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云 鋒 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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND ADJUSTMENT IN USE OF PROCEEDS

The board of directors (the “**Board**”) of Yunfeng Financial Group Limited (the “**Company**”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018. The unaudited condensed consolidated interim results have been reviewed by the Company’s audit committee and the Company’s independent auditor.

Corporate information

Board of directors

Chairman

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

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

Audit committee

Mr. Chu Chung Yue, Howard (*Chairman*)
Mr. Qi Daqing
Mr. Xiao Feng

Remuneration committee

Mr. Qi Daqing (*Chairman*)
Mr. Huang Xin
Mr. Chu Chung Yue, Howard
Mr. Xiao Feng

Nomination committee

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

Authorised representatives

Ms. Li Ting
Mr. Chan Man Ko

Company secretary

Mr. Chan Man Ko

Auditor

KPMG
Certified Public Accountants

Bankers

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

Registered and principal office

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

Share registrar

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

Website

www.yff.com

Stock code

376

Management discussion and analysis

The board of directors (the “Board”) of Yunfeng Financial Group Limited (the “Company”) submit herewith the unaudited condensed consolidated interim results and financial position of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019 (the “First Half of 2019” or the “Period”), together with the comparative figures for the corresponding period in 2018 (the “Prior Period”).

As disclosed in the announcement of the Company dated 16 November 2018, the Company has completed the acquisition of 60% of the issued share capital of YF Life Insurance International Limited (formerly known as MassMutual Asia Limited) (“YF Life”). With the insurance business becoming dominant in the Group’s financial result, the Group’s financial result for the Period is considered not directly comparable to that of Prior Period and readers are reminded to take this into consideration while reading through this announcement.

Financial result review

Significant financial information

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

| Income | 2019 | 2018 | Change % |
|---|----------------|----------------|-----------------|
| Premiums and fee income | <u>2,381.8</u> | <u>-</u> | NA |
| Total operating profit / (loss) | <u>331.9</u> | <u>(72.9)</u> | NA |
| Net profit / (loss) attributable to the owners | <u>82.0</u> | <u>(186.3)</u> | NA |
| Basic profit / (loss) per share (HK\$) (Note 1) | <u>0.03</u> | <u>(0.08)</u> | NA |

Consolidated financial position analysis, HK\$ million

| | At 30 June 2019 | At 31 December 2018 | Change % |
|--|----------------------------|--------------------------------|-----------------|
| Total assets | <u>67,888.7</u> | <u>63,033.4</u> | 7.7 |
| Total equity | <u>16,003.4</u> | <u>15,329.7</u> | 4.4 |
| Owner’s equity | <u>9,382.3</u> | <u>9,220.8</u> | 1.8 |
| Owner’s equity per share (HK\$) (Note 2) | <u>2.91</u> | <u>2.86</u> | 1.7 |

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

Note 2: the denominator is total issued shares

Analysis on profit / (loss) for six months period ended 30 June, HK\$ million

| | 2019 | 2018 | Change % |
|--|----------------|----------------|-----------|
| YF Life segment operating profit | 401.8 | - | NA |
| Other financial services and corporate segment operating loss | <u>(69.9)</u> | <u>(72.9)</u> | (4.1) |
| Total operating profit / (loss) | 331.9 | (72.9) | NA |
| Adjust for the following profit or loss and expenses impact: | | | |
| – Realised capital gain/loss and short-term derivatives market value fluctuation | (66.0) | - | NA |
| – Staff share award amortisation expense | 3.7 | (111.6) | NA |
| – Legal and professional fee and other expenses for acquisition of YF Life | (16.1) | (1.8) | 8.9 times |
| – Finance cost (Note 1) | (29.6) | - | NA |
| – Consolidation adjustments (Note 2) | <u>(12.7)</u> | <u>-</u> | NA |
| Profit / (loss) for the period | 211.2 | (186.3) | NA |
| Less: non-controlling interests | <u>(129.2)</u> | <u>-</u> | NA |
| Net profit / (loss) attributable to the owners | <u>82.0</u> | <u>(186.3)</u> | NA |

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

Note 2: The consolidation adjustments represent the financial impact arising from the acquisition of YF Life.

Changes in owner's equity

HK\$ million

| | 2019 |
|--|----------|
| Balance at 1 January | 15,329.7 |
| Adoption of new accounting standard | (11.0) |
| Share based payment transaction | (3.7) |
| Capital injection to YF Life | 328.0 |
| Profit for the Period | 211.2 |
| Others comprehensive income and others | 149.2 |
| | <hr/> |
| Balance at 30 June | 16,003.4 |
| | <hr/> |
| Attributable to : | |
| – Equity shareholders of the Company | 9,382.3 |
| – Non-controlling interests | 6,621.1 |
| | <hr/> |
| Total equity | 16,003.4 |
| | <hr/> |

Business review

Overview

The Group's major sources of revenue includes those insurance related and other financial businesses including subscription fees and management fees for products launched by the Group, platform fees for distribution of third-parties products, administration fee for employees stock ownership plan management services, brokerage commission income and corporate advisory fee income etc. With the acquisition of YF Life, the Group has consolidated the YF Life's financial result for the Period. With the insurance business becoming dominant in the Group's financial result and the other Group's businesses remains in the stage of building up customer base and size of asset under management, the Group's financial result for the Period is considered not directly comparable to that of the Prior Period.

For the Period, the Group's main income stream amounted to HK\$2,392.4 million including HK\$2,381.7 million premiums and fee income (Prior Period: nil) and HK\$10.7 million (Prior Period: HK\$15.5 million) service income from other financial services. The overall income (after premiums ceded to reinsurer and change in unearned revenue liability) was HK\$3,566.4 million (Prior Period: HK\$66.2 million) including net investment income after overlay adjustment of HK\$1,653.9 million (Prior Period: HK\$44.7 million), representing an overall increase in total income of 53.9 times and an increase of 37 times compared to the Prior Period respectively. The insurance business contributed a total income of HK\$3,510.9 million (Prior Period: nil) including net investment income of HK\$1,609 million (Prior Period: nil). Excluding the insurance business, the Group's total income was HK\$56.4 million (Prior Period: HK\$66.2 million) including the net investment income of HK\$45.1 million (Prior Period: HK\$44.7 million), representing a decrease of 14.8% and an increase of 0.9% compared to the Prior Period respectively. The decrease of total income excluding insurance business was mainly attributable to the decrease of consultancy and advisory service income and weakening external economic outlook.

The increase in overall operating expense is mainly caused by the consolidation of YF Life and partially offset by the decrease in amortisation expense in relation to Pool B share awards granted by the Company compared to the Prior Period. If the financial impact in relation to the YF Life acquisition, the amortization expense in relation to share awards and finance cost are excluded, the net loss attributable to equity shareholders of the Company for the Current Period would be HK\$69.9 million (Prior Period: HK\$72.9 million) representing a decrease of 4.1% compared to the Prior Period. Taking into account the newly acquired insurance business, amortisation expense of share awards and finance cost, the profit attributable to equity shareholders of the Company for the Period is HK\$82.0 million compared to HK\$186.3 million of loss attributable to equity shareholder of the Company in Prior Period, representing a significant improvement in financial result compared to Prior Period.

Insurance business review

To facilitate a more thorough and comprehensive review, the insurance business, YF Life related financial data below is presented on a half year basis and excluded the fair value accounting adjustments made on the acquisition and intragroup transaction elimination.

Overview

During the First Half of 2019, our insurance business remained as authorized insurer licensed to carry on life and annuity, linked long term, permanent health, and retirement scheme management long term insurance businesses in Hong Kong. It also operates in Macau through a branch office and is licensed to sell life insurance products in Macau.

Our insurance business division maintained diversified product suite includes three flagship products: (i) the “FLEXI-ULife Prime Saver”, an enhanced universal life insurance plan; (ii) the “MY Lifetime Annuity” and the “Infinity Saver”, providing guaranteed lifetime annuity income to act as a safety net during the customer’s retirement; and (iii) the PrimeHealth series which are critical illness products covering more than 100 illnesses.

As of 30 June 2019, the tied agency force consisted of approximately 2,753 (31 December 2018: 2,701) agents in Hong Kong and Macau. In addition to tied agency force, we also utilize brokers and agency intermediaries as well as banks and other financial institutions to distribute insurance products. The insurance business division has approximately 405 (31 December 2018: 379) employees and more than 479,000 (31 December 2018: 470,000) in-force individual policies.

During First Half of 2019, our insurance division continues to develop its tied agency, brokerage and agency intermediary and bancassurance distribution channels to increase penetration in the market, to broaden its access to potential customers and to meet the evolving preferences of existing customers. Tied agency is the most significant distribution channel in terms of premium and fee income contribution and we plan to continue to steadily grow its tied agency force. We also seek to expand its brokerage and agency intermediary distribution channel to serve sophisticated customers who we believe are more receptive to independent advice. In order to expand the bancassurance distribution channel, we will aim to establish new partnerships with suitable banks and financial institutions. Furthermore, we aim to continue enriching our comprehensive and diversified product portfolios and improve the information capability and usage of digital platforms to match the preferences of the customers. By a carefully planned and thorough step-by-step integration, management is confident that the insurance division will greatly contribute to the Group's financial services ecosystem vision to provide wider range of products and services to the customer base and provide significant crossing-selling opportunities.

Total premium and fee income

Total premium and fee income ("TPI") measures its business volumes by referring to the total TPI reported under the Insurance Ordinance ("IO"). TPI consists of full amount of single premium, first year regular premium and renewal regular premium before reinsurance, and includes deposits and contributions for contracts. In preparing the financial statements in accordance with HKFRS, YF Life chooses to unbundle the deposit component of insurance contracts from TPI and such deposit component is credited directly to the policyholders' deposit upon receipt. Therefore, the revenue recognized in the financial statements prepared under HKFRS is less than TPI.

| | <i>For the six months period ended 30 June</i> | |
|---|--|----------------------|
| | 2019 HK\$ million | 2018 HK\$ million |
| Total premium and fee income reported under the IO | 3,713 | 3,566 |
| Less: Premium deposits separated out from insurance contracts and recognition of fee income | (1,331) | (1,500) |
| Premium and fee income recognized in the income statements of HKFRS | 2,382 | 2,066 |

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

Business Volume

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

(i) By geographical region

| | For the six months period ended 30 June 2019 | | 2018 | |
|-----------|--|------------|--------------|------------|
| | HK\$ million | % | HK\$ million | % |
| Hong Kong | 3,139 | 85 | 3,041 | 85 |
| Macau | 574 | 15 | 525 | 15 |
| | <u>3,713</u> | <u>100</u> | <u>3,566</u> | <u>100</u> |

(ii) By distribution channel

| | For the six months period ended 30 June 2019 | | | 2018 | | |
|---------------------------------------|--|------------|--------------|--------------|------------|--------------|
| | HK\$ million | | | HK\$ million | | |
| | Hong Kong | Macau | Total | Hong Kong | Macau | Total |
| Tied agency | 1,922 | 514 | 2,436 | 1,905 | 453 | 2,358 |
| Brokers and non-tied agency | 955 | 11 | 966 | 910 | 15 | 925 |
| Banks and other financial institution | 262 | 49 | 311 | 226 | 57 | 283 |
| | <u>3,139</u> | <u>574</u> | <u>3,713</u> | <u>3,041</u> | <u>525</u> | <u>3,566</u> |

(iii) By product type

| | For the six months period ended 30 June 2019 | | | 2018 | | |
|----------------------------|--|------------|--------------|--------------|------------|--------------|
| | HK\$ million | | | HK\$ million | | |
| | Hong Kong | Macau | Total | Hong Kong | Macau | Total |
| Regular premium-First year | 366 | 106 | 472 | 407 | 100 | 507 |
| Regular premium-Renewal | 2,497 | 440 | 2,937 | 2,418 | 383 | 2,801 |
| Single premium | 275 | 27 | 302 | 215 | 41 | 256 |
| Fee income | 1 | 1 | 2 | 1 | 1 | 2 |
| | <u>3,139</u> | <u>574</u> | <u>3,713</u> | <u>3,041</u> | <u>525</u> | <u>3,566</u> |

Embedded value and value of new business

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

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

The embedded value of the insurance business as at 30 June 2019 is HK\$ 16,305 million (31 December 2018 is HK\$15,131 million) with breakdown as below.

