THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **NWS Holdings Limited**, you should at once hand this Circular to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

新創建 NWS

新創建集團有限公司*

NWS HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(stock code: 659)

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN FTLIFE INSURANCE COMPANY LIMITED

Joint Financial Advisers to the Company

HSBC

Morgan Stanley

Capitalized terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Circular.

A letter from the Board is set out on pages 8 to 27 of this Circular.

The Share Purchase Agreement and the transactions contemplated thereunder have been approved by way of written shareholders' approval pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. This Circular is being despatched to the Shareholders for information only.

11 April 2019

* *For identification purposes only*

CONTENTS

In this Circular, the following expressions have the following meanings, unless the context requires otherwise:

"Acquisition"	the acquisition by the Purchaser from the Vendor of the Sale Shares as contemplated under the Share Purchase Agreement;
"Affiliate"	in relation to a person, any other person directly or indirectly controlling, controlled by or under common control with such person, where "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise, and includes (i) ownership directly or indirectly of 50% or more of the shares in issue or other equity interests of such person; (ii) possession directly or indirectly of 50% or more of the voting power of such person; or (iii) the power directly or indirectly to appoint a majority of the members of the board of directors or similar governing body of such person, and the terms "controlling" and "controlled" have meanings correlative to the foregoing;
"Agreement Date"	27 December 2018, being the date of the Share Purchase Agreement;
"Announcement"	the announcement dated 27 December 2018 jointly made by NWD and NWS in relation to the Acquisition;
"APE"	annual premium equivalent, a measure of new business activity that is calculated as the sum of annualized regular premiums from new business plus 10% single premiums on new business written during a period;
"BMA"	the Bermuda Monetary Authority;
"Board"	the board of Directors;
"Business Day"	any day other than a Saturday, Sunday or any other day on which commercial banks located in the PRC and Hong Kong are closed;
"Circular"	this circular, including the appendices hereto;
"close associate"	has the meaning ascribed thereto in the Listing Rules;

"Company" or "NWS"	NWS Holdings Limited (新創建集團有限公司*), a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 659);
"Completion"	completion of the Acquisition in accordance with the Share Purchase Agreement;
"Completion Date"	the date of Completion;
"Conditions Precedent"	the conditions precedent to Completion as set out in the section headed "Major terms of the Share Purchase Agreement – Conditions Precedent" in the "Letter from the Board" of this Circular, or some of such conditions precedent as the context may so require;
"connected person"	has the meaning ascribed thereto in the Listing Rules;
"Consideration"	the consideration for the Acquisition as detailed in the section headed "Major terms of the Share Purchase Agreement – Consideration" in the "Letter from the Board" of this Circular;
"controlling shareholder"	has the meaning ascribed thereto in the Listing Rules;
"CSRC"	the China Securities Regulatory Commission;
"Deposit"	the amount of HK$1.56 billion, payable by the Purchaser to the Vendor under the circumstances set out in paragraph (a) of the section headed "Major terms of the Share Purchase Agreement – Payment of Consideration" in the "Letter from the Board" of this Circular;
"Director(s)"	director(s) of the Company;
"embedded value"	an actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions, which is equal to the sum of adjusted net worth and value of in-force business, excluding any economic value attributable to future new business;

"Encumbrance"	any mortgage, pledge, charge, lien, deposit or assignment by way of security, bill of sale, right to acquire, option or right of pre-emption, beneficial ownership (including usufruct and similar entitlements), any provisional or executional attachment and any other interest or right of any nature held, or claim that could be raised, by a third party, and any agreement, commitment or right to give, create or enforce any of the foregoing;
"Enlarged Group"	the Group and the Target Group;
"First Share Pledge"	the share charge granted by the Vendor in favour of the Purchaser over 14.9% of the entire issued share capital of the Target Company as security for, among other things, the Vendor's return of the Deposit and the Prepayment and payment of the Termination Penalty to the Purchaser under certain circumstances;
"Government Authority"	any government or quasi-government authority of any relevant state or territory (including political subdivisions), and includes central, provincial, municipal and other local or regional governments, any court or arbitral tribunal, regulatory and self-regulatory authority, and the governing or regulatory body or division of any securities exchange;
"Group" or "NWS Group"	the Company and its subsidiaries from time to time;
"Guarantors"	(i) Jiuding; (ii) Mr. Wu Gang（吳剛）; (iii) Mr. Wu Qiang（吳強）; (iv) Mr. Cai Lei（蔡蕾）; (v) Mr. Huang Xiaojie（黃曉捷）; and (vi) Mr. Qin Zhengyu（覃正宇）, being guarantors for the Vendor's obligations under the Share Purchase Agreement as detailed in the section headed "Major terms of the Share Purchase Agreement – The Guarantors' guarantee" in the "Letter from the Board" of this Circular;
"HIBOR"	Hong Kong Interbank Offered Rate;
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong;
"HKFRS"	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, or one or some of such standards as the context may so require;
"holding company"	has the meaning ascribed thereto in the Listing Rules;

"Hong Kong" or "HKSAR"	the Hong Kong Special Administrative Region of the PRC;
"IA"	the Insurance Authority of Hong Kong;
"ILAS Code"	the Code on Investment-Linked Assurance Schemes issued by the SFC;
"IO"	Insurance Ordinance (Cap. 41 of the Laws of Hong Kong);
"IRO"	Inland Revenue Ordinance (Cap. 112 of the Laws of Hong Kong);
"Jiuding"	Tongchuangjiuding Investment Management Group Co., Ltd.* (同創九鼎投資管理集團股份有限公司), a company incorporated in the PRC with limited liability, the issued shares of which are quoted on the over-the-counter trading platform operated by the NEEQ (stock code: 430719.NEEQ);
"Jiuding Group"	Jiuding and its subsidiaries from time to time;
"Latest Practicable Date"	3 April 2019, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained herein;
"LIBOR"	London Interbank Offered Rate;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Locked Box Date"	30 June 2018;
"Longstop Date"	the date referred to in the section headed "Major terms of the Share Purchase Agreement – Termination" in the "Letter from the Board" of this Circular;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules;
"NEEQ"	National Equities Exchange and Quotations Co., Ltd.* (全國中小企業股份轉讓系統有限責任公司);

"NWD"	New World Development Company Limited (新世界發展有限公司), a company incorporated in Hong Kong with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (stock code: 0017), and which was directly and indirectly interested in approximately 61% of the total issued share capital of NWS as at the Latest Practicable Date;
"NWD Group"	NWD and its subsidiaries from time to time;
"PRC"	the People's Republic of China, which, for the purpose of this Circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"Prepayment"	the amount of HK$1.56 billion, payable by the Purchaser to the Vendor under the circumstances set out in paragraph (b) of the section headed "Major terms of the Share Purchase Agreement – Payment of Consideration" in the "Letter from the Board" of this Circular;
"Purchaser"	Earning Star Limited, a company incorporated in Hong Kong with limited liability, which is an indirect wholly-owned subsidiary of NWS;
"Purchaser's Approvals"	the approvals referred to in paragraph (a) of the section headed "Major terms of the Share Purchase Agreement – Conditions Precedent" in the "Letter from the Board" of this Circular;
"Purchaser's Group"	each of the Purchaser and its Affiliates from time to time;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale Shares"	506,100,141 ordinary shares, 9,000,000 Class A redeemable preference shares and 10,000,000 Class C redeemable preference shares of the Target Company, representing the entire issued share capital of the Target Company;
"Second Share Pledge"	the share charge to be granted by the Vendor in favour of the Purchaser over 36.1% of the entire issued share capital of the Target Company as security for, among other things, the Vendor's return of the Deposit and the Prepayment and payment of the Termination Penalty to the Purchaser under certain circumstances;

"SFC"	the Securities and Futures Commission of Hong Kong;
"SFO"	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) of par value of HK$1.00 each in the share capital of the Company;
"Share Purchase Agreement"	the share purchase agreement dated 27 December 2018 entered into among the Vendor, the Guarantors and the Purchaser in relation to the Acquisition;
"Shareholder(s)"	holder(s) of Share(s);
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"subsidiary"	has the meaning ascribed thereto in the Listing Rules;
"Target Company"	FTLife Insurance Company Limited (富通保險有限公司), a company incorporated in Bermuda with limited liability, which was an indirect wholly-owned subsidiary of Jiuding as at the Latest Practicable Date;
"Target Group"	the Target Company and its subsidiaries from time to time;
"Termination Penalty"	the amount of HK$1.56 billion, payable by the Vendor to the Purchaser under the circumstances set out in paragraph (b) of the section headed "Major terms of the Share Purchase Agreement – The Purchaser's recourse if Completion does not take place" in the "Letter from the Board" of this Circular;
"Unaudited Pro Forma Financial Information"	the unaudited pro forma statement of assets and liabilities of the Enlarged Group as if the Acquisition had been completed on 31 December 2018, as set out in Appendix IV to this Circular;
"US"	the United States of America;
"US$" or "USD"	United States dollars, the lawful currency of the US;
"Vendor"	Bright Victory International Limited, a company incorporated in the British Virgin Islands with limited liability, which is an indirect wholly-owned subsidiary of Jiuding;

"Vendor's Approvals"	the approvals referred to in paragraph (b) of the section headed "Major terms of the Share Purchase Agreement – Conditions Precedent" in the "Letter from the Board" of this Circular;
"Vendor's Group"	each of the Vendor and its Affiliates from time to time, which for the avoidance of doubt shall at all times exclude members of the Target Group;
"Vendor's Parent"	TongChuang Holdings Limited (同創控股有限公司), formerly known as FTL Asia Holdings Limited (富通亞洲控股有限公司), a company incorporated in Bermuda with limited liability, which is the intermediate holding company below Jiuding and above the Vendor;
"VONB"	value of new business, being the present value of distributable statutory earnings in the future (less the cost of holding solvency capital) from new business sold in a period; and
"%"	per cent.

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新創建 NWS
新創建集團有限公司*
NWS HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)
(stock code: 659)

Executive Directors:
Dr. Cheng Kar Shun, Henry *(Chairman)*
Mr. Ma Siu Cheung *(Chief Executive Officer)*
Mr. Cheung Chin Cheung
Mr. Cheng Chi Ming, Brian
Mr. Ho Gilbert Chi Hang
Mr. Chow Tak Wing

Non-executive Directors:
Mr. To Hin Tsun, Gerald
Mr. Dominic Lai
Mr. Tsang Yam Pui
Mr. Lam Wai Hon, Patrick
Mr. William Junior Guilherme Doo

Independent non-executive Directors:
Mr. Kwong Che Keung, Gordon
Dr. Cheng Wai Chee, Christopher
The Honourable Shek Lai Him, Abraham
Mr. Lee Yiu Kwong, Alan
Mrs. Oei Fung Wai Chi, Grace
Mr. Wong Kwai Huen, Albert

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
28/F., New World Tower
18 Queen's Road Central
Hong Kong

11 April 2019

To the Shareholders and, for information purposes only, the holders of the outstanding share options of NWS

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL IN FTLIFE INSURANCE COMPANY LIMITED

1. INTRODUCTION

Reference is made to the Announcement. As disclosed in the Announcement, on 27 December 2018 (after trading hours), the Purchaser (an indirect wholly-owned subsidiary of NWS) entered into the Share Purchase Agreement with the Vendor (an indirect

* *For identification purposes only*

wholly-owned subsidiary of Jiuding) and the Guarantors in respect of the Acquisition for the Consideration and subject to the terms and conditions contained in the Share Purchase Agreement.

The purpose of this Circular is to provide you with, among other things, further information on the Acquisition and other information as is required to be contained in this Circular under the Listing Rules.

2. MAJOR TERMS OF THE SHARE PURCHASE AGREEMENT

Date

27 December 2018

Parties

(1) Vendor: Bright Victory International Limited, an indirect wholly-owned subsidiary of Jiuding

(2) Guarantors: (i) Jiuding; (ii) Mr. Wu Gang (吳剛); (iii) Mr. Wu Qiang (吳強); (iv) Mr. Cai Lei (蔡蕾); (v) Mr. Huang Xiaojie (黃曉捷); and (vi) Mr. Qin Zhengyu (覃正宇)

(3) Purchaser: Earning Star Limited, an indirect wholly-owned subsidiary of NWS

The Acquisition

Pursuant to the Share Purchase Agreement, the Vendor conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of the Target Company, free from any Encumbrance upon Completion. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of NWS, and the financial statements of the Target Group will be consolidated into the consolidated financial statements of the NWS Group.

Consideration

The Consideration payable by the Purchaser shall be:

(a) HK$21.5 billion; plus

(b) an amount equal to the interest accrued on HK$17.893 billion (being HK$21.5 billion less the value of the Deposit and the Prepayment, and less the agreed market value as at the Locked Box Date of certain investments held by the Target Company) between (and including) the Agreement Date and the Completion Date at the rate of 2% per annum; plus

(c) an amount equal to the interest accrued on the Deposit and the Prepayment respectively, each from the Agreement Date up to (but not including) the date of the relevant payment, at the rate of 2% per annum, being HK$8,291,500; minus

(d) any amount to be deducted for (i) any non-permitted value leakage out of the Target Group from (and including) the first calendar day after the Locked Box Date up to (and including) the Completion Date; and (ii) any loss upon disposal or redemption between the Locked Box Date and the Completion Date of certain investments held by the Target Company, as detailed in the sub-section headed "Pre-Completion undertakings in relation to certain investments" below.

On the assumption that (i) Completion is to take place on the Longstop Date and the interest referred to in paragraph (b) above is to be calculated accordingly; and (ii) no deduction is to be made under paragraph (d) above, the maximum possible amount of the Consideration payable by the Purchaser is approximately HK$22.045 billion.

Furthermore, instead of being paid to the Vendor, part of the Consideration calculated in the manner described above may, among other things, (i) be paid to the Target Company to settle any and all intragroup transactions between the Target Group and the Vendor's Group that remain outstanding on the Completion Date, as detailed in the sub-section headed "Pre-Completion undertakings in relation to certain intragroup transactions" below; (ii) be paid to the Target Company to settle certain investments held by the Target Company that the Vendor agreed to dispose of prior to Completion, as detailed in the sub-section headed "Pre-Completion undertakings in relation to certain investments" below; and (iii) be paid to a bank to settle a bank loan obtained by the Vendor's Parent.

The Consideration is expected to be funded by internal resources of the NWS Group and, if necessary, committed external financing from reputable international banks.

Determination of Consideration

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor taking into account various relevant factors including, among other things, (i) the Target Group's value of assets and business (with reference to, among other things, embedded value and net asset value), (ii) its history, (iii) its business prospects, (iv) its market position, as well as other factors set out in the section headed "Reasons for and benefits of the Acquisition" below, such as (v) the robust long-term outlook for the Hong Kong life insurance industry, which is primarily driven by a growing high net worth population, an aging population and the high savings rate in Hong Kong, as well as demand from PRC and overseas visitors looking for access to investment opportunities and comprehensive world-class financial product coverage, (vi) the Target Group being a high-quality, well-established platform led by a strong management team, (vii) the Target Group's track record of delivering above-industry growth with expanding margins, and (viii) the potential to realize synergies with the NWS Group.

By way of reference, the Consideration, adjusted for the adjustments set out in paragraphs (b) to (d) of the sub-section headed "Consideration" above, amounts to approximately HK$21.482 billion (as detailed in Note 3a to the Unaudited Pro Forma Financial Information of the Enlarged Group set out in Appendix IV to this Circular). This represents a price to embedded value ratio of approximately 1.34 times, based on the embedded value of the Target Group as at 31 December 2018 of approximately HK$16.076 billion (assuming a risk discount rate of 7.75% and adjusted for the difference between market value and assumed value of certain investments as agreed in the Share Purchase Agreement).

