 - 16 Sep 2016
30 Oct 2014	31 Oct 2014	97	26,667	26,667	3.65	31 Oct 2014 - 29 Oct 2016
30 Oct 2014	31 Oct 2014	97	26,667	26,667	3.65	31 Oct 2014 - 29 Oct 2017

(ii) ***Details of the awarded shares vested during the year***

		2016		2015	
Date of award	**Average fair value per share**	**Number of awarded shares vested**	**Fair value of related awarded shares**	**Number of awarded shares vested**	**Fair value of related awarded shares**
	HK$		*HK$'000*		*HK$'000*
01 Feb 2015	3.65	—	—	247,660	904
18 Feb 2015	3.65	—	—	355,667	1,298
26 Feb 2015	3.65	—	—	443,791	1,620
20 Mar 2015	3.65	—	—	748,345	2,731
14 Aug 2015	3.65	—	—	153,968	562
16 Sep 2015	3.65	—	—	1,000,000	3,650
30 Oct 2015	3.65	—	—	776,666	2,835
14 Dec 2015	3.65	—	—	375,629	1,371
02 Jan 2016	3.65	247,660	904	—	—
20 Mar 2016	3.65	748,345	2,732	—	—
14 Aug 2016	3.65	153,968	562	—	—
16 Sep 2016	3.65	1,000,000	3,650	—	—
29 Oct 2016	3.65	26,667	97	—	—
		2,176,640	7,945	4,101,726	14,971

(iii) ***Movements in the number of awarded shares awarded***

	2016 Number of awarded shares *HK$'000*	**2015** Number of awarded shares *HK$'000*
Outstanding at 1 January	2,203,307	6,305,033
Awarded	—	—
Vested	(2,176,640)	(4,101,726)
Outstanding at 31 December	26,667	2,203,307

30 COMMITMENTS

Operating lease commitments

As lessee

As of 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 *HK$'000*	**2015** *HK$'000*
Within one year	21,345	13,733
After one year but within five years	23,647	24,450
	44,992	38,183

The Group leases a number of offices under operating leases. The leases run for an initial period of one to five years. None of the leases includes contingent rentals.

Other commitments

As of 31 December 2016, capital commitments on leasehold improvement, equipment and intangible asset amounted to HK$22,422,000 (2015: nil).

As of 31 December 2016, the Group has a US$25 million capital commitment (2015: nil) to two third party managed funds with US$3.15 million capital having been contributed.

As disclosed in the announcement of the Company dated 4 February 2016, Reorient Financial Markets Limited ("Reorient Financial Markets"), 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 Reorient Financial Markets, 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, Reorient Financial Markets is committed to contribute RMB1,290,000,000 of the registered capital of the joint venture company.

As disclosed in the announcement of the Company dated 6 April 2016, Profit Mind Global Limited ("Profit Mind"), a wholly-owned subsidiary of the Company, entered into a share subscription agreement to subscribe 71,428,571 ordinary shares of Culturecom Holdings Limited ("CHL") for a total consideration of HK$15 million. Pursuant to another agreement made between CHL and Reorient Financial Markets, CHL shall pay a fee of HK$12 million ("Fee") to Reorient Financial Markets. With the agreement and acknowledgement between CHL and Profit Mind, the consideration paid by Profit Mind to CHL is the balance in cash after setting off against the Fee not have been paid by CHL to Reorient Financial Markets. Subsequent to 31 December 2016, as disclosed in the announcement of the Company dated 10 March 2017, the Group received a notice from CHL to terminate the share subscription agreement.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENT

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to accounts and other receivables and bank balances (segregated and general accounts). Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of accounts and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the year, no (2015: nil) and no (2015: 25% of the total account and other receivables) accounts and other receivables was due from the five largest customers respectively.

Bank balances (segregated and general accounts) are placed with high-credit-quality institutions and management considers that the credit risk for such is minimal.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts receivable are set out in note 20.

(b) **Liquidity risk**

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, and to ensure compliance with FRR. The Group's policy is to regularly monitor its liquidity requirement and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company, as applicable, can be required to pay:

	Contractual undiscounted cash outflow			
	Within 1 year or on demand	**More than 1 year but within 5 year**	**Total**	**Carrying amount at 31 December**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As of 31 December 2016				
Accounts payable	370,677	—	370,677	370,677
Accrued expenses and other payables	55,483	—	55,483	55,483
Finance lease liability	977	1,466	2,443	2,227
	427,137	1,466	428,603	428,387

	Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but within 5 year	Total	Carrying amount at 31 December
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As of 31 December 2015				
Accounts payable	197,621	—	197,621	197,621
Accrued expenses and other payables	48,789	—	48,789	48,789
Amounts due to directors	149	—	149	149
	246,559	—	246,559	246,559

(c) **Interest rate risk**

The Group's exposure to cashflow interest rate risk is mainly attributable to its bank balances (trust, segregated and general accounts). The Group's fair value interest rate risk relates primarily to fixed-rate overdue accounts receivable and fixed deposits held under bank balance — trust and segregated accounts.

The Group currently does not have any interest rate hedging policy. The management monitors the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arise.

(i) ***Interest rate profile***

As of 31 December 2016 and 2015, the Group is not exposed to cash flow interest rate risk with all the financial instruments is carried at nil or fixed interest rate. Therefore, no sensitivity analysis is performed on cash flow interest rate risk. As most of the financial instruments on nil or fixed interest rate having relatively short maturity, the Group is not exposed to material fair vale interest rate risk.

(d) **Foreign currency risk**

The Group has assets and liabilities denominated in currencies other than its functional currency and that are subject to fluctuation in foreign exchange amounts in the different currencies. The Group is exposed to currency risk arising from various currency exposures, mainly to the extent of its and bank balances in currencies such as the US$ and Renminbi. Management of the Group monitors the foreign exchange exposure and will hedge significant foreign currency exposure should the need arise.

During the year ended 31 December 2016, the Group did not engage in the use of other financial instruments for hedging purposes, and there were no hedging instruments outstanding as of 31 December 2016.

(i) ***Exposure to currency risk***

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the Group's functional currency of Hong Kong dollars. For presentation purposes, the amounts of the exposure are expressed in Hong Kong dollars.

				2016			
	United States	**Japanese Yen**	**Renminbi**	**Australian Dollars**	**United Kingdom Sterling**	**Singapore Dollars**	**Canadian Dollars**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accounts and other receivables	9,792	—	—	—	1	1	1
Bank balance — trust and segregated accounts	1,526	—	17	123	46	7	
Cash and cash equivalents	1,947,715	1	13,397	4	—	—	18
Accounts and other payables	(1,422)	—	(17)	(99)	(46)	(7)	(18)
Net exposure to currency risk	1,957,611	1	13,397	28	1	1	1

				2015			
	United States	**Japanese Yen**	**Renminbi**	**Australian Dollars**	**United Kingdom Sterling**	**Singapore Dollars**	**Canadian Dollars**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accounts and other receivables	1	—	—	—	2	1	1
Bank balance — trust and segregated accounts	1,745	—	123	115	54	1	15
Cash and cash equivalents	12,867	80	3,815	624	37	293	42
Accounts and other payables	(1,745)	—	(123)	(115)	(54)	(1)	(15)
Net exposure to currency risk	12,868	80	3,815	624	39	294	43

(ii) ***Sensitivity analysis***

The Group's significant net exposure to Renminbi and United States Dollars at the reporting date and the estimated impact to the Group's profit/(loss) for the year had the foreign exchange rates of Renminbi and United States Dollars changed at that date are illustrated below. In this respect, it is assumed that the linked exchange rate between the HK$ and the US$ would remain unchanged and therefore, fluctuate between lower limit of HK$7.75 to US$1 and upper limit of HK$7.85 to US$1.

	2016			2015		
	Net assets in foreign currency	**Appreciation/ (depreciation) in foreign currency**	**Effect on profit after tax and retained profits**	**Net assets in foreign currency**	**Appreciation/ (depreciation) in foreign currency**	**Effect on profit after tax and retained profits**
	HK$'000	*%*	*HK$'000*	*HK$'000*	*%*	*HK$'000*
Renminbi	13,397	10	1,119	3,815	10	319
		(10)	(1,119)		(10)	(319)
United States dollars	1,957,611	1.2	19,896	12,868	1.3	138
		(0.1)	(1,810)			

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments which expose the Group to foreign currency risk at the reporting period. The analysis is performed on the same basis for 2015.

(e) **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 (see note 19) held by the Group. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are dealt with in consolidated income statement. For investment fund and perpetual capital classified as available-for-sale financial assets (see note 18), the Group relied on recent price of the investment and broker quote and therefore considered not meaningful to present sensitivity analysis for those investments. The performance is monitored regularly, together with an assessment of its relevance to the Group's strategic plans.

The underlying equity securities of the Group's unlisted derivative are listed on The Stock Exchange of Hong Kong Limited. At 31 December 2016, it is estimated that an increase/decrease of 5% in the relevant stock, with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained earnings) as follows:

	2016		**2015**	
Change in the relevant equity price risk variable:		**Effect on profit after tax and retained profit**	**Effect on profit after tax and retained profit**	**Appreciation/ (depreciation) in foreign currency**
	%	*HK$'000*	*%*	*HK$'000*
Increase	5	9,540	5	17,616
Decrease	(5)	(9,540)	(5)	(17,597)

(f) **Fair value measurement**

Financial instrument measured at fair value

(i) *Fair value hierarchy*

The following table presents the fair value of the Group's financial instrument 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 table below analyses financial instrument carried at fair value, by valuation method:

	Fair value measurements as of 31 December 2016 categorised into			Fair value measurements as of 31 December 2015 categorised into	
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement					
Investment designated as at fair value through profit or loss:					
Trading securities:					
- Listed	204,800	—	—	385,026	—
Held for trading:					
- Unlisted share option	—	5,470	—	—	25,594
Available-for-sales investment					
- Investment funds measured at fair value	—	—	24,430	—	—
- Perpetual capital measured at fair value	—	75,423	—	—	—
	204,800	80,893	24,430	385,026	25,594

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur.

(ii) *Valuation techniques and inputs used in Level 2 fair value measurements*

The Group determines the fair value of share option by applying an option valuation model technique such as the Black-Scholes Option-Pricing model. The Group determines the fair value of perpetual capital by making reference to the brokers' quote as there is over-the-counter markets for such financial instrument at the end of the reporting period.

(iii) *Valuation techniques and inputs used in Level 3 fair value measurements*

The Group has determined that the fair value of investment fund based on the recent transaction price.

The reconciliation of financial assets and liabilities under Level 3 fair value measurements is as follows:

Available for sale financial assets

	2016
	HK$'000
At 1 January 2016	—
Purchase	24,430
Disposal	—
(Credited)/charged to other comprehensive income	—
At 31 December 2016	24,430

(g) **Offsetting financial assets and financial liabilities**

(i) ***Financial assets subject to offsetting, enforceable master netting arrangements or similar agreements***

				As of 31 December 2016 Related amounts not offset in the consolidated statement of financial position	
Type of financial assets	**Gross amount of recognised financial assets**	**Gross amount of recognised financial liabilities offset in the consolidated statement of financial position**	**Net amount of financial assets presented in the consolidated statement of financial position**	**Cash collateral received**	**Net amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accounts receivable due from clearing house	2,012	(2,012)	—	—	—

Type of financial assets	Gross amount of recognised financial assets	Gross amount of recognised financial liabilities offset in the consolidated statement of financial position	Net amount of financial assets presented in the consolidated statement of financial position	Cash collateral received	Net amount
	As of 31 December 2015			Related amounts not offset in the consolidated statement of financial position	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accounts receivable due from clearing house	2,842	(2,842)	—	—	—

(ii) ***Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements***

Type of financial liabilities	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets offset in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Collateral pledged	Net amount
	As of 31 December 2016			Related amounts not offset in the consolidated statement of financial position	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accounts payable due to clearing house	12,215	(2,012)	10,203	—	10,203

As of 31 December 2015

Type of financial liabilities	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets offset in the consolidated statement of financial position	Net amount of financial liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position: Collateral pledged	Net amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accounts payable due to clearing house	28,536	(2,842)	25,694	—	25,694

(iii) ***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 accounts receivable and accounts payable presented in the consolidated statement of financial position.***

	2016	**2015**
	HK$'000	*HK$'000*
Net amount of financial assets after offsetting as stated above	—	—
Financial assets not in scope of offsetting disclosure	50,513	324,923
Impairment losses	(26,902)	(28,669)
	23,611	296,254
Net amount of financial liabilities after offsetting as stated above	10,203	25,694
Financial liabilities not in scope of offsetting disclosure	360,256	171,927
	370,459	197,621

32 CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as of 31 December 2016 and 2015.

33 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group is as follows:

	2016	**2015**
	HK$'000	*HK$'000*
Short-term benefits	48,725	56,577
Post-employment benefits	—	—
	48,725	56,577

Total remuneration is included in "staff costs" (see note 6(a)).