HK\$ million

| | 30 June 2019 | 31 December 2018 | Change % |
|--|-----------------|---------------------|----------|
| Adjusted Net Worth ("ANW") (note 1) | 6,353 | 5,825 | 9 |
| Value of in-force ("VIF") business after CoC (note 2) | 9,952 | 9,306 | 7 |
| Embedded value | <u>16,305</u> | <u>15,131</u> | <u>8</u> |

Note 1 The ANW represents the net asset value on Hong Kong statutory basis, with marked-to-market adjustment to certain assets. The ANW growth is mainly driven by capital injection of HK\$820 million from YF Life's shareholders completed on 14 May 2019 and partially offset by increase in liabilities arising from market interest rate drop.

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

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

Key financial data of insurance business segment

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

| | For the six months period ended 30 June | | Change % |
|--|--|----------------------|----------|
| | 2019 HK\$ million | 2018 HK\$ million | |
| Income | | | |
| Premiums and fee income | 2,382 | 2,066 | 15 |
| Premiums ceded to reinsurer | (323) | (290) | 11 |
| Net premium and fee income | 2,059 | 1,776 | 16 |
| Change in unearned revenue liability | (360) | (330) | 9 |
| Net earned premium and fee income | 1,699 | 1,446 | 17 |
| Net investment and other (loss)/income (note a) | 1,759 | 589 | 199 |
| Reinsurance commission and profit | 16 | 7 | 129 |
| Benefits, losses and expenses | | | |
| Net policyholders benefit (note b) | 1,760 | 819 | 115 |
| Commission and related expenses | 536 | 515 | 4 |
| Deferral and amortisation of deferred acquisition costs | (423) | (379) | 12 |
| Management and other expenses (note c) | 348 | 264 | 32 |
| Change in future policyholder benefits note d) | 893 | 603 | 48 |
| Profit before taxation before disposal of MM Japan | 360 | 220 | 64 |
| Taxation | 24 | 23 | 4 |
| Profit after taxation before disposal of MM Japan | 336 | 197 | 71 |

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

Note b: the balance includes net claims, policy benefits and surrenders, interest credited to policyholders’ deposits and dividends to policyholders. The increase of the balance mainly arises from more investment gain passing to the policyholders of investment-linked policies.

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

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

Operating Profit

For management decision making and internal performance management purpose, the Group refers to the operating profit which excludes the realised capital gain/loss and short-term derivatives market value fluctuation and profit and loss due to one-off event. The operating profit for the period grew by 10% to HK\$402 million.

| | <i>For the six months period ended 30 June</i> | | |
|--|--|-----------------------------|-----------------|
| | <i>2019</i> HK\$ million | <i>2018</i> HK\$ million | <i>Change %</i> |
| Operating profit (note 1) | <u>402</u> | <u>364</u> | 10 |
| Adjust for the following profit or loss and expenses impact: | | | |
| – Realised capital gain/loss and short-term derivatives market value fluctuation | <u>(66)</u> | <u>(167)</u> | (60) |
| Profit before one-off adjustment | 336 | 197 | 71 |
| – One-off adjustments (Note 2) | <u>-</u> | <u>589</u> | N/A |
| Profit for the period | <u><u>336</u></u> | <u><u>786</u></u> | (57) |

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

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

Assets and Liabilities

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

| | <i>As at 30 June 2019</i> HK\$ million | <i>As at 31 December 2018</i> HK\$ million |
|---------------------------------|---|---|
| Investments | 49,942 | 43,354 |
| Cash and deposits | 2,997 | 4,595 |
| Deferred acquisition costs | 8,483 | 9,640 |
| Other assets | 1,449 | 905 |
| Total assets | 62,871 | 58,494 |
| Insurance contract provisions | 44,489 | 42,652 |
| Investment contract liabilities | 4,560 | 4,479 |
| Other payable | 1,710 | 1,160 |
| Total liabilities | 50,759 | 48,291 |
| Net assets | 12,112 | 10,203 |

Investment assets

The table below sets forth the asset allocation of the investment portfolio of insurance division for the six months period ended 30 June 2019 and year ended 31 December 2018.

| | <i>As at 30 June 2019</i> HK\$ million | <i>As at 31 December 2018</i> HK\$ million |
|--------------------|---|---|
| Debt securities | 33,670 | 27,679 |
| Mortgage loans | 7,176 | 7,358 |
| Equity securities | 1,523 | 1,379 |
| Cash and deposits | 2,997 | 4,595 |
| Unit trusts | 45,366 7,573 | 41,011 6,938 |
| | 52,939 | 47,949 |

As at 30 June 2019, 90% (31 December 2018: 90%) of the debt securities invested have Standard and Poor's rating of BBB or above or equivalent rating from other reputable rating agencies.

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

| | <i>For the six months period ended 30 June</i> | |
|----------------------------|--|--------------|
| | <i>2019</i> | <i>2018</i> |
| | HK\$ million | HK\$ million |
| Interest income and others | 812 | 643 |
| Dividend income | 26 | 36 |

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

Key operational data of the insurance division

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

| | <i>As at 30 June 2019</i> | <i>As at 31 December 2018</i> |
|---------------------------------------|-----------------------------------|---------------------------------------|
| Number of employees | | |
| - Hong Kong | 385 | 361 |
| - Macau | 20 | 18 |
| Number of tied agents | | |
| - Hong Kong | 1,807 | 1,764 |
| - Macau | 946 | 937 |
| Number of brokers and non-tied agents | 487 | 472 |
| Number of bancassurance partners | 5 | 6 |

Financial strength and solvency margin

The table below sets forth a summary of the total available capital and solvency ratio, the ratio expressed as a percentage, of the surplus to the required solvency margin of the legal entity carried out the insurance business related activities, as determined at the relevant time in accordance with the IO.

| | <i>As at 30 June</i> 2019 HK\$ million | <i>As at 31</i> <i>December</i> 2018 HK\$ million |
|----------------------------|--|--|
| Total available capital | 6,846 | 5,574 |
| Regulatory minimum capital | 1,950 | 1,827 |
| Solvency Ratio | 351% | 305% |

The solvency ratio was 351 per cent at 30 June 2019, up by 46 BPS compared with 305 per cent at 31 December 2018. The higher solvency ratio was mainly driven by a capital injection.

Other financial service business

Brokerage Business

During the Period, the turnover of brokerage business amounted to HK\$ 4,228.7 million (Prior Period HK\$2,554.7 million), representing an increase of 65.5%. Bond trading was introduced in addition to the brokerage business, thus enriching the product line. On the other hand, the Group laid out the establishment of quantitative platform and low-latency trading system while continuing to devote great efforts to support the result of the research department, thus laying a more solid foundation for its future To-B business and To-C business.

Corporate finance consultancy service

The Group's corporate finance business provides financial consultancy service primarily to Hong Kong listed companies. In the First Half of 2019, our service team has also successfully liaised with a number of other potential clients and proactively engaged in communication with clients with respect to potential transactions such as fund raising, investors seeking, listing preparation and underwriting for engagement opportunities.

Employee stock ownership plan administration

In the First Half of 2019, the "Youyu ekeeper" system can support the management of a number of incentive plans including exercise of share options, restricted shares, employee benefit trusts, etc., covering functions including stock trading, plan monitoring, data management, accounting and financial statements, which enable enterprises to significantly increase management efficiency and reduce costs. Leveraging on the Group's business strengths in Hong Kong stock brokerage business, employees can also utilize our equity financing and easy trading services upon exercise of their share options to enhance and maximize their returns.

“Youyu ekeeper” has been providing one-stop ESOP management service for two years. Currently, it has accumulated tens of corporate clients and is well received by the corporates and its employees. The ESOP management service can capture plenty of high-quality users with strong potential for growth of personal wealth and great loyalty to Yunfeng platform.

Fintech

In the First Half of 2019, the Fintech Business Department was established to formulate solutions for different financial institutions. On the other hand, the team also drives the initiatives to upgrade its technology level and develop a brand-new sales and online policy signing platform for our insurance business, YF Life. Management considers the platform would enable agency teams to provide better and more efficient services for clients. With good progress being made, the platform is expected to go online in the second half of the year.

Asset Management

In the First Half of 2019, the Group's asset management business continued to enhance its existing advantages in overseas asset allocation. At the same time, we capture the unique opportunities brought about by the Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area and strengthen the cooperation with various institutions in the market with the aim to actively expand and achieve long-term business development goal. Under the Group's overall To-B business strategy, the Youyu Wealth platform focused on identifying competitive advantages to complement the cooperation with different financial institutions and achieve positive result. With our traditional advantages in global mutual fund allocation, the Group launches discretionary multi-asset strategies services involving Qualified Domestic Institutional Investor products. Based on the business opportunities brought about by the Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area and the unique financial market position of Hong Kong, the Group issued three fund products investing in anchor IPO shares and US dollar debenture of PRC-based issuer to high-net-worth and institutional clients. In terms of asset management, three Majik fund products focusing on overseas alternative assets and Youyu Note product are well operated.

In the second half of 2019, the asset management business will closely monitor global market trends to capture and seize investment opportunities through issue of new asset management products to serve high-net-worth clients and institutional clients. Under To-B business model, we will continue to foster our current cooperation with fund platforms and financial institutions to achieve breakthroughs in asset under management scale and intermediary business revenue. At the same time, our team will focus on the development of high quantity orders placing service for the institutional clients and devise new To-B business model.

Prospect

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

Looking forward, the volatility of the financial market in the Second Half of 2019 will continue. A number of uncertainties, including Sino-US trade dispute, no-deal Brexit, and the recent demonstrations in Hong Kong, have intensified market negative sentiment, and the Company will carefully respond to challenges. With a foothold in Hong Kong, the Company will grasp the opportunities emerging in the Greater Bay Area, connect China with foreign countries, empower financial institutions with technologies and forge a one-stop professional financial platform.

Liquidity and financial resources

As at 30 June 2019, the Group had fixed bank deposits with original maturity over 3 months and cash and cash equivalents amounting to HK\$3,878.1 million (31 December 2018: HK\$5,443.5 million). As at 30 June 2019, the Group has HK\$1,804.6 million (31 December 2018: HK\$1,198.2 million) bank borrowing outstanding. The Group's gearing ratio was 10.11% (31 December 2018: 7.25%), which was measured as total debt excluding those operation related liabilities to total debt excluding those operation related liabilities plus equity.

Capital structure

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

Foreign exchange 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 investments and bank balances in multi currencies. Management of the Group monitors the foreign exchange exposure and will hedge significant foreign currency exposure should the need arise as set out in note 4 to the condensed consolidated interim financial statements.