Having taken all the factors into consideration, the Board considers the level of Consideration to be fair and reasonable.

Payment of Consideration

The Consideration shall be paid by the Purchaser in the following manner:

(a) the Deposit of HK$1.56 billion shall be paid within five Business Days upon the latest of the following conditions having been satisfied:

(i) the approval of the shareholders of the relevant members of the Vendor's Group having been obtained;

(ii) the Vendor having delivered to the Purchaser a legal opinion issued and signed by a reputable PRC law firm expressly confirming, with reasonable legal basis, that all of the Vendor's Approvals have been obtained and remain in full force;

(iii) the Vendor having delivered (1) an undertaking to the Purchaser that the Vendor shall not create any new Encumbrance over any of the Sale Shares (other than the First Share Pledge and the Second Share Pledge) pending Completion or termination of the Share Purchase Agreement; and (2) the definitive share certificate(s) representing 51% of the Sale Shares to be held by the Purchaser for safekeeping;

(iv) the Vendor having delivered to the Purchaser the First Share Pledge which is duly signed by the Vendor but remains undated pending the approval of the IA, and which the Purchaser is irrevocably authorized to date and put into effect once the approval of the IA has been obtained; and

(v) the Vendor having delivered to the Purchaser a certified true copy of the submission made by the Vendor's Group or the Target Group to the IA for approval of the First Share Pledge;

(b) the Prepayment of HK$1.56 billion shall be paid within five Business Days upon the latest of the following conditions having been satisfied:

(i) the IA having approved the First Share Pledge and such pledge having become effective;

(ii) the Vendor having delivered to the Purchaser the Second Share Pledge which is duly signed by the Vendor but remains undated pending the approval of the IA, and which the Purchaser is irrevocably authorized to date and put into effect once the approval of the IA has been obtained;

(iii) the Vendor having delivered to the Purchaser a certified true copy of the submission made by the Vendor's Group or the Target Group to the IA for approval of the Second Share Pledge; and

(iv) the conditions set out in paragraphs (a)(i) to (a)(iii) above in relation to the Deposit being satisfied and remaining in force; and

(c) the remainder of the Consideration shall be paid at Completion after the amount is confirmed between the Vendor and the Purchaser in the manner described in the sub-section headed "Confirmation of Consideration and Completion" below.

As at the Latest Practicable Date, the Deposit of HK$1.56 billion and the Prepayment of HK$1.56 billion had both been paid to the Vendor, the First Share Pledge had become effective, and the Second Share Pledge was pending the approval of the IA.

Conditions Precedent

Completion is conditional upon the following Conditions Precedent being satisfied and/or waived (as the case may be):

(a) the following approvals, being the Purchaser's Approvals, shall have been obtained or made and remain in full force or effect:

(i) the written approval by the IA of the replacement of directors and controllers of the Target Company in the Acquisition (which shall include an indication of the statutory "fit and proper" requirement under the IO);

(ii) the written approval by the SFC with respect to the change of control of the Target Company under the ILAS Code;

(iii) the approval of the Acquisition by the BMA pursuant to the Insurance Act 1978 and/or the Exchange Control Act 1972 of Bermuda and their respective related regulations (as the case may be);

(iv) the approval of the Stock Exchange (if required);

(v) the approval of the shareholders of the relevant members of the Purchaser's Group (if required); and

(vi) any other approval, consent or waiver of creditors and third parties that are required by the Purchaser's Group for the consummation of the Acquisition;

(b) the following approvals, being the Vendor's Approvals, shall have been obtained or made and remain in full force or effect:

(i) the approval by the relevant PRC Government Authorities including but not limited to the CSRC and the NEEQ (if required);

(ii) the approval of the shareholders of the relevant members of the Vendor's Group (if required); and

(iii) any other approval, consent or waiver of creditors and third parties that are required by the Vendor's Group or the Target Group including but not limited to consents for material disposal or change of control;

(c) the fundamental warranties given by the Vendor and the Guarantors under the Share Purchase Agreement shall be true and accurate in all material respects;

(d) the Purchaser shall have delivered certain documents to the Vendor at or before Completion (or ensured that such documents will be delivered simultaneously with Completion), including but not limited to various documents evidencing or effecting the purchase of the Sale Shares and the settlement of the Consideration;

(e) the Vendor shall have delivered certain documents to the Purchaser at or before Completion (or ensured that such documents will be delivered simultaneously with Completion), including but not limited to various documents evidencing or effecting the disposal of the Sale Shares free from any Encumbrance;

(f) the transfer of certain key intellectual properties (including those already registered, and those to be registered between the Agreement Date and the Completion Date) in relation to the business of the Target Company from the Vendor's Group to the Target Company shall have been completed;

(g) the novation of certain employment contracts with core employees from the Vendor's Parent to the Target Company shall have been completed, with such core employees retained and new employment contracts signed between such core employees and the Target Company on commercially reasonable terms;

(h) the novation of employment contracts with each employee of any member of the Target Group or the Vendor's Parent performing duties or services for any member of the Target Group (other than those core employees referred to in paragraph (g) above) who will continue to perform his/her duties and services for any member of the Target Group after Completion, from the Vendor's Parent to the Target Company or a company designated by the Purchaser as the new employer in substitution for the Vendor's Parent, shall have been completed;

(i) the Vendor shall have developed and provided the final retention plan for core employees and core agents and brokers of the Target Group mutually agreed by the Vendor and the Purchaser in good faith and on commercially reasonable terms;

(j) the Vendor shall have provided to the Purchaser copies of signed legal opinions with reasonable legal basis in respect of the laws of Hong Kong, Bermuda and the PRC issued by reputable law firms in relation to the Target Company reasonably requested by the Purchaser;

(k) the Vendor shall have provided to the Purchaser certified true copies of:

   (i) the unqualified audited consolidated financial statements of the Target Group for the financial year ended 31 December 2018;

   (ii) the unqualified reviewed consolidated financial statements of the Target Group for the six months ended 30 June 2018; and

   (iii) the actuarial report relating to the embedded value of the Target Company as of 31 December 2018; and

(l) since the Locked Box Date, there shall not have occurred any event that has an effect that is materially adverse to:

   (i) the operations, business, financial conditions, properties or assets of the Target Group taken as a whole; or

   (ii) the ability of the Vendor to perform its obligations under the Share Purchase Agreement or to consummate the Acquisition in accordance with the terms thereof and applicable laws.

To the extent permitted by applicable law, the Purchaser may waive in writing the Conditions Precedent set out in paragraphs (c), (e), (f), (g), (h), (i), (j), (k) and (l) above, and the Vendor may waive in writing the Condition Precedent set out in paragraph (d) above.

As at 8 April 2019, the Conditions Precedent set out in paragraphs (a)(v) and (b) above have been satisfied.

Confirmation of Consideration and Completion

Within five Business Days after satisfaction or waiver of all the Conditions Precedent (other than the Conditions Precedent set out in paragraphs (d) and (e) of the sub-section headed "Conditions Precedent" above), the Vendor shall deliver to the Purchaser a statement setting out in reasonable detail the calculation of the Consideration (after subtracting the Deposit and the Prepayment and taking into account the adjustments to be made as detailed in the sub-section headed "Consideration" above) together with reasonable supporting documents. The Purchaser shall be entitled to review such statement and raise questions and request for further supporting documents and discuss with the Vendor in good faith with a view to agreeing on the calculation within ten Business Days after receiving such statement. Upon its satisfaction of the supporting documents and agreeing on the calculation, the Purchaser shall deliver to the Vendor a final written statement to confirm its agreement on the calculation.

Completion shall occur at 10:00 a.m. on the Completion Date, being the tenth Business Day after the date of the Purchaser delivering the aforesaid final written statement to confirm its agreement on the calculation.

Pre-Completion undertakings in relation to certain intragroup transactions

In relation to certain intragroup transactions between the Target Group and the Vendor's Group (including a loan owed by Jiuding to the Target Company, certain bonds issued by a member of the Vendor's Group and held by the Target Company, and other outstanding payments due from the Vendor's Group to the Target Group), the Vendor undertook to the Purchaser to settle such transactions before Completion, failing which part of the Consideration will be paid to the Target Company by the Purchaser to settle the same on behalf of the Vendor, instead of being paid to the Vendor.

Pre-Completion undertakings in relation to certain investments

In relation to certain investments held by the Target Company (including listed shares, bonds and private equity funds), the Vendor undertook to the Purchaser (i) to dispose of or to allow the redemption upon maturity (as applicable) of such investments before Completion; (ii) to have an amount equal to any loss resulting from the aforesaid disposal or redemption (as compared to the corresponding agreed market value as at the Locked Box Date) deducted from the Consideration; and (iii) if the aforesaid disposal or redemption does not take place, to purchase such investments from the Target Company, and to have part of the Consideration equal to the corresponding agreed market value as at the Locked Box Date paid to the Target Company on behalf of the Vendor.

Post-Completion undertakings in relation to certain investments

In relation to certain investments held by the Target Company (including listed shares and bonds), to the extent such investments have not been disposed of or have not matured at Completion, the Vendor undertook to the Purchaser (i) in the case of listed shares, to purchase at a pre-agreed price of such shares in cash from the Target Company within a prescribed period of time after Completion; and (ii) in the case of bonds, to compensate the Purchaser in cash for any loss resulting from the redemption upon maturity of such bonds (as compared to the corresponding agreed market value as at the Locked Box Date), or to purchase such bonds in cash at their face value plus accrued interests from the Target Company if such bonds are not redeemed upon maturity.

Termination

Under the Share Purchase Agreement, the Longstop Date shall be the date falling 18 months from the Agreement Date, or any such later date as mutually agreed in writing between the Vendor and the Purchaser.

The Share Purchase Agreement may be terminated under any of the following situations:

(a) at any time upon the mutual written consent of the Vendor, the Guarantors and the Purchaser;

(b) if Completion has not occurred by the Longstop Date;

(c) if any of the Conditions Precedent has become irrevocably failed to be satisfied prior to the Longstop Date;

(d) upon written notice by the Purchaser, at the change in control, bankruptcy or liquidation of Jiuding;

(e) upon written notice by the Purchaser, at the issuance of material unfavourable decision by Hong Kong or PRC Government Authorities against the Target Group in relation to its business operation;

(f) upon written notice by the Purchaser, upon receiving non-appealable refusals by the PRC authorities of the filings and registrations that are absolutely necessary for the completion of the Acquisition or any non-reversible definitive indication from any PRC governmental authorities that any filings required for the Acquisition on or after Completion may not be obtained or completed; or

(g) upon written notice by the Purchaser, at the occurrence of any event or final result of any investigation of:

(i) the Target Company, by any Hong Kong or PRC Government Authorities; or

(ii) Jiuding, by any PRC Government Authorities;

that has a material adverse effect on the Acquisition.

The Purchaser's recourse if Completion does not take place

If Completion does not take place for any reason, the Vendor shall promptly take the following actions in relation to the Deposit, the Prepayment and/or the Termination Penalty and also pay any applicable interest accrued thereon, and the Purchaser shall be entitled to enforce its rights, claims and remedies under the First Share Pledge and the Second Share Pledge until such actions have been taken by the Vendor in full:

(a) if the Acquisition is not approved by the IA due to causes solely attributable to the Purchaser, upon termination of the Share Purchase Agreement, the Vendor shall be entitled to retain the Deposit but shall return the Prepayment in full to the Purchaser;

(b) if the Acquisition is not approved by the IA due to causes solely attributable to the Vendor, upon termination of the Share Purchase Agreement, the Vendor shall return the Deposit and the Prepayment in full and pay the Termination Penalty of HK$1.56 billion to the Purchaser; and

(c) if the Acquisition is terminated for any reason other than those set out in paragraphs (a) and (b) above, upon termination of the Share Purchase Agreement, the Vendor shall return the Deposit and the Prepayment in full to the Purchaser,

where the causes for failure to obtain the approval of the IA for the Acquisition shall be solely based on the determination by the IA in written form.

Interest shall accrue on the Deposit, the Prepayment and/or the Termination Penalty up to (and including) the date of return or payment of all or any portion of such amounts by the Vendor to the Purchaser at interest rates ranging from 0% to 20% per annum (depending on which of the above paragraphs (a) to (c) applies and also when such amounts are returned or paid).

The Guarantors' guarantee

As a primary obligor and not a mere surety, each of the Guarantors undertook to, on a joint and several basis, among other things:

(a) irrevocably and unconditionally guarantee to the Purchaser the due and punctual performance of each obligation of the Vendor contained in the Share Purchase Agreement, and perform or procure the Vendor to perform from time to time on demand any obligation which the Vendor is at any time required to perform under or pursuant to the Share Purchase Agreement and which has not been performed at the time the demand is made; and

(b) use its or his best efforts and take all necessary steps within its or his power or right to enable and procure the Vendor to perform its obligations under the Share Purchase Agreement (including voting in favour of the Acquisition at the shareholders' meeting of Jiuding and obtaining the Vendor's Approvals), and bear unlimited joint and several liability for all and any of the obligations or liabilities of the Vendor under the Share Purchase Agreement.

3. REASONS FOR AND BENEFITS OF THE ACQUISITION

The NWS Group sees the Acquisition as a unique opportunity to extend its businesses into the attractive insurance sector and at the same time achieve synergies with its existing businesses. Potential synergy areas for the Target Group with the NWS Group include collaboration with the NWS Group's expanding healthcare portfolio to provide value-added services to new and existing policyholders, as well as leverage with the NWS Group's well-known brand name in Hong Kong and the PRC to attract new customers.

Furthermore, with the support of the NWD Group, the Target Group could also explore cross-promotion opportunities and greater connectivity with the NWD Group's affluent customer base, collaborate with the NWD Group's expanding wellness portfolio with an aim to provide more value-added services to new and existing policyholders, and potentially leverage the NWD Group's expanding footprint in the Greater Bay Area and tap into such market in the future.

The Target Group is expected to benefit from the robust outlook of the Hong Kong life insurance industry, which is primarily driven by a growing high net worth population, an aging population and the high savings rate in Hong Kong, as well as demand from PRC and overseas visitors looking for access to investment opportunities and comprehensive world-class financial product coverage.

Within the attractive Hong Kong life insurance industry, the Target Group represents a high-quality acquisition opportunity with a demonstrated track record. The Target Group has a comprehensive product portfolio with innovative features that suits customers' needs throughout their life cycles, and maintains a large and highly productive sales force consisting of 2,858 tied agents and strategic partnerships with 248 brokers as of 31 December 2018. With the competitive product suite and distribution channels, the Target Group has delivered a robust annual growth in APE of 19.8% from 2016 to 2017 and 43.8% from 2017 to 2018 (higher than -16.2% and 9.8%, respectively, for the industry), according to provisional statistics for long term business published by the IA[1]. The Target Group has also been focusing on value and quality growth and achieved expanding margins. Its VONB for the year ended 31 December 2018 was approximately HK$604 million, representing a remarkable annual growth rate of 74.1% compared to the previous year. Meanwhile, the Target Group has maintained a healthy year-end solvency ratio above 500% as at 31 December 2016, 2017 and 2018, which is significantly above the minimum regulatory requirement of 150%, ensuring sustainable future development.