(b) Other transactions with related parties

	2016	**2015**
	HK$'000	*HK$'000*
Brokerage fee income *(note (i))*	349	5,448
Advisory fee income *(note (ii))*	29,984	144,353
	30,333	149,801

Notes:

(i) During the year ended 31 December 2016, the Group provided brokerage services to (i) a company where our independent non-executive director, Dr. Wong Yau Kar, David, BBS, JP, is an independent non-executive director; and (ii) a company where Mr. Ko is a substantial shareholder and an executive director; and (iii) a company where Mr. Ko is a director and substantial shareholder.

During the year ended 31 December 2015, the Group provided brokerage services to (i) a company where our independent non-executive director, Dr. Wong Yau Kar, David, BBS, JP, is an independent non-executive director; and (ii) a company where Mr. Ko is a substantial shareholder and an executive director.

(ii) During the year ended 31 December 2016, the Group provided advisory services to (i) a company where our chairman, Mr. Yu Feng ("Mr. Yu"), is a substantial shareholder and our independent non-executive director, Dr. Wong Yau Kar, David, BBS, JP, is an independent non-executive director of this company; (ii) two companies where Mr. Ko is a substantial shareholder and an executive director; (iii) a company where Mr. Yu is a director; and (iv) companies where Mr. Ko is a substantial shareholder.

During the year ended 31 December 2015, the Group provided advisory services to (i) a company where our independent non-executive director, Dr. Wong Yau Kar, David, BBS, JP, is an independent non-executive director; and (ii) a company where Mr. Ko is an executive director.

(iii) During the year ended 31 December 2016, the Group provided securities custodian service to a company where our executive director, Mr, Huang Xin is the director and Mr. Yu is the substantial shareholder.

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 HK$'000	2015 HK$'000
Non-current assets			
Interests in subsidiaries		180,695	226,326
Total non-current assets		180,695	226,326
Current assets			
Financial assets at fair value through profit or loss		59,256	101,418
Other receivable and prepayment		6,766	978
Cash and cash equivalents		3,961,917	4,085,409
Total current assets		4,027,939	4,187,805
Current liabilities			
Accrued expenses and other payables		3	10
Amounts due to directors		—	144
Total current liabilities		3	154
Net current assets		4,027,936	4,187,651
NET ASSETS		4,208,631	4,413,977
EQUITY			
Share capital	28(a)	4,499,045	4,499,045
Reserves	28(a)	(290,414)	(85,068)
TOTAL EQUITY		4,208,631	4,413,977

Approved and authorised for issue by the Board on 28 March 2017 and are signed on its behalf by:

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

35 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2016, 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.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments/new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, Statement of cash flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12, Income taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 9, Financial instruments	1 January 2018
HKFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to HKFRS 2, Share-based payment: Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16, Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the group's financial statements are as follows:

(a) **Classification and measurement**

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

— The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

— For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the group's policies set out in notes 2(j) and 2(m). This change in policy will have no impact on the group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the group on adoption of HKFRS 9.

(b) **Impairment**

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

(c) **Hedge accounting**

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The group preliminarily assesses the adoption of HKFRS 9 will not be significantly impact as the Group has no hedging transactions.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the group has identified the following areas which are likely to be affected:

(a) **Timing of revenue recognition**

The group's revenue recognition policies are disclosed in note 2(u). Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the group adopts HKFRS 15 some of the group's contract manufacturing and residential property development activities that are currently recognised at a point in time may meet the HKFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforce ability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) **Significant financing component**

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the group would only apply such a policy when payments are significantly deferred, which is currently not common in the group's arrangements with its customers. Currently, the group does not apply such a policy when payments are received in advance.

Advance payments are not common in the group's arrangements with its customers, with the exception of when residential properties are marketed by the group while the property is still under construction. In this situation, the group may offer buyers a discount compared to the sales price payable, provided the buyer agrees to pay the balance of the purchase price early.

Currently, the revenue from property sales is recognised when the property is complete, measured at the amount received from the customer, irrespective of whether the customer pays early or on completion. However, under HKFRS 15 such advance payment schemes are likely to be regarded as including a financing component.

The Group is in the process of assessing whether this component in the group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue. Any adjustment to the transaction price under HKFRS 15, if considered necessary, would result in interest expense being recognised while the construction work is still in progress to reflect the effect of the financing benefit obtained from the customers, with a corresponding increase to revenue on sale of properties recognised when control of the completed property is transferred to the customer.

(c) **Sales with a right of return**

Currently when the customers are allowed to return the products, the group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

HKFRS 16, Leases

As disclosed in note 2(h), currently the group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The group enters into some leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

37 COMPARATIVE FIGURES

Proceeds from disposal of financial assets at fair value through profit or loss is reclassified from investing activity to operating activity in the consolidated statement of cash flows and certain disclosure notes in the consolidated financial statements are restated to conform to current year presentation.

38 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

As disclosed in the announcement dated 24 January 2017, the Company issued an aggregate of 23,990,000 shares at HK$5.4 per share to a total of 25 employees of the Group as awarded shares pursuant to the 2016 Share Award Scheme. The share awards shall be vested in four tranches of 25% each on 4 May 2017 and on every anniversary date thereafter until the third anniversary.

5. INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

As of the close of business on 31 October 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had finance lease obligations which amounted to HK$23,054,331 and a security deposit of HK$30,000,000 for bank facilities of HK$50,000,000 which remained undrawn as at the close of business on 31 October 2017. Save as aforesaid, neither the Group nor the Target Group has any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities, as of the close of business on 31 October 2017.

The consideration for the sale and purchase of the Company Target Shares is HK$7,860 million, of which HK$5,200 million will be satisfied by the issue of the Consideration Shares and the remaining HK$2,660 million will be paid by way of the Company issuing an interest-free single installment note of principal amount of HK$2,660 million (in an equivalent amount in US dollars), subject to the Company and the Vendor agreeing upon the installment note arrangement and the form of the installment note and the Company obtaining a standby letter of credit on the terms and conditions set out in the Share Purchase Agreement. If the Company is unable to obtain a standby letter of credit on the terms and conditions set out in the Share Purchase Agreement, the remaining HK$2,660 million will be paid in cash in an equivalent amount in US dollars, out of the internal resources of the Company.

If the Company pays the remaining HK$2,660 million by way of installment note, the single installment note to be issued to the Vendor by the Company will be interest-free, non-transferrable, non-assignable and will be repaid in full in one single installment in US dollars at the fixed exchange rate of US$1.00 to HK$7.8238 on a maturity date of 15 January 2020, subject to early prepayment upon the occurrence of certain events if so requested by the Vendor by giving the Company 60 days' advance notice. In connection with the standby letter of credit, the Company will be required to deposit HK$2,660 million (in an equivalent amount in US dollars) with the Selected Bank at Completion, which amount will be pledged to the Selected Bank as security for the Selected Bank to issue a standby letter of credit of the same amount to the Vendor.

For details of the installment note, please refer to the section headed "Letter from the Board — Share Purchase Agreement — Consideration — Consideration Payable by the Company" in this circular.

6. WORKING CAPITAL STATEMENT

Taking into account the expected completion of the Acquisition and the present internal financial resources available to the Enlarged Group, including cash and bank balances as well as the available banking facilities, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

7. NO MATERIAL CHANGE

As stated in the section headed "2. Financial and trading prospects of the Group" in Appendix V to this circular, continuing its effort to develop various business segments, including the online and mobile stock brokerage, wealth management and employee stock ownership plan management which required continuing inputs for the building up of a client base and scale of assets under management, as disclosed in the interim report of the Company for the six months ended 30 June 2017, the Group made substantial additional cash investments in various financial assets during the six months ended 30 June 2017 resulting in the increase in the available-for-sale financial assets as at 30 June 2017 representing approximately 7.4 times of that as at 31 December 2016 for the purposes of building up a portfolio of assets under management as well as internal capital management as financed by internal cash resources and proceeds from wealth management products (including redeemable preference shares and limited partner interests) issued by the Group. The Group is subject to capital commitment in connection with some of the financial asset investments (funds managed by third parties) made. As at 30 June 2017, the Group's related commitments increased by approximately 236% as compared to that as at 31 December 2016. As compared with the six months ended 30 June 2016, whilst the Group's revenue decreased by approximately 65.5%, the Group's other operating income and gains increased by 137.0% (as partly contributed by the increase in bank and other interest income by 112.1% and the new income contributions of approximately HK$4.2 million from dividend and distribution income and disposal gain from available-for-sale investments) with the Group's net loss increased by approximately 7.1%. The Group continues to implement its business strategy of expanding its investment assets portfolio and building up of the various business platforms. There has been no material change to the trading performance and prospects of the Group's existing business segments since 30 June 2017.

The Board confirms that save for the Group's interim performance and results for the six months ended 30 June 2017 and financial position as at 30 June 2017 as set out in the Company's interim report published on 20 September 2017 (including the related financial and trading prospects of the Group as described above) and the Acquisition, there had been no material change in the financial or trading position or outlook of the Group since the date to which the latest published audited consolidated financial statements of the Group were made up, being 31 December 2016, up to the Latest Practicable Date.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma financial information of the Enlarged Group, being the Group together with the Target Company and its subsidiaries (collectively the "Target Group"), as if the Acquisition had been completed on 30 June 2017 for the unaudited pro forma consolidated statement of financial position and on 1 January 2016 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated statement of cash flows. Details of the Acquisition are set out in the section headed "Letter from the Board" contained in this circular.

The unaudited pro forma financial information of the Enlarged Group has been prepared in accordance with paragraph 4.29 of the Listing Rules and has been prepared by the Directors of the Company for the purpose of illustrating the effect of the Acquisition pursuant to the terms of the Share Purchase Agreement. The unaudited pro forma financial information was prepared based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as of the specified dates or any future date.

The unaudited pro forma financial information of the Enlarged Group is based upon: (i) the unaudited consolidated financial statements of the Group as at and for the year ended 30 June 2017, which has been extracted from the Company's interim report for the six months ended 30 June 2017; (ii) the audited consolidated financial statements of the Group as at and for the year ended 31 December 2016, which has been extracted from the Company's annual report for the year ended 31 December 2016; (iii) the audited consolidated financial statements of the Target Group as at and for the year ended 30 June 2017 as set out in the accountant's report of the Target Group in Appendix IV to this circular; (iv) the audited consolidated financial statements of the Target Group as at and for the year ended 31 December 2016 as set out in the accountant's report of the Target Group in Appendix IV to this circular, and adjusted on a pro forma basis to reflect the effect of the Acquisition. These pro forma adjustments are (i) directly attributable to the Acquisition and not relating to other future events or decisions and (ii) factually supportable.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group set out in the company's annual report for the year ended 31 December 2016, the accountant's report on the financial information of the Target Group as set out in Appendix IV to this circular and other financial information contained in this circular.

1 Unaudited pro forma consolidated income statement

	The Group for the year ended 2016 **Note 1** *HK$'000*	*The Target Group for the year ended 2016* **Note 3** *HK$'000*	*Unaudited pro forma adjustment* **Note 4** *HK$'000*	*Unaudited pro forma adjustment* **Note 5** *HK$'000*	*Unaudited pro forma adjustment* **Note 6** *HK$'000*	*Unaudited pro forma adjustment* **Note 7** *HK$'000*	*Unaudited pro forma of Enlarged Group* *HK$'000*
Income							
Premiums and fee income	—	3,585,865					3,585,865
Premiums ceded to reinsurer	—	(254,969)					(254,969)
Net premium and fee income	—	3,330,896					3,330,896
Change in unearned revenue liability	—	(432,118)					(432,118)
Net earned premium and fee income	—	2,898,778					2,898,778
Brokerage Commission	3,819	—					3,819
Consultancy and advisory fee	42,274	—					42,274
Net investment and other (loss)/ income	(40,680)	1,146,271					1,105,591
Reinsurance commission and profit	—	467,318					467,318
Total revenue	5,413	4,512,367					4,517,780
Benefits, losses and expenses							
Net policyholders benefit	—	1,505,446					1,505,446
Commission and related expenses	—	1,218,959					1,218,959
Management and other expenses	330,282	455,312	58,385	11,625	5,395		860,999
Change in future policyholder benefits and deferred acquisition costs	—	166,543					166,543

	The Group for the year ended 2016	*The Target Group for the year ended 2016*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma of Enlarged Group*
	Note 1	**Note 3**	**Note 4**	**Note 5**	**Note 6**	**Note 7**	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total benefits, losses and expenses	330,282	3,346,260					3,751,947
(Loss)/profit before taxation	(324,869)	1,166,107					765,833
Tax (credit)/expenses	(8,327)	46,953		(1,918)	(890)		35,818
(Loss)/profit after taxation	(316,542)	1,119,154					730,015
(Loss)/profit attributable to:							
Owners of the Company	(316,688)	1,119,154	(58,385)	(5,824)	(2,703)	(447,662)	287,892
Non-controlling interests	146	—		(3,883)	(1,802)	447,662	442,123
	(316,542)	1,119,154					730,015