Material acquisitions and disposals of subsidiaries and associates

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

Charge on assets

At the end of the Period, the Group did not have any charges on assets, other than a security deposit of HK\$300,000 (31 December 2018: HK\$300,000) for banking facilities, HK\$4,524,359,000 of investment together with HK\$225,548,000 of fixed bank deposit (31 December 2018: HK\$3,760,043,000 of investment together with HK\$259,250,000 of fixed bank deposit) in favour of Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.

Commitments

Details of segments are set out in note 27 to the condensed consolidated interim financial statements.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2019 and 31 December 2018.

Staffing and remuneration

As at 30 June 2019, the Group employed 621 (31 December 2018: 609) full-time employees mainly located in Hong Kong, Macau and the People's Republic of China and stringently abided by the relevant labour laws and regulations. To foster a motivated and skilled working team, the Group provides on-the-job training and competitive remuneration packages including salaries and discretionary bonuses for employees.

The remuneration policy and package, including the share options and share awards (if any), of the Group's employees are maintained at market level and are reviewed annually by the management. There have been no significant changes in the employment, training or development policies of the Group since the publication of the annual report for the year ended 31 December 2018.

Adjustment in use of proceeds from subscription shares

The proceeds from subscription shares have been utilised subsequent to the subscription as set out under the section "Use of Proceeds" of the Company's circular dated 18 August 2015 (the "Circular") and subsequent adjustment in use of proceeds as set out in the announcement of the Company dated 18 October 2016.

| | <i>Use of Proceeds after adjustments HK\$million</i> | <i>Unutilised Proceeds up to 31 December 2018 HK\$million</i> | <i>Actual usage from 1 January 2019 to 30 June 2019 HK\$million</i> | <i>Unutilised Proceeds up to 30 June 2019 HK\$million</i> |
|---|--|---|---|---|
| Setting up new branches and IT infrastructure | 333.2 | 96.6 | 41.6 | 55.0 |
| Recruitment of professionals | 59.9 | - | - | - |
| Establishment of a private wealth management platform | 179.0 | 107.1 | 27.1 | 80.0 |
| Development of a financial services ecosystem | 135.0 | 84.5 | 7.1 | 77.4 |
| General capital management | 2,970.9 | - | - | - |
| Total: | <u>3,678.0</u> | <u>288.2</u> | <u>75.8</u> | <u>212.4</u> |

Regarding to the proposed use of HK\$55 million in setting up new branches as set out in the paragraph headed "Use of proceeds" in the Circular, it remains unutilised as at 31 December 2018 and 30 June 2019. In view of uncertainty with the domestic economic environment, it is considered that setting up physical new branches is no longer the optimal way to use the proceeds. Therefore, the board considers applying the unutilised proceed to set up and further enhance the IT infrastructure to facilitate the integration of YF Life operation and related operation system upgrade going forward to be more beneficial to the overall business development. Other than as stated above, the original proposed application of the funds remains unchanged. The Board considers the above adjustment in the use of the net Proceeds is fair and reasonable and in the best interests of the Company and the Shareholders as a whole. With the adjustment on unutilised proceed discussed above, the

unutilised proceeds up to 30 June 2019 are expected to be fully utilised by the end of year 2020.

Events after reporting period

Details of events after reporting period are set out in Note 32 to the condensed consolidated interim financial statements.

Embedded Value

1. **Background**

The Group mainly consists of two major segments including life insurance business and other financial services in the areas of investment holding, asset management, pensions, other businesses and corporate services. Life insurance business is operated by YF Life Insurance International Limited ("YF Life"), a 60% owned subsidiary, which becomes the most significant part of the Group in terms of total asset and profitability. To provide additional information of the insurance business, the Group disclosed the Embedded Value ("EV") of the segment.

2. **Basis of preparation**

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

The Group has appointed PricewaterhouseCoopers ("PwC"), an international firm of consulting actuaries, to examine whether the methodology and assumptions used by us in the preparation of the Embedded Value as at 30 June 2019 are consistent with standards generally adopted by insurance companies in Hong Kong and the preparation basis adopted for the Embedded Value as at 31 December 2018.

3. **Cautionary statement**

The calculations of Embedded Value and the New Business Value of insurance business segment are based on certain assumptions with respect to future experience. Thus, the actual results could differ significantly from what is envisioned when these calculations were made. In addition, the insurance business segment is held through a 60% owned subsidiary of the Group. With the Embedded Value and the New Business Value of the insurance business being presented on a 100% basis below, the related value assessment should be considered accordingly.

4. Embedded value of YF Life

4.1 Embedded value

| | <i>30 June 2019</i> | <i>31 December 2018</i> |
|---|-------------------------|-----------------------------|
| | HK\$ million | HK\$ million |
| Adjusted Net Worth | 6,353 | 5,825 |
| Value of in-force business before cost of capital | 11,870 | 11,126 |
| Cost of capital | <u>(1,918)</u> | <u>(1,820)</u> |
| Embedded value | <u>16,305</u> | <u>15,131</u> |
| Attributable to: | | |
| Owners of the Company | 9,783 | 9,079 |
| Non-controlling interests | <u>6,522</u> | <u>6,052</u> |
| Embedded value | <u>16,305</u> | <u>15,131</u> |

4.2 New business value

| | <i>For the past 6 months as of 30 June 2019</i> | <i>For the past 6 months as of 30 June 2018</i> |
|--|---|---|
| | HK\$ million | HK\$ million |
| New Business Value after cost of capital | <u>226</u> | <u>221</u> |

OTHER INFORMATION

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

As at 30 June 2019, the interests and short positions of each director of Yunfeng Financial Group Limited (the "Company") (the "Director") and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, or known to the Company, were as follows:

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

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

Note:

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

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

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

Notes:

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

Save as disclosed above, as at 30 June 2019, none of the Directors and chief executive of the Company and/or any of their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company.

LONG-TERM INCENTIVE SCHEMES

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

Share Option Scheme

The share option scheme (the “Share Option Scheme”) was adopted by the Company on 21 July 2011 with a useful life of ten years from the date of adoption. Summary of the Share Option Scheme is set out in the 2018 annual report.

During the six months ended 30 June 2019, no share options were granted and as at 30 June 2019, no share options were outstanding.

Share Award Schemes

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

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

2014 Share Award Scheme

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

During the six months ended 30 June 2019, no Shares had been awarded under the 2014 Share Award Scheme and as at 30 June 2019, 26,667 Shares were held by the trustee under the 2014 Share Award Scheme. There is no movement in the number of shares awarded under the 2014 Share Award Scheme.

2016 Share Award Scheme

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

During the six months ended 30 June 2019, no Shares had been awarded under the 2016 Share Award Scheme. As at 30 June 2019, 15,395,000 Shares were held by the trustee under the 2016 Share Award Scheme. Details of movements in the number of shares awarded under the 2016 Share Award Scheme are disclosed in Note 25(i) to the condensed consolidated interim financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in this announcement, at no time during the six months ended 30 June 2019 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors (including their respective spouses and children under the age of 18) to acquire benefits by means of the acquisition of the shares or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 30 June 2019, the Company had been notified of the following substantial shareholders' and other persons' interests, being 5% or more of the Company's issued shares that are recorded in the register under Section 336 of the SFO.

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

Notes:

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

Save as disclosed above, as at 30 June 2019, there were no other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under divisions 2 and 3 of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE

During the six months ended 30 June 2019, the Company has complied with the applicable code provisions of the Corporate Governance Code (the “CG Code”), as set out in Appendix 14 to the Listing Rules, except for a deviation which is summarised below:

Code Provision A.4.1

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

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding director's securities transactions with terms no less exacting than the required standard set out in the Model Code. Following specific enquiry by the Company, all the Directors have confirmed that they have complied with the required standards as stated in the Model Code throughout the six months ended 30 June 2019.

AUDIT COMMITTEE

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

This unaudited condensed consolidated interim financial results and statements of the Group for the six months ended 30 June 2019 have been reviewed by the audit committee of the Company.

CHANGES OF DIRECTORS' INFORMATION

There is no change in the information of the Directors that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the publication of the Company's 2018 annual report and up to the date of this announcement.

Condensed consolidated income statement for the six months ended 30 June 2019 (Expressed in Hong Kong dollars)

| | | Six months ended 30 June | |
|---|------|--------------------------|-------------|
| | Note | 2019 | 2018 |
| | | (Unaudited) | (Unaudited) |
| | | HK\$'000 | HK\$'000 |
| | | | (Note 30) |
| Income | | | |
| Premiums and fee income | | 2,381,792 | - |
| Premiums ceded to reinsurer | | (323,445) | - |
| Net premium and fee income | | 2,058,347 | - |
| Change in unearned revenue liability | | (331,606) | - |
| Net earned premium and fee income | | 1,726,741 | - |
| Brokerage commission, interest and other service income | | 4,126 | 3,410 |
| Subscription, management and rebate fee income | | 5,837 | 2,217 |
| Consultancy and advisory income | | 687 | 9,865 |
| Net investment income | 5(a) | 1,755,726 | 44,709 |
| Overlay adjustment | | (101,838) | - |
| Other income | 5(b) | 159,554 | 5,994 |
| Reinsurance commission and profit | | 15,592 | - |
| Total income | | 3,566,425 | 66,195 |

Condensed consolidated income statement for the six months ended 30 June 2019 (continued)

(Expressed in Hong Kong dollars)

| | | Six months ended 30 June | |
|--|------|---------------------------------|---------------------------------|
| | Note | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| Benefits, losses and expenses | | | |
| Net policyholders benefit | 6 | (1,760,475) | - |
| Commission and related expenses | | (533,641) | - |
| Deferral and amortisation of deferred acquisition costs and value of business acquired | | 352,697 | - |
| Management and other expenses | | (468,807) | (244,855) |
| Change in future policyholder benefits | | (897,632) | - |
| Total benefits, losses and expenses | | <u>(3,307,858)</u> | <u>(244,855)</u> |
| Finance cost | | (46,988) | (6,649) |
| Share of result in an associate | | <u>(1,114)</u> | <u>-</u> |
| Profit/(loss) before taxation | 7 | 210,465 | (185,309) |
| Tax credit/(expenses) | 8 | <u>746</u> | <u>(970)</u> |
| Profit/(loss) after taxation | | <u>211,211</u> | <u>(186,279)</u> |
| Profit/(loss) for the period attributable to: | | | |
| – Equity shareholders of the Company | | 82,001 | (186,279) |
| – Non-controlling interests | | <u>129,210</u> | <u>-</u> |
| | | <u>211,211</u> | <u>(186,279)</u> |
| Earnings/(loss) per share attributable to equity shareholders of the Company | | | |
| Basic (HK\$) | 9 | 0.03 | (0.08) |
| Diluted (HK\$) | 9 | <u>0.03</u> | <u>(0.08)</u> |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The accompanying notes form an integral part of these interim financial statements.

**Condensed consolidated statement of
comprehensive income
for the six months ended 30 June 2019**
(Expressed in Hong Kong dollars)

| | <i>Note</i> | <i>Six months ended 30 June</i> | |
|--|-------------|---------------------------------|------------------|
| | | <i>2019</i> | <i>2018</i> |
| | | (Unaudited) | (Unaudited) |
| | | HK\$'000 | HK\$'000 |
| Profit/(loss) for the period after taxation | | 211,211 | (186,279) |
| Other comprehensive income for the period | | | |
| Item that will not be reclassified subsequently to profit or loss | | | |
| Equity investment at fair value through other comprehensive income-net movement in fair value reserve (non- recycling) | | 3,044 | (2,968) |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Net movement in the fair value reserve during the period recognised in other comprehensive income | | 867,722 | - |
| Financial asset at fair value through profit or loss under overlay adjustment | | 101,838 | - |
| Exchange differences arising on translation of results of foreign operations | | (2,244) | (959) |
| Unrealised loss related to amortisation of deferred acquisition costs | | (1,169,524) | - |
| Unrealised gain related to amortisation of unearned revenue liability — Insurance contract provisions | | 323,716 | - |
| Unrealised gain related to amortisation of unearned revenue liability — Investment contract liabilities | | 24,711 | - |
| | | 149,263 | (3,927) |
| Total comprehensive income for the period | | <u>360,474</u> | <u>(190,206)</u> |

Condensed consolidated statement of
comprehensive income
for the six months ended 30 June 2019 (continued)
(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Total comprehensive income for the period attributable to: | | |
| – Equity shareholders of the Company | 171,880 | (190,206) |
| – Non-controlling interests | 188,594 | - |
| | <u>360,474</u> | <u>(190,206)</u> |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The accompanying notes form an integral part of these interim financial statements.