The Target Group shall benefit from the NWS Group being a committed, long-term, strategic shareholder with robust financial strength and a longstanding reputation in Hong Kong and the PRC, thereby creating additional value to the Target Group and hence the NWS Group. The Board also believes that the Target Group will contribute solid recurring income to the NWS Group and its sustainable growth prospects and recurring income characteristics as an insurance business are highly complementary to the NWS Group's existing business portfolio.

The Board are of the view that the Acquisition is on normal commercial terms and that the terms of the Share Purchase Agreement are fair and reasonable and in the interests of NWS and the Shareholders as a whole.

4. FINANCIAL EFFECTS OF THE ACQUISITION

After Completion, the Target Group will become indirect wholly-owned subsidiaries of NWS and their results would be consolidated into the consolidated financial statements of the NWS Group. 100% of the issued share capital and voting rights of the Target Company will be held indirectly by NWS upon Completion.

According to the unaudited condensed consolidated financial information of the NWS Group as contained in the interim report of NWS for the six months ended 31 December 2018, the unaudited total assets and total liabilities of the NWS Group as at 31 December 2018 were approximately HK$76.750 billion and HK$27.315 billion, respectively.

[1] Please refer to https://www.ia.org.hk/en/infocenter/statistics/quarterly_release_of_provisional_statistics_for_long_term_business.html.

The Unaudited Pro Forma Financial Information is set out in Appendix IV to this Circular for illustrative purposes. The Unaudited Pro Forma Financial Information was prepared based on the unaudited pro forma statement of assets and liabilities of the Enlarged Group as if the Acquisition had been completed on 31 December 2018. According to the Unaudited Pro Forma Financial Information, the financial effects of the Acquisition on the NWS Group is summarized as follows:

a. Assets

As at 31 December 2018, the unaudited consolidated total assets of the NWS Group were approximately HK$76.750 billion. According to the Unaudited Pro Forma Financial Information, the unaudited pro forma consolidated total assets of the Enlarged Group would have increased to approximately HK$137.877 billion.

b. Liabilities

As at 31 December 2018, the unaudited consolidated total liabilities of the NWS Group were approximately HK$27.315 billion. According to the Unaudited Pro Forma Financial Information, the unaudited pro forma consolidated total liabilities of the Enlarged Group would have increased to approximately HK$88.603 billion.

c. Earnings

For the year ended 30 June 2018, the audited consolidated profit attributable to shareholders of NWS was approximately HK$6.069 billion, and for the six months ended 31 December 2018, the unaudited consolidated profit attributable to shareholders of NWS was approximately HK$2.274 billion. According to the financial information of the Target Group as set out in Appendix II to this Circular, the audited consolidated net profit of the Target Group for the year ended 31 December 2018 was approximately HK$1.228 billion. Based on the track record of the Target Group, it is expected that after Completion, the Target Group could make a positive contribution to the profit of the NWS Group.

5. INFORMATION ON NWS GROUP, JIUDING GROUP AND THE TARGET GROUP

NWS Group and the Purchaser

The NWS Group is principally engaged in (i) the development, investment, operation and/or management of roads, environmental projects, commercial aircraft leasing as well as ports and logistics facilities; and (ii) the investment in and/or operation of facilities, duty free shops, healthcare, construction, transport and strategic investments. The Purchaser is an investment holding company which is an indirect wholly-owned subsidiary of NWS.

Jiuding Group, the Vendor and the Guarantors

The Jiuding Group is an investment group principally engaged in (i) the ownership of controlling long-term interests in, and the operation of, various businesses including insurance (namely, the Target Group's business), securities, private equity, real estate, communications equipment manufacturing and non-performing asset management; and (ii) the ownership of minority short-to-medium-term interests (primarily through proprietary investments in self-managed private equity funds) in various public and private companies in a wide range of industries.

The Vendor is an investment holding company which is an indirect wholly-owned subsidiary of Jiuding.

Jiuding (being one of the Guarantors) is the holding company of the Jiuding Group and its shares are quoted on the over-the-counter trading platform operated by the NEEQ (stock code: 430719.NEEQ). The other Guarantors (being five PRC citizens) together beneficially wholly own Tongchuangjiuding Investment Holding Co., Ltd.* (同創九鼎投資控股有限公司), which was the controlling shareholder of Jiuding with an approximately 46% shareholding in Jiuding as at the Latest Practicable Date.

To the best of the Board's knowledge, information and belief having made all reasonable enquiry, the Vendor and its ultimate beneficial owners (being the Guarantors) are third parties independent of NWS and its connected persons.

The Target Group

As at the Latest Practicable Date, the Target Company was indirectly wholly-owned by Jiuding. The Target Company is a life insurance company operating in Hong Kong, providing a broad range of protection and savings-related life and medical insurance products, serving both individual and institutional clients via tied agents and brokers. The Target Company has an insurer financial strength (IFS) rating by Fitch of A- and an insurance financial strength rating (IFSR) by Moody's of Baa1 (according to their respective latest reports as at the Latest Practicable Date), and was ranked as the 11th largest Hong Kong life insurance company by APE for the year ended 31 December 2018 (based on provisional statistics for long term business published by the IA[2]).

Business and revenue model

As a life insurance business, the Target Group operates on a business model involving insurance policies with the insured persons and/or policyholders, whereby the Target Group receives a premium from the policyholder, who is indemnified if a specified contingency arises.

* *For identification purposes only*

2 Please refer to https://www.ia.org.hk/en/infocenter/statistics/quarterly_release_of_provisional_statistics_for_long_term_business.html.

A typical insurance cycle can be summarized in three stages:

(i) the Target Group receives the premiums paid for the policies and incurs acquisition costs (including distribution cost) and administrative expenses;

(ii) the premiums earned in stage (i) and the Target Group's own capital are invested to generate investment income; and

(iii) the Target Group will pay out in case a claim arises from the policies.

Given the described insurance cycle, there are mainly two sources of profit, namely underwriting results, which are driven by the size of the costs (both claims and other operating costs) compared to the premiums received, and investment performance, which is driven by the returns made on invested assets.

The Target Group applies mathematical and actuarial tools to construct probability tables for mortality and critical illnesses, and for calculating the expected returns on invested assets. This information is then used to price the products, with the objective of making a margin over the costs the Target Group expects to incur.

Management team

The Target Group has a capable and professional management team with diverse background and substantial expertise in the life insurance industry. Leveraging the extensive experience in top tier insurance companies both in Hong Kong and the PRC, the management team has profound understanding and insights of the industry:

- **Mr. FANG, Lin（方林）– chairman and non-executive director:** Prior to joining the Target Group in 2016, Mr. Fang had served China Pacific Insurance (Group) Co., Ltd. and its affiliates and branches for over 20 years in various capacities including secretary of the board of directors, assistant to president, executive member of management committee, marketing director and deputy general manager. Mr. Fang holds a Bachelor of Mechanical Engineering degree from South China University of Technology in the PRC, a Master of Business Administration degree from Antai College of Economics and Management of Shanghai Jiao Tong University in the PRC, and an Executive Master of Business Administration degree from Cheung Kong Graduate School of Business in the PRC.

- **Mr. YANG, Gerard Tak Ho（楊德灝）– chief executive officer and executive director:** Mr. Yang had served MetLife Limited for over 20 years in various capacities including interim chief executive officer for Hong Kong, chief financial officer, and vice president and chief financial officer for the Asia Pacific region. Thereafter, he had been the chief administrative officer of the Target Group since December 2016 until he assumed his current role as the chief executive officer in January 2018. Mr. Yang is an associate member of CPA Australia. He holds a Bachelor of Economics (Accounting) degree from Macquarie University in Australia.

- **Mr. KO, Hon Wa（高漢華）– vice president and appointed actuary:** Mr. Ko has more than 30 years of work experience in the insurance industry. Before joining the Target Group in 2012, he had served as regional head of actuarial services and regional head of life risk at AXA Asia Region, interim chief financial officer at AXA-Minmetals China, chief operating officer and appointed actuary at Standard Life (Asia) Limited, as well as senior roles at Manulife Financial Asia Limited. Mr. Ko is a fellow member of the Society of Actuaries and the Actuarial Society of Hong Kong. He holds a Master of Management Science degree from the University of Manitoba in Canada and Bachelor of Laws degree from Peking University in the PRC.

- **Ms. YEUNG, Kuen Christine（楊娟）– chief product officer:** Ms. Yeung has more than 20 years of work experience in the insurance industry. Before joining the Target Group, she had served senior roles at various insurance companies such as AIA Group Limited, Manulife Financial Asia Limited and ING Asia/Pacific Limited. Ms. Yeung is a designated Actuary of The Institute of Actuaries of Australia. She holds a Bachelor of Economics (Actuarial Studies) degree from Macquarie University in Australia.

- **Mr. LEUNG, Tsz Lun（梁子倫）– chief partnership distribution officer:** Mr. Leung has more than 20 years of work experience in the insurance industry. Before joining the Target Group, he had held senior distribution roles at large international insurance companies, including head of sales planning and execution at AXA China Region Insurance Company Limited. Mr. Leung is a qualified SFC Type 4 regulated activity (advising on securities) Responsible Officer and Type 1 regulated activity (dealing in securities) Licensed Representative. He holds a Bachelor of Science (Majoring in Computer Science) degree and a Bachelor of Commerce (Majoring in Information System & Marketing) degree from the University of Auckland in New Zealand.

Financial performance

According to the audited consolidated financial statements of the Target Group for the three financial years ended 31 December 2016, 2017 and 2018 prepared in accordance with HKFRS, the consolidated profit before and after taxation of the Target Group extracted from the audited consolidated financial statements for these three financial years were as follows:

	For the financial year ended 31 December		
	2018	**2017**	**2016**
	HK$'million	*HK$'million*	*HK$'million*
Profit before taxation	1,283.3	1,039.2	654.9
Profit after taxation	1,228.1	996.4	609.3

According to the audited consolidated financial statements of the Target Group for the financial year ended 31 December 2018 prepared in accordance with HKFRS, the consolidated total asset value and net asset value of the Target Group as at 31 December 2018 extracted from the audited consolidated financial statements were approximately HK$52.153 billion and approximately HK$12.774 billion, respectively. The embedded value of the Target Group as at 31 December 2018 was approximately HK$16.076 billion (assuming a risk discount rate of 7.75% and adjusted for the difference between market value and assumed value of certain investments as agreed in the Share Purchase Agreement), and its VONB for the year ended 31 December 2018 was approximately HK$604 million.

Business plan

To achieve its long term goals, the Target Group will continue to recruit high-calibre talents to expand the sales teams through various innovative platforms, and will continue to focus on key strategic initiatives in areas such as talent development, product innovation, sales and distribution management, finance and actuarial, as well as investment portfolio management. The Target Group will continue to upgrade its existing products in light of latest market developments and emerging customer needs, leveraging on its success in innovating and marketing new flagship products. The Target Group has also entered the market of Voluntary Health Insurance Scheme (VHIS) with a series of new medical products to complement its existing products and to generate additional growth.

The Target Group will continue to upgrade and transform both its technology systems and its business processes with different automation and digitalization initiatives in all aspects of business, spanning from optimizing back-end systems to developing online distribution platforms to supporting mobile customer self-servicing capabilities.

Furthermore, the Target Group's long-term vision of "achieving long-term growth in Hong Kong, while strengthening integration with China and focusing on the Greater Bay Area" is highly complementary with the NWS Group's development strategy. Upon Completion, the Target Group will achieve synergy through collaboration with the NWS Group's expanding healthcare portfolio, as well as leveraging on the NWS Group's well-known brand name in Hong Kong and the PRC to attract new customers.

Overview of the Hong Kong insurance industry

The insurance industry is one of the key financial services industries in Hong Kong. The Hong Kong insurance industry consists of two sectors, namely long term insurance and general insurance. According to the press release published by the IA on 15 March 2019[3] and statistics released by the Census and Statistics Department of Hong Kong on 27 February 2019[4], the total gross premiums from general and long term insurance business were HK$531.7 billion in 2018, representing approximately 18.7% of the gross domestic product of Hong Kong. In particular, the premiums from long term insurance business were HK$478.2 billion, which accounted for approximately 89.9% of the total gross premiums of the industry, representing an annual growth of 8.3% compared to 2017.

There are nine classes of long term insurance business under the IO, namely Class A (Life and annuity), Class B (Marriage and birth), Class C (Linked long term), Class D (Permanent health), Class E (Tontines), Class F (Capital redemption), Class G (Retirement scheme management category I), Class H (Retirement scheme management category II) and Class I (Retirement scheme management category III), among which the Target Company is authorized to carry out Classes A, C, G, H and I business. These classes of insurance business can be further categorized into individual business, retirement scheme group business and non-retirement scheme group business. Approximately 97.3% and 90.5% of the long term insurance business in terms of number of policies and premiums, respectively, in 2018 was attributable to individual business, as calculated based on the summary of provisional statistics of the Hong Kong insurance business for 2018 published by the IA on 15 March 2019[5].

Based on the aforesaid provisional statistics, the APE from long term business amounted to HK$108.1 billion in 2018, representing an annual growth of 9.8% compared to 2017, among which the APE from individual business amounted to HK$107.7 billion in 2018. Individual business consists of investment-linked life and annuity business, non-investment-linked life and annuity business, and other individual business, which accounted for approximately 2.3%, 97.5% and 0.3%, respectively, of the APE from individual business in 2018. The distribution channels of individual business mainly consist of agents, banks, brokers and direct channels, which accounted for approximately 35.4%, 47.2%, 16.6% and 0.8%, respectively, of the APE from individual business in 2018.

In recent years, PRC visitors have become an important customer group for the long term insurance business in Hong Kong. In 2018, the APE from PRC visitors amounted to HK$38.9 billion, which accounted for 36.1% of APE from individual business in 2018.

3 Please refer to https://www.ia.org.hk/en/infocenter/press_releases/20190315.html.
4 Please refer to https://www.censtatd.gov.hk/hkstat/sub/sp250.jsp?productCode=B1030002.
5 Please refer to https://www.ia.org.hk/en/infocenter/press_releases/20190315.html (see annex to press release).

Overview of the regulatory environment

The Target Company is a registered Bermuda insurance company and is subject to regulation and supervision by the BMA and the Ministry of Finance in Bermuda in respect of maintenance of head office and principal office, minimum levels of capital and surplus, solvency standards, dividends and distributions, and ownership and transfer of shares, among other things. In addition, the Target Company is an authorized insurer regulated by the IA, which is empowered under the IO to impose and enforce regulatory requirements in respect of adequacy of capital, adequacy of solvency, fitness and properness of management and shareholders, scope of investment activities, and adequate reinsurance arrangements, among other things.

The Target Company is also a member of the Hong Kong Federation of Insurers, a self-regulatory industry body that issues codes and regulations binding on its members in respect of the administration of insurance agents and the provision of insurance products and services, among other things. Furthermore, certain insurance policies issued by the Target Company are subject to regulation by the SFC under the ILAS Code.

The Acquisition is subject to certain change of control provisions under Bermuda law as stipulated in the Insurance Act 1978 and the Exchange Control Act 1972 of Bermuda and their respective related regulations, as well as under Hong Kong law as stipulated in the IO and its subsidiary legislation and also guidelines published by the IA. As a result, the Acquisition is conditional upon the satisfaction of certain approval and/or notification requirements imposed by the BMA and the IA, which have been reflected in the Conditions Precedent.

6. LISTING RULES IMPLICATIONS

As the highest of the applicable percentage ratios in respect of the Acquisition exceeds 25% but is below 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules, and is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, no Shareholder or any close associate of any Shareholder has any material interest in the Share Purchase Agreement and the Acquisition, and thus no Shareholder would be required to abstain from voting for the approval of the Share Purchase Agreement and the transactions contemplated thereunder if the Company were to convene and hold a general meeting.