2 Unaudited pro forma consolidated statement of cash flows

	The Group for the year ended 2016	*The Target Group for the year ended 2016*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma of Enlarged Group*
	Note 1	**Note 3**	**Note 4**	**Note 5**	**Note 6**	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities						
(Loss)/profit before taxation	(324,868)	1,166,107	(58,385)	(11,625)	(5,395)	765,834
Adjustments for:						
Interest income from bank deposits	(32,357)	(3,507)				(35,864)
Depreciation	7,992	9,908				17,900
Effect of shadow accounting on change in deferred acquisition costs and unearned revenue liability	—	(75,651)				(75,651)
Loss on disposal of fixed assets	—	33				33
Net realised investment loss	43,632	75,985				119,617
Net unrealised loss/(gain) on securities designated at fair value through profit or loss	32,056	(48,990)				(16,934)
Impairment loss	9,468	11,861				21,329
Net derivative gain	—	(483)				(483)
Interested credited to policyholders' deposits	—	1,052,908				1,052,908
Amortisation of Investment	—	(21,819)				(21,819)
Finance cost	97	—				97
Transaction cost	—	—	58,385			58,385
Equity-settled share-based payment expenses	2,084	—				2,084
Operating cash flow before working capital changes	(261,896)	2,166,352				1,887,436

	The Group for the year ended 2016 **Note 1** *HK$'000*	*The Target Group for the year ended 2016* **Note 3** *HK$'000*	*Unaudited pro forma adjustment* **Note 4** *HK$'000*	*Unaudited pro forma adjustment* **Note 5** *HK$'000*	*Unaudited pro forma adjustment* **Note 6** *HK$'000*	*Unaudited pro forma of Enlarged Group* *HK$'000*
Increase in other non-current assets	(1,683)	—				(1,683)
Increase in statutory deposits	—	(6)				(6)
Net proceeds from disposal and used in acquisition of financial asset at fair value through profit or loss	368,362	—				368,362
Increased in deferred acquisition costs	—	(339,817)				(339,817)
Primary change	—	(672,730)				(672,730)
Effect of shadow accounting	—	332,913				332,913
Decrease in advance reinsurance premiums	—	(1,535)				(1,535)
Decrease in reinsurer's share of outstanding claims	—	(10,131)				(10,131)
Increase in insurance and investment receivable	—	(48,995)				(48,995)
Decrease/(increase) in other receivables	36,931	(27,240)				9,691
Decrease in policyholders' deposits	—	(1,968,086)				(1,968,086)
Increase in future policyholders' benefits	—	839,273				839,273
Increase in unearned revenue liability	—	174,855				174,855
Primary change	—	432,117				432,117
Effect of shadow accounting	—	(257,262)				(257,262)
Increase in outstanding claims	—	27,247				27,247
Increase in reinsurance premium claims	—	89,542				89,542
Increase in bank balances - trust and segregated accounts	(189,008)	—				(189,008)
Increase in other payables	179,463	104,202				283,665
Others	—	(31,057)				(31,057)
Cash generated from operating activities	132,169	974,604				1,089,753
Tax paid	(18,684)	(45,465)				(64,149)
Net cash generated from operating activities	113,485	929,139				1,025,604

	The Group for the year ended 2016 **Note 1** *HK$'000*	*The Target Group for the year ended 2016* **Note 3** *HK$'000*	*Unaudited pro forma adjustment* **Note 4** *HK$'000*	*Unaudited pro forma adjustment* **Note 5** *HK$'000*	*Unaudited pro forma adjustment* **Note 6** *HK$'000*	*Unaudited pro forma of Enlarged Group* *HK$'000*
Investing activities						
Payment for acquisition of subsidiaries	(1,165)	—	(58,385)			(59,550)
Payment for purchase of fixed assets	(13,149)	(26,509)				(39,658)
Payment for purchase of intangible asset	(8,911)	—				(8,911)
Deposit made to other non-current asset	(12,154)	—				(12,154)
Payment for purchase of available-for-sale securities	(101,994)	(4,109,873)				(4,211,867)
Payment for purchase of held-to-maturity securities	—	(3,543,188)				(3,543,188)
Payment for purchase of securities designated at fair value through profit or loss	—	(2,885,724)				(2,885,724)
Payment of purchases of mortgage loans	—	(1,383,956)				(1,383,956)
Payments of purchases of policy loans	—	(389)				(389)
Proceeds from sale of available-for-sales securities	—	2,072,103				2,072,103
Proceeds from maturity of held-to-maturity securities	—	1,046,597				1,046,597
Proceeds from sale of securities designated at fair value through profit or loss	—	3,059,270				3,059,270
Proceeds from sales, maturities and repayments of mortgage loans	—	492,734				492,734
Proceeds from the maturity and repayments of policy loans	—	584				584
Proceeds from sale of derivatives	—	37,752				37,752
Placement of deposits with bank maturing more than three months	(524,187)	(30,000)				(554,187)
Interest received	26,320	3,464				29,784

	The Group for the year ended 2016 **Note 1** *HK$'000*	*The Target Group for the year ended 2016* **Note 3** *HK$'000*	*Unaudited pro forma adjustment* **Note 4** *HK$'000*	*Unaudited pro forma adjustment* **Note 5** *HK$'000*	*Unaudited pro forma adjustment* **Note 6** *HK$'000*	*Unaudited pro forma of Enlarged Group* *HK$'000*
Net cash used in investing activities	(635,240)	(5,267,135)				(5,960,760)
Financing activities						
Policyholders' account deposits for insurance and investment contracts	—	5,312,427				5,312,427
Policyholders' account withdrawals for insurance and investment contracts	—	(1,006,311)				(1,006,311)
Cash generated from financing activities	—	4,306,116				4,306,116
Net decrease in cash and cash equivalents	(521,755)	(31,880)				(629,040)
Cash and cash equivalents, beginning of the year	4,162,922	848,346				5,011,268
Effect of foreign exchange rate changes	(673)	—				(673)
Cash and cash equivalents, end of year	3,640,494	816,466				4,381,555

3 Unaudited pro forma consolidated statement of financial position

	The Group as at 30 June 2017	*The Target Group as at 30 June*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma of Enlarged Group*
	Note 2	**Note 3**	**Note 4**	**Note 8**	**Note 9**	**Note 10**	
	$'000	*$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*$'000*
Assets							
Fixed assets	22,277	73,146					95,423
Statutory deposits	39,274	1,518					40,792
Investments in subsidiaries	—	—					—
Deferred acquisition costs	—	7,710,557					7,710,557
Investments	748,492	37,845,765		(1,419,833)		753,044	37,927,468
Goodwill	—	—				5,610,009	5,610,009
Advance reinsurance premiums	—	8,752					8,752
Reinsurers' share of outstanding claims	—	36,604					36,604
Insurance and reinsurance receivables	—	179,726					179,726
Other receivables	124,535	386,467					511,002
Bank balance - Trust and segregated accounts	359,721	—					359,721
Deposits with banks maturing after more than three months	1,771,925	204,250					1,976,175
Cash and cash equivalents	1,831,951	971,574	(58,385)		859,625	(2,660,000)	944,765
	4,898,175	47,418,359					55,400,994
Liabilities							
Insurance contract provisions	—	35,274,823					35,274,823
Investment contract liabilities	—	3,836,104					3,836,104
Outstanding claims	—	139,265					139,265
Reinsurance premium payables	—	277,775					277,775
Financial liabilities	145,049	—					145,049
Other payables	435,633	442,059					877,692
Tax payable	51,850	26,926					78,776
Deferred tax liabilities	—	—				124,252	124,252
	632,532	39,996,952					40,753,736
	4,265,643	7,421,407					14,647,258

	The Group as at 30 June 2017	*The Target Group as at 30 June*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma adjustment*	*Unaudited pro forma of Enlarged Group*
	Note 2	**Note 3**	**Note 4**	**Note 8**	**Note 9**	**Note 10**	
	$'000	*$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*$'000*
CAPITAL AND RESERVES							
Share capital	4,629,094	896,000			859,625	3,444,375	9,829,094
Reserves	(364,448)	6,525,407	(58,385)	(1,419,833)		(5,105,574)	(422,833)
	4,264,646	7,421,407					9,406,261
Non-controlling interest	997	—				5,240,000	5,240,997
TOTAL EQUITY	4,265,643	7,421,407					14,647,258

4 NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) The audited consolidated financial statments of the Group for the year ended 31 December 2016 were extracted from the published annual report of the Company for the year ended 31 December 2016.

For the purposes of the unaudited pro forma consolidated income statement, the "Net investment and other (loss)/income" of the Group comprise of other operating income of HK$34,981,000, interest income from clients of HK$27,000 and net loss on financial assets at fair value through profit or loss of HK$75,688,000. The "Management and other expenses" of the Group comprise of staff costs of HK$200,094,000, depreciation and amortization of HK$7,992,000, other operating expenses of HK$113,981,000, finance cost of HK$97,000 and net provision for impairment loss of HK$8,118,000.

(2) The unaudited consolidated financial statements of the Group as at 30 June 2017 were extracted from the published interim report of the Company for the six months ended 30 June 2017.

(3) The amounts are extracted from the historical financial information of the Target Group, as set out in Appendix IV to this Circular.

(4) The adjustment represents the transaction, legal and professional fees to be included which is directly attributable to the Acquisition. This adjustment does not have a continuing effect on the Enlarged Group.

(5) The adjustment represents the annual payment related to annual service fee charged by Vendor on certain treasury and financial reporting services relating to investment or portfolio management and other information technology related services to the Target Company as disclosed in the "Continuing Connected Transactions" of the Circular and the respective effect on the non-controlling interest of the Target Company. This adjustment has a continuing effect on the Enlarged Group.

(6) The adjustment represents the annual payment related to policies endorsement fee charged by Vendor to continue provide endorsement to the outstanding life insurance policies until such policies mature as disclosed in the "Continuing Connected Transactions" of the circular and the respective effect on the non-controlling interest of the Target Company. This adjustment has a continuing effect on the Enlarged Group.

(7) The adjustment reflects the results of the Target Group attributable to the non-controlling interest of the Target Company, which is 40% of the profit after taxation of the Target Group of HK$1,119,154,000 for the year ended 31 December 2016.

(8) The adjustment represents the transfer of interest by the Target Group in its investment in MassMutual Life Insurance Company K.K. ("MMJ"), a joint stock corporation incorporated under the laws of Japan to the Vendor by way of dividend in specie before the Completion of the Acquisition pursuant to the Share Purchase Agreement.

(9) The adjustment represents the cash contribution by the Vendor to the Target Company for maintaining the 200% solvency ratio pursuant to the Share Purchase Agreement. The solvency ratio of the Target Company is calculated by dividing total available capital by regulatory minimum capital. Total available capital is the amount of assets in excess of liabilities measured in accordance with the IO and regulatory minimum capital is the minimum required margin of solvency calculated in accordance with the IO.

The cash contribution is estimated as follows:

	HK$'000
Total available capital before the transfer of interest in MMJ	3,575,611
Less: Fair value of MMJ as at 30 June 2017 (Note 8)	(1,419,833)
Total available capital after the transfer of interest in MMJ	2,155,778
Total available capital required to maintain 200% solvency ratio (Note)	3,015,403
Cash contribution required	859,625

Note: The amount is calculated by multiplying 200% to the regulatory minimum capital of approximately HK$1,507,702,000 as at 30 June 2017 as disclosed in Note 41 of Appendix IV to this Circular.

(10) Upon the Completion of the Acquisition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values as required by the acquisition method in accordance with Hong Kong Financial Reporting Standards 3 (Revised) "Business Combinations".

For the purpose of the unaudited pro forma financial information of the Enlarged Group and for illustrative purpose only, the allocation of the purchase price is determined based on the carrying amount of the Target Group's identifiable assets and liabilities as at 30 June 2017, after an estimated fair value upward adjustment of HK$700,358,000 on the held-to-maturity ("HTM") debt securities held by the Target Group with estimated fair value and carrying amount of approximately HK$13,489,598,000 and HK$12,789,240,000, respectively and an estimated fair value upward adjustment of HK$52,686,000 on the loans and receivables held by the Target Group with estimated fair value and carrying amount of approximately HK$5,506,799,000 and HK$5,454,113,000, respectively. The basis in determining the estimated fair value of the debt securities and loans and receivables is disclosed in Note 5(a)(iii) of Appendix IV to the Circular.

As a result, except for the fair value upward adjustment on the HTM debt securities and loans and receivables, the unaudited pro forma financial information does not include adjustments for the fair value of other identifiable assets and liabilities of the Target Group and recognition of additional intangible assets, if any.