Condensed consolidated statement of financial position at 30 June 2019

(Expressed in Hong Kong dollars)

| | Note | At 30 June 2019 (Unaudited) HK\$'000 | At 31 December 2018 (Audited) HK\$'000 |
|--|------|---|---|
| Assets | | | |
| Property and equipment | 11 | 450,129 | 133,946 |
| Statutory deposits | | 3,497 | 3,285 |
| Deferred tax asset | | 184 | 184 |
| Investments in associates | | 63,764 | 64,846 |
| Goodwill and intangible assets | 12 | 3,822,746 | 3,827,449 |
| Deferred acquisition costs and value of business acquired | 12 | 7,739,354 | 8,556,181 |
| Investments | 13 | 50,354,988 | 43,632,718 |
| Advance reinsurance premiums | | 116,571 | 10,652 |
| Reinsurers' share of outstanding claims | | 47,469 | 31,202 |
| Insurance and reinsurance receivables | 14 | 297,532 | 243,612 |
| Other account receivables and accrued income | 15 | 71,434 | 95,870 |
| Other receivables, deposit and prepayment | 16 | 634,502 | 549,903 |
| Bank balance - trust and segregated accounts | 17 | 408,471 | 440,083 |
| Fixed bank deposits with original maturity over 3 months | 17 | 259,250 | 259,250 |
| Cash and cash equivalents | 17 | 3,618,855 | 5,184,229 |
| | | <u>67,888,746</u> | <u>63,033,410</u> |

Condensed consolidated statement of financial position at 30 June 2019 (continued) (Expressed in Hong Kong dollars)

| | Note | At 30 June 2019 (Unaudited) HK\$'000 | At 31 December 2018 (Audited) HK\$'000 |
|--|------|---|---|
| Liabilities | | | |
| Insurance contract provisions | 18 | 42,186,911 | 39,362,136 |
| Investment contract liabilities | 19 | 4,291,739 | 4,131,951 |
| Outstanding claims | | 154,723 | 123,823 |
| Reinsurance premium payables | | 414,619 | 314,011 |
| Other account payables | 20 | 449,888 | 521,864 |
| Other payables and accrued expense | 21 | 918,819 | 824,592 |
| Tax payable | | 28,788 | 6,189 |
| Financial liabilities at fair value through profit or loss | 22 | 633,921 | 503,130 |
| Lease liabilities | | 323,559 | 15,254 |
| Deferred tax liabilities | | 677,748 | 702,577 |
| Bank borrowings | 23 | 1,804,610 | 1,198,226 |
| | | <u>51,885,325</u> | <u>47,703,753</u> |
| NET ASSETS | | <u>16,003,421</u> | <u>15,329,657</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 24 | 9,829,094 | 9,829,094 |
| Reserves | | <u>(446,767)</u> | <u>(608,324)</u> |
| | | 9,382,327 | 9,220,770 |
| Non-controlling interests | | <u>6,621,094</u> | <u>6,108,887</u> |
| TOTAL EQUITY | | <u>16,003,421</u> | <u>15,329,657</u> |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The accompanying notes form an integral part of these interim financial statements.

Condensed consolidated statement of changes in equity for the six months ended 30 June 2019

(Expressed in Hong Kong dollars)

| | | Attributable to equity shareholders of the Company | | | | | | | | | | |
|--|---------------------------|---|---|---|--|---|---------------------------------|---|---------------------------------|-----------------------|--|-------------------|
| | Share capital HK\$'000 | Shares held by share award scheme HK\$'000 | Share-based payment reserve HK\$'000 | Asset revaluation reserve HK\$'000 | Fair value reserve (recycling) HK\$'000 | Fair value reserve (non- recycling) HK\$'000 | Exchange reserve HK\$'000 | Statutory and capital reserve HK\$'000 | Accumulated loss HK\$'000 | Sub-total HK\$'000 | Non- controlling interests HK\$'000 | Total HK\$'000 |
| Balance at 1 January 2018 | 4,629,094 | (105,550) | 30,743 | 2,650 | - | (684) | 1,811 | 1,446 | (423,259) | 4,136,251 | - | 4,136,251 |
| Changes in equity for the six months ended 30 June 2018: | | | | | | | | | | | | |
| Share repurchased under share award scheme | - | (110,209) | - | - | - | - | - | - | - | (110,209) | - | (110,209) |
| Equity settled share-based transactions | - | - | 111,633 | - | - | - | - | - | - | 111,633 | - | 111,633 |
| Shares vested and cancelled under share award scheme | - | 132,529 | (121,031) | - | - | - | - | - | (11,498) | - | - | - |
| Loss for the period | - | - | - | - | - | - | - | - | (186,279) | (186,279) | - | (186,279) |
| Other comprehensive income for the period | - | - | - | - | - | (2,968) | (959) | - | - | (3,927) | - | (3,927) |
| Appropriation to statutory and capital reserve | - | - | - | - | - | - | - | 7 | (7) | - | - | - |
| Balance at 30 June 2018 and 1 July 2018 | 4,629,094 | (83,230) | 21,345 | 2,650 | - | (3,652) | 852 | 1,453 | (621,043) | 3,947,469 | - | 3,947,469 |
| Changes in equity for the six months ended 31 December 2018: | | | | | | | | | | | | |
| Acquisition of subsidiaries | 5,200,000 | - | - | - | - | - | - | 64,000 | - | 5,264,000 | 5,240,000 | 10,504,000 |
| Capital contribution to non-wholly owned subsidiary | - | - | - | - | - | - | - | - | - | - | 800,000 | 800,000 |
| Equity settled share-based transactions | - | - | 7,607 | - | - | - | - | - | - | 7,607 | - | 7,607 |
| Shares vested and cancelled under share award scheme | - | - | (919) | - | - | - | - | - | 919 | - | - | - |
| Profit / (loss) for the period | - | - | - | - | - | - | - | - | (18,123) | (18,123) | 50,247 | 32,124 |
| Other comprehensive income for the period | - | - | - | - | 27,959 | (804) | (7,338) | - | - | 19,817 | 18,640 | 38,457 |
| Appropriation to statutory and capital reserve | - | - | - | - | - | - | - | 430 | (430) | - | - | - |
| Balance at 31 December 2018 | 9,829,094 | (83,230) | 28,033 | 2,650 | 27,959 | (4,456) | (6,486) | 65,883 | (638,677) | 9,220,770 | 6,108,887 | 15,329,657 |
| First adoption of HKFRS 16 (note 3) | - | - | - | - | - | - | - | - | (6,580) | (6,580) | (4,387) | (10,967) |
| Adjusted balance at 1 January 2019 | 9,829,094 | (83,230) | 28,033 | 2,650 | 27,959 | (4,456) | (6,486) | 65,883 | (645,257) | 9,214,190 | 6,104,500 | 15,318,690 |
| Changes in equity for the six months ended 30 June 2019: | | | | | | | | | | | | |
| Capital contribution to a non-wholly owned subsidiary | - | - | - | - | - | - | - | - | - | - | 328,000 | 328,000 |
| Share repurchased under share award scheme | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity settled share-based transactions | - | - | (3,743) | - | - | - | - | - | - | (3,743) | - | (3,743) |
| Shares vested under share award scheme | - | - | - | - | - | - | - | - | - | - | - | - |
| Profit for the period | - | - | - | - | - | - | - | - | 82,001 | 82,001 | 129,210 | 211,211 |
| Other comprehensive income for the period | - | - | - | - | 89,079 | 3,044 | (2,244) | - | - | 89,879 | 59,384 | 149,263 |
| Appropriation to statutory and capital reserve | - | - | - | - | - | - | - | 200 | (200) | - | - | - |
| Balance at 30 June 2019 | 9,829,094 | (83,230) | 24,290 | 2,650 | 117,038 | (1,412) | (8,730) | 66,083 | (563,456) | 9,382,327 | 6,621,094 | 16,003,421 |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The accompanying notes form an integral part of these interim financial statements.

Condensed consolidated statement of cash flows for the six months ended 30 June 2019

(Expressed in Hong Kong dollars)

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| Note | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| | | (Note 30) |
| Net cash generated/(used in) from operating activities | 786,359 | (157,359) |
| Purchases of investments | (8,351,624) | (641,677) |
| Proceeds from disposal of investments | 3,457,838 | 1,361,324 |
| Other investing activities | 18,272 | 9,032 |
| Net cash (used in) / generated from investing activities | (4,875,514) | 728,679 |
| Bank loan drawdown | 600,000 | - |
| Capital injection from non-controlling interest to a subsidiary | 328,000 | - |
| Policyholders' account deposits | 2,366,545 | - |
| Policyholders' account withdrawals | (765,482) | - |
| Other financing activities | (6,351) | (88,912) |
| Net cash generated from/(used in) financing activities | 2,522,712 | (88,912) |
| Net (decrease)/increase in cash and cash equivalents | (1,566,443) | 482,408 |
| Cash and cash equivalents at 1 January | 5,184,229 | 2,182,374 |
| Effect of foreign exchange rate changes | 1,069 | (2,347) |
| Cash and cash equivalents at 30 June | <u>3,618,855</u> | <u>2,662,435</u> |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The accompanying notes form an integral part of these interim financial statements.

Notes to the condensed consolidated interim financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 General information

Yunfeng Financial Group Limited (the “Company”) is a limited liability company incorporated in Hong Kong, the shares of which are listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is Suites 3201- 3204, One Exchange Square, 8 Connaught Place, Central, Hong Kong. The condensed consolidated interim financial statements for the period ended 30 June 2019 comprises the Company and its subsidiaries (collectively the “Group”) and the Group’s interest in associates and a joint venture.

The condensed consolidated interim financial statements is unaudited, but has been reviewed by the Company’s audit committee and the Company’s independent auditor, KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This condensed consolidated interim financial statements has been approved for issuance by the Board on 29 August 2019.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2 Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial statements for the six months ended 30 June 2019 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the HKICPA. The condensed consolidated interim financial statements should be read in conjunction with the Group’s audited consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

(b) Basis of measurement

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

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

(c) Use of estimates and judgements

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

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

(d) Determination of consolidation scope

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

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

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

(e) Classification and Fair value of derivative and financial instruments

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

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

(f) Expected credit loss estimation

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

3 Significant accounting policies

The accounting policies applied in preparing the condensed consolidated interim financial statements are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2018, as disclosed in the annual report and financial statements for the year ended 31 December 2018 except for the following which are first time being applied for the period.

The changes in accounting policies are also expected to be reflected in the Group’s consolidated financial statements as at and for the year ending 31 December 2019.