As disclosed in the Company's announcement dated 8 April 2019, on 8 April 2019 (after trading hours), the Company obtained an irrevocable and unconditional approval in writing for the Acquisition from NWD (together with certain of its wholly-owned subsidiaries), which were interested in an aggregate of approximately 60.88% of the total issued share capital of the Company carrying voting rights as at the date of such approval. Therefore, in accordance with Rule 14.44 of the Listing Rules, the shareholders' approval requirement in respect of the Acquisition under Chapter 14 of the Listing Rules has been satisfied in lieu of a general meeting of the Company, and hence the Condition Precedent set out in paragraph (a)(v) of the section headed "Major terms of the Share Purchase Agreement – Conditions Precedent" above has been satisfied.

7. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Circular.

Yours faithfully
For and on behalf of the board of
NWS HOLDINGS LIMITED
Dr. Cheng Kar Shun, Henry
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out as a comparative table or refer to in this Circular the information for the last three financial years and the six months ended 31 December 2018 with respect to the financial performance, financial record and position, and the latest published audited consolidated statement of financial position together with the notes to the financial statements for the last financial year for the Group. The financial information of the Group is disclosed in the following documents which have been published on the HKEXnews website at www.hkexnews.hk and the Company's corporate website at www.nws.com.hk:

a. The unaudited condensed consolidated interim financial information of the Group for the six months ended 31 December 2018 are set out in the interim report of the Company for the six months ended 31 December 2018 (pages 13 – 58). Please also see below link to such interim report:

   http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0313/LTN20190313449.pdf

b. The audited consolidated financial statements of the Group for the year ended 30 June 2018 are set out in the annual report of the Company for the year ended 30 June 2018 (pages 116 – 227). Please also see below link to such annual report:

   http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/1015/LTN20181015620.pdf

c. The audited consolidated financial statements of the Group for the year ended 30 June 2017 are set out in the annual report of the Company for the year ended 30 June 2017 (pages 116 – 215). Please also see below link to such annual report:

   http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/1016/LTN20171016565.pdf

d. The audited consolidated financial statements of the Group for the year ended 30 June 2016 are set out in the annual report of the Company for the year ended 30 June 2016 (pages 92 – 189). Please also see below link to such annual report:

   http://www3.hkexnews.hk/listedco/listconews/SEHK/2016/1011/LTN20161011445.pdf

2. INDEBTEDNESS OF THE ENLARGED GROUP

Borrowings

At the close of business on 28 February 2019, being the most recent practicable date for the purpose of this statement of indebtedness, the Enlarged Group had outstanding borrowings of approximately HK$14,427.3 million, details of which are set out as follows:

	HK$'million
The Group	
Bank loans	
Unsecured	11,288.4
Other borrowings	
Unsecured	0.4
Total borrowings of the Group	11,288.8
The Target Group	
Other borrowings	
Unsecured	3,138.5
Total borrowings of the Target Group	3,138.5
Total borrowings of the Enlarged Group	14,427.3

Financial guarantee contracts

At the close of business on 28 February 2019, the Target Group had no financial guarantee contracts, while the Group's financial guarantee contracts were as follows:

	HK$'million
Guarantees for credit facilities granted to	
Associated companies	1,706.8
Joint ventures	2,145.0
Total financial guarantee contracts of the Group	3,851.8

As at 28 February 2019, the Group has provided a pledge over its 30% equity interest in Hubei Suiyuenan Expressway Co., Limited*（湖北隨岳南高速公路有限公司）as security for a bank loan of this company. The corresponding amount of the guarantee has been included in guarantees for credit facilities granted to associated companies set out above.

As at 28 February 2019, the Group and NWD, through their respective wholly-owned subsidiaries, namely NWS Sports Development Limited ("**NWS Sports**") and New World Sports Development Limited ("**New World Sports**"), have undertaken to provide the guarantee in favour of the Government of HKSAR (the "**Government**") and the guarantee has been entered into as at 28 February 2019. Pursuant to the guarantee, NWS Sports and New World Sports jointly and severally guaranteed to the Government, as a primary obligation, the punctual, true and faithful performance and observance by Kai Tak Sports Park Limited ("**KTSPL**") of the obligations, terms, conditions and liabilities to be performed, observed and assumed by KTSPL under the contract entered into between the Government and KTSPL for the design, construction and operation of Kai Tak Sports Park (the "**DBO Contract**") and any further agreement entered into between the Government and KTSPL in connection with the DBO Contract. NWS Sports, the Company, New World Sports and NWD have also entered into a deed of counter-indemnity, under which the Group's guarantee towards KTSPL is up to the extent of 25% or amounts to approximately HK$7.5 billion. KTSPL, which is held as to 25% by NWS Sports and as to 75% by New World Sports, is an associated company of the Group.

Saved as aforesaid and apart from intra-group liabilities, as at the close of business on 28 February 2019, the Enlarged Group did not have any material debt securities issued and outstanding, or authorized or otherwise created but unissued, or term loans or other borrowings or indebtedness in the nature of borrowing of the Enlarged Group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, or outstanding mortgages or charges, or contingent liabilities or guarantees.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 June 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. SUFFICIENCY OF WORKING CAPITAL

As at the Latest Practicable Date, the Directors were of the opinion that, after taking into account the effect of the Acquisition, the cash flows generated from the operating activities of the Enlarged Group, and the financial resources available to the Enlarged Group, including internally generated funds, the existing bank borrowings and available banking facilities, and in the absence of unforeseeable circumstances, the Enlarged Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this Circular.

* *For identification purposes only*

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is committed to delivering value to the Shareholders and maximizing business growth opportunities through efficient capital and asset allocations. To remain both robust and resilient in an ever changing business environment, the Group has been assessing different opportunities with an aim to optimize its business portfolio, realize value through asset sales, and improve the efficiency of resources utilization. At the same time, the Group is proactively exploring and expanding into businesses that are compatible with its corporate philosophy to boost future cash flow contributions and sustainable growth prospects, while enhancing its corporate value.

The Group continues to grow its operations within its current range of infrastructure projects, particularly toll roads, environmental and commercial aircraft leasing projects, which have already provided a steady and diversified source of income to the Group. This stable income stream is expected to assist the Group in continuing to invest in profitable and cash generating projects.

The Group also continues to optimize its construction, transport and facilities management segments. Although these businesses already generate a stable stream of income for the Group, the Group seeks to ensure profitability by continuing to improve its service quality and focusing on cost optimization.

Leveraging management's experience from a diverse background, the Group is optimizing its business portfolio through acquisitions of quality businesses with robust growth potential and disposals of non-core assets, and has streamlined its operations to focus on its core businesses while actively identifying new business opportunities with growth potential that are in line with the Group's philosophy. The Group aspires to further strengthen its corporate value to achieve a sustainable and well-balanced development.

The Group reviews its funding requirements and debt maturity profile regularly to maintain financial flexibility for its operations, potential investments and growth plans, while keeping its gearing levels at a moderate level throughout the years. In January 2019, the Group issued guaranteed senior perpetual capital securities in an aggregate principal amount of US$1 billion to maintain a sustainable capital structure.

Following the signing of the Share Purchase Agreement, the Group continues to push forward on satisfying the conditions for Completion and plan for the integration between the Group and the Target Group. The Acquisition will provide synergies to the Group's business portfolio and introduce a new growth engine to the Group. Having served the Greater China Region for over a decade, the Group's focus on the Greater Bay Area and deep roots in Hong Kong provide the right platform for the Target Group to realize its full potential over the long term. Leveraging the Group's and the NWD Group's well-established immersive ecosystem of premium quality offerings to its customers and the community, the Group envisages that the Acquisition will provide more growth opportunities and synergies to the Enlarged Group.

Looking forward, the Group believes that by pursuing a prudent and balanced approach to development, seeking change and innovation that evolve over time, and injecting new vitality into corporate development, the Enlarged Group will be well-positioned to achieve sustainable growth.

The following is the text of a report set out on pages II-1 to II-134, received from the Target Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this Circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF FTLIFE INSURANCE COMPANY LIMITED TO THE DIRECTORS OF NWS HOLDINGS LIMITED

Introduction

We report on the historical financial information of FTLife Insurance Company Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II-4 to II-134, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2016, 31 December 2017 and 31 December 2018 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2016, 31 December 2017 and 31 December 2018 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-134 forms an integral part of this report, which has been prepared for inclusion in the circular of NWS Holdings Limited ("NWS") dated 11 April 2019 (the "Circular") in connection with the proposed acquisition of the Target Group by NWS.

Directors' responsibility for Historical Financial Information

The directors of NWS are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

The financial statements of the Target Group for the Relevant Periods ("Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2016, 31 December 2017 and 31 December 2018 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
11 April 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Target Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

Consolidated income statements
for the years ended 31 December 2016, 2017 and 2018
(Expressed in Hong Kong dollars)

	Note	**2018** *$'000*	**2017** *$'000*	**2016** *$'000*
Income				
Gross premiums		6,191,419	4,807,699	5,135,305
Less: Reinsurance premiums		(254,180)	(270,170)	(288,415)
Premiums, net of reinsurance	*4*	5,937,239	4,537,529	4,846,890
Interest income	*5*	1,500,131	1,298,797	1,053,472
Dividend and other investment income	*6*	78,424	53,133	2,747
Realised and unrealised capital (losses)/ gains on investments	*7*	(124,569)	65,579	23,626
Overlay approach adjustments	*2.2*	434,836	–	–
Other realised and unrealised (losses)/ gains		(30,227)	46,278	7,152
Fee and commission income	*8*	662,848	684,458	673,859
(Losses)/gains related to investments for unit-linked contracts		(903,059)	1,744,441	143,847
Other income		9,396	7,205	9,397
Total income		7,565,019	8,437,420	6,760,990
Expenses				
Claims and benefits, net of reinsurance	*9*	(5,104,354)	(4,000,869)	(4,246,047)
Charges related to unit-linked contracts		894,942	(1,725,872)	(145,875)
Agency commission and allowances		(1,741,396)	(1,281,089)	(1,106,657)
Change in deferred acquisition costs	*18*	603,041	464,389	272,605
Impairment losses	*10*	(38,668)	(17,414)	(24,996)
Operating and administrative expenses		(769,257)	(715,181)	(748,711)
Finance costs	*11*	(126,033)	(122,168)	(106,365)
Total expenses		(6,281,725)	(7,398,204)	(6,106,046)
Profit before tax	*12*	1,283,294	1,039,216	654,944
Tax	*14*	(55,187)	(42,817)	(45,654)
Profit for the year attributable to equity holders		1,228,107	996,399	609,290

Note: The Target Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transitions method chosen, the Historical Financial Information for the years ended 31 December 2016 and 2017 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 15. See notes 2.2(i) and 2.2(ii).

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of comprehensive income
for the years ended 31 December 2016, 2017 and 2018
(Expressed in Hong Kong dollars)

	Note	**2018** *$'000*	**2017** *$'000*	**2016** *$'000*
Profit for the year attributable to equity holders		1,228,107	996,399	609,290
Other comprehensive income for the year (after taxation and reclassification adjustments):				
Items that may be reclassified subsequently to profit or loss:				
– Cash flow hedges: net movement in the hedging reserve, before and after taxation	*29*	(250,066)	111,459	(25,251)
– Available-for-sale financial assets: net movement in the FVOCI reserve (recycling), before and after taxation	*23*	–	1,526,890	(134,960)
– Amount reported in other comprehensive income applying overlay approach, before and after taxation	*23*	(434,836)	–	–
– Debt instruments at fair value through other comprehensive income: net movement in the FVOCI reserve (recycling), before and after taxation	*23*	(2,494,071)	–	–
		(3,178,973)	1,638,349	(160,211)
Items that will not be reclassified subsequently to profit or loss:				
– Equity instruments at fair value through other comprehensive income: net movement in the FVOCI reserve (non-recycling), before and after taxation	*23*	(314,480)	–	–
		(314,480)	–	–
Other comprehensive income for the year		(3,493,453)	1,638,349	(160,211)
Total comprehensive income for the year attributable to equity holders		(2,265,346)	2,634,748	449,079

Note: The Target Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transitions method chosen, the Historical Financial Information for the years ended 31 December 2016 and 2017 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 15. See notes 2.2(i) and 2.2(ii).

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of financial position
at 31 December 2016, 2017 and 2018
(Expressed in Hong Kong dollars)

	Note	**2018** *$'000*	**2017** *$'000*	**2016** *$'000*
Assets				
Property, plant and equipment	*16*	126,236	55,234	63,398
Intangible assets	*17*	62,230	46,499	33,843
Deferred acquisition costs	*18*	4,851,730	4,248,689	3,784,300
Amounts due from intermediate holding companies	*35*	1,851,776	1,778,027	1,689,645
Amount due from the immediate holding company	*36*	27,396	27,396	24,818
Amounts due from fellow subsidiaries	*34*	9,288	9,602	8,793
Pledged deposits	*27*	10,000	10,000	10,000
Financial assets	*19*	32,194,332	31,769,048	24,342,722
Investments related to unit-linked contracts	*24*	8,446,744	9,509,665	8,020,190
Derivative financial instruments	*29*	738,879	992,791	957,966
Premiums receivables	*25*	237,656	192,410	142,753
Prepayments, deposits and other debtors	*26*	1,381,131	1,361,915	1,246,688
Cash and cash equivalents	*27*	2,215,277	2,433,839	3,437,324
Total assets		52,152,675	52,435,115	43,762,440
Liabilities				
Insurance contract liabilities	*38*	25,673,988	22,466,096	19,725,404
Investment contract liabilities	*40*	5,493	5,372	5,468
Liabilities related to unit-linked contracts	*41*	8,583,343	9,636,651	8,143,420
Derivative financial instruments	*29*	9,283	13,000	63,558
Interest-bearing liabilities	*37*	3,082,655	3,402,170	3,363,215
Payables to policyholders	*30*	1,331,921	1,209,975	922,425
Accrued expenses and other creditors	*33*	662,468	649,164	608,402
Tax payable		29,617	13,434	26,043
Total liabilities		39,378,768	37,395,862	32,857,935
Equity				
Issued capital	*42*	4,085,700	4,085,700	2,585,700
Reserves	*43*	8,688,207	10,953,553	8,318,805
Total equity attributable to equity holders		12,773,907	15,039,253	10,904,505
Total liabilities and equity		52,152,675	52,435,115	43,762,440

Note: The Target Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transitions method chosen, the Historical Financial Information for the years ended 31 December 2016 and 2017 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 15. See notes 2.2(i) and 2.2(ii).