Goodwill is estimated as follows:

	HK$'000
Consideration - cash	2,660,000
Consideration - consolidation shares	5,200,000
Total consideration	7,860,000
Less: Identified assets acquired and liabilities assumed*	(7,489,991)
Add: Fair value of the remaining 40% non-controlling interest	5,240,000
Goodwill arising from the Acquisition	5,610,009

* *Identified assets acquired and liabilities assumed*

	HK$'000
Net assets of the Target Group as at 30 June 2017	7,421,407
Transfer of interest in Japan	(1,419,833)
Capital contribution from the Vendor	859,625
Estimated fair value upward adjustment on the HTM debt securities	700,358
Estimated fair value upward adjustment on the loans and receivables	52,686
Effect on deferred tax liabilities estimated at the tax rate of 16.5%	(124,252)
	7,489,991

Pursuant to the terms of the Share Purchase Agreement, the total consideration for the Acquisition amounts to HK$7,860,000,000, subject to the adjustments on the transfer of the Target Group's interest in MassMutual Life Insurance Company K.K. to the Vendor, cash and cash equivalents and working capital of the Target Group ("Consideration Adjustment"), as described in the "Letter from the Board" of this Circular. Consideration amounting to HK$5,200,000,000 will be settled by the issue of the Consideration Shares, being an aggregate of 800,000,000 shares, to the Vendor at the Issue Price of HK$6.50 per Consideration Share. For the purpose of this Unaudited Pro Forma Financial Information, the fair value of each Consideration Share is deemed to be HK$6.50 (being the Issue Price per Consideration Share as determined by and agreed to among the parties to the Share Purchase Agreement), and which is different from the closing price of the Shares on 30 June 2017 which is HK$4.47. The remaining HK$2,660,000,000 may be paid by way of the Company issuing an interest-free single installment note of principal amount of HK$2,660,000,000 (in an equivalent amount in US dollars), subject to the Company and the Vendor agreeing upon the installment note arrangement and the form of the installment note and the Company obtaining a standby letter of credit on the terms and conditions set out in the Share Purchase Agreement. If the Company and Vendor have not agreed to the structure of the installment note arrangement and the form of the installment note within 60 days following the date of the Share Purchase Agreement or the Company is unable to obtain a standby letter of credit on the terms and conditions set out in the Share Purchase Agreement, the remaining HK$2,660,000,000 will be paid in cash in an equivalent amount in US dollars, out of the internal resources of the Company as described in the "Letter from the Board" of this circular. For the purpose of the pro forma financial information, it is prepared on the assumption that the remaining HK$2,660,000,000 will be paid in cash. For illustrative purposes only, if the fair value of each Consideration Share is HK$4.47 (being the closing price of the Shares on 30 June 2017), the total consideration payable by the Company for the Acquisition calculated on the basis of such fair value of the Consideration Shares will amount to HK$6,236,000,000 and the resulting goodwill arising from the Acquisition will amount to HK$3,986,009,000.

The amount of goodwill and fair value of the identifiable assets and liabilities assumed of the Target Group on the date of completion are subject to (i) the completion of the valuation of the fair value of the identifiable assets and liabilities assumed of the Target Group on the date of completion (ii) the fair value of Consideration Share upon completion of the Acquisition (iii) the fair value of an interest-free single installment note with the principal amount of HK$2,660 million, if issued, upon completion of the Acquisition and (iv) the financial position of the Target Group on the date of completion. In addition, intangible assets of the Target Group which were not otherwise recognised in the historical financial information may be recognised at their fair value upon completion of the Acquisition. Furthermore, the fair value of 800,000,000 Consideration Shares is measured based on share price of the Company upon completion of the Acquisition which may be substantially different from the Issue Price of HK$6.50 per Consideration Share stipulated under the Share Purchase Agreement. If the share price of the Company upon completion of the Acquisition is substantially higher than the Issue Price, this will result in a material increase in the amount of goodwill. On the contrary, if the share price of the Company upon completion of the Acquisition is substantially lower than the Issue Price, this may result in a credit to the consolidated income statement. Likewise, if the Company is to issue the HK$2,660 million instalment note instead of settling the consideration in cash, the fair value of the interest-free single instalment note may be different from the principal amount of HK$2,660 million. If the fair value of the instalment note is higher than the principal amount, this results in an increase in the amount of goodwill. On the contrary, if the fair value of the instalment note is lower than the principal amount, this may result in a credit to the consolidated income statement. The instalment note is subsequently measured at amortised cost and the related amortised finance cost is charged to the consolidated income statement. Any amount of goodwill arising from the Acquisition is subject to impairment assessment at each reporting period by the Group and any impairment will result in a charge to the consolidated income statement. Accordingly, the amounts of goodwill, identifiable assets and liabilities assumed of the Target Group may be materially different from the estimated amounts used in the preparation of the unaudited pro forma financial information presented above.

For the purpose of the unaudited pro forma financial information, the Directors have assessed whether there is any impairment indicator in respect of the goodwill expected to arise from the Acquisition following the principles set out in Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the Directors' assessment, the Directors consider that there is no impairment indicator on the goodwill with assumed values set out above. The Company will adopt consistent accounting policies and valuation method (as used in the Unaudited Pro Forma Financial Information and which are consistent with relevant Hong Kong Accounting Standard) to assess the impairment of the Enlarged Group's intangible assets and goodwill in the future. The Company also confirmed with its auditor that they will audit the annual consolidated financial statements (including goodwill and intangible assets impairment) in accordance with the Hong Kong Standards of Auditing issued by the Hong Kong Institute of Certified Public Accountants.

(11) No adjustment has been made to the unaudited pro forma consolidated statement of financial position to reflect any trading results or other transactions of the Enlarged Group subsequent to 30 June 2017, and the unaudited pro forma consolidated income statement and consolidated statement of cash flows subsequent to 31 December 2016.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information, for the purpose of inclusion in this circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF YUNFENG FINANCIAL GROUP LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Yunfeng Financial Group Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2017, the unaudited pro forma consolidated income statement and pro forma consolidated statement of cash flows for the year ended 31 December 2016 and related notes as set out in Part A of Appendix VI to the circular dated 21 December 2017 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix VI to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the Group's acquisition of 60% of the issued share capital of MassMutual Asia Limited (the "Proposed Acquisition") on the Group's financial position as at 30 June 2017 and the Group's financial performance and cash flows for the year ended 31 December 2016 as if the Proposed Acquisition had taken place at 30 June 2017 and 1 January 2016 respectively. As part of this process, information about the Group's financial position as at 30 June 2017 has been extracted by the Directors from the consolidated financial statements of the Company for the period then ended, on which a review report has been published. Information about the Group's financial performance and cash flows for the year ended 31 December 2016 has been extracted by the Directors from the annual report of the Group for the year ended 31 December 2016, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2017 or 1 January 2016 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
21 December 2017

A. ACTUARIAL REVIEW REPORT ON THE TARGET GROUP

pwc

The Board of Directors of
Yunfeng Financial Group Limited
8 Connaught Place, Suites 3201-3204
One Exchange Square, Central, Hong Kong

Dear Sirs,

Actuarial Review Report on Calculations of Embedded Value of MassMutual Asia Limited as at 30 June 2017

1. Background and responsibilities

Yunfeng Financial Group Limited ("Yunfeng Financial" or "the Company") has engaged PricewaterhouseCoopers Limited ("PwC" or "us") to provide a review report on the calculations of the embedded value ("EV") of MassMutual Asia Limited ("MassMutual") as at 30 June 2017 for inclusion in the circular of Yunfeng Financial dated 21 December 2017 in connection with the proposed acquisition of shares in MassMutual (the "Circular").

The directors and the management of MassMutual are responsible for the calculations of the embedded value of MassMutual. This responsibility includes designing, implementing and maintaining internal control process relevant to the maintenance of underlying data and information on the in-force business and preparation of embedded value information which is free from material misstatement, whether due to fraud or error; performing embedded value calculations; selecting and applying appropriate methodologies; and making assumptions that are consistent with market information and are reasonable in the circumstances.

This report is prepared for inclusion in the Circular. Section 2 below sets out the scope of the work that we have been engaged to undertake in relation to the embedded value calculations. Section 3 sets out the reliance and limitations of our work. Sections 4, 5, 6 and 7 summarise the methodology, assumptions and results and section 8 sets out the opinion reached based on our work.

This report has been prepared for and only for the Board of Directors of the Company in connection with the proposed acquisition of shares in MassMutual by Yunfeng Financial (the "Acquisition"), and for no other purpose. We do not accept or assume any liability or responsibility for any other purpose or to any party other than the Board of Directors of the Company.

2. **Scope of Work**

Our scope of work was a review of MassMutual's embedded value as of 30 June 2017 and new business value of business issued in the 12-month period from 1 July 2016 to 30 June 2017, as follows:

- Consider whether the methodologies used in the embedded value and new business value calculations are consistent with MassMutual's business and industry practice for publicly listed companies in Hong Kong;

- Consider whether the chosen assumptions are appropriate to MassMutual's EV methodologies and are consistent with MassMutual's experience and trends, industry experience and available market information; and

- Obtain an analysis of embedded value movements and sensitivity testing results prepared by MassMutual. Consider whether these show any apparent inconsistencies with model and assumptions changes or other information made available to us regarding MassMutual's business operations.

Our review procedures included, but were not limited to, discussing with management of MassMutual the methodology and assumptions, inspecting documentation related thereto, considering whether the methodologies are consistent with regulatory requirements, considering whether the assumptions are consistent with available market information, and performing testing of actuarial calculations for sample products.

3. **Reliance and limitations**

In carrying out this review PwC has relied upon the integrity, completeness and accuracy of the data and information provided by MassMutual. We have not performed any audit or otherwise verify the truth or accuracy of the information provided to us during the review process. We do not assume any responsibility and make no representations with respect to the accuracy or completeness of any information provided by MassMutual.

We have relied on the statutory financial statements and Adjusted Net Worth of MassMutual (as defined in Section 4) provided by MassMutual.

This report relates to the embedded value and one-year new business value of MassMutual as at 30 June 2017. It should be noted that we have not performed a review of MassMutual's embedded value and one-year new business value in accordance with the work procedures set out in Section 2 above for any period subsequent to 30 June 2017. For the period between 30 June 2017 and 30 September 2017, we have requested the directors and management of MassMutual to provide us with relevant updated information necessary to consider if there will be material impact to the EV and one-year new business value subsequent to 30 June 2017. According to the information provided, there was no event subsequent to 30 June 2017 which indicates that there may be a material impact to any of the information or assumptions which underpinned our review report on the EV as of 30 June 2017 and the directors and the management are of the view that EV and one-year new business value of MassMutual as at 30 September 2017 would not be materially different from the EV and one-year new business value as of 30 June 2017. On the basis of the directors' and management's assessment and the limited procedures carried out by us subsequent to 30 June 2017, we are of the opinion that EV and one-year new business value of MassMutual as at 30 September 2017 would not be materially different from the EV and one-year new business value as of 30 June 2017 stated in this report. No assessment of the quality of MassMutual's assets has been made by us.

The embedded values are dependent on the underlying assumptions. Different assumptions would give rise to different results.

The preparation of embedded value information requires assumptions and projections to be made about future uncertain events, many of which are outside the control of Yunfeng Financial and MassMutual. Therefore, actual experience may differ from these assumptions and projections, and this will affect the embedded value and the new business value. This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

The report is intended to be read by person technically competent in the areas to which it relates.

4. **Valuation Methodology**

EV is a measure of the 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.

MassMutual 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 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 provided by MassMutual.

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 30 June 2017. Cost of Capital is the difference between the amount of required capital as at 30 June 2017 and the present value of future releases, allowing for future after-tax investment earnings on the capital.

Similarly, the new business value is calculated as the difference of new business value before CoC and CoC arising from new business sales in the period. The new business value before CoC is the present value, discounted at issue date, of future estimated after-tax statutory profits emerging from new business sales in the past 12 months, ie 1 July 2016 to 30 June 2017.

In determining the value of in-force business, MassMutual's in-force policy databases as at 30 June 2017 were used. New business volumes and mix were based on the actual business written by MassMutual in the 12-month period from 1 July 2016 to 30 June 2017.

It should be noted that, in assessing the total value of a life insurance company, the value attributed to future new business can be determined as the product of the one-year new business value and a multiple which reflects an allowance for future new business sales and the risks associated with it at the assumed profit margin. Our scope of work as set out in Section 2 did not include providing an opinion on such a multiple by which to assess the total value of future new business of MassMutual.

5. **Results**

5.1 ***Embedded value and new business value of MassMutual***

The embedded value of MassMutual as at 30 June 2017, as calculated by MassMutual using the methodology and assumptions described in section 4 and 6 of this report, are set out in tables below.

Table 2: Embedded value of MassMutual as at 30 June 2017

HK$ million			**Risk Discount Rate**	
		Low	**Central**	**High**
		8.5%	**9.0%**	**9.5%**
Embedded Value	**(1)=(2)+(3)**	**12,340**	**11,637**	**11,002**
Adjusted Net Worth	(2)	3,299	3,299	3,299
Value of in-force business after CoC	(3)=(4)-(5)	9,041	8,338	7,702
Value of in-force business before CoC	(4)	10,422	9,830	9,292
Cost of capital	(5)	1,381	1,492	1,589

Figures may not be additive due to rounding.

Table 3: New business value of MassMutual for 12-month period from 1 July 2016 to 30 June 2017

HK$ million		**Risk Discount Rate**		
		Low	**Central**	**High**
		8.5%	**9.0%**	**9.5%**
New business value	**(1)=(2)-(3)**	**572**	**510**	**453**
New business value before CoC	(2)	689	635	585
Cost of capital	(3)	116	125	131

Figures may not be additive due to rounding.

5.2 ***Movement analysis of embedded value for MassMutual***

MassMutual performed movement analysis of the embedded value at the central risk discount rate from 31 December 2016 to 30 June 2017.