The Group has initially adopted HKFRS 16 *Leases* from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group’s financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in accumulated loss at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(a) Definition of a lease

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

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

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

(b) As a lessee

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

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

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

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment', the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of additional right-of-use assets recognised on 1 January 2019 and their respective carrying amounts on 30 June 2019 are as below.

| <i>HK\$'000</i> | <i>Property and equipment</i> |
|---------------------------|---------------------------------------|
| Balance at 1 January 2019 | 296,540 |
| Balance at 30 June 2019 | <u>247,982</u> |

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

(i) Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's accounting policies.

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

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

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

(ii) Transition

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

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

- their carrying amount as if HKFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application - the Group applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments - the Group applied this approach to all other leases.

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

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

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

(c) Impacts on financial statements

(i) Impacts on transition

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

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

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

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

(ii) Impacts for the period

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised HK\$247,982,000 of right-of-use assets and HK\$261,745,000 of lease liabilities as at 30 June 2019.

Also in relation to those leases under HKFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised HK\$48,558,000 of depreciation charges and HK\$4,628,000 of interest costs from these leases.

4 Insurance and financial risk management

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

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

(i) Insurance risks

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

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

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

(ii) Financial risks

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

(1) *Credit risk*

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

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

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

The Group's debt securities represented investments in asset-backed and mortgage-backed securities in the United States of America and PRC which are exposed to sub-prime credit risks. The Group does not originate any residential mortgages but invests in residential mortgage loan pools which may contain mortgages of subprime credit quality. Residential mortgage loan pools are pools of homogeneous residential mortgage loans substantially backed by Federal Housing Administration and Veterans Administration guarantees.

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

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

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

(2) Liquidity risk

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

(3) Interest rate risk

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

(4) Currency risk

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

(5) *Equity price risk*

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

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

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

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

Fair value measurement

(1) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

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

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

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

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

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

| | Fair value measurements as at 30 June 2019 categorised into | | | Fair value measurements as at 31 December 2018 categorised into | | |
|---|--|-------------------|------------------|--|-------------------|------------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Recurring fair value measurement | | | | | | |
| Assets/(liabilities) | | | | | | |
| Financial assets at fair value through profit or loss: | | | | | | |
| – Private credit and other trust product type funds | - | - | 646,440 | - | - | 538,613 |
| – Credit linked obligation note | - | - | 28,901 | - | - | 27,275 |
| – Leveraged and structured note investment | - | 2,268,268 | 5,119 | - | 1,799,058 | 88,980 |
| – Unit trust | 566,095 | 6,999,277 | 7,991 | 553,299 | 6,373,169 | 11,834 |
| – Interest in a joint venture | - | - | 103,543 | - | - | 79,128 |
| – Insurance contract related partnership investment | - | 46,039 | 1,477,228 | - | - | 1,378,578 |
| – Unlisted fund/share option | - | 275 | - | - | 248 | - |
| Financial asset at fair value through other comprehensive income | | | | | | |
| – Debt securities | - | 9,738,531 | 4,070,484 | - | 6,710,854 | 3,626,407 |
| – Perpetual capital measured at fair value | - | 75,504 | - | - | 73,213 | - |
| Financial liabilities designated at fair value through profit or loss | | | | | | |
| – Preference share liability | - | - | (390,535) | - | - | (315,588) |
| – Third-party interests in consolidated | - | - | (243,386) | - | - | (187,542) |
| – Investment contract liabilities | - | (4,291,739) | - | - | (4,131,951) | - |
| | <u>566,095</u> | <u>14,836,155</u> | <u>5,705,785</u> | <u>553,299</u> | <u>10,824,591</u> | <u>5,247,685</u> |

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

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

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

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

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

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

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

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

Information about Level 3 fair value measurements

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

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

Partnership interest - the fair value estimation is based on the net asset value attributable to the Group determined by the respective fund managers. If such net asset value attributable to the Group is not yet readily available, adjustments to the fair value of the funds are made based on the latest net asset value with adjustments based on subsequent contribution made and distribution received by the Group. As at 30 June 2019, it is estimated that with all other variables held constant, a decrease/increase in net asset value by 10% would have increased/decreased the Group's other comprehensive income by HK\$147,723,000 (31 December 2018: HK\$137,858,000) under the overlay approach.

Corporate securities - Internally-priced corporate securities classified in Level 3 include certain below investment grade watch list and distressed fixed maturity securities. For securities where discounted cash flows are used, the primary unobservable input is the internally-developed discount rate. Significant increases in the discount rate would result in a significantly lower fair value, with the opposite being true for decreases in the discount rate. In certain cases, the Group uses an estimated liquidation value of the borrower or underlying assets. The Group also applies market comparables, such as earnings before interest, taxes, depreciation and amortisation (EBITDA) multiples for certain securities. In isolation, an increase in the value of these inputs would result in an increase in fair value, with the opposite being true for decreases in the value of these inputs. As at 30 June 2019, it is estimated that with all other variables held constant, a decrease/increase in credit spread by 100 BPS would have increased/decreased the Group's other comprehensive income by HK\$242,823,000 (31 December 2018: HK\$219,955,000).

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

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

Information about Level 3 investment

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

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

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

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

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

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

| Change in the relevant equity price risk variable: | <u>30 June 2019</u> | | <u>31 December 2018</u> | |
|--|---------------------|--|-------------------------|--|
| | % | <i>Effect on profit after tax and retained profit HK\$'000</i> | % | <i>Effect on profit after tax and retained profit HK\$'000</i> |
| Leveraged note investment | | | | |
| Increase | - | - | 10 | 6,361 |
| Decrease | - | - | (10) | (6,361) |
| Trust type fund products | | | | |
| Increase | 5 | 1,537 | 5 | 1,188 |
| Decrease | (5) | (1,537) | (5) | (1,188) |
| Joint controlled entity | | | | |
| Increase | 10 | 10,354 | 10 | 5,741 |
| Decrease | (10) | (10,354) | (10) | (5,741) |
| Private credit funds | | | | |
| Increase | 10 | 61,570 | 10 | 50,719 |
| Decrease | (10) | (61,570) | (10) | (50,719) |
| Credit linked note | | | | |
| Increase | 10 | 2,890 | 10 | 2,727 |
| Decrease | (10) | (2,890) | (10) | (2,727) |
| Preference share liability | | | | |
| Increase | 10 | - | 10 | - |
| Decrease | (10) | - | (10) | - |
| Third party interest in consolidated fund | | | | |
| Increase | 10 | (21,821) | 10 | (18,239) |
| Decrease | (10) | 21,821 | (10) | 18,239 |

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

Financial assets at fair value through profit or loss

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| At 1 January | 721,200 | - |
| Transferred from available-for-sale financial assets upon adoption of HKFRS 9 | - | 488,518 |
| Deconsolidation of a previously consolidated fund | - | (13,265) |
| Recognition of a joint venture carried at fair value | - | 12,315 |
| Capital injection/purchase | 125,021 | 144,458 |
| Net realised gain | 4,636 | - |
| Settlement on disposal | (83,299) | - |
| Exchange alignment | (1,473) | 1,790 |
| Deemed gain on partial disposal | - | 26 |
| Fair value change of investment | 12,799 | (11,647) |
| At 30 June | <u>778,884</u> | <u>622,195</u> |

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

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| At 1 January | 3,626,407 | - |
| Acquisition of subsidiaries | - | - |
| Purchase | 245,476 | - |
| Settlements | (54,425) | - |
| Net realised loss to profit or loss | (278) | - |
| Net unrealised gain to other comprehensive income | 253,304 | - |
| At 30 June | <u>4,070,484</u> | <u>-</u> |

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

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| At 1 January | 1,403,208 | - |
| Cost of investment purchased | 185,724 | - |
| Distribution received | (118,506) | - |
| Earnings reinvested | 31,737 | - |
| Net realised gain | 930 | - |
| Settlement | (3,802) | - |
| Net unrealised loss to other comprehensive income | (1,195) | - |
| Foreign exchange impact | (81) | - |
| Transfer into level 3 | 5,119 | - |
| Transfer out of level 3 | (12,796) | - |
| | <hr/> | <hr/> |
| At 30 June | 1,490,338 | - |

Financial liabilities at fair value through profit or loss

| | 2019 HK\$'000 | 2018 HK\$'000 |
|---|------------------|------------------|
| At 1 January | 503,130 | 363,677 |
| Share issued/contribution received | 131,787 | 84,749 |
| Deconsolidation of a consolidated fund | - | (3,489) |
| Partial disposal of interest of a consolidated fund | - | (1,168) |
| Distribution to third party investor | (10,670) | (8,262) |
| Exchange alignment | - | 2,987 |
| Fair value change | 9,674 | 6,345 |
| | <hr/> | <hr/> |
| At 30 June | 633,921 | 444,839 |

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

The carrying amounts of financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2018 and 30 June 2019 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

| | <u>2019</u> | | <i>Fair value measurements as at 30 June 2019 categorised into</i> | | |
|-----------------|---|--------------------------------|--|-----------------------------|-----------------------------|
| | <i>Carrying amount HK\$'000</i> | <i>Fair value HK\$'000</i> | <i>Level 1 HK\$'000</i> | <i>Level 2 HK\$'000</i> | <i>Level 3 HK\$'000</i> |
| Debt securities | 17,319,018 | 19,109,696 | - | 16,544,168 | 2,565,528 |
| Mortgage loans | <u>7,002,275</u> | <u>7,430,569</u> | <u>-</u> | <u>-</u> | <u>7,430,569</u> |

| | <u>2018</u> | | <i>Fair value measurements as at 31 December 2018 categorised into</i> | | |
|-----------------|---|--------------------------------|--|-----------------------------|-----------------------------|
| | <i>Carrying amount HK\$'000</i> | <i>Fair value HK\$'000</i> | <i>Level 1 HK\$'000</i> | <i>Level 2 HK\$'000</i> | <i>Level 3 HK\$'000</i> |
| Debt securities | 15,188,481 | 15,566,781 | - | 13,376,484 | 2,190,297 |
| Mortgage loans | <u>7,183,581</u> | <u>7,379,482</u> | <u>-</u> | <u>-</u> | <u>7,379,482</u> |

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

5(a) Net investment income

| | <i>Six months ended 30 June</i> | |
|---|---------------------------------|-----------------|
| | <i>2019</i> | <i>2018</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest income from unlisted debt securities and mortgage loans | 862,314 | 20,323 |
| Bank and other interest income | 22,036 | 35,906 |
| Net realised gain / (loss) on disposal of securities designated at fair value through profit or loss | 107,699 | (2,299) |
| Net unrealised gain / (loss) on financial asset and financial liabilities designated at fair value through profit or loss | 687,265 | (25,229) |
| Net realised loss on fair value through other comprehensive income debt securities | (5,160) | - |
| Reversal of impairment loss of amortised cost investment | 11,778 | - |
| Impairment loss of fair value through other comprehensive income debt securities | (40,447) | - |
| Dividend income | 61,339 | 15,235 |
| Net derivative (loss) / gain | (52,936) | 773 |
| Net unrealised gain of fair value through profit or loss financial assets under overlay approach | 101,838 | - |
| | <u>1,755,726</u> | <u>44,709</u> |

Total interest income on financial assets not at fair value through profit or loss amounted to HK\$865,456,000 for the period ended 30 June 2019 (for the period ended 30 June 2018: HK\$36,237,000).