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of changes in equity for the years ended 31 December 2016, 2017 and 2018

(Expressed in Hong Kong dollars)

	Issued share capital *$'000*	Share premium account *$'000*	Contributed surplus *$'000*	Share option reserve *$'000*	Hedging reserve *$'000*	FVOCI reserve (recycling)# *$'000*	FVOCI reserve (non-recycling) *$'000*	Retained profits *$'000*	Total equity attributable to equity holders *$'000*
At 1 January 2016	1,087,390	1,862,664	1,011,121	20,615	918,450	1,535,726	–	2,521,150	8,957,116
Changes in equity for 2016:									
Issuance of ordinary shares *(note 42)*	1,498,310	–	–	–	–	–	–	–	1,498,310
Profit for the year	–	–	–	–	–	–	–	609,290	609,290
Other comprehensive income for the year	–	–	–	–	(25,251)	(134,960)	–	–	(160,211)
Total comprehensive income for the year	–	–	–	–	(25,251)	(134,960)	–	609,290	449,079
At 31 December 2016 and 1 January 2017	2,585,700	1,862,664*	1,011,121*	20,615*	893,199*	1,400,766*	–*	3,130,440*	10,904,505
Changes in equity for 2017:									
Issuance of ordinary shares *(note 42)*	1,500,000	–	–	–	–	–	–	–	1,500,000
Profit for the year	–	–	–	–	–	–	–	996,399	996,399
Other comprehensive income for the year	–	–	–	–	111,459	1,526,890	–	–	1,638,349
Total comprehensive income for the year	–	–	–	–	111,459	1,526,890	–	996,399	2,634,748
At 31 December 2017 *(note)*	4,085,700	1,862,664*	1,011,121*	20,615*	1,004,658*	2,927,656*	–*	4,126,839*	15,039,253
Impact on initial application of HKFRS 9	–	–	–	–	–	(27,526)	(10,214)	37,740	–
Adjusted balance at 1 January 2018	4,085,700	1,862,664	1,011,121	20,615	1,004,658	2,900,130	(10,214)	4,164,579	15,039,253
Changes in equity for 2018:									
Profit for the year	–	–	–	–	–	–	–	1,228,107	1,228,107
Other comprehensive income for the year	–	–	–	–	(250,066)	(2,928,907)	(314,480)	–	(3,493,453)
Total comprehensive income for the year	–	–	–	–	(250,066)	(2,928,907)	(314,480)	1,228,107	(2,265,346)
Transfer upon disposal of equities at FVOCI *(note 28(h))*	–	–	–	–	–	–	18,584	(18,584)	–
At 31 December 2018	4,085,700	1,862,664*	1,011,121*	20,615*	754,592*	(28,777)*	(306,110)*	5,374,102*	12,773,907

* These reserve amounts comprised the consolidated reserves of $8,688,207,000 (2017: $10,953,553,000; 2016: $8,318,805,000) in the consolidated statements of financial position.

The $1,400,766,000 as at 31 December 2016 and $2,927,656,000 as at 31 December 2017 represent the available-for-sale investment revaluation reserve under HKAS 39 as at 31 December 2016 and 2017 respectively.

Note: The Target Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transitions method chosen, the Historical Financial Information for the years ended 31 December 2016 and 2017 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 15. See notes 2.2(i) and 2.2(ii).

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of cash flows
for the years ended 31 December 2016, 2017 and 2018
(Expressed in Hong Kong dollars)

	Note	**2018** *$'000*	**2017** *$'000*	**2016** *$'000*
Cash flows from operating activities				
Profit before tax		1,283,294	1,039,216	654,944
Adjustments for:				
Finance costs	*11*	126,033	122,168	106,365
Depreciation of property, plant and equipment	*16*	22,633	21,476	18,877
Amortisation of intangible assets	*17*	26,548	26,118	21,418
Loss on disposal of property, plant and equipment		9,511	2,149	–
Interest income from policy loans, loans to agents and other loan	*5*	(40,528)	(41,545)	(38,512)
Interest income from bonds, deposits and cash and cash equivalents	*5*	(1,389,265)	(1,187,320)	(945,109)
Interest income from loan to intermediate holding company/ former intermediate holding company	*5*	(70,338)	(69,932)	(69,851)
Dividend income from listed and unlisted investments	*6*	(78,209)	(53,137)	(2,482)
Dividend income related to investments for unit-linked contracts		(10,529)	(12,151)	(13,699)
Net realised and unrealised capital losses/(gains) on financial assets at fair value through profit or loss related to investments from unit-linked contracts		913,588	(1,732,290)	(122,430)
Realised and unrealised capital losses/(gains) on investments	*7*	124,569	(65,579)	(23,626)
Overlay approach adjustments	*23*	(434,836)	–	–
Impairment loss on loans to agents	*10*	24,171	18,559	24,454
Impairment loss on advances to agents and other intermediaries	*10*	–	–	123
Impairment loss on premiums receivables	*10*	3,323	3,731	8
Impairment loss on an available-for-sale financial asset	*10*	–	3,650	3,975
Impairment loss on financial assets measured at FVOCI	*10*	16,873	–	–
Reversal of impairment loss on loans to agents	*10*	(5,001)	(8,526)	(3,564)
Recovery on other receivables	*10*	(698)	–	–
Operating cash flows before changes in working capital		521,139	(1,933,413)	(389,109)

	Note	2018 $'000	2017 $'000	2016 $'000
Increase in policy loans		(11,977)	(366)	(39,804)
(Increase)/decrease in loans to agents and other loan		(61,654)	24,086	(26,229)
Decrease/(increase) in amounts due from fellow subsidiaries		314	(809)	(1,012)
Increase in amounts due from intermediate holding companies		(3,392)	(18,467)	(9,931)
Increase in amount due from the immediate holding company		–	(2,578)	(42,686)
Increase in deferred acquisition costs		(603,041)	(464,389)	(272,605)
Increase in premiums receivables		(48,569)	(53,388)	(128)
Decrease in prepayments, deposits and other debtors		88,289	66,870	94,870
Purchases of other financial assets		(9,658,922)	(7,919,391)	(4,375,745)
Proceeds from disposal of other financial assets		6,337,453	2,074,207	2,483,125
Purchases of financial assets at fair value through profit or loss related to investments from unit-linked contracts		(4,833,567)	(7,107,961)	(6,275,595)
Proceeds from disposal of financial assets at fair value through profit or loss related to investments from unit-linked products		4,963,349	7,351,042	6,151,851
Increase in payables to policyholders		121,946	287,550	280,746
Increase/(decrease) in accrued expenses and other creditors		24,363	48,659	(27,350)
Increase/(decrease) in investment contract liabilities		121	(96)	(968)
Increase in insurance contract liabilities		2,937,689	2,440,542	2,572,806
Increase in policyholders' dividends and bonuses		270,985	300,150	282,783
(Decrease)/increase liabilities related to unit-linked contracts		(1,053,308)	1,493,231	284,735
Cash (used in)/generated from operations		(1,008,782)	(3,414,521)	689,754
Interest received from policy loans, loans to agents and other loan		40,528	41,545	38,512
Interest received from bonds, deposits and cash and cash equivalents		1,265,647	1,005,845	861,392
Interest received from loan to an intermediate holding company		–	–	34,089
Interest paid on cross-currency swap agreements		(165,804)	(195,328)	(226,586)
Interest received from cross-currency swap agreements		157,340	185,098	217,468

	Note	2018 $'000	2017 $'000	2016 $'000
Dividends received from listed and unlisted investments and investments related to unit-linked contracts		93,993	57,214	15,926
Interest paid on cash collateral received for cross-currency swap agreements and forward starting swap agreements		(11,786)	(9,769)	(4,899)
Interest paid on interest-bearing liabilities		(77,221)	(64,962)	(79,046)
Hong Kong profits tax paid		(39,004)	(55,426)	(35,254)
Net cash inflow/(outflow) from operating activities		254,911	(2,450,304)	1,511,356
Cash flows from investing activities				
Purchases of property, plant and equipment	*16*	(103,154)	(15,461)	(33,577)
Proceeds from disposal of property, plant and equipment		8	–	–
Purchases of intangible assets	*17*	(42,279)	(38,774)	(23,466)
(Decrease)/increase in cash collateral received from counterparties	*29*	(258,814)	81,028	(45,581)
Net cash (outflow)/inflow from investing activities		(404,239)	26,793	(102,624)
Cash flows from financing activities				
Issuance of share capital	*42*	–	1,500,000	–
Proceeds from financing received under a financial reinsurance arrangement		–	–	450,377
Repayment of financing under a financial reinsurance arrangement	*27(b)*	(88,785)	(79,708)	(45,685)
Net cash (outflow)/inflow from financing activities		(88,785)	1,420,292	404,692
Net (decrease)/increase in cash and cash equivalents		(238,113)	(1,003,219)	1,813,424
Cash and cash equivalents at beginning of year		2,481,395	3,484,614	1,671,190
Cash and cash equivalents at end of year		2,243,282	2,481,395	3,484,614

	Note	**2018** *$'000*	**2017** *$'000*	**2016** *$'000*
Analysis of balances of cash and cash equivalents				
Cash and bank balances	*27(a)*	1,535,717	1,370,299	1,428,522
Non-pledged time deposits with original maturity of less than three months	*27(a)*	679,560	1,063,540	2,008,802
		2,215,277	2,433,839	3,437,324
Cash and cash equivalents attributable to investments related to unit-linked contracts	*24*	28,005	47,556	47,290
		2,243,282	2,481,395	3,484,614

Note: The Target Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transitions method chosen, the Historical Financial Information for the years ended 31 December 2016 and 2017 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 15. See notes 2.2(i) and 2.2(ii).

The accompanying notes form part of the Historical Financial Information.

Notes to the Historical Financial Information

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Corporate statements

FTLife Insurance Company Limited (the "Target Company") was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act 1981 (as amended) on 27 June 1985. The Target Company's principal place of business in Hong Kong is located at 28th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

The Target Company is principally engaged in the provision of an extensive range of whole life, endowment, unit-linked and term life insurance products to individuals in Hong Kong as well as other insurance products which included accident, medical and disability insurance, to individuals and employee groups, and general insurance products through agency and broker arrangements. The Target Company is also engaged in the administration of retirement schemes. The Target Company does not accept reinsurance inward business.

The Target Company operates in one reportable business segment, being the provision of financial services, and in one reportable geographical segment, being Hong Kong.

During the Relevant Periods, the immediate holding company of the Target Company is Bright Victory International Limited which is incorporated in the British Virgin Islands. On 12 May 2016, the ultimate holding company changed from Ageas SA/NV to Tongchuang Jiuding Investment Holding Co. Ltd, a company incorporated in the People's Republic of China.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. It has been prepared under the historical cost convention, except for investment in certain debt and equity securities and derivative financial instruments, which have been measured at fair value. The Historical Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand except where otherwise indicated.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the purpose of preparing the Historical Financial Information, the accounting policies set out in note 2.4 have been applied consistently throughout the Relevant Periods, except for HKFRS 9, *Financial instruments*, and HKFRS 15, *Revenue from contracts with customers*, which have been initially applied on 1 January 2018. Details of the changes in accounting policies are discussed in note 2.2(i) for HKFRS 9 and note 2.2(ii) for HKFRS 15.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Target Group. Note 2.2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Target Group for the year ended 31 December 2018. Note 2.3 provides information on revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods.

The Historical Financial Information contained in this Accountants' Report does not constitute the Target Group's statutory annual financial statements for any of the years ended 31 December 2016, 2017 or 2018.

Basis of consolidation

The Historical Financial Information includes the financial information of the Target Company and its subsidiaries for the years ended 31 December 2016, 2017 and 2018. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Target Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses, transactions and cash flows and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Target Group are eliminated in full on consolidation.

2.2 Impact of new interpretations and amendments to Hong Kong Financial Reporting Standards

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective during the Relevant Periods of the Target Group. Of these, the following developments are relevant to the Target Group's Historical Financial Information for the year ended 31 December 2018:

(i) HKFRS 9, *Financial instruments* and amendments to HKFRS 4, *Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Target Group has not applied any new standard or interpretation that is not yet effective for the year ended 31 December 2018.

(i) HKFRS 9, *Financial instruments* and amendments to HKFRS 4, *Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Amendments to HKFRS 4, *Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts*, issued by the HKICPA in January 2017, permits the Target Group to apply an "overlay approach", i.e. allows the Target Group to designate eligible financial assets which meet both the criteria that (a) it is measured at fair value through profit or loss when applying HKFRS 9 but would not have been measured at fair value through profit or loss in its entirety when applying HKAS 39; and (b) it is not held in respect of an activity that is unconnected with contracts within HKFRS 4. The Target Group elected to apply the overlay approach to designated eligible financial assets to address the concerns over possible additional accounting mismatches (between those eligible financial assets and related liabilities arising from the insurance contracts and any other contracts within the scope of HKFRS 4) and volatility in profit or loss, when HKFRS 9 is applied before the implementation of the new insurance contracts standard, HKFRS 17, *Insurance contracts*.

At 31 December 2018, the carrying amounts of the Target Group's financial assets being accounted for under the overlay approach are shown as below.

	2018
	$'000
Financial assets measured at FVPL	
Equities, at fair value:	
– Listed	449,994
– Unlisted	422,596
	872,590

For financial assets at FVPL being accounted under the overlay approach, the amounts charged to the consolidated income statements reported with and without overlay adjustments for the year ended 31 December 2018 are stated as below:

	Under HKFRS 9	**Overlay approach adjustments**	**Under HKFRS 9 (adjusted by overlay approach)**	**Under HKAS 39**
	$'000	*$'000*	*$'000*	*$'000*
Realised and unrealised gains/(losses) on:				
– bonds *(note)*	(1,017)	2,010	993	993
– equities	(93,441)	401,549	308,108	308,108
– interests in investment funds *(note)*	4,996	31,277	36,273	36,273
Total	(89,462)	434,836	345,374	345,374

Note: Certain bonds and investment funds adopted the overlay approach as at 1 January 2018 were disposed during the year ended 31 December 2018. Accordingly, the balance relating to these financial assets accumulated in other comprehensive income was reclassified to profit or loss.

The Target Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Target Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

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

	$'000
Retained profits	
Transferred from FVOCI reserve (recycling) relating to financial assets now measured at FVPL	
– bonds	2,010
– equities	451,144
– interests in investment funds	33,789
Overlay approach adjustments	
– bonds	(2,010)
– equities	(403,622)
– interests in investment funds	(31,277)
Recognition of additional expected credit losses on financial assets measured at FVOCI	(12,435)
Shadow adjustment	141
Net increase in retained profits at 1 January 2018	37,740
FVOCI reserve (recycling)	
Transferred to retained profits relating to financial assets now measured at FVPL	
– bonds	(2,010)
– equities	(451,144)
– interests in investment funds	(33,789)
Transferred to FVOCI reserve (non-recycling) relating to equities now measured at FVOCI	10,319
Overlay approach adjustments	
– bonds	2,010
– equities	403,622
– interests in investment funds	31,277
Recognition of additional expected credit losses on financial assets measured at FVOCI	12,435
Shadow adjustments	(246)
Net decrease in FVOCI reserve (recycling) at 1 January 2018	(27,526)

	$'000
FVOCI reserve (non-recycling)	
Transferred from FVOCI reserve (recycling) relating to equities	(10,319)
Shadow adjustments	105
Net decrease in FVOCI reserve (non-recycling) at 1 January 2018	(10,214)

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

(a) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

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

	HKAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount at 1 January 2018
	$'000	*$'000*	*$'000*	*$'000*
Financial assets carried at amortised cost				
Amounts due from intermediate holding companies	1,778,027	–	–	1,778,027
Amount due from the immediate holding company	27,396	–	–	27,396
Amounts due from fellow subsidiaries	9,602	–	–	9,602
Pledged deposits	10,000	–	–	10,000
Policy loans	446,444	–	–	446,444
Loan to agents	25,167	–	–	25,167
Other loan	241	–	–	241
Prepayments, deposits and other debtors	1,361,915	–	–	1,361,915
Cash and cash equivalents	2,433,839	–	–	2,433,839
Cash balances attributable to unit-linked contracts	47,556	–	–	47,556
	6,140,187	–	–	6,140,187
Financial assets measured at FVOCI (recycling)				
Bonds *(note (i))*	–	26,498,442	–	26,498,442
Financial assets measured at FVOCI (non-recycling)				
Equities *(note (ii))*	–	673,072	–	673,072
Financial assets carried at FVPL				
Bonds *(note (i))*	–	215,524	–	215,524
Equities *(note (ii))*	–	3,738,146	–	3,738,146
Interests in investment funds *(note (iii))*	–	172,012	–	172,012
Investments related to unit-linked contracts	9,462,109	–	–	9,462,109
	9,462,109	4,125,682	–	13,587,791
Financial assets measured at fair value – hedging instruments				
Derivative financial instruments	992,791	–	–	992,791
Financial assets classified as available-for-sale under HKAS 39 *(notes (ii), (iii))*	31,297,196	(31,297,196)	–	–

Notes:

(i) Under HKAS 39, bonds were classified as available-for-sale financial assets. Certain bonds have been classified as financial assets at FVOCI under HKFRS 9 as these bonds are held within a business model whose objective is achieved by both collecting contractual cash flows and by selling financial assets. Also, the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Bonds which failed the SPPI test are measured at FVPL under HKFRS 9.