Table 4: Movement analysis of MassMutual's embedded value from 31 December 2016 to 30 June 2017

	Notes	*HK$ million*
Embedded Value as at 31 December 2016		10,992
New business value	a	238
Expected return on Embedded Value	b	439
Assumption changes	c	-262
Investment return variance	d	103
ANW change for other business	e	104
Other experience variance	f	23
Embedded Value as at 30 June 2017		11,637

Figures may not be additive due to rounding.

Notes:

(a) New business contribution from sales of new business in first half year of 2017, i.e. from 1 January 2017 to 30 June 2017.

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

(c) Impact of assumption changes on the future distributable earnings of the in-force business.

(d) Differences between the actual investment returns and expected investment returns in 2017.

(e) Impact of appraisal value increase of MassMutual Japan as MassMutual Asia holds 10% of MassMutual Japan and increase of retirement business.

(f) Differences between the actual experience and expected experience for mortality, morbidity, lapses, and expenses in 2017.

6. Valuation Assumptions

MassMutual's 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 MassMutual 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.

6.1 *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 the Hong Kong.

Currently, MassMutual uses a risk discount rate of 9% as the base scenario assumption for both in-force and new business. MassMutual has also computed the embedded value results under risk discount rates of 8.5% and 9.5%.

The risk discount rate used by MassMutual is broadly consistent with those used by other insurers in the industry in Hong Kong which typically range from 7% to 10%.

6.2 *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 have been determined by the projected investment income in future years divided by the projected value of the assets. The calculation of projected investment income and the value of assets are based on yield to maturity, term to maturity and the carrying value of the assets.

Assumed future investment returns net of investment expenses are as follows:

Table 5: Investment return assumptions for universal life and non-participating business

Calendar Year	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025&+**
Investment returns rates	3.79%	3.86%	4.01%	4.32%	4.37%	4.67%	4.98%	5.29%	5.50%

The investment return rate for unit-linked life products was assumed at 7.5%.

6.3 ***Credit Rate***

The crediting rates for universal life business is set by targeting a long term credit rate spread of 0.25%. The crediting rates were worked out as earn rate less crediting rate spread.

6.4 ***Mortality***

MassMutual set the mortality assumption based on both MassMutual's emerging experience and industry experience, reflecting its expectation of how experience will emerge.

The experience mortality rates were 60% of the HKA93 mortality table with an adjustment of increased mortality at older ages ("Adj. HKA93"). There were also adjustment factor of 90% for non-smoker and 130% for smoker applied.

6.5 ***Morbidity***

Due to the CI products were all launched recently, without statistically credible claims experience available, a morbidity assumption of 92.5% of the reinsurance rates has been used.

6.6 ***Lapse***

The lapse assumptions were based on MassMutual'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.

6.7 ***Loss ratios***

The loss ratio assumptions for short term business are derived from the actual experience of MassMutual. The loss ratios for short term accident and health insurance business have been assumed to be in the range of 40% to 60%.

6.8 ***Commission and other variable costs***

The commission and other variable cost were based on MassMutual's agency compensation scheme for agency channel and contracts between MassMutual and banks for bancassurance channel. The actual excess of commission and variable cost has not been deducted from the new business value figures presented in this report. The excess of commission and variable cost in the 12-month period from 1 July 2016 to 30 June 2017 amounted to HKD 57.8 million.

6.9 ***Operating Expenses***

Operating expenses have been projected based on MassMutual's 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. The saving of actual expense compared with unit expense assumption in the 12-month period from 1 July 2016 to 30 June 2017 amounted to HKD 3.4 million.

6.10 ***Inflation rate***

Future inflation rate was assumed to be 2% per annum, which is consistent with that used by other insurers in Hong Kong market.

6.11 ***Taxation***

A tax rate of 0.825% of net premium income has been assumed.

6.12 ***Required capital***

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

6.13 ***Statutory valuation***

The distributable earnings are based on statutory reserve in accordance with the Hong Kong reserving regulations. And it is assumed to be continued as the basis to value policy liabilities for solvency assessment purpose as at 30 June 2017.

6.14 ***Reinsurance***

Reinsurance cost of the financial reinsurance is modelled based on reinsurance contract term. 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.

7. **Sensitivity analysis**

MassMutual performed sensitivity analysis on the value of in-force business and the new business value, by independently varying certain assumptions regarding future experience. Specifically, the following changes in assumptions have been considered. The central assumptions are those as set out in Section 6.

- New money yields increased by 100 basis points every year

- New money yields decreased by 100 basis points every year

- 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)

Table 7: Summary of the sensitivity testing results on value of in-force business for MassMutual as at 30 June 2017

HK$ million	Value of in-force business after cost of capital		
Risk Discount Rate	**8.5%**	**9%**	**9.5%**
Base scenario	**9,041**	**8,338**	**7,702**
New money yields increased by 100 basis points every year	9,992	9,160	8,412
New money yields decreased by 100 basis points every year	8,631	7,990	7,408
10% increase in lapse rate and skip premium rates	8,886	8,225	7,625
10% decrease in lapse rate and skip premium rates	9,209	8,461	7,786
10% increase in mortality and morbidity rates and loss ratios	8,355	7,687	7,083
10% decrease in mortality and morbidity rates and loss ratios	9,733	8,995	8,327
10% increase in acquisition and maintenance expenses	8,939	8,241	7,609
10% decrease in acquisition and maintenance expenses	9,142	8,435	7,796

Table 8: Summary of the sensitivity testing results on new business value for MassMutual in the 12-month period from 1 July 2016 to 30 June 2017

HK$ million	**New business value after cost of capital**		
Risk Discount Rate	**8.5%**	**9%**	**9.5%**
Base scenario	**572**	**510**	**453**
New money yields increased by 100 basis points every year	716	640	572
New money yields decreased by 100 basis points every year	492	436	386
10% increase in lapse rate and skip premium rates	569	510	456
10% decrease in lapse rate and skip premium rates	574	508	449
10% increase in mortality and morbidity rates and loss ratios	526	466	412
10% decrease in mortality and morbidity rates and loss ratios	619	554	495
10% increase in acquisition and maintenance expenses	537	475	419
10% decrease in acquisition and maintenance expenses	608	545	488

8. **Opinion**

Based on the procedures we have been engaged to perform, in our opinion:

- the methodologies used in the embedded value and new business value calculations are consistent with MassMutual's business, traditional embedded value principles generally employed by life insurance industry in Hong Kong and generally accepted international actuarial principles;

- the chosen assumptions are appropriate to MassMutual's methodologies and consistent with MassMutual's experience and trends, industry experience and available market information;

- the methodology to calculate embedded value are consistent with industry practice for publicly listed companies in Hong Kong and international practice; and

- the results shown in section 5 and 7 were prepared, in all material respects, in accordance with the methodology and assumptions described in this report.

The opinion is subject to the reliance and limitations set out in Section 3.

For and on behalf of PricewaterhouseCoopers Limited

Xiaobin Yuan
Title: FSA

B. LETTER FROM KPMG

The following is the text of a report received from the Company's auditor, KPMG, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE CALCULATION OF DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF MASSMUTUAL ASIA LIMITED

TO THE BOARD OF DIRECTORS OF YUNFENG FINANCIAL GROUP LIMITED

We refer to the discounted future cash flows on which the calculations of embedded value ("the Valuation") of MassMutual Asia Limited ("the Target Company") as at 30 June 2017 are based. The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under Rule 11.1(a) of the Code on Takeovers and Mergers issued by the Securities and Futures Commission (the "Takeovers Code").

Directors' Responsibilities for the Discounted Future Cash Flows

The directors of Yunfeng Financial Group Limited (the "Directors") are responsible for the Valuation prepared by the Target Company that is free from material misstatement and the information contained therein. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows, the methodology applied and assumptions adopted, and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by Rule 10.3(b) of the Takeovers Code, on whether, so far as the calculations are concerned, the discounted future cash flows used have been properly compiled in accordance with the methodology applied and assumptions adopted as set out in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in accordance with the methodology applied and assumptions adopted as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the methodology applied and assumptions adopted as set out in the Valuation. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the methodology applied and assumptions adopted as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the methodology applied and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation. The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under Rule 10.3(b) of the Takeovers Code and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG
Certified Public Accountants
Hong Kong
21 December 2017

C. LETTER FROM J.P. MORGAN SECURITIES (ASIA PACIFIC) LIMITED

The following is the text of a letter from J.P. Morgan Securities (Asia Pacific) Limited, a financial adviser to the Company, for the purpose of incorporation in this circular.

The Board of Directors
Yunfeng Financial Group Limited
Suites 3201-3204
One Exchange Square
8 Connaught Place
Central
Hong Kong

21 December 2017

Dear Sirs,

We refer to (i) the announcement of Yunfeng Financial Group Limited (the "**Company**") dated August 17, 2017 (the "**Announcement**") in relation to, among other things, the Acquisition, (ii) the circular of the Company to be issued on or around 21 December 2017 (the "**Circular**") in relation to, among other things, the Acquisition, (iii) the actuarial review report dated 21 December 2017 (the "**Actuarial Review Report**") prepared by the actuarial consultant of the Company, PricewaterhouseCoopers Limited (the "**Actuarial Consultant**"), in respect of the value of the in-force business as at 30 June 2017 of the Target Group (the "**VIF**") and the new business value for 12-month period from 1 July 2016 to 30 June 2017 of the Target Group (the "**VONB**", together with the VIF, the "**Actuarial Metrics**"), which is reproduced as Part A headed "A. Actuarial Review Report on the Target Group" of Appendix VII to the Circular, and (iv) the assurance report on the calculation of discounted future cash flows in connection with the business valuation of the Target Group dated 21 December 2017 (the "**KPMG Report**") issued by the Company's auditor, KPMG, to the Board, which is reproduced as Part B headed "B. Letter from KPMG" of Appendix VII to the Circular. Unless otherwise defined or if the context otherwise requires, capitalized terms used herein shall have the same meanings as defined in the Circular.

We note that the Actuarial Metrics are disclosed on pages 118, VII-4, VII-9 and VII-10 of the Circular, and that the Actuarial Consultant has represented in the Actuarial Review Report that they have applied the discounted cash flow method to review the Actuarial Metrics. The discounted cash flow forecast in the Actuarial Review Peport constitutes a profit forecast (the "**Forecast**") under Rule 14.61 of the Listing Rules and Rule 10 of the Takeovers Code.

This letter is issued pursuant to the requirements under Rule 14.62(3) of the Listing Rules and Rule 10 of the Takeovers Code (in respect of the Forecast) and Rule 11.1(b) of the Takeovers Code (in respect of the Actuarial Metrics).

For the purpose of giving this letter, we have (i) reviewed the Forecast disclosed in the Circular, for which you (as the Directors) are solely responsible; and (ii) discussed with you, the management of the Target Company, the Actuarial Consultant and KPMG regarding the qualifications, bases and assumptions upon which the Forecast has been made; and (iii) considered the Actuarial Review Report and the KPMG Report and the respective opinions stated therein.

Pursuant to the requirement under Rule 11.1(b) of the Takeovers Code, we are requested to report on the qualifications and experience of the Actuarial Consultant to prepare the Actuarial Review Report. For that purpose, we have conducted reasonable checks to assess the relevant qualifications and experience of the Actuarial Consultant, including reviewing a list of transactions provided by the Actuarial Consultant in which they acted as an actuarial consultant and discussing with the Actuarial Consultant on their qualifications and experience.

Having regard to the information made available to us as at the date of this letter, without giving any other opinion or expressing any other view on the Actuarial Review Report, for which the Actuarial Consultant and the Company are responsible, we are satisfied that: (i) the qualifications, bases and assumptions have been made by the Actuarial Consultant with due care and objectivity and on a reasonable basis; (ii) the Forecast disclosed in the Circular, for which you as the Directors are solely responsible, has been made with due care and consideration by you; and (iii) the Actuarial Consultant is qualified and experienced to prepare the Actuarial Review Report.

The work undertaken by us in giving the above view has been undertaken for the purpose of reporting to you under Rule 14.62(3) of the Listing Rules, and Rules 10 and 11.1(b) of the Takeovers Code, and for no other purpose. We and our respective directors and affiliates will not owe any responsibility to any other person in respect of, arising out of or in connection with our work or this letter. Nothing in this letter shall reduce our obligations as a financial adviser under the Corporate Finance Adviser Code of Conduct and Rule 9.1 of the Takeovers Code.

A copy of this letter in its entirety may be reproduced in the Circular on the basis that none of you, the Company, the Target Group, the Actuarial Consultant, KPMG or any other person may reproduce, disseminate or quote this letter (or any part thereof) for any purpose whatsoever except that a copy of this letter may be made available for display or inspection pursuant to the requirements under Notes 1 and 2 to Rule 8 of the Takeovers Code and Rule 14.66(10) of the Listing Rules and Paragraph 43(3) to Part B of Appendix 1 to the Listing Rules. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

Yours faithfully,

For and on behalf of
J.P. Morgan Securities (Asia Pacific) Limited
David Lau
Managing Director

This Appendix contains a summary of the Articles of Association. As the information set out below is in summary form, it does not contain all of the information that may be important. A copy of the Articles of Association is available for inspection at the address specified in the section headed "Documents Available for Inspection" in Appendix X to this circular.