5(b) Other income

| | <i>Six months ended 30 June</i> | |
|---|---------------------------------|-----------------|
| | <i>2019</i> | <i>2018</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net gain on disposal of subsidiaries and deemed partial disposal of associates/consolidated funds | 208 | 2,706 |
| Trustee fee income | 12,993 | - |
| Reinsurance premium ceded and other income | 146,353 | 3,288 |
| | <u>159,554</u> | <u>5,994</u> |

6 Net policyholders benefit

| | <i>Six months ended 30 June</i> | |
|--|---------------------------------|-----------------|
| | <i>2019</i> | <i>2018</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net claims, policy benefits and surrenders | 231,915 | - |
| Interest credited to policyholders' deposits | 1,525,940 | - |
| Dividends to policyholders | 2,620 | - |
| | <u>1,760,475</u> | <u>-</u> |

7 Profit / (loss) before taxation

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

| | <i>Six months ended 30 June</i> | |
|-------------|---------------------------------|-----------------|
| | <i>2019</i> | <i>2018</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Staff costs | <u>237,340</u> | <u>193,677</u> |

| | <i>Six months ended 30 June</i> | |
|---|---------------------------------|-----------------|
| | <i>2019</i> | <i>2018</i> |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Other operating items | | |
| Auditors' remuneration | 5,779 | 1,224 |
| Legal and professional costs | 4,014 | 8,125 |
| Operating lease payments - property rentals | 5,715 | 14,924 |
| Amortisation of value of business acquired | 102,200 | - |
| Amortisation of deferred acquisition cost | 136,070 | - |
| Depreciation and amortisation on property and equipment and other intangible assets | 67,715 | 10,631 |
| Impairment loss on: | | |
| -Cash and cash equivalent, fixed bank deposit and trust and segregated accounts | - | 399 |
| -Other account receivables | 24 | 61 |
| -Other receivables | - | 142 |
| Information, data and communication expenses | 12,710 | 13,786 |
| Net exchange loss / (gain) | <u>24,096</u> | <u>(7,945)</u> |

| | Six months ended 30 June | |
|----------------------------|--------------------------|--------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Finance costs | | |
| Bank loan interest | 29,621 | - |
| Lease liabilities | 5,283 | 221 |
| Preference share liability | 11,425 | 6,418 |
| Other interest expense | 659 | 10 |
| | <u>46,988</u> | <u>6,649</u> |

8 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

| | Six months ended 30 June | |
|---|--------------------------|--------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Current tax | | |
| <u>Hong Kong</u> | | |
| Provision for the year | 23,606 | - |
| Over-provision in respect of prior years | - | - |
| <u>Overseas</u> | | |
| Provision for the year | 263 | 1,037 |
| Under-provision in respect of prior years | 213 | 22 |
| | <u>24,082</u> | <u>1,059</u> |
| Deferred tax | | |
| Origination and reversal of temporary differences | <u>(24,828)</u> | <u>(89)</u> |
| | <u>(746)</u> | <u>970</u> |

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2018: 16.5%) to the six months ended 30 June 2019, except for one subsidiary of the group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

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

9 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the period ended 30 June 2019 of HK\$82,001,000 (six months ended 30 June 2018: a loss of HK\$186,279,000), and the weighted average number of shares in issue during the period ended 30 June 2019 of 3,207,904,727 (30 June 2018: 2,391,603,714).

There were no potential dilutive ordinary shares for the six months ended 30 June 2019 therefore basic earnings per share equals to diluted earnings per share six months ended 30 June 2018: basic loss per share equals to diluted loss per share).

10 Segment reporting

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

As disclosed in the 2018 annual report, the Group is largely dominated by the insurance business after the completion of the YF Life acquisition. As a result, management decided to streamline and regroup the operating segments. Insurance business is considered as an operating segment and other operating segments that existed prior to the acquisition are consolidated as other financial services and corporate to reflect the long term business development focus. Accordingly, comparative figures in prior interim period have been restated to conform to the current interim period's presentation.

Consequently, the Group currently has two operating segments:

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

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

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

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

(a) Segment revenue and results

For the period ended 30 June 2019

| | <i>Insurance business HK\$'000</i> | <i>Other financial services and corporate HK\$'000</i> | <i>Total HK\$'000</i> |
|---|--|--|---------------------------|
| Premiums and fee income | 2,381,792 | - | 2,381,792 |
| Premiums ceded to reinsurer | (323,445) | - | (323,445) |
| Net premium and fee income | 2,058,347 | - | 2,058,347 |
| Change in unearned revenue liability | (331,606) | - | (331,606) |
| Brokerage commission, interest and other service income | - | 4,126 | 4,126 |
| Subscription, management and rebate fee income | - | 5,837 | 5,837 |
| Consultancy and advisory income | - | 687 | 687 |
| Revenue from external party | 1,726,741 | 10,650 | 1,737,391 |
| Inter-segment income | 907 | 2,014 | 2,921 |
| Reportable segment revenue | 1,727,648 | 12,664 | 1,740,312 |
| Allocated net investment income, other operating income and gains | 1,783,262 | 45,772 | 1,829,034 |
| Share of result of associates | - | (1,114) | (1,114) |
| Allocated operating costs | (3,185,193) | (109,515) | (3,294,708) |
| Allocated finance cost | (3,916) | (13,446) | (17,362) |
| Reportable segment profit/(loss) | 321,801 | (65,639) | 256,162 |
| Elimination of inter-segment (loss)/profit | | | - |
| Reportable segment profit derived from Group's external customers | | | 256,162 |
| Unallocated legal and professional and other operating expenses | | | (45,697) |
| Taxation | | | 746 |
| Profit for the period | | | 211,211 |
| As at 30 June 2019 | | | |
| Reportable assets | 61,737,632 | 2,406,723 | 64,144,355 |
| Reportable liabilities | (48,838,186) | (3,022,440) | (51,860,626) |
| As at 31 December 2018 | | | |
| Reportable assets | 56,960,743 | 2,342,627 | 59,303,370 |
| Reportable liabilities | (45,351,070) | (2,350,583) | (47,701,653) |

For the period ended 30 June 2018

| | <i>Insurance business</i> HK\$'000 | <i>Other financial services and corporate</i> HK\$'000 | <i>Total</i> HK\$'000 |
|---|---|---|--------------------------|
| Premiums and fee income | - | - | - |
| Premiums ceded to reinsurer | - | - | - |
| Net premium and fee income | - | - | - |
| Change in unearned revenue liability | - | - | - |
| Brokerage commission, interest and other service income | - | 3,410 | 3,410 |
| Subscription, management and rebate fee income | - | 2,217 | 2,217 |
| Consultancy and advisory income | - | 9,865 | 9,865 |
| Inter-segment income | - | - | - |
| Reportable segment revenue | - | 15,492 | 15,492 |
| Allocated net investment income, other operating income and gains | - | 50,703 | 50,703 |
| Share of result of associates | - | - | - |
| Allocated operating costs | - | (242,973) | (242,973) |
| Allocated finance cost | - | (6,649) | (6,649) |
| Reportable segment profit/(loss) | - | (183,427) | (183,427) |
| Elimination of inter-segment (loss)/profit | - | - | - |
| Reportable segment profit derived from Group's external customers | | | (183,427) |
| Unallocated legal and professional and other operating expenses | | | (1,882) |
| Taxation | | | (970) |
| Loss for the period | | | (186,279) |

(b) Geographical segment information

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

(c) Information about major customers

No customer account for more than 10% of the total revenue of the Group for the period ended 30 June 2019.

11 Property and equipment

Acquisition and disposal of property and equipment

As discussed in note 3, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognize right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's additional right-of-use assets by class of underlying asset are set out in note 3.

12 Goodwill and value of business acquired

As of 30 June 2019, the Group is not yet able to complete the valuation of the value of business acquired ("VOBA") of the acquisition for YF Life. The assessment of the fair value of VOBA and the corresponding effects on the insurance contracts provisions at the acquisition date will be subject to finalisation and the accounting for the acquisition will be revised within one year from the acquisition date in accordance with HKFRS 3.

13 Investments

| | <i>At fair value through other comprehensive income HK\$'000</i> | <i>At fair value through profit or loss HK\$'000</i> | <i>Amortised cost HK\$'000</i> | <i>Total HK\$'000</i> |
|------------------------|--|--|------------------------------------|---------------------------|
| At 30 June 2019 | | | | |
| Debt securities: | | | | |
| – Unlisted | 13,809,015 | 2,302,288 | 17,319,018 | 33,430,321 |
| Mortgage loans | - | - | 7,002,275 | 7,002,275 |
| | <u>13,809,015</u> | <u>2,302,288</u> | <u>24,321,293</u> | <u>40,432,596</u> |
| Equity securities: | | | | |
| – Unlisted | 75,504 | - | - | 75,504 |
| | <u>75,504</u> | <u>-</u> | <u>-</u> | <u>75,504</u> |
| Fund Investment: | | | | |
| – Unlisted (note (a)) | - | 2,273,525 | - | 2,273,525 |
| | <u>-</u> | <u>2,273,525</u> | <u>-</u> | <u>2,273,525</u> |
| Unit trusts: | | | | |
| – Unlisted | - | 7,573,363 | - | 7,573,363 |
| | <u>-</u> | <u>7,573,363</u> | <u>-</u> | <u>7,573,363</u> |
| Total | <u>13,884,519</u> | <u>12,149,176</u> | <u>24,321,293</u> | <u>50,354,988</u> |

| | <i>At fair value through other comprehensive income HK\$'000</i> | <i>At fair value through profit or loss HK\$'000</i> | <i>Amortised cost HK\$'000</i> | <i>Total HK\$'000</i> |
|----------------------------|--|--|------------------------------------|---------------------------|
| At 31 December 2018 | | | | |
| Debt securities: | | | | |
| – Unlisted | 10,337,261 | 1,915,313 | 15,188,481 | 27,441,055 |
| Mortgage loans | - | - | 7,183,581 | 7,183,581 |
| | <u>10,337,261</u> | <u>1,915,313</u> | <u>22,372,062</u> | <u>34,624,636</u> |
| Equity securities: | | | | |
| – Unlisted | 73,213 | - | - | 73,213 |
| | <u>73,213</u> | <u>-</u> | <u>-</u> | <u>73,213</u> |
| Fund Investment: | | | | |
| – Unlisted (note (a)) | - | 1,996,567 | - | 1,996,567 |
| | <u>-</u> | <u>1,996,567</u> | <u>-</u> | <u>1,996,567</u> |
| Unit trusts: | | | | |
| – Unlisted | - | 6,938,302 | - | 6,938,302 |
| | <u>-</u> | <u>6,938,302</u> | <u>-</u> | <u>6,938,302</u> |
| Total | <u>10,410,474</u> | <u>10,850,182</u> | <u>22,372,062</u> | <u>43,632,718</u> |

Notes:

- (a) On 28 February 2018, the Group has entered a strategic fund management agreement with another well-established financial institution. By sharing the operating and financing decision making power through the agreement, the Group is no longer considered to be the principal of Majik Access USD Fund 2 LP. After the deconsolidation, the Group elects to measure its 34.04% investment holding in Majik Access USD Fund 2 LP held through a venture capital organisation, an indirect wholly owned subsidiary, at fair value through profit or loss as management measures the performance of this jointly controlled entity on a fair value basis and considered to be exempted from applying the equity method. The valuation process and fair value information for the joint venture measured at fair value through profit or loss set out in note 4. During the period, the Group has made an injection of approximately HK\$22.3 million to the joint venture. As of 30 June 2019, the carrying value of the jointly controlled entity amounted to HK\$103.5 million. (31 December 2018: HK\$ 79.1 million).
- (b) Investments of HK\$4,524,359,000 (31 December 2018: HK\$3,760,043,000) have been pledged in favour of Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.
- (c) The portion of the investments that is expected to be recoverable within one year is HK\$12,298,862,000 (31 December 2018: HK\$7,793,141,000) and the portion that is expected to be recoverable after more than one year is HK\$38,056,126,000 (31 December 2018: HK\$35,839,577,000).
- (d) As at 30 June 2019, the investments were determined to be impaired on the basis of expected credit losses model. Impairment losses on these investments were recognised in the condensed consolidated income statements in accordance with the Group accounting policy.