(ii) Under HKAS 39, equities not held for trading were classified as available-for-sale financial assets. These equities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Target Group. At 1 January 2018, the Target Group designated certain investment in equities amounting to $673,072,000 at FVOCI, as these investments are held for strategic purposes (see notes 23 and 28(h)).

(iii) Under HKAS 39, interests in investment funds were classified as available-for-sale financial assets. They are classified as FVPL under HKFRS 9.

For an explanation of how the Target Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in note 2.4(m).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Target Group did not de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(b) Credit losses

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

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

– financial assets measured at amortised cost (including cash and cash equivalents, prepayments, deposits and other debtors, policy loans, loans to agents and corporate agents, pledged deposits, amounts due from intermediate holding companies, amount due from the immediate holding company and amounts due from fellow subsidiaries); and

– debt securities measured at FVOCI (recycling).

For further details on the Target Group's accounting policy for accounting for credit losses, see note 2.4(m)(i).

The closing loss allowance of loans to agents at amortised cost as at 31 December 2017 under HKAS 39 was $115,068,000, which is the same amount as the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

The closing loss allowance of bonds designated as available-for-sale as at 31 December 2017 under HKAS 39 was nil. Additional credit loss as at 1 January 2018 was $12,435,000 recognised in the opening retained profits and recycled from the FVOCI reserve (recycling).

(c) Hedge accounting

The Target Group has elected to adopt the new general hedge accounting model in HKFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward-looking. The adoption of HKFRS 9 has not had a significant impact on the Target Group's Historical Financial Information in this regard.

For an explanation of how the Target Group applies hedge accounting, see note 2.4(p).

(d) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Target Group):

  - the determination of the business model within which a financial asset is held;

  - the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

  - If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

– All hedging relationships designated under HKAS 39 at 31 December 2017 met the criteria for hedge accounting under HKFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships. Changes to hedge accounting policies have been applied prospectively.

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Target Group has elected to use the cumulative effect transition method to recognised any cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Target Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The Target Group has assessed that HKFRS 15 affects the Target Group's current accounting policy related to up-front fees derived from unit-linked investment contracts, as explained further below. In addition, the Target Group expects that upon implementation of the new insurance contracts standard, HKFRS 17, the unbundling of non-insurance components from insurance contracts may introduce a certain amount of fee income which will fall under this new revenue standard.

Details of the nature and effect of the changes on previous accounting policies are set out below:

A. Up-front fee income related to unit-linked investment contracts

Previously, revenue arising from up-front fees on unit-linked investment contracts was recognised once received from policyholders, whereas revenue from service fees in general was recognised at a point in time when the significant risks and rewards associated with the rendering of services were transferred to the policyholders.

Under HKFRS 15, revenue is recognised when the policyholder obtains control of the promised service in the contract. This may be at a single point in time or over time.

The Target Group has assessed that revenue recognition of up-front fees derived from unit-linked investment contracts is affected by the adoption of HKFRS 15. However, this revenue stream is considered immaterial to the Target Group (2018: $459,000; 2017: $580,000). Therefore, comparative information is not restated and no adjustment is made to the Target Group's financial results.

B. Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Target Group only applied such a policy when payments were significantly deferred, which was not common in the Target Group's arrangements with its policyholders. The Target Group did not apply such a policy when payments were received in advance.

It is not common for the Target Group to receive payments significantly in advance of revenue recognition in the Target Group's arrangements with its policyholders, with the exception of up-front fee income received from policyholders. However, the Target Group has assessed that such payment terms do not provide the Target Group with significant financing benefits in the contracts. This arrangement is, in essence, a matching with commission expenses to be paid for new business. Therefore, comparative information is not restated and no adjustment is made to the Target Group's financial results.

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This Interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Target Group.

2.3 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods

Up to the date of issue of this Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in this Historical Financial Information. These include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
Amendments to HKAS 19, *Plan Amendment, Curtailment or Settlement*	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Amendments to HKFRSs, *Annual Improvements to HKFRSs 2015-2017 Cycle*	1 January 2019
HKFRS 17, *Insurance contracts*	1 January 2021

The Target Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Target Group has identified some aspects of the new standards which may have a significant impact on the Historical Financial Information. Further details of the expected impacts are discussed below. The actual impact upon the initial adoption of these standards may differ as the assessment completed to date is based on the information currently available to the Target Group, and further impacts may be identified before these standards are initially applied. The Target Group may also change its accounting policy elections, including the transition options, until these standards are initially applied.

HKFRS 16, *Leases*

As disclosed in note 2.4(r), currently the Target Group classifies leases into operating leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset.

After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Target Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the income statement over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Target Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Target Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered on or after the date of initial application.

In addition, the Target Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Target Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 46(b), at 31 December 2018 the Target Group's future minimum lease payments under non-cancellable operating leases amount to $607,758,000 for office properties. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to $618,496,000 and $642,769,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Target Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Target Group's consolidated financial information from 2019 onwards.

HKFRS 17, *Insurance contracts*

IFRS 17, which is the source of HKFRS 17, was issued by the International Accounting Standards Board ("IASB") on 18 May 2017 in order to set out a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts. IFRS 17 will replace IFRS 4, which was brought in as an interim standard in 2004 and is largely based on grandfathering previous local accounting policies. Similarly, HKFRS 17 will replace HKFRS 4, which is virtually identical to IFRS 4.

HKFRS 17 includes some fundamental differences to current accounting in both insurance contract measurement and profit recognition. The general model is based on a discounted cash flow model with a risk adjustment and deferral of unearned profits. A separate approach applies to insurance contracts that are linked to returns on underlying items and meet certain requirements. Additionally, HKFRS 17 requires more granular information and a new presentation format for the income statement as well as extensive disclosures. The Target Group is in the midst of conducting a detailed assessment of the new standards.

IFRS 17 is currently effective from 1 January 2021. However, the IASB tentatively decided to defer the mandatory effective date of IFRS 17 by one year in their November 2018 Board meeting, so that IFRS 17 should be applied after 1 January 2022.

2.4 Summary of significant accounting policies

(a) Subsidiaries

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

The Target Company's investments in subsidiaries are stated at cost less any impairment losses in the Target Company's separate statements of financial position.

(b) Foreign currencies

This Historical Financial Information are presented in Hong Kong dollars, which is the Target Group's functional and presentation currency. Each entity in the Target Group determines its own functional currency and items included in the Historical Financial Information of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the profit or loss for the year. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

(c) Product classification

The Target Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts for which the Target Group has accepted significant insurance risk from policyholders providing coverage for death, accident and sickness at the inception of the contract. As a general guideline, the Target Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. The Target Group also accepts financial risk on insurance contracts. Financial risk is the risk of a possible future change in a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variables.

Investment contracts are those contracts on which the Target Group accepts financial risk but that do not transfer significant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

(d) Insurance contract liabilities

Insurance contract liabilities represent net future policy liabilities as determined by the appointed actuary of the Target Group using a net level premium approach.

The provision for life insurance contracts with fixed level premiums is calculated on the basis of the prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing. The liability is determined as the sum of the expected discounted value of the benefit payments, less the expected discounted value of the theoretical premiums that would be required to meet the benefits, based on the valuation assumptions as to mortality, lapse rate, expense and investment income that are appropriate at the time of valuation, plus a margin for adverse deviation. Changes to the liabilities at each reporting date are recorded in the profit or loss for the year as an expense. The liabilities on yearly renewable premium contracts are the liabilities for the unexpired risks carried at the end of the reporting period. The liability is derecognised when the contract expires, is discharged or is cancelled.

(e) Investment contract liabilities

Liabilities for investment contracts are carried at fair values through accumulated cash flows plus investment income credited to the contracts, either at the discretion of the Target Group or linked to the changes in unit fund values.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statements of financial position, known as deposit accounting.

Fees charged and investment income received are recognised in the profit or loss for the year when earned.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

(f) Reinsurance

The Target Group cedes insurance risk in the normal course of business for its insurance contracts. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the insurance contract liabilities and are in accordance with the reinsurance contract and are accounted for in the same period as the underlying claim.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Target Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Target Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the profit or loss for the year.

Reinsurance arrangements do not relieve the Target Group from its obligations to policyholders.

(g) Deferred acquisition costs ("DAC")

The direct acquisition costs and a portion of indirect acquisition costs relating to the production of new business are deferred in so far as there are sufficient margins in the future profits of the new business to fund the amortisation of DAC. DAC include first year commissions and other costs related to the acquisition of new business. All other acquisition costs and all maintenance costs are expensed as and when incurred.

For new business issued up to 30 April 2007, DAC was carried at cost and amortised on the straight-line basis over 10 years, adjusted for any unfavourable actual experience and any permanent impairment in value determined by reference to margins in the future premium. Since 1 May 2007, the Target Group has adopted an approach by which DAC of new business is amortised according to the expected future premiums or charges and actual persistency.

(h) Liability adequacy test

A liability adequacy test is performed at each reporting date to verify whether the insurance liabilities, net of deferred acquisition cost, are adequate using current estimates of future cash flows under the insurance contracts. The liability value is adjusted if insufficient to meet future obligations, taking into account future premiums, investment income, benefits and expenses and cash flows from embedded options and guarantees. If the test shows that a deficiency exists, the shortfall is immediately recorded in the profit or loss for the year. The liability adequacy test is performed at a company level.

(i) Premiums

Premiums in respect of traditional policies and group policies are recognised as income as and when they fall due, whereas those in respect of universal life and unit-linked contracts are accounted for as they are received.

Premiums on reinsurance contracts that transfer underwriting risk are expensed as incurred.

Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

(j) Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services and investment management services. The policy administration fee is recognised as revenue over time when services are rendered. Investment management fees related to asset management services are recognised over time when services are rendered.

(k) Benefits and insurance claims

Death claims and surrenders are recorded when notifications have been received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued to the liability.

(l) Commissions

Commissions and bonuses payable to agents for the first policy year are included as a component of deferred acquisition costs.

Commissions received on reinsurance policies that transfer underwriting risk are recognised as income at the same time as the reinsurance premiums are accounted for.

(m) Investments and other financial assets

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

Investments in debt and equity securities are recognised/derecognised on the date the Target Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Target Group determines fair value of financial instruments, see note 44(b). These investments are subsequently accounted for as follows, depending on their classification.

(i) Policy applicable from 1 January 2018

Investments other than equity investments

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

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

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

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

Equity investments

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

(ii) Policy applicable prior to 1 January 2018

Financial assets within the scope of HKAS 39 were classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets were recognised initially, they were measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Target Group assessed whether a contract contained an embedded derivative when the Target Group first became a party to it and assessed whether an embedded derivative was required to be separated from the host contract which was not measured at fair value through profit or loss when the analysis showed that the economic characteristics and risks of the embedded derivative were not closely related to those of the host contract. Reassessment only occurred if there was a change in the terms of the contract that significantly modified the cash flows that would otherwise be required under the contract.

The Target Group determined the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluated this designation at the reporting date.

All regular way purchases and sales of financial assets were recognised on the trade date, that was the date that the Target Group committed to purchase or sell the asset. Regular way purchases or sales were purchases or sales of financial assets that required delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss included financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets were classified as held for trading if they were acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, were also classified as held for trading unless they were designated as effective hedging instruments or financial guarantee contracts. Gains or losses on financial assets held for trading were recognised in the profit or loss for the year. The net fair value gain or loss recognised in the profit or loss for the year did not include any dividends on these financial assets, which were recognised in accordance with the policy stated under "Dividend income" below.

Where a contract contained one or more embedded derivatives, the entire hybrid contract might be designated as a financial asset at fair value through profit or loss, except where the embedded derivative did not significantly modify the cash flows or it is clear that separation of the embedded derivative was prohibited.

Financial assets might be designated upon initial recognition as at fair value through profit or loss if the following criteria were met: (i) the designation eliminated or significantly reduced the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets were part of a group of financial assets which were managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contained an embedded derivative that would need to be separately recorded.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity were classified as held to maturity when the Target Group had the positive intention and ability to hold to maturity. Held-to-maturity investments were subsequently measured at amortised cost less any allowance for impairment. Amortised cost was computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation included all fees and points paid or received between parties to the contract that were an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses were recognised in the profit or loss for the year when the investments were derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Such assets were subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost was calculated taking into account any discount or premium on acquisition and included fees that were an integral part of the effective interest rate and transaction costs. Gains and losses were recognised in the profit or loss for the year when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the other three categories. After initial recognition, available-for-sale financial assets were measured at fair value, with gains or losses recognised in other comprehensive income and presented within a separate component of equity in the FVOCI reserve (recycling). As an exception to this, investments in equity securities that did not have a quoted price in an active market for an identical instrument and whose fair value could not otherwise be reliably measured were recognised in the statements of financial position at cost less impairment losses. Interest and dividends earned were reported as interest income and dividend income respectively, and were recognised in the profit or loss for the year in accordance with the policies stated under "Interest income" and "Dividend income" below. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities were also recognised in profit or loss. Losses arising from the impairment of such investments were recognised in the profit or loss for the year as "Impairment loss on an available-for-sale financial asset" and were transferred from the FVOCI reserve (recycling). When the investments were derecognised or impaired, the cumulative gain or loss recognised in equity was reclassified to profit or loss. Investments were recognised/derecognised on the date the Target Group committed to purchase/sell the investments or they expired.

(iii) Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. For details of the valuation technique employed, please refer to note 44 to the Historical Financial Information.

(n) Credit losses and impairment of financial assets

An entity can reflect risks specific to the cash flows in either the discount rate or the cash shortfalls being discounted.

(i) Policy applicable from 1 January 2018

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

– financial assets measured at amortised cost (including cash and cash equivalents, prepayments, deposits and other debtors, policy loans, loans to agents and corporate agents, other loan, pledged deposits, amounts due from fellow subsidiaries, amount due from the immediate holding company and amounts due from intermediate holding companies); and

– debt securities measured at FVOCI (recycling).

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

Measurement of ECLs

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

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

– fixed-rate financial assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

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

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

ECLs are measured on either of the following bases:

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

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

The Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Classification of financial assets by Stage I, Stage II and Stage III

Stage I: Financial instruments without a significant increase in credit risk since initial purchase. For the avoidance of doubt, all assets rated as investment grade are Stage I assets.

Stage II: Financial instruments with a significant increase in credit risk since initial purchase. Non-investment grade financial assets with credit rating downgraded by more than three notches or market value dropped by 25% or more since initial purchase are considered as a significant increase in credit risk.