The Articles of Association were adopted by special resolution on 31 May 2016. The following is a summary of certain provisions of the Articles of Association. The powers conferred or permitted by the Articles of Association are subject to the provisions of the Companies Ordinance, other ordinances, subsidiary legislation and the Listing Rules.

CHANGES IN CAPITAL

The Company may exercise any powers conferred on the Company or permitted by or not prohibited by or not inconsistent with the Companies Ordinance or any other applicable ordinance, statute, act or law from time to time to buy back its own shares or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company; and should the Company buy back its own shares, neither the Company nor the Board shall be required to select the shares to be acquired rateably or in any other particular manner as between the holders of shares of the same class or as between them and the holders of shares of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares, provided always that any such acquisition or financial assistance shall only be made or given in accordance with any relevant rules or regulations issued by the Stock Exchange or the SFC from time to time.

Subject to the Companies Ordinance, the Company may by

(a) increase its share capital by allotting and issuing new shares;

(b) increase its share capital without allotting and issuing new shares, if the funds or other assets for the increase are provided by the members of the Company;

(c) capitalise its profits, with or without allotting and issuing new shares;

(d) allot and issue bonus shares with or without increasing its share capital;

(e) convert all or any of its rights into a larger or smaller number of shares; or

(f) cancel shares that:-

  (i) at the date the resolution for cancellation is passed, have not been taken or agreed to be taken by any person; or

  (ii) have been forfeited.

The Company may by special resolution reduce its share capital in such manner as permitted by law.

MODIFICATION OF RIGHTS

The special rights attached to any class of shares may, subject to the Companies Ordinance, be varied or abrogated either with the consent in writing of the holders of not less than 75% of the total voting rights of holders of the shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

To every such separate general meeting, all the provisions of the Articles of Association relating to general meetings and to the proceedings thereat shall mutatis mutandis apply, except that the necessary quorum shall be two persons present in person or by proxy together holding at least one-third of the total voting rights of holders of the shares of the class (but so that, if at any adjourned meeting a quorum as above defined is not present, any one holder of shares of the class present in person or by proxy shall be a quorum) and that any holder of shares of the class present in person or by proxy may demand a poll and that every such holder shall on a poll have one vote for every share of the class held by him.

TRANSFER OF SHARES

The instrument of transfer of any shares shall be in writing in any usual or common form or in such other form as may be prescribed by the Stock Exchange or in such other form as the Board may accept and may be executed under hand or, if the transferor or transferee is a recognised clearing house or its nominees, by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time and shall be executed by or on behalf of the transferor and by or on behalf of the transferee.

The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register of Shareholders of the Company in respect thereof. Nothing in the Articles of Association shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.

The Board may at any time in its absolute discretion decline to register any transfer of shares (not being fully paid up shares). The Board may also decline to register a transfer of shares (whether fully paid up or not) unless:

(a) a fee not exceeding the maximum fee prescribed or permitted from time to time under the Listing Rules or such lesser sum as the Board may from time to time is paid to the Company in respect thereof;

(b) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;

(c) the instrument of transfer is in respect of only one class of shares;

(d) the shares concerned are free of any lien in favour of the Company; and

(e) the instrument of transfer is properly stamped.

If the Board refuses to register a transfer, it shall, within two months after the date on which the transfer was lodged with the Company, send to the transferor and the transferee notice of the refusal, provided that if any of the transferor or transferee should request for a statement of the reasons for the refusal, the Board must within the time period prescribed by the Companies Ordinance send the statement of the reasons or register the transfer.

OWNERSHIP OF SHARES

There is no provision in the Articles of Association on restrictions of ownership of shares in the Company.

GENERAL MEETINGS

The Company shall in each year hold its annual general meeting in accordance with the Companies Ordinance in addition to any other meetings in that year. The annual general meeting shall be held at such time and place as may be determined by the Board subject to the Articles of Association. All other general meetings shall be called extraordinary general meetings.

The Board may, whenever it thinks fit, or shall, on requisition in accordance with the Companies Ordinance, convene a general meeting.

NOTICE OF GENERAL MEETINGS

An annual general meeting shall be called with at least 21 days' notice in writing, and any other general meeting with at least 14 days' notice in writing. The period of notice shall in each case be exclusive of the day on which it is served or deemed to be served and of the day on which the meeting is to be held and notice shall be given in the manner mentioned in the Articles of Association to all Shareholders other than those that are not entitled to receive such notices from the Company under the provisions of the Articles of Association.

Provided that a general meeting, notwithstanding that it has been called by notice shorter than that specified above, shall be deemed to have been duly called if it is so agreed:

(a) in the case of an annual general meeting, by all the Shareholders entitled to attend and vote at the meeting; and

(b) in the case of any other general meeting, by a majority in number of Shareholders having the right to attend and vote, being a majority together holding not less than 95% of the total voting rights of the Shareholders at the meeting.

Provided also that the accidental omission to give notice to or the non-receipt of notice by any person entitled thereto shall not invalidate the proceedings at any general meeting.

Every notice calling a general meeting shall specify the place and the day and hour of the meeting.

VOTING AT MEETINGS

Subject to any special rights or restrictions as to voting attached to any class of shares, on a show of hands every Shareholder who is present in person or by proxy shall have one vote, and on a poll, every Shareholder who is present in person or by proxy shall have one vote for every share of which he is the holder. On a poll, votes may be given either personally or by proxy, and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

Any corporation which is a Shareholder may, by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Shareholders. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual Shareholder and such corporation shall for the purposes of the Articles of Association be deemed to be present in person at any such meeting as if a person so authorised is present thereat.

If a recognised clearing house (or its nominee(s)) is a Shareholder, it may authorise or appoint such person(s) as it thinks fit to act as its representative(s) at any general meeting of the Company or at any meeting of any class of Shareholders, provided that, if more than one person is so authorised or appointed, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person so authorised shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if such person were an individual Shareholder.

Where any Shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted.

QUALIFICATION OF DIRECTORS

A Director shall not be required to hold any Shares. A Director who is not a Shareholder shall nevertheless be entitled to attend and speak at general meetings.

BORROWING POWERS

The Board may exercise all the powers of the Company to borrow money, to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge the whole or any part of its undertaking, property and uncalled capital of the Company, and to issue debentures, including debenture stock, and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

DIRECTORS' APPOINTMENT, REMOVAL AND RETIREMENT

Subject to the provisions of the Articles of Association of Association and the Companies Ordinance, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the Board. The Board shall have power at any time and from time to time to appoint any other person as a Director to fill a casual vacancy. Any Director so appointed shall hold office only until the next following general meeting and shall then be eligible for re-election.

At each annual general meeting, one-third of the Directors for the time being, or if their number is not a multiple of three, the number nearest to but not less than one-third, or such other manner of rotation as may be required by the Listing Rules or other codes, rules and regulations as may be prescribed by the applicable regulatory authority from time to time, shall retire from office by rotation.

The Directors to retire shall be those who have been longest in office since their last re-election and so that as between persons who become or were last re-elected Directors on the same day, those to retire shall, unless they otherwise agree among themselves, be determined by lot. A retiring Director shall be eligible for re-election. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Company may by ordinary resolution remove any Director before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between him and the Company (but without prejudice to any right to damages for breach of such agreement), and may, if thought fit, appoint another person in his stead.

Without prejudice to the provisions for retirement by rotation contained in the Articles of Association, the office of a Director shall be vacated:

(a) if he becomes prohibited by law or court order from being a Director;

(b) if he becomes bankrupt or has a receiving order made against him or makes any arrangement or composition with his creditors;

(c) if he becomes of unsound mind;

(d) if he absents himself from the meetings of the Board during a continuous period of six months without special leave of absence from the Board, and his alternate Director (if any) shall not during such period have attended in his stead, and the Board passes a resolution that he has by reason of such absence vacated his office;

(e) if he gives the Company notice in writing that he resigns his office;

(f) if he is removed by an ordinary resolution; or

(g) if he is removed by notice in writing served upon him signed by all his co-Directors.

DIRECTORS' REMUNERATION AND EXPENSES

The fees payable to the Directors for their services will from time to time be determined in general meeting, except that any Director who holds office for only part of the period in respect of which such fees are payable will be entitled only in proportion to the period during which he has held office. Any Director who holds any executive office or who serves on any committee, or who otherwise performs services which in the opinion of the Board are outside the scope of the ordinary duties of a Director, may be paid such additional remuneration by way of salary, commission or otherwise as the Board may determine.

The Board may repay to any Director all such reasonable expenses as he may incur in attending and returning from meetings of the Board or of any committee of the Board or general meetings or otherwise in connection with the business of the Company.

DIRECTORS' INTERESTS

Subject to the provisions of the Companies Ordinance and the Articles of Association, no Director or intended Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director is a Shareholder or otherwise in any way directly or indirectly interested be liable on that account to be avoided, nor shall any Director so contracting or being such Shareholder or so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established.

If a Director or any of his connected entities is in any way, whether directly or indirectly, interested in a transaction, contract or arrangement or a proposed transaction, contract or arrangement with the Company, the Director shall declare the nature and extent of such interest at a Board meeting, by notice in writing and sent to other Directors or by general notice.

Subject to the Listing Rules and save as provided in the Articles of Association, a Director shall not vote on any Board resolution approving any transaction, contract or arrangement or any other proposal whatsoever in which he or any of his close associates (and if required by the Listing Rules, his other associates) has any material interest. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

Subject to the Listing Rules, a Director shall, in the absence of any other material interest than is indicated below, be entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters, namely:

(a) the giving of any security or indemnity to him or his close associate(s) (and if required by the Listing Rules, his other associate(s)) in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he or his close associate(s) (and if required by the Listing Rules, his other associate(s)) has himself/themselves assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(c) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase in which offer he or his close associate(s) (and if required by the Listing Rules, his other associate(s)) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting thereof;

(d) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries, including the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme which relates both to Directors (or his close associate(s)) (and if required by the Listing Rules, his other associate(s)) and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(e) any contract or arrangement in which the Director or his close associate(s) (and if required by the Listing Rules, his other associate(s)) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or termination) of two or more Directors to offices or employments with the Company or any company in which the Company is interested, such proposals may be divided and considered in relation to each Director separately and in such case, each of the Directors concerned shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

Any Director may continue to be or become a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of any other company in which the Company may be interested and (unless otherwise agreed) no such Director shall be accountable for any remuneration or other benefits received by him as a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of any such other company. The Directors may exercise the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, executive directors, managers or other officers of such company) and any Director may vote in favour of the exercise of such voting rights in manner aforesaid notwithstanding that he may be or about to be appointed a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

Any Director may act by himself or by his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director, provided that nothing in the Articles of Association shall authorise a Director or his firm to act as the auditor of the Company.

DIVIDENDS

The Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Board. All dividends unclaimed for one year after having become payable may be invested or otherwise made use of by the Board for the benefit of the Company until claimed, and all dividends unclaimed for six years after having become payable may be forfeited by the Board and shall revert to the Company. The payment into a separate account of any monies payable in respect of a dividend shall not constitute the Company a trustee in respect thereof for any person.

Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, all dividends shall be apportioned and paid according to the amounts paid on the Shares during any portion(s) of the period in respect of which the dividend is paid. No amount paid on a Share in advance of calls shall be treated as paid on the share.

The Board may, if it think fit, from time to time, declare and pay such interim dividends as appear to the Board to be justified by the position of the Company. The Board may also declare and pay at half-yearly or at other suitable intervals to be settled by it any dividend which may be payable at a fixed rate if it is of the opinion that the position of the Company justifies the payment.

The Board may resolve that a dividend be paid or declared on the share capital of the Company be satisfied wholly or in part in the form of an allotment of shares, which are credited as fully paid up, instead of some or all of their cash dividend. The basis of such allotment shall be determined by the Board and the Board shall give notice in writing to the Shareholders of their rights of election accorded to them and shall send with such notice forms of election and specify the procedure to be followed and the place at which and the latest date and time by which duly completed forms of election must be lodged in order to be effective. The Shares allotted shall rank pari passu in all respects with the Shares then in issue save only as regards participation in the relevant dividend or any other distributions, bonuses or rights paid, made, declared or announced prior to or contemporaneously with the payment or declaration of the relevant dividend.

The Board may resolve that dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular any paid up shares, debentures or warrants to subscribe securities of the Company or any other company. For the purpose of giving effect to any such distribution as aforesaid, the Board may settle any difficulty which may arise in regard to the distribution as it thinks fit, and in particular may issue fractional certificates or may ignore fractions altogether, and may fix the value for distribution purposes of any such specific assets and may determine that cash payments shall be made to any Shareholder in whole or in part upon the footing of the value so fixed in order to adjust the rights of all parties and the Board may vest any such specific assets or cash in trustees as may seem expedient to the Board and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend and such appointment shall be effective.

No dividend shall be payable except out of profits, and no dividend shall bear interest as against the Company.

INDEMNITY

Subject to the provisions of the Companies Ordinance, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of his duties or in relation thereto.

Subject to and so far as may be permitted by the Companies Ordinance, the Company may purchase and maintain for any officer of the Company:

(a) insurance against any liability to the Company, a related company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or a related company; and

(b) insurance against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company.