- (e) The maturity profile of the Group's debt securities and amortised cost investment is as follows:

| | At 30 June 2019 HK\$'000 | At 31 December 2018 HK\$'000 |
|-------------------------|--------------------------------|---------------------------------------|
| Fixed maturities due in | | |
| – 1 year or less | 330,713 | 642,606 |
| – 1 to 5 years | 3,498,433 | 2,723,688 |
| – 5 to 10 years | 8,682,926 | 6,375,965 |
| – More than 10 years | 20,918,249 | 17,698,796 |
| | <u>33,430,321</u> | <u>27,441,055</u> |
| Mortgage loans due in | | |
| – 1 year | 70,108 | 153,501 |
| – 2 years | 224,334 | 276,017 |
| – 3 years | 359,860 | 365,502 |
| – 4 years | 198,954 | 201,069 |
| – 5 years | 824,452 | 817,215 |
| – More than 5 years | 5,324,567 | 5,370,277 |
| | <u>7,002,275</u> | <u>7,183,581</u> |

- (f) Interests in collective investment schemes

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

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

- (ii) In addition, the Group's subsidiary, YF Life Trustees Limited (formerly known as MassMutual Trustees Limited) is the sponsor of Mass Mandatory Provident Fund scheme ('MPF scheme') as specified in the respective trust deeds. Management fee and trustee fee income that the Group recognised in profit or loss in return for the administration services provided to MPF Scheme that the Group sponsored amounted to HK\$14,865,000 (for six month period ended 30 June 2018: Nil).

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

14 Insurance and reinsurance receivables

| | <i>At 30 June</i> 2019 HK\$'000 | <i>At 31 December</i> 2018 HK\$'000 |
|----------------------------|---------------------------------------|---|
| Loans to policyholders | 1,856 | 1,710 |
| Direct premium receivables | 7,807 | 4,744 |
| Reinsurance receivables | 287,869 | 237,158 |
| | <u>297,532</u> | <u>243,612</u> |

At 30 June 2019 and 31 December 2018, none of the insurance and reinsurance receivables were past due or impaired.

All of the insurance and reinsurance receivables are expected to be recovered within one year.

15 Other account receivables and accrued income

| | At 30 June 2019 HK\$'000 | At 31 December 2018 HK\$'000 |
|--|--------------------------------|------------------------------------|
| Other accounts receivable arising from securities brokerage: | | |
| – Cash clients | 28,785 | 55,842 |
| – Margin clients | 28,076 | 16,930 |
| – Clearing house, brokers, fund managers and dealers | 12,045 | 22,314 |
| | 68,906 | 95,086 |
| Other accounts receivable arising from consultancy and advisory services | 2,159 | 1,959 |
| Other service fees receivables | 1,900 | 332 |
| | 72,965 | 97,377 |
| Less: allowance for credit losses | (1,531) | (1,507) |
| | 71,434 | 95,870 |

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

(a) Ageing analysis of other accounts receivable

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

| | At 30 June 2019 HK\$'000 | At 31 December 2018 HK\$'000 |
|-----------------------------|--------------------------------|------------------------------------|
| Current | 70,315 | 95,019 |
| Less than 1 month past due | 110 | 370 |
| 1 to 3 months past due | - | 126 |
| More than 3 months past due | 1,009 | 355 |
| Amounts past due | 1,119 | 851 |
| | 71,434 | 95,870 |

The Group has procedures and policies to assess the client's credit quality and defines credit limits for each client. All client acceptance and credit limit are approved by designated approvers according to the client's credit worthiness.

(b) Balance with related parties

At 30 June 2019, the balance of other service fee receivables includes fund management fee of approximately HK\$1,409,000 (2018: HK\$248,000) due from a joint venture of the Group.

16 Other receivables, deposits and prepayment

| | At 30 June 2019 HK\$'000 | At 31 December 2018 HK\$'000 |
|---|--------------------------------|------------------------------------|
| Utility and rental deposits | 38,750 | 36,831 |
| Loans to agents and staff | 38,102 | 26,773 |
| Accrued investment income | 446,860 | 374,123 |
| Prepayment and other deposit | 37,861 | 10,888 |
| Other receivable from non-controlling shareholders of a subsidiary | 23,894 | 32,836 |
| Other deposits and receivables | 57,268 | 77,428 |
| | <hr/> 642,735 | <hr/> 558,879 |
| Less: allowance for credit losses | (8,233) | (8,976) |
| | <hr/> <hr/> 634,502 | <hr/> <hr/> 549,903 |

Notes:

- (i) The amount of utility and rental deposits expected to be recovered after more than one year is HK\$22,245,000 (2018: HK\$22,005,000).
- (ii) Except for those mentioned above in (i), all of the other receivables are expected to be recovered within one year.
- (iii) During the period, there was HK\$743,000 (for six month period ended 30 June 2018: none) allowance for credit losses written off.

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

| | Note | At 30 June 2019 HK\$'000 | At 31 December 2018 HK\$'000 |
|---|-------|--------------------------------|------------------------------------|
| Bank balance — trust and segregated accounts | | | |
| Deposit with bank | (i) | 408,505 | 440,117 |
| Less: impairment allowance | | <u>(34)</u> | <u>(34)</u> |
| | | <u>408,471</u> | <u>440,083</u> |
| Fixed bank deposits with original maturity over 3 months | | | |
| Deposit with bank | (iii) | 259,250 | 259,250 |
| Less: impairment allowance | | <u>-</u> | <u>-</u> |
| | | <u>259,250</u> | <u>259,250</u> |
| Cash and cash equivalent | | | |
| Deposit with bank | (ii) | 300 | 300 |
| Fixed bank deposits with original maturity less than 3 months | | 418,298 | 1,455,350 |
| Cash at bank and in hand | | 3,200,575 | 3,728,897 |
| Less: impairment allowance | | <u>(318)</u> | <u>(318)</u> |
| Cash and cash equivalent in the statement of financial position | | <u>3,618,855</u> | <u>5,184,229</u> |

Notes:

- (i) The Group maintains segregated accounts with authorised institutions to hold clients' money arising from its normal course of business of the regulated activities. The cash held on behalf of clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.
- (ii) The Group has made deposit with a bank as security deposit for bank overdraft facilities.
- (iii) As of 30 June 2019, the Group has pledged fixed deposits of HK\$225,548,000 (2018: HK\$259,250,000) to banks in favour of the Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.

18 Insurance contract provisions

| | <i>At 30 June 2019 HK\$'000</i> | <i>At 31 December 2018 HK\$'000</i> |
|--------------------------------|---|---|
| Policyholders' deposits | 35,877,873 | 33,927,093 |
| Future policyholders' benefits | 6,309,038 | 5,417,950 |
| Unearned revenue liability | - | 17,093 |
| | <u>42,186,911</u> | <u>39,362,136</u> |

19 Investment contract liabilities

| | <i>At 30 June 2019 HK\$'000</i> | <i>At 31 December 2018 HK\$'000</i> |
|--------------------------------|---|---|
| Policyholders' deposits | 4,239,249 | 4,086,277 |
| Future policyholders' benefits | 52,490 | 45,946 |
| Unearned revenue liability | - | (272) |
| | <u>4,291,739</u> | <u>4,131,951</u> |

20 Other account payables

| | At 30 June 2019 HK\$'000 | At 31 December 2018 HK\$'000 |
|--|--------------------------------|------------------------------------|
| Account payables | | |
| – Cash and margin clients | 435,401 | 481,554 |
| – Clearing house, fund managers, brokers and dealers | 14,487 | 40,310 |
| | <u>449,888</u> | <u>521,864</u> |

Included in account payables are amounts payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of conducting regulated activities, which amount to HK\$410,528,000 (31 December 2018: HK\$440,787,000). All of the accounts payable are aged and due within one month or on demand.

Balance with related parties

At 30 June 2019, account payables of approximately HK\$25,542,000 (31 December 2018: HK\$38,430,000) are payable to certain key management personnel of the Company and their related companies on normal terms of brokerage and wealth management business of the Group.

21 Other payables and accrued expenses

| | At 30 June 2019 HK\$'000 | At 31 December 2018 HK\$'000 |
|----------------------------------|--------------------------------|------------------------------------|
| Accrued staff costs | 45,110 | 95,211 |
| Commission payables | 76,907 | 195,483 |
| Derivative financial instruments | 54,510 | 49,280 |
| Other payables and accruals | 742,292 | 484,618 |
| | <u>918,819</u> | <u>824,592</u> |

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

Balance with related parties

At 30 June 2019, amount of approximately HK\$18,976,000 (31 December 2018: HK\$9,541,000) are payable to MassMutual International LLC ("MMI") who is a substantial shareholder of the Company and its affiliates.

22 Financial liabilities at fair value through profit or loss

| | At 30 June 2019 HK\$'000 | At 31 December 2018 HK\$'000 |
|--|--------------------------------|------------------------------------|
| Designated at fair value through profit or loss | | |
| Preference share liability (note 1) | 390,535 | 315,588 |
| Third-party interests in consolidated funds (note 2) | <u>243,386</u> | <u>187,542</u> |
| | <u>633,921</u> | <u>503,130</u> |

Notes:

1. The total number of preference shares that can be issued under the agreement is 500,000 shares for a total proceed of US\$50,000,000. The subsidiary is obliged to redeem all issued preference shares in 5 years starting from the initial issuance date of the preference shares. At liquidation, after all creditors' claim is satisfied, the asset of the subsidiary should be first distributed to preference shareholders by redeeming all issued shares together with any unpaid preferred share dividends. The preference shares are due for settlement after more than a year from 30 June 2019. During the period, US\$9.7 million proceed obtained from the issue of preference shares at US\$100 per share by a subsidiary of the Group with the proceed being used to fulfil capital contribution to a consolidated fund managed by the Group.
2. The third party interests in consolidated fund consist of third-party unit holders' interest in the consolidated fund which is reflected as a liability as the fund is to be dissolved and return all capital to investor in seventh or eighth anniversary of the respective final closing date of the respective funds. The end of term of the consolidated funds are more than a year from 30 June 2019.

23 Bank borrowings

The bank loan was unsecured and repayable as follows:

| | At 30 June 2019 HK\$'000 | At 31 December 2018 HK\$'000 |
|----------------------------------|--------------------------------|------------------------------------|
| After 2 years but within 5 years | <u>1,804,610</u> | <u>1,198,226</u> |

The bank loan with amount of HK\$300 million was repaid on 2 July 2019.