Stage III: Financial instruments that have payment default in accordance with the terms and conditions of such financial instruments.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. There is a rebuttable presumption that default does not occur later than 90 days past due unless the Target Group has reasonable and supportable information to support a more lagging default criterion. The Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

– market value dropped by 25%; and

– credit rating downgraded by more than three notches.

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

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

Basis of calculation of interest income

Interest income recognised in accordance with note 2.4(af) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

– significant financial difficulties of the debtor;

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

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

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

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

Incorporation of forward economic guidance ("FEG")

As an adjustment factor, FEG considers the probability of bear case economy, base case economy and bull case economy based on the economy growth forecast published by the World Bank. When estimating such a probability, an empirical study of historical economy growth based on assumed normal distribution is performed. The Target Group considers and applies the impact of FEG to the ECL measurement.

Write-off policy

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

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

(ii) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. available-for-sale investments and loans and receivables). Under the "incurred loss" model, the Target Group assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired.

Assets carried at amortised cost

If there was objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost had been incurred, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset was reduced either directly or through the use of an allowance account. The amount of the impairment loss was recognised in the profit or loss for the year. Loans and receivables together with any associated allowance were written off when there was no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss was recognised in the profit or loss for the year, to the extent that the carrying value of the asset did not exceed its amortised cost at the reversal date had no impairment loss been recognised in prior years.

In relation to other receivables, a provision for impairment was made when there was objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in technological, market, economic or legal environment that had an adverse effect on the debtor) that the Target Group would not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables was reduced through the use of an allowance account. Impaired debts were derecognised when they were assessed as uncollectible.

Available-for-sale financial assets

If an available-for-sale asset was impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss for the year, was transferred from other comprehensive income to the profit or loss for the year. A provision for impairment was made for an available-for-sale equity investment when there had been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment existed. The determination of what was "significant" or "prolonged" required judgement. Impairment losses on equity instruments classified as available for sale were not reversed through the profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses on debt instruments were reversed through the profit or loss for the year if the increase in fair value of the instrument could be objectively related to an event occurring after the impairment loss was recognised in the profit or loss for the year.

(o) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

– the rights to receive cash flows from the asset have expired;

– the Target Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

– the Target Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Target Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Target Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Target Group's continuing involvement is the amount of the transferred asset that the Target Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Target Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(p) Derivative financial instruments and hedging

The Target Group uses derivative financial instruments such as cross currency swap agreements, forward starting swap agreements and forward exchange agreements to hedge its risks associated with foreign currency exchange rate and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the profit or loss for the year.

For details for the valuation techniques employed, please refer to note 44 to the Historical Financial Information.

The hedge accounting policy applied from 1 January 2018 is similar to that applicable prior to 1 January 2018. However, under the new hedge accounting policy, depending on the complexity of the hedge, the Target Group applies a more qualitative approach to assessing hedge effectiveness, and the assessment is always forward-looking.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Target Group formally designates and documents the hedge relationship to which the Target Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Target Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised immediately in the profit or loss for the year.

Amounts taken to other comprehensive income are transferred to the profit or loss for the year when the hedged transaction affects the profit or loss for the year, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in other comprehensive income are transferred to the profit or loss for the year. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in equity until the forecast transaction or firm commitment occurs.

(q) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss for the year in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis so as to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

–	Computer equipment	3 to 5 years
–	Furniture, fixtures and equipment	5 years or the life of the lease contract, whichever is shorter
–	Vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss for the year in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(r) Operating lease charges

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

(s) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Target Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2.4(t)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2.4(t)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	Computer software	3 to 5 years or the estimated useful life, whichever is shorter

Both the period and method of amortisation are reviewed annually.

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

(t) Impairment of non-financial assets

The carrying amounts of the Target Group's non-financial assets, other than deferred tax assets, and deferred acquisition costs arising from the contractual rights under insurance contracts, are reviewed at each reporting date to determine whether there is any indication of impairment. Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the profit or loss for the year in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/

amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the profit or loss for the year in the period in which it arises.

(u) Premiums receivables

Premiums receivables represent premiums which are due for payment. The Target Group normally allows policyholders to make payment within a grace period of one month from the due date. The grace period may be extended by one further month by management purely on a discretionary basis. Insurance policies continue in force if default premiums are settled before the expiry of the grace period.

Premiums receivables are stated at amortised cost using the effective interest rate method less provision for impairment.

(v) Prepayments

Prepayments made in connection with the recruitment of agents are capitalised and amortised to the profit or loss for the year over the term of the contract with the agent.

(w) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use and not attributable to investments related to unit-linked contracts.

Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2.4(n).

(x) Financial liabilities at amortised cost (including interest-bearing notes and borrowings)

Financial liabilities including payables to policyholders, other payables, interest-bearing notes, and policyholders' dividends and bonuses are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "Finance costs" in the profit or loss for the year.

Gains and losses are recognised in the profit or loss for the year when the liabilities are derecognised as well as through the amortisation process.

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the profit or loss for the year. The net fair value gain or loss recognised in the profit or loss for the year does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

(z) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss for the year.

(aa) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Target Company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognised in accordance with the Target Group's policy for interest-bearing borrowings and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

(ab) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statements of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Target Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(ac) Employee benefits

Share-based payments

Share options and restricted shares were granted to directors and to employees by the former holding group for services received. The fair value of the services received is determined by reference to the fair value of the share options and restricted shares granted. Compensation expense is measured on the grant date based on the fair value of the options and restricted shares and is recognised over the vesting period of the options and restricted shares with a corresponding increase in equity.

The fair value of the share options is determined using an option pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the expected volatility of the underlying stock and the expected dividends on it, and the risk-free interest rate over the expected life of the option.

When the Target Group is required to compensate the former holding group for the share-based payment arrangements, the respective recharge liability is recognised and remeasured at the end of each reporting period at the fair value of the liability with a corresponding adjustment in equity.

Short term employee benefits and contributions to defined contribution retirement plans

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

(ad) Income tax

Income tax comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit or loss for the year, or in other comprehensive income or equity if it relates to items that are recognised in the same or a different period directly in other comprehensive income or equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences as at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

– where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Conversely, any previously unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(ae) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the reporting date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit or loss for the year.

(af) Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2.4(n)).

(ag) Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established.

(ah) Realised gains and losses on investments

Realised gains and losses on investments are determined as the difference between the sales proceeds and cost or amortised cost. For equity securities and interests in investment funds, the cost is determined by using a weighted average per portfolio.

(ai) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(aj) Related parties

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

 (i) has control or joint control over the Target Group;

 (ii) has significant influence over the Target Group; or

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

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

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

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

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

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

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

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

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

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

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

3 Significant accounting judgements and estimates

The preparation of the Target Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures as at the reporting date. 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.

(a) Judgements

In the process of applying the Target Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Product classification

Contracts are classified as insurance contracts where they transfer significant insurance risk from the holder of the contract to the Target Group. The Target Group's accounting policy for the classification of insurance and investment contracts is discussed in more detail in note 2.4.

There are a number of contracts sold where the Target Group exercises judgement about the level of insurance risk transferred. Typically, these are contracts which contain a significant savings component. The level of insurance risk is assessed by considering whether there are any scenarios with commercial substance in which the Target Group is required to pay significant additional benefits. These benefits are those which exceed the amounts payable if no insured event were to occur. These additional amounts include claims liability and assessment costs, but exclude the loss of the ability to charge the holder of the contract for future services.

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Life insurance contract liabilities

The estimation of the ultimate liabilities arising from claims made under life insurance contracts is the Target Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimation of the liabilities that the Target Group will ultimately pay for those claims.

Four major components in the estimation of the liabilities for insurance contracts are death benefits, lapse rates, expenses and investment returns. Estimates are made as to the expected number of deaths for each of the years in which the Target Group is exposed to risk. The Target Group bases these estimates on standard industry and national mortality tables that reflect historical mortality experience, adjusted, where appropriate, to reflect the Target Group's unique risk exposure. The estimated number of deaths determines the value of possible future benefits to be paid out which will be factored into ensuring sufficient cover by reserves, which in return is monitored against the current and future premiums. Lapse rates are based on the historical experience of the Target Group. Expenses are based on the renewal compensation cost structure and the maintenance expenses level of the Target Group. Investment returns are based on the investment strategy of the Target Group, with due regard to the expected return on assets backing the insurance contracts.

Estimates for future deaths, lapse rates, expenses and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability.

The carrying value at the reporting date of the current year life insurance contract liabilities, net of policyholders' dividends and bonuses was $23,291,904,000 (2017: $20,401,658,000; 2016: $17,851,409,000).

DAC

For new business issued up to 30 April 2007, DAC was carried at cost and amortised on a straight-line basis over 10 years, adjusted for any unfavourable actual experience and any permanent impairment in value determined by reference to margins in the future premium. Since 1 May 2007, the Target Group has adopted an approach by which DAC of new business is amortised according to the expected future premiums or charges, which are projected based on the Target Group's best estimate assumptions, and actual persistency. Assumptions as to projected future premiums or charges are made at the date of policy issue and are applied during the lives of the contracts consistently. Judgements are exercised in making appropriate estimate of future premiums or charges.

Fair value of financial assets and derivative financial instruments determined using valuation techniques

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, a discounted cash flow analysis and/or option pricing models. For reference to similar instruments, instruments must have similar credit ratings.

For a discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country-specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk-free interest rates and credit risk.

For investments in partnerships in private equity funds (the "Partnerships"), fair value is made reference to the quoted market prices of underlying investments held, or based upon valuation techniques developed by the managers of the Partnerships that use, where possible, current market based or independently sourced market parameters, such as interest rates, currency rates and option volatilities. The fair value measurement of underlying investments is positively correlated to the fund valuation. The transaction price is used as the best estimate of fair value at inception.

The carrying values at the reporting date of financial assets measured at fair value, derivative financial assets and derivative financial liabilities are $40,086,758,000, $738,879,000 and $9,283,000 respectively (2017: $40,759,305,000, $992,791,000 and $13,000 respectively; 2016: $31,810,017,000, $957,966,000 and $63,558,000 respectively).

Impairment of non-financial assets

The Target Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Expected credit loss on financial assets

Policy applicable from 1 January 2018

The Target Group requires to calculate the expected credit losses of financial assets measured at either amortised cost or FVOCI under HKFRS 9 (see note 2.4(n)(i)). The factors that determine the expected credit loss are based on the credit quality of the financial asset, probability of default, loss given default and forecast of economic growth factor.

To determine lifetime and 12-month probability of default ("PD"), the Target Group uses the PD tables supplied by Moody's based on the default history of obligors with the same credit rating.

Loss given default ("LGD") is the magnitude of the likely loss if there is a default. For the Stage I financial assets, the Target Group estimates LGD parameters based on the recovery rates from Moody's recovery study. For certain Stage II financial assets, which are the amounts due from intermediate holding companies and certain bonds issued by a fellow subsidiary of the Target Group, management considers there is reasonable and supportable information to rebut the presumption that there has been a default for the purpose of applying HKFRS 9. Management determines the LGD to be immaterial for these financial assets considering factors including the possibility of a successful sale of the Target Group and the credit risk protection available from its group companies. It is considered highly probable that these financial assets will be recovered from an intermediate holding company and the fellow subsidiary of the Target Group after the completion of sale of the Target Group.

Impairment of available-for-sale financial assets

Policy applicable prior to 1 January 2018

The Target Group classified certain financial assets as available-for-sale and recognised movements in their fair values in other comprehensive income. When the fair value declined, management made assumptions about the decline in value to determine whether there was an impairment that should be recognised in the profit or loss for the year. At 31 December 2017, impairment loss of $3,650,000

(2016: $3,975,000) has been recognised against an available-for-sale financial asset. The carrying amount of available-for-sale financial assets as at 31 December 2017 was $31,297,196,000 (2016: $23,837,117,000).

4 Premiums, net of reinsurance

	2018 *$'000*	2017 *$'000*	2016 *$'000*
Gross premiums on life insurance contracts:			
Non-linked	5,993,095	4,607,927	4,949,706
Unit-linked	198,324	199,772	185,599
	6,191,419	4,807,699	5,135,305
Reinsurers' share of life insurance contracts premiums:			
Non-linked	(252,096)	(268,508)	(286,786)
Unit-linked	(2,084)	(1,662)	(1,629)
	(254,180)	(270,170)	(288,415)
Premiums, net of reinsurance	5,937,239	4,537,529	4,846,890

Further analysis of gross premiums is as follows:

	2018 *$'000*	2017 *$'000*	2016 *$'000*
Single premiums	278,606	206,386	1,288,146
First year premiums	1,702,949	1,100,017	671,122
Renewal premiums	4,209,864	3,501,296	3,176,037
Gross premiums on life insurance contracts	6,191,419	4,807,699	5,135,305

5 Interest income

For each of the years ended 31 December 2016, 2017 and 2018, interest income is broken down as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Interest income from financial assets measured at FVOCI (recycling) after 1 January 2018/ available-for-sale financial assets prior to 1 January 2018			
– listed bonds	1,095,574	893,663	741,958
– unlisted bonds	277,321	283,539	194,796
Interest income from financial assets measured at FVPL			
– listed bonds	863	–	–
Interest income from deposits and cash and cash equivalents	15,507	10,118	8,355
Interest income from policy loans, loans to agents and other loan	40,528	41,545	38,512
Interest income from loan to intermediate holding company/former intermediate holding company *(note 48(a))*	70,338	69,932	69,851
Total interest income	1,500,131	1,298,797	1,053,472

6 Dividend and other investment income

The details of dividend and other investment income for each of the years ended 31 December 2016, 2017 and 2018 are shown below:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Dividend income from listed investments	64,989	44,943	2,426
Dividend income from unlisted investments	13,220	8,194	56
Rebate income from investment	215	(4)	265
Total dividend and other investment income	78,424	53,133	2,747

7 Realised and unrealised capital (losses)/gains on investments

For each of the years ended 31 December 2016, 2017 and 2018, realised and unrealised capital (losses)/ gains on investments are broken down as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Realised and unrealised (losses)/gains on investments:			
Listed available-for-sale financial assets *(note 23)*	–	38,172	22,564
Unlisted available-for-sale financial assets *(note 23)*	–	27,407	1,062
Listed financial assets at FVOCI *(note 23)*	31,299	–	–
Unlisted financial assets at FVOCI *(note 23)*	1,164	–	–
Listed financial assets at FVPL	(184,911)	–	–
Unlisted financial assets at FVPL	27,879	–	–
Total realised and unrealised (losses)/gains on investments	(124,569)	65,579	23,626

8 Fee and commission income

For each of the years ended 31 December 2016, 2017 and 2018, fee and commission income is broken down as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Reinsurance commission income and refund	15,588	46,722	57,355
Fee income on insurance and investment contracts	580,825	574,478	561,433
General insurance commission under agency agreements	8,223	8,199	7,973
Others	58,212	55,059	47,098
Total fee and commission income	662,848	684,458	673,859

9 Claims and benefits, net of reinsurance

The details of claims and benefits, net of reinsurance are shown below:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Claims	645,040	575,355	547,247
Reinsurers' and coinsurers' share of claims	(125,846)	(103,927)	(97,941)
Claims, net of reinsurers' and coinsurers' share	519,194	471,428	449,306
Surrenders, annuities and maturities	1,176,366	813,708	895,526
Reinsurers' and coinsurers' share	(66,558)	(67,070)	(154,143)
	1,109,808	746,638	741,383
Policyholders' dividends and interests	339,745	319,274	261,085
Incentives to policyholders	151,647	179,676	146,220
Increase in insurance contract liabilities	2,983,960	2,283,853	2,648,053
Total claims and benefits, net of reinsurance	5,104,354	4,000,869	4,246,047

10 Impairment losses

For each of the years ended 31 December 2016, 2017 and 2018, impairment losses are broken down as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Impairment loss on loans to agents *(note 21)*	24,171	18,559	24,454
Impairment loss on advances to agents and other intermediaries *(note 26)*	–	–	123
Impairment loss on premiums receivables *(note 25)*	3,323	3,731	8
Impairment loss on an available-for-sale financial asset *(note 23)*	–	3,650	3,975
Impairment loss on financial assets measured at FVOCI *(note 23)*	16,873	–	–
Reversal of impairment loss on loans to agents *(note 21)*	(5,001)	(8,526)	(3,564)
Recovery on other receivables	(698)	–	–
Total impairment losses	38,668	17,414	24,996

11 Finance costs

For each of the years ended 31 December 2016, 2017 and 2018, finance costs are broken down as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Interest on interest-bearing notes	83,360	82,774	82,356
Net interest expense on cross currency swap agreements *(note (i))*	8,915	9,685	9,110
Interest on financing received under a financial reinsurance arrangement *(note (ii))*	21,972	19,940	10,000
Interest on cash collateral received for cross currency swap agreements and forward starting swap agreements *(note (i))*	11,786	9,769	4,899
	126,033	122,168	106,365

Notes:

(i) Please refer to note 29 to the Historical Financial Information for information on financial derivative arrangements the Target Group has entered into.