WINDING UP

If the Company shall be wound up, the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Ordinance, divide amongst the Shareholders in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Shareholders or different classes of Shareholders. The liquidator may, with the like authority, vest any part of such assets in trustees upon such trusts for the benefit of the contributions as the liquidator with the like authority shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

A. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular (other than those relating to the Target Group, the Vendor and parties acting in concert with it) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that relating to the Target Group, the Vendor and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the managers of the Vendor or the sole director of Key Imagination) have been arrived at after due and careful consideration and there are no other facts or matters not contained in this circular the omission of which would make any statement in this circular misleading.

The board of managers of the Vendor comprises Mr. Roger W. Crandall, Ms. Elizabeth A. Ward, Mr. Adnan O. Ahmed and Mr. Gareth Ross. The managers of the Vendor jointly and severally accept full responsibility for the accuracy of the information contained in this circular relating to the Target Group, the Vendor and any parties acting in concert with it (other than Key Imagination and its associated companies) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Directors or the sole director of Key Imagination) have been arrived at after due and careful consideration and there are no other facts or matters not contained in this circular the omission of which would make any statement in this circular misleading.

The sole director of Key Imagination is Mr. Yu Feng. The sole director of Key Imagination accepts full responsibility for the accuracy of the information contained in this circular relating to Key Imagination and its associated companies (other than the Vendor, the Target Group and the Group) and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular (other than those expressed by the Directors or managers of the Vendor) have been arrived at after due and careful consideration and there are no other facts or matters not contained in this circular the omission of which would make any statement in this circular misleading.

B. MARKET PRICES

The table below shows the closing price per Share as quoted by the Stock Exchange (i) on the last day on which trading took place in each of the calendar months during the period commencing six months immediately preceding the Last Trading Day and ending on the Latest Practicable Date; (ii) 17 August 2017, being the Last Trading Day; and (iii) as of the Latest Practicable Date:

Date	**Closing price per Share**
	HK$
28 February 2017	5.06
31 March 2017	4.88
28 April 2017	4.50
31 May 2017	4.65
30 June 2017	4.47
31 July 2017	5.30
17 August 2017 (being the Last Trading Day)	6.28
31 August 2017	6.88
29 September 2017	6.94
31 October 2017	6.73
30 November 2017	5.57
18 December 2017 (being the Latest Practicable Date)	4.88

The highest and lowest closing price per Share as quoted on the Stock Exchange during the period between 17 February 2017 (being the date falling six months prior to 17 August 2017, the date of the Announcement) and ending on the Latest Practicable Date (both days inclusive) were HK$7.50 per Share on 24 August 2017, and HK$3.72 per Share on 24 May 2017.

C. DISCLOSURE OF INTERESTS

1. Interests of Directors or Chief Executive

As of the Latest Practicable Date, the interests and/or short positions (as applicable) of the Directors and the chief executive of the Company in the Shares or the underlying shares or debentures of the Company and any interest and/or short positions (as applicable) in shares or underlying shares or debentures of any of the Company's associated corporations (within the meaning of Part XV of the SFO) which

(i) will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO),

(ii) will be required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or

(iii) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, will be as follows:

Interests/Short Positions in the Shares or the underlying Shares

Name of Director or Chief Executive	Capacity	Number of Shares: Personal Interest	Family Interest	Corporate Interest	Other Interest	Total	Approximate % of Shareholding Interest
Mr. Yu Feng	Interest of controlled corporations	—	—	1,342,976,000 *(Note 1)*	—	1,342,976,000	55.42%
Mr. Ko Chun Shun, Johnson	Interest of controlled corporations	—	—	229,180,726 *(Note 2)*	—	229,180,726	9.46%

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 Limited, a company which is owned as to 73.21% of its issued share capital by Key Imagination Limited. 91% of the issued share capital of Key Imagination Limited is owned by Yunfeng Financial Holdings Limited, the issued share capital of which in turn, is owned as to 70.15% by Mr. Yu Feng.

(2) Mr. Ko Chun Shun, Johnson ("**Mr. Ko**"), a non-executive Director, was interested in 229,180,726 Shares through Gainhigh Holdings Limited. 100% of the issued share capital of Gainhigh Holdings Limited was held by Insula Holdings Limited, a company wholly-owned by Mr. Ko.

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

Name of associated corporation	Name of Director	Nature of interests	Number of shares held in associated corporation: Long position	Percentage of shareholding
Yunfeng Financial Holdings Limited	Mr. Yu Feng *(Note 1)*	Beneficial Owner	94	70.15%
Key Imagination Limited	Mr. Yu Feng *(Note 1)*	Interest of controlled corporation	9,100	70.15%
	Mr. Huang Xin *(Note 2)*	Interest of controlled corporation	900	9%
Jade Passion Limited	Mr. Yu Feng *(Note 1)*	Interest of controlled corporation	7,321	73.21%
	Mr. Huang Youlong *(Note 3)*	Interest of controlled corporation	2,679	26.79%

Notes:

(1) Mr. Yu Feng, Chairman of the Group and a non-executive Director, was interested in 9,100 shares, representing 91% of equity interest in Key Imagination Limited through Yunfeng Financial Holdings Limited, which is held as to 70.15% by Mr. Yu Feng. Mr. Yu Feng was also interested in 7,321 shares, representing 73.21% of equity interest in Jade Passion Limited through Key Imagination Limited. Both Key Imagination Limited and Jade Passion Limited 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 Limited.

(3) Mr. Huang Youlong, a non-executive Director, is the sole shareholder of Gold Ocean Investments Group Inc., owns 2,679 shares, representing 26.79% equity interest in Jade Passion Limited.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors, the chief executive of the Company nor the proposed Directors nominated by the Vendor will, immediately following Completion, have an interest and/or short position (as applicable) in the Shares or the underlying Shares or debentures of the Company or any interests and/or short positions (as applicable) in the shares or the underlying shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which

(i) will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO),

(ii) will be required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or

(iii) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

2. **Interests of substantial shareholders**

So far as it is known to the Directors, as of the Latest Practicable Date, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares which will be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group:

		Number of Shares held	
Name of Shareholder	**Nature of interests**	**Long position**	**Percentage of shareholding**
Yunfeng Financial Holdings Limited *(Note 1)*	Interest of controlled corporation	1,342,976,000	55.42%
Key Imagination Limited *(Note 1)*	Interest of controlled corporation	1,342,976,000	55.42%
Jade Passion Limited *(Note 1)*	Beneficial owner	1,342,976,000	55.42%
Massachusetts Mutual Life Insurance Company *(Note 2)*	Interest of controlled corporation	800,000,000	33.01%
MassMutual International LLC *(Note 2)*	Beneficial owner	800,000,000	33.01%
Insula Holdings Limited *(Note 3)*	Interest of controlled corporation	229,180,726	9.46%
Gainhigh Holdings Limited *(Note 3)*	Beneficial owner	229,180,726	9.46%
Ms. Lian Yi *(Note 4)*	Interest of controlled corporation	167,872,000	6.93%
Clear Expert Limited *(Note 4)*	Interest of controlled corporation	167,872,000	6.93%
Violet Passion Holdings Limited *(Note 4)*	Beneficial owner	167,872,000	6.93%

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 Limited, a company which is owned as to 73.21% of its issued share capital by Key Imagination Limited. 91% of the issued share capital of Key Imagination Limited is owned by Yunfeng Financial Holdings Limited, the issued share capital of which in turn, is owned as to 70.15% by Mr. Yu Feng.

2. MassMutual International LLC was interested in 800,000,000 Shares, being the Consideration Shares to be allotted and issued to MassMutual International LLC upon completion of the Acquisition. Massachusetts Mutual Life Insurance Company is the sole member of MassMutual International LLC.

3. Mr. Ko Chun Shun, Johnson, a non-executive Director, was interested in 229,180,726 Shares through Gainhigh Holdings Limited. 100% of the issued share capital of Gainhigh Holdings Limited was held by Insula Holdings Limited, a company wholly-owned by Mr. Ko.

4. 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.

Mr. Yu Feng, Chairman of the Group and a non-executive Director is the sole director of each of Yunfeng Financial Holdings Limited and Key Imagination Limited. Mr. Yu Feng, Mr. Huang Xin (an executive Director) and Mr. Huang Youlong (a non-executive Director) are directors of Jade Passion Limited. Mr. Ko Chun Shun, Johnson, a non-executive Director, is the sole director of Insula Holdings Limited and Gainhigh Holdings Limited.

Save as disclosed herein, as of the Latest Practicable Date, none of the Directors nor proposed Directors is a director or employee of a company which has, or is deemed to have, an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. Interests in assets and/or contracts and other interest

As of the Latest Practicable Date, none of the Directors nor proposed Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December 2016, being the date to which the latest published audited accounts of the Company were made up.

None of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

D. SERVICE CONTRACTS

As of the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed term contracts) have been entered into or amended during the period between 17 February 2017 (being the date falling six months prior to 17 August 2017, the date of the Announcement) and ending on the Latest Practicable Date (both days inclusive); (b) are continuous contracts with a notice period of 12 months or more; or (c) are fixed term contracts with more than 12 months to run irrespective of the notice period.

As of the Latest Practicable Date, none of the Directors nor proposed Directors had entered, or proposed to enter, into any service contracts with any member of the Enlarged Group which is not determinable within one year without payment of compensation other than statutory compensation.

E. COMPETING INTEREST

As of the Latest Practicable Date, none of the Directors nor proposed Directors or their respective close associates (as if each of them were treated as a controlling shareholder under Rule 8.10 of the Listing Rules) are engaged in, or interested in any business which, directly or indirectly, competes or is likely to compete with the business of the Enlarged Group.

F. SUMMARY OF MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company or any member of the Enlarged Group within two years preceding the date of the Announcement and are or may be material:

(a) the Share Purchase Agreement;

(b) the Co-investors Agreement;

(c) the joint venture agreement dated 4 February 2016 and entered into among Reorient Financial Markets Limited, Giant Investment Co., Ltd. and Jiangsu YuWell Technology Development Co., Ltd. in relation to the establishment of Yunfeng Securities Co., Ltd. (the "**Joint Venture Agreement**");

(d) the supplemental agreement dated 12 April 2016 and entered into among Reorient Financial Markets Limited, Giant Investment Co., Ltd. and Jiangsu YuWell Technology Development Co., Ltd. pursuant to which the rights and obligations of Giant Investment Co., Ltd. under the Joint Venture Agreement were novated to Hangzhou Dr. Herbs Electronics Commerce Company Limited;

(e) the amended and restated joint venture agreement dated 13 April 2016 and entered into among Reorient Financial Markets Limited, Hangzhou Dr. Herbs Electronics Commerce Company Limited and Jiangsu YuWell Technology Development Co., Ltd. in relation to the establishment of Yunfeng Securities Co., Ltd. which superseded and replaced the Joint Venture Agreement (the "**First Amended and Restated Joint Venture Agreement**");

(f) the second amended and restated joint venture agreement dated 6 May 2016 and entered into among Reorient Financial Markets Limited, Hangzhou Dr. Herbs Electronics Commerce Company Limited and Jiangsu YuWell Technology Development Co., Ltd. in relation to the establishment of Yunfeng Securities Co., Ltd. which superseded and replaced the First Amended and Restated Joint Venture Agreement;

(g) the amended and restated agreement dated 5 May 2016 for the subscription agreement dated 5 April 2016 and entered into by Profit Mind Global Limited ("**Profit Mind**"), a wholly-owned subsidiary of the Company, together with a number of subscribers with Culturecom Holdings Limited ("**Culturecom**"). Pursuant to the amended and restated subscription agreement, amongst other things, Profit Mind agreed to subscribe and Culturecom agreed to issue 71,428,571 new ordinary shares for a total consideration of approximately HK$15 million. The price for the subscription shares is HK$0.21 per share;

(h) the share sale agreement dated 13 July 2017 and entered into between the Company and Insula Holdings Limited pursuant to which the Company agreed to dispose of and Insula Holdings Limited agreed to acquire the entire issued share capital of Wisdom Star Investments Limited at a consideration of approximately HK$4.6 million; and

(i) a sale and purchase agreement dated 18 December 2015 and entered into by Reorient Global Limited, a wholly-owned subsidiary of the Company, with Central Faith International Ltd., for the sale of 174,000,000 ordinary shares of KuangChi Science Limited (formerly known as Climax International Company Limited) for a total consideration of HK$443,700,000.