24 Share capital

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

| | At 30 June 2019 | | At 31 December 2018 | |
|------------------------|----------------------|--------------------|----------------------|--------------------|
| | Number of shares | Amount HK\$'000 | Number of shares | Amount HK\$'000 |
| Issued and fully paid: | <u>3,223,326,394</u> | <u>9,829,094</u> | <u>3,223,326,394</u> | <u>9,829,094</u> |

25 Employee share-based arrangements

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

Grant date on 24 January 2017

| Vesting date | Number of awarded shares awarded A | Number of awarded shares vested B | Number of awarded shares cancelled and forfeited C | Number of awarded share remains outstanding F = A - B - C |
|----------------------------|--|---|---|---|
| As of 31 December 2017 | 20,190,000 | 4,510,000 | 3,487,500 | 12,192,500 |
| Movement for the year 2018 | | | | |
| 4 May 2017 | - | - | 87,500 | |
| 4 May 2018 | - | 3,372,500 | 662,500 | |
| 4 May 2019 | - | - | 862,500 | |
| 4 May 2020 | - | - | 862,500 | |
| 4 May 2017 | 5,047,500 | 4,510,000 | 537,500 | - |
| 4 May 2018 | 5,047,500 | 3,372,500 | 1,675,000 | - |
| 4 May 2019 | 5,047,500 | - | 1,875,000 | 3,172,500 |
| 4 May 2020 | 5,047,500 | - | 1,875,000 | 3,172,500 |
| As of 31 December 2018 | 20,190,000 | 7,882,500 | 5,962,500 | 6,345,000 |
| Movement for the period | | | | |
| 4 May 2017 | - | - | - | |
| 4 May 2018 | - | - | - | |
| 4 May 2019 | - | - | 1,225,000 | |
| 4 May 2020 | - | - | 1,200,000 | |
| 4 May 2017 | 5,047,500 | 4,510,000 | 537,500 | - |
| 4 May 2018 | 5,047,500 | 3,372,500 | 1,675,000 | - |
| 4 May 2019 | 5,047,500 | - | 3,100,000 | 1,960,000 |
| 4 May 2020 | 5,047,500 | - | 3,075,000 | 1,960,000 |
| As of 30 June 2019 | <u>20,190,000</u> | <u>7,882,500</u> | <u>8,387,500</u> | <u>3,920,000</u> |

The awarded share remains outstanding due to service condition modification.

Grant date on 25 April 2018

| <i>Vesting date</i> | <i>Number of awarded shares awarded</i> | <i>Number of awarded shares vested</i> | <i>Number of awarded shares cancelled and forfeited</i> | <i>Number of awarded share remains outstanding F = A – B - C</i> |
|-----------------------------------|---|--|---|--|
| <i>Movement for the year 2018</i> | A | B | C | |
| 4 May 2018 | 712,500 | 712,500 | - | - |
| 4 May 2019 | 712,500 | - | 12,500 | 700,000 |
| 4 May 2020 | 712,500 | - | 12,500 | 700,000 |
| 4 May 2021 | 712,500 | - | 12,500 | 700,000 |
| As of 31 December 2018 | 2,850,000 | 712,500 | 37,500 | 2,100,000 |
| <i>Movement for the period</i> | | | | |
| 4 May 2018 | - | - | - | |
| 4 May 2019 | - | - | - | |
| 4 May 2020 | - | - | - | |
| 4 May 2021 | - | - | - | |
| 4 May 2018 | 712,500 | 712,500 | - | - |
| 4 May 2019 | 712,500 | - | 12,500 | 700,000 |
| 4 May 2020 | 712,500 | - | 12,500 | 700,000 |
| 4 May 2021 | 712,500 | - | 12,500 | 700,000 |
| As of 30 June 2019 | <u>2,850,000</u> | <u>712,500</u> | <u>37,500</u> | <u>2,100,000</u> |

26 Interests in structured entities

Interest in consolidated structure entities

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

As at 30 June 2019, the net assets of consolidated fund entities amounted to HK\$713 million (31 December 2018: HK\$550 million) with net carrying interest held by the Group being HK\$470 million (31 December 2018: HK\$362 million).

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

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

Interest in unconsolidated structure entities

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

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

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

The Group classified its investment in those unconsolidated entities as FVOCI investments with minimal loss exposure due to small investment amount involved.

27 Commitments

(a) Capital commitments

As at 30 June 2019, the Group has a total of HK\$20.5 million (31 December 2018: HK\$20.5 million) capital commitment contracted but not provided for.

(b) Investment commitments

- (i) In the normal course of business, the Group enters into commitments to purchase certain investments and capital contribution commitments to third party managed fund investment. The Group has investment commitments contracted for amounted to HK\$2,476,178,000 (31 December 2018: HK\$2,760,775,000).
- (ii) As at 30 June 2019, the Group has capital commitment to a joint venture for an amount of US\$20 million with US\$12.7 million (31 December 2018: US\$9.8 million) has been contributed.
- (iii) As disclosed in the announcement of the Company dated 4 February 2016, Yunfeng Financial Market Limited ("YFM") (formerly known as Reorient Financial Markets Limited), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Giant Investment Co., Ltd., and Jiangsu YuWell Technology Development Co., Ltd. ("Jiangsu Limited") on that day. As disclosed in the circular of the Company dated 29 April 2016, the joint venture agreement was superseded and replaced by the amended and restated joint venture agreement entered among YFM, Hangzhou Dr. Herbs Electronics Commerce Company Limited and Jiangsu Limited on 13 April 2016. Upon establishment of the joint venture company after obtaining all necessary approval as defined and disclosed in the circular, YFM is committed to contribute RMB1,290,000,000 of the registered capital of the joint venture company.

28 Material related party transactions

| | <i>Six months ended 30 June</i> | |
|---|---------------------------------|-------------|
| | <i>2019</i> | <i>2018</i> |
| | HK\$'000 | HK\$'000 |
| Investment management fee paid (<i>note (i)</i>) | 33,680 | - |
| Transitional services fee paid (<i>note (ii)</i>) | 5,813 | - |
| Policy endorsement fee paid (<i>note (iii)</i>) | 2,675 | - |

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

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

29 Reconciliation between HKFRSs and US GAAP

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

| Consolidated statement of financial position | As at 30 June 2019 | | | | Amounts under US GAAP |
|---|---|---|---|--|--------------------------|
| | <u>HKFRSs adjustments</u> | | | | |
| | Insurance- related balances reclassification ^[1] | Difference in impairment basis ^[2] | Difference in classification and measurement of investments ^[3] | Differences in lease accounting ^[4] | HK\$'000 |
| Assets | | | | | |
| Property and equipment | | | | 13,165 | 463,294 |
| Statutory deposits | | | | | 3,497 |
| Deferred tax assets | | (62) | | | 122 |
| Investments in associates | | | | | 63,764 |
| Goodwill and Intangible assets | | | | | 3,822,746 |
| Deferred acquisition costs and value of business acquired | 493,985 | | | | 8,233,339 |
| Investments | | 69,502 | (95,669) | | 50,328,822 |
| Advance reinsurance premiums | | | | | 116,571 |
| Reinsurers' share of outstanding claims | | | | | 47,469 |
| Insurance and reinsurance receivables | (60,380) | | | | 237,151 |
| Other account receivable and accrued income | | | | | 71,433 |
| Other receivables, deposit and prepayment | (752) | 22 | | | 633,775 |
| Bank balance - trust and segregated accounts | | 34 | | | 408,505 |
| Fixed bank deposits with original maturity over 3 months | | | | | 259,250 |
| Cash and cash equivalents | | 318 | | | 3,619,173 |
| Total assets | | | | | <u>68,308,911</u> |
| Liabilities | | | | | |
| Insurance contract provisions | 4,284,394 | | | | 46,471,305 |
| Investment contract liabilities | (4,291,739) | | | | - |
| Outstanding claims | | | | | 154,723 |
| Reinsurance premium payables | | | | | 414,619 |
| Other account payables | | | | | 449,888 |
| Other payables and accrued expense | 342,465 | | | | 1,261,284 |
| Tax payable | | | | | 28,788 |
| Financial liabilities at fair value through profit or loss | | | | | 633,921 |
| Lease liabilities | | | | 1,693 | 325,252 |
| Deferred tax liabilities | | | | | 677,748 |
| Bank borrowings | | | | | <u>1,804,610</u> |
| Total liabilities | | | | | <u>52,222,138</u> |
| Net assets | | | | | <u>16,086,773</u> |
| Capital and reserves | | | | | |
| Share capital | | | | | 9,829,094 |
| Reserves | 58,640 | 42,014 | (57,402) | 7,086 | (396,429) |
| Non-controlling interest | 39,093 | 27,800 | (38,267) | 4,386 | <u>6,654,108</u> |
| Total equity | | | | | <u>16,086,773</u> |

Yunfeng Financial Group Limited
Interim Results Announcement for the Six Months Ended 30 June 2019

| Consolidated income statement | As at 30 June 2019 | | | | Amounts under US GAAP |
|---|--|---|--|--|-----------------------|
| | HKFRSs adjustments | | | | |
| | Insurance-related balances reclassification ^[1] | Difference in Impairment basis ^[2] | Difference in classification and measurement of investments ^[3] | Differences in lease accounting ^[4] | HK\$'000 |
| Income | | | | | |
| Premiums and fee income | | | | | 2,381,792 |
| Premiums ceded to reinsurer | 159,458 | | | | (163,987) |
| Net premium and fee income | | | | | 2,217,805 |
| Change in unearned revenue liability | 18,538 | | | | (313,069) |
| Net earned premium and fee income | | | | | 1,904,736 |
| Brokerage commission, interest and other service income | | | | | 4,126 |
| Subscription, management and rebate fee income | | | | | 5,837 |
| Consultancy and advisory income | | | | | 687 |
| Net investment and other (loss)/income | (125,039) | 69,502 | (98,794) | | 1,760,951 |
| Overlay adjustment | | | 101,838 | | - |
| Reinsurance commission and profit | (5,277) | | | | 10,316 |
| Total income | | | | | 3,686,653 |
| Benefits, losses and expenses | | | | | |
| Net policyholders benefit | (6,634) | | | | (1,767,109) |
| Commission and related expenses | | | | | (533,641) |
| Deferral and amortisation of deferred acquisition costs | (43,024) | | | | 309,673 |
| Management and other expenses | (8,149) | | | 506 | (476,450) |
| Change in future policyholder benefits | 4,530 | | | | (893,102) |
| Total benefits, losses and expenses | | | | | (3,360,629) |
| Finance cost | | | | | (46,988) |
| Share of result of an associate | | | | | (1,114) |
| Profit before taxation | | | | | 277,922 |
| Tax credit | | | | | 746 |
| Profit after taxation | | | | | 278,668 |
| Profit attributable to: | | | | | |
| Owners of the Company | (3,358) | 41,701 | 3,044 | 506 | 123,896 |
| Non-controlling interests | (2,239) | 27,801 | | | 154,772 |
| | | | | | 278,668 |

Notes:

- [1] Major differences in relation to insurance-related balance are summarised as follows: financial reinsurance adjustments arising from different classification of reinsurance contracts under HKFRS and US GAAP; difference in value of business acquired recognised under HKFRS and US GAAP and corresponding differences on insurance contract provisions; difference in measurement of deferred acquisition costs and unearned revenue liability due to different amortisation under HKFRS and US GAAP; other miscellaneous differences due to different accounting principles under HKFRS and US GAAP.

- [2] Difference arises from different impairment methodology and basis (expected credit loss model vs. incurred loss model) under HKFRS and US GAAP.
- [3] Difference arises from different classification and subsequent measurement of debt and equity investments under HKFRS and US GAAP.
- [4] Differences in lease accounting are summarised as follows: difference in lease classification and subsequent measurement of right-of-use assets and lease expenses under HKFRS and US GAAP; and difference in transition approach and practical expedient between HKFRS and US GAAP.

30 Comparative figures

After the completion of the YF Life acquisition, the Group is largely dominated by the insurance business. Accordingly, condensed consolidated statement of financial position, condensed consolidated income statement, condensed consolidated statement of cash flows, and disclosure notes have been rearranged to conform to the current period's presentation.

31 Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2019 and 31 December 2018.

32 Non-adjusting events after the reporting period

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

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

Hong Kong, 29 August 2019

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