G. LITIGATION OF THE ENLARGED GROUP

As of the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

H. CONSENTS AND QUALIFICATIONS OF EXPERTS

Each of Yunfeng Financial Markets Limited, J.P. Morgan Securities (Asia Pacific) Limited, China Everbright Capital Limited, KPMG and PricewaterhouseCoopers Limited has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion of its report and/or letter and/or opinion and/or references to its name included herein in the form and context in which they respectively appear. The qualifications of the experts who have given opinions or advice in this circular are as follows:

Name of expert	Qualifications
Yunfeng Financial Markets Limited	Licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
J.P. Morgan Securities (Asia Pacific) Limited	Licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities as defined under the SFO

Name of expert	Qualifications
China Everbright Capital Limited	Licensed corporation under the SFO for type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
KPMG	Certified Public Accountants
PricewaterhouseCoopers Limited	Actuarial consultant

Save as disclosed in paragraph (viii) of the sub-section headed "I. — Additional Disclosure" in this Appendix IX, as of the Latest Practicable Date, none of the above experts had any interest in the share capital of any member of the Enlarged Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, and none of the above experts had any interest, either directly or indirectly, in any assets which have been, since 31 December 2016, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

I. ADDITIONAL DISCLOSURE

(i) The principal office of the Vendor is at 1295 State Street, Springfield, Massachusetts 01111, the United States of America. As of the Latest Practicable Date, the board of managers of the Vendor comprises Mr. Roger W. Crandall, Ms. Elizabeth A. Ward, Mr. Adnan O. Ahmed and Mr. Gareth Ross. The principal office of MMLIC is at 1295 State Street, Springfield, Massachusetts 01111, the United States of America. As of the Latest Practicable Date, the board of directors of MMLIC comprises Mr. Roger William Crandall, Ms. Karen Hall Bechtel, Mr. Mark Thomas Bertolini, Ms. Kathleen Ann Corbet, Mr. James Henry DeGraffenreidt, Jr., Mr. Robert Alan Essner, Ms. Isabella Davidov Goren, Mr. Jeffrey Marc Leiden, Mr. Marc Francis Racicot, Ms. Laura Jean Sen, Mr. William Taylor Spitz and Mr. Howard Todd Stitzer.

(ii) The registered office of Jade Passion Limited is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. Jade Passion Limited is owned as to 73.21% by Key Imagination Limited, whose registered office is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. Key Imagination Limited is owned as to 91% by Yunfeng Financial Holdings Limited, whose registered office is at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. Mr. Yu Feng, the Chairman and a non-executive Director, is a 70.15% shareholder of Yunfeng Financial Holdings Limited.

The board of directors of Jade Passion Limited comprises three directors, namely Mr. Yu Feng, Mr. Huang Xin and Mr. Huang Youlong. Mr. Yu Feng is the sole director of each of Yunfeng Financial Holdings Limited and Key Imagination Limited.

(iii) As of the Latest Practicable Date, other than the Consideration Shares to be issued to the Vendor pursuant to the Acquisition and the 1,342,976,000 Shares held by Jade Passion, none of the Vendor, Jade Passion nor parties acting in concert with any of them owns or has control or direction over any voting rights and rights over any Shares or any options, warrants, convertible securities or derivatives in respect of the Shares or has entered into any outstanding derivatives contracts in respect of the securities in the Company.

(iv) As of the Latest Practicable Date, none of the members of the board of managers of the Vendor owned or controlled or were interested in any Shares, convertible securities, warrants, options or derivatives of the Company.

(v) As of the Latest Practicable Date, none of the Vendor, Jade Passion, nor parties acting in concert with any of them (a) has received any irrevocable commitment to vote for or against the proposed resolutions approving the Acquisition, the Specific Mandate or the Whitewash Waiver at the EGM; (b) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; (c) save for the Acquisition and as disclosed in this circular, has any arrangement (whether by way of option, indemnity or otherwise) under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares or shares of the Vendor; and (d) save for the Share Purchase Agreement, has any arrangement or agreement to which the Vendor is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Acquisition, the Whitewash Waiver or the Sheen Light Acquisition.

(vi) Save for the entering into of the Share Purchase Agreement, none of the Vendor, Jade Passion, the parties acting in concert with any of them, the Directors, nor members of the board of managers of the Vendor has dealt for value in any Shares, convertible securities, warrants, options or derivatives in respect of the securities of the Company since the six months immediately prior to the date of the Announcement up to the Latest Practicable Date.

(vii) As of the Latest Practicable Date, none of the Company nor the Directors had any interest in the shares of the Vendor and none of them had dealt for value in any shares of the Vendor.

(viii) As at the Latest Practicable Date, certain entities under common control as J.P. Morgan Securities (Asia Pacific) Limited hold in aggregate 544,000 Shares. Except such interest, as of the Latest Practicable Date, none of the subsidiaries of the Company, pension fund of the Company or of a subsidiary of the Company nor any advisers to the Company (as specified in class (2) of the definition of associate in the Takeovers Code but excluding exempt principal traders) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company. J.P. Morgan Securities (Asia Pacific) Limited will ensure that its commonly controlled entities will abstain from voting those Shares which they own on a proprietary basis at the EGM.

(ix) As of the Latest Practicable Date, there is no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or (save for the Acquisition and as disclosed in this circular) with any person who is an associate of the

Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code. As at the Latest Practicable Date, other than the Consideration Shares to be issued to the Vendor pursuant to the Acquisition and the 1,342,976,000 Shares held by Jade Passion, none of the persons who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with persons who are associates of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company.

(x) As of the Latest Practicable Date, no shareholding of the Company was managed on a discretionary basis by fund managers connected with the Company.

(xi) There are no benefits to be given to any Directors as compensation for loss of office or otherwise in connection with the Acquisition, the Whitewash Waiver or the Sheen Light Acquisition.

(xii) Save as disclosed in this circular, as of the Latest Practicable Date, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Vendor or any person acting in concert with it and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the outcome of the Acquisition, the Whitewash Waiver or the Sheen Light Acquisition.

(xiii) As of the Latest Practicable Date, there was no agreement, arrangement or understanding pursuant to which the Consideration Shares to be issued to the Vendor under the Share Purchase Agreement would be transferred, charged or pledged to any other persons.

(xiv) Save as disclosed in the section headed "C. Disclosure of Interests — 1. Interests of Directors or Chief Executive" in this appendix, none of the Directors held any Shares, convertible securities, warrants, options or derivatives of the Company as of the Latest Practicable Date. It is the intention of Mr. Ko Chun Shun, Johnson to procure the company wholly-owned by him to vote, in favour of the resolutions to be proposed at the EGM to approve (i) the Share Purchase Agreement and the transactions contemplated thereunder; (ii) the Specific Mandate under which the Consideration Shares will be allotted and issued in accordance with the Share Purchase Agreement; (iii) the Whitewash Waiver; (iv) the Sheen Light Acquisition; and (v) the appointment of the Directors to be nominated by the Vendor. Jade Passion Limited will abstain from voting as referred to in the section headed "Letter from the Board — Voting at the EGM" in this circular.

(xv) As of the Latest Practicable Date, neither the Company nor any of the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.

(xvi) As of the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Acquisition (including the issue of the Consideration Shares), the Whitewash Waiver or the Sheen Light Acquisition or otherwise connected with the Acquisition (including the issue of the Consideration Shares), the Whitewash Waiver or the Sheen Light Acquisition.

(xvii) As of the Latest Practicable Date, there was no material contract entered into by the Vendor in which any Director had a material personal interest.

J. MISCELLANEOUS

(i) The registered office of the Company is located at Suites 3201-3204, One Exchange Square, 8 Connaught Place, Central, Hong Kong.

(ii) The secretary of the Company is Mr. Chan Man Ko. 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.

(iii) The share registrar of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai , Hong Kong.

(iv) In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the their respective Chinese texts.

Copies of the following documents are available for inspection (i) at the office of the Company at Suites 3201-3204, One Exchange Square, 8 Connaught Place, Hong Kong during normal business hours, Monday to Friday (other than public holidays); (ii) on the website of the Company (www.yff.com) ; and (iii) on the website of the Securities and Futures Commission (www.sfc.hk), from the date of this circular up to and including the date of the EGM:

(a) the Articles of Association;

(b) the letter from the Board, the text of which is set out in "Letter from the Board" in this circular;

(c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in "Letter from the Independent Board Committee" in this circular;

(d) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in "Letter from the Independent Financial Adviser" in this circular;

(e) the annual reports of the Company for each of the three financial years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the interim report of the Company for the six months ended 30 June 2017;

(f) the accountants' report from KPMG in respect of the historical financial information of the Target Group, the text of which is set out in Appendix IV to this circular;

(g) the report on the unaudited pro forma financial information of the Enlarged Group issued by KPMG, the text of which is set out in Appendix VI to this circular;

(h) the actuarial review report from PricewaterhouseCoopers Limited, which is set out in the section headed "A. Actuarial Review Report on the Target Group" in Part A of Appendix VII to this circular;

(i) the report issued by KPMG on the actuarial review report, the text of which is set out in the section headed "B. Letter from KPMG" in Part B of Appendix VII to this circular;

(j) the report issued by J.P. Morgan Securities (Asia Pacific) Limited pursuant to the requirements under Rule 14.62(3) of the Listing Rules and Rules 10 and 11.1(b) of the Takeovers Code, the text of which is set out in the section headed "C. Letter from J.P. Morgan Securities (Asia Pacific) Limited" in Part C of Appendix VII to this circular;

(k) a copy of each of the material contracts set out in "Summary of material contracts" in Appendix IX to this circular;

(l) the written consents referred to in "Consents and qualifications of experts" in Appendix IX to this circular; and

(m) a copy of this circular.

The above documents (except this circular) will be uploaded at the website of the Securities and Futures Commission at www.sfc.hk and the Company's website at www.yff.com from the date of this circular up to (and including) the date of the EGM in accordance with Notes 1 and 2 to rule 8 of the Takeovers Code.

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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 376)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of Yunfeng Financial Group Limited (the "**Company**") will be held at Suites 3205-3208, One Exchange Square, 8 Connaught Place, Central, Hong Kong on Wednesday, 10 January 2018 at 3:00 p.m., for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions. Capitalized terms defined in the circular dated 21 December 2017 issued by the Company (the "**Circular**") shall have the same meanings when used in this notice unless otherwise specified.

ORDINARY RESOLUTIONS

Resolution in relation to the Acquisition

1. "**THAT**

   (a) the Share Purchase Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

   (b) the Directors (or any one of them) be and are hereby authorized to do all such acts and things and execute (where appropriate, as a deed) and deliver, and (where required) to affix the common seal of the Company to, all such documents for and on behalf of the Company as they may consider necessary or desirable in connection with paragraph (a) of this resolution no. 1."

Resolution in relation to the conditional grant of the Specific Mandate for the allotment and issue of the Consideration Shares

2. "**THAT**

   (a) subject to the passing of resolution no. 1 and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Consideration Shares, the grant of a specific mandate to the Directors with the power and authority to allot and issue the Consideration Shares in accordance with the terms of the Share Purchase Agreement be and are hereby approved;

(b) the Directors (or any one of them) be and are hereby authorized to do all such acts and things and execute all such documents for and on behalf of the Company as they may consider necessary or desirable in connection with paragraph (a) of this resolution no. 2."

Resolution in relation to the Whitewash Waiver

3. "**THAT** subject to the passing of resolutions no. 1 and no. 2 above, the Whitewash Waiver, granted or to be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code waiving the obligation on the part of the Vendor to make a mandatory general offer for all the Shares that are not already owned or agreed to be acquired by the Vendor and parties acting in concert with it as a result of the Company allotting and issuing the Consideration Shares to the Vendor, be and is hereby approved."

Resolution in relation to the Sheen Light Acquisition

4. "**THAT** the Sheen Light Acquisition, as a special deal for the purpose of Rule 25 of the Takeovers Code, be and is hereby approved."

Resolutions in relation to the appointment of non-executive Directors

5. "**THAT** the appointment of Mr. Adnan Omar Ahmed as a non-executive Director with effect from the completion of the Acquisition be and is hereby approved and the Board be and is hereby authorised to fix his remuneration."

6. "**THAT** the appointment of Mr. Gareth Ross as a non-executive Director with effect from the completion of the Acquisition be and is hereby approved and the Board be and is hereby authorised to fix his remuneration."

Yours faithfully,
By order of the Board
Yunfeng Financial Group Limited
Li Ting
Executive Director and Chief Executive Officer

Hong Kong, 21 December 2017

Notes:

1. All resolutions at the EGM will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the websites of the Stock Exchange and the Company in accordance with the Listing Rules.

2. Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy needs not be a shareholder of the Company. If a shareholder who hold two or more shares and appoint more than one proxy, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

3. Any shareholder of the Company whose ownership is either recorded through the Central Clearing and Settlement System ("**CCASS**") or maintained with a licensed securities dealer (i.e. not directly recorded in his own name in the Register of Members of the Company) shall only be entitled to vote by providing its instructions to vote to HKSCC Nominees Limited either directly as a CCASS Participant or through its licensed securities dealer and the relevant financial intermediaries. In order to attend and vote at the EGM, any such shareholder shall be appointed by HKSCC Nominees Limited as its proxy to attend and vote instead of him.

4. In order to be valid, the form of proxy must be deposited at the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. For determining the entitlement to attend and vote at the EGM, the Register of Members of the Company will be closed from Friday, 5 January 2018 to Wednesday, 10 January 2018 both dates inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 4 January 2018.

6. In the event of inconsistency, the English text of this notice shall prevail over the Chinese text.

7. As of the date of this notice, the Board comprises Mr. Yu Feng (who is Chairman and non-executive director), Ms. Li Ting and Mr. Huang Xin (who are executive directors), Mr. Ko Chun Shun, Johnson, Ms. Hai Olivia Ou and Mr. Huang Youlong (who are non-executive directors), and Mr. Lin Lijun, Mr. Qi Daqing and Mr. Chu Chung Yue, Howard (who are independent non-executive directors).