(ii) Please refer to note 37 to the Historical Financial Information for information on the financial reinsurance arrangement the Target Group has entered into.

12 Profit before tax

The Target Group's profit before tax is arrived at after charging/(crediting):

	2018	2017	2016
	$'000	*$'000*	*$'000*
Auditors' remuneration	2,365	1,925	2,336
Depreciation from property, plant and equipment *(note 16)*	22,633	21,476	18,877
Amortisation of intangible assets *(note 17)*	26,548	26,118	21,418
Net foreign exchange (gains)/losses	(20,256)	48,425	(7,802)
Amortisation of deferred acquisition costs *(note and note 18)*	829,400	586,775	563,309
Operating lease rentals on land and buildings	143,734	134,698	121,546
Employee benefit expenses (including directors' remuneration *(note 13)):*			
– Wages and salaries	271,390	243,528	282,223
– Equity-settled share option expense	–	241	322
– Net retirement benefit scheme contributions for employees	13,452	19,921	19,612
– Other benefits	38,014	35,491	31,962
Total employee benefit expenses	322,856	299,181	334,119
Net retirement benefit scheme contributions for agents	22,632	17,131	15,611

Note: The amortisation of deferred acquisition costs for the year is included in "Change in deferred acquisition costs" in the consolidated income statements, and is disclosed in note 18 to the Historical Financial Information.

13 Directors' remuneration

	2018	2017	2016
	$'000	*$'000*	*$'000*
Executive and non-executive directors:			
Salaries, allowances and benefits in kind	13,825	4,877	31,396
Contributions to retirement benefits schemes	742	480	559
	14,567	5,357	31,955

14 Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%; 2016: 16.5%) on the estimated assessable profits for the years arising in Hong Kong where the Target Group operates.

The assessable profits of the Target Group are computed in accordance with the special provisions of the Hong Kong Inland Revenue Ordinance. Tax for the long term insurance business, as defined by the Inland Revenue Ordinance, is computed at a rate of 16.5% (2017: 16.5%; 2016: 16.5%) of 5% of net premiums (gross premiums received less reinsurance premiums ceded) of the life insurance business in accordance with Section 23(1)(a) of the Inland Revenue Ordinance.

Taxes on assessable profits have been calculated at the rates of tax prevailing in the jurisdictions in which the Target Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Current – Hong Kong			
Provision for the year and total tax charge for the year	55,187	42,817	45,654

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	2018		**2017**		**2016**	
	$'000	*%*	*$'000*	*%*	*$'000*	*%*
Profit before tax	1,283,294		1,039,216		654,944	
Tax at the statutory rate	211,744	16.5	171,471	16.5	108,066	16.5
Tax on 5% of net premiums of life insurance business	54,677	4.3	42,300	4.1	45,903	7.0
Results of life insurance business and other businesses not taxable at the statutory rate	(211,234)	(16.5)	(170,954)	(16.5)	(108,315)	(16.5)
Tax charge at the Target Group's effective rate	55,187	4.3	42,817	4.1	45,654	7.0

The Target Group has tax losses arising in Hong Kong of $7,073,000 (2017: $7,379,000; 2016: $4,601,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in certain subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

As at 31 December 2018, there were no significant unrecognised deferred tax liabilities (2017: Nil; 2016: Nil) for taxes that would be payable on the unremitted earnings of certain of the Target Group's subsidiaries as the Target Group had no liability to additional tax should such amounts be remitted.

15 Profit for the year attributable to equity holders

The consolidated profit attributable to equity holders for the year ended 31 December 2018 includes a profit of $1,227,850,000 (2017: $996,112,000; 2016: $608,645,000) which has been dealt with in the financial information of the Target Company *(note 53)*.

16 Property, plant and equipment

31 December 2018

	Computer equipment	Vehicles	Furniture, fixtures and equipment	Total
	$'000	*$'000*	*$'000*	*$'000*
At 1 January 2018:				
Cost	15,764	–	112,280	128,044
Accumulated depreciation	(12,026)	–	(60,784)	(72,810)
Net carrying amount	3,738	–	51,496	55,234
At 1 January 2018, net of accumulated depreciation	3,738	–	51,496	55,234
Additions	6,868	589	95,697	103,154
Depreciation during the year	(2,388)	(50)	(20,195)	(22,633)
Disposal, net of accumulated depreciation	(6)	–	(9,513)	(9,519)
At 31 December 2018, net of accumulated depreciation	8,212	539	117,485	126,236
At 31 December 2018:				
Cost	22,142	589	152,657	175,388
Accumulated depreciation	(13,930)	(50)	(35,172)	(49,152)
Net carrying amount	8,212	539	117,485	126,236

31 December 2017

	Computer equipment	Furniture, fixtures and equipment	Total
	$'000	*$'000*	*$'000*
At 1 January 2017:			
Cost	17,257	105,751	123,008
Accumulated depreciation	(13,537)	(46,073)	(59,610)
Net carrying amount	3,720	59,678	63,398
At 1 January 2017, net of accumulated depreciation	3,720	59,678	63,398
Additions	2,427	13,034	15,461
Depreciation during the year	(2,409)	(19,067)	(21,476)
Disposal, net of accumulated depreciation	–	(2,149)	(2,149)
At 31 December 2017, net of accumulated depreciation	3,738	51,496	55,234
At 31 December 2017:			
Cost	15,764	112,280	128,044
Accumulated depreciation	(12,026)	(60,784)	(72,810)
Net carrying amount	3,738	51,496	55,234

31 December 2016

	Computer equipment	Furniture, fixtures and equipment	Total
	$'000	*$'000*	*$'000*
At 1 January 2016:			
Cost	28,405	130,313	158,718
Accumulated depreciation	(22,092)	(87,928)	(110,020)
Net carrying amount	6,313	42,385	48,698
At 1 January 2016, net of accumulated depreciation	6,313	42,385	48,698
Additions	1,448	32,129	33,577
Depreciation during the year	(4,041)	(14,836)	(18,877)
Disposal, net of accumulated depreciation	–	–	–
At 31 December 2016, net of accumulated depreciation	3,720	59,678	63,398
At 31 December 2016:			
Cost	17,257	105,751	123,008
Accumulated depreciation	(13,537)	(46,073)	(59,610)
Net carrying amount	3,720	59,678	63,398

17 Intangible assets

Computer software

	2018	2017	2016
	$'000	*$'000*	*$'000*
At 1 January:			
Cost	220,381	186,939	167,692
Accumulated amortisation	(173,882)	(153,096)	(135,897)
Net carrying amount	46,499	33,843	31,795
At 1 January, net of accumulated amortisation	46,499	33,843	31,795
Additions	42,279	38,774	23,466
Amortisation during the year	(26,548)	(26,118)	(21,418)
Disposal, net of accumulated amortisation	–	–	–
At 31 December, net of accumulated amortisation	62,230	46,499	33,843
At 31 December:			
Cost	262,660	220,381	186,939
Accumulated amortisation	(200,430)	(173,882)	(153,096)
Net carrying amount	62,230	46,499	33,843

18 Deferred acquisition costs

	2018	2017	2016
	$'000	*$'000*	*$'000*
At 1 January	4,248,689	3,784,300	3,511,695
Additions:			
New business	1,432,441	1,051,164	835,914
Less: Amortisation *(note 12)*	(829,400)	(586,775)	(563,309)
Change in DAC	603,041	464,389	272,605
At 31 December	4,851,730	4,248,689	3,784,300

The maturity profile for DAC is stated as below:

	2018	2017	2016
	$'000	*$'000*	*$'000*
To be amortised within one year	715,868	589,383	500,103
To be amortised after one year	4,135,862	3,659,306	3,284,197
	4,851,730	4,248,689	3,784,300

A sensitivity analysis for DAC is provided below:

2018

	Assumption change	Decrease in profit before tax *$'000*	Decrease in equity *$'000*
Mortality	+10%	(1,262)	(1,262)
Investment return	-0.5%	(9,929)	(9,929)

2017

	Assumption change	Decrease in profit before tax *$'000*	Decrease in equity *$'000*
Mortality	+10%	(1,386)	(1,386)
Investment return	-0.5%	(6,618)	(6,618)

2016

	Assumption change	Decrease in profit before tax *$'000*	Decrease in equity *$'000*
Mortality	+10%	(1,122)	(1,122)
Investment return	-0.5%	(5,458)	(5,458)

19 Financial assets

	Note	**2018**	**2017**	**2016**
		$'000	*$'000*	*$'000*
Financials assets:				
Policy loans	*20*	458,421	446,444	446,078
Loans to agents	*21*	67,770	25,167	59,169
Other loan	*22*	122	241	358
Other financial assets	*23*	31,668,019	31,297,196	23,837,117
Total financial assets		32,194,332	31,769,048	24,342,722

20 Policy loans

The policy loans are made to policyholders and are secured by the policies' cash surrender value. Policy loans are repayable at the discretion of the policyholders as long as the interest plus the principal of the loans do not equal or exceed the cash value or until the policy matures. On 20 July 2018, the interest rate of policy loans changed to 8.5% per annum (2017: 9% per annum; 2016: 9% per annum). The directors of the Target Company consider that the fair value of the loans approximately equals to the corresponding carrying value. The ECL of policy loans is considered as immaterial considering the past experience of collectability and that the policy loans are fully secured.

21 Loans to agents

The Target Group provides loans to agents which bear interest at the prevailing bank lending rates, and some are repayable by monthly instalments.

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Loans to agents:			
Loans to agents	202,003	140,235	165,659
Loss allowance	(134,233)	(115,068)	(106,490)
Total loans to agents, net of loss allowance	67,770	25,167	59,169

The movements in loss allowance of loans to agents are as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
At 1 January	115,068	106,490	85,600
Impairment loss recognised *(note 10)*	24,171	18,559	24,454
Reversal of impairment loss *(note 10)*	(5,001)	(8,526)	(3,564)
Written-off	(5)	(1,455)	–
At 31 December	134,233	115,068	106,490

For those loans to agents net of loss allowance, an ageing analysis is as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Not yet past due	58,607	–	38,597
Within one month past due	130	3,719	3,895
More than one month past due	9,033	21,448	16,677
Total loans to agents, net of loss allowance	67,770	25,167	59,169

Prior to 1 January 2018 the above loss allowance under HKAS 39 was for individually impaired loans related to agents in default or delinquency in repayments.

Loans that were not yet past due relate to a large number of agents for whom there was no recent history of default nor credit loss experience. Based on past experience, the directors of the Target Company are of the opinion that there is a low probability of default in respect of these balances as there has not been any significant change in credit quality and the balances are still considered recoverable. The Target Group does not hold any collateral or other credit enhancements over these balances.

Since the adoption of HKFRS 9 from 1 January 2018 the loss allowance for loans to agents is calculated by a provision matrix based on the Target Group's historical credit loss experience. The ECL methodology of loans to agents includes three stages: Stage I (good condition, overdue for less than 3 months), Stage II (significant increase in default risk according to longer overdue period) and Stage III (defaulted, such as bankruptcy of the borrower). Historical default rate of Stages I, II and III are 8%, 43% and 100% (1 January 2018: 9%, 41% and 100%) respectively. The ECL amounted to $134,233,000 (1 January 2018: $115,068,000). The carrying amount of loans to agents net of the loss allowance is $67,770,000 (1 January 2018: $25,167,000).

The carrying amount of loans to agents is expected to be recovered as below:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Within one year	67,770	25,167	33,169
After one year	–	–	26,000
	67,770	25,167	59,169

The directors of the Target Company consider that the fair value of the loans to agents approximately equals the corresponding carrying value.

22 Other loan

The other loan is unsecured and interest-bearing. Interest is charged on the principal amount outstanding with reference to the prime rate.

The carrying amount of other loan is expected to be recovered as below:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Within one year	122	119	117
After one year	–	122	241
	122	241	358

23 Other financial assets

	31 December 2018	1 January 2018	31 December 2017	31 December 2016
	$'000	*$'000*	*$'000*	*$'000*
Financial assets measured at FVOCI (recycling) *(note)*				
Fixed rate bonds, at market value:				
Listed – government bonds	4,421,491	4,266,217	–	–
Listed – others	19,876,116	17,588,955	–	–
Unlisted – others	3,420,048	4,617,497	–	–
	27,717,655	26,472,669	–	–

	31 December 2018 *$'000*	1 January 2018 *$'000*	31 December 2017 *$'000*	31 December 2016 *$'000*
Variable rate bonds, at market value:				
Unlisted – government bonds	24,874	25,773	–	–
Total financial assets at FVOCI (recycling)	27,742,529	26,498,442	–	–
Financial assets measured at FVPL *(note)*				
Fixed rate bonds, at market value:				
Listed – others	–	215,524	–	–
Financial assets measured at FVOCI (non-recycling) *(note)*				
Equities, at fair value:				
Listed	2,823,948	513,802	–	–
Unlisted	194,116	159,270	–	–
Total financial assets at FVOCI (non-recycling)	3,018,064	673,072	–	–
Financial assets measured at FVPL *(note)*				
Equities, at fair value:				
Listed	449,994	3,342,723	–	–
Unlisted	422,596	395,423	–	–
	872,590	3,738,146	–	–
Interests in investment funds, at fair value	34,836	172,012	–	–
Total financial assets at FVPL	907,426	4,125,682	–	–
Total other financial assets	31,668,019	31,297,196	–	–

	31 December 2018 *$'000*	1 January 2018 *$'000*	31 December 2017 *$'000*	31 December 2016 *$'000*
Available-for sale financial assets *(note)*				
Fixed rate bonds, at market value:				
Listed – government bonds	–	–	4,266,217	4,171,884
Listed – others	–	–	17,804,479	14,332,252
Unlisted – others	–	–	4,617,497	4,898,679
	–	–	26,688,193	23,402,815
Variable rate bonds, at market value:				
Listed – others	–	–	–	19,656
Unlisted – government bonds	–	–	25,773	24,519
	–	–	25,773	44,175
Total bonds	–	–	26,713,966	23,446,990
Equities, at fair value:				
Listed	–	–	3,856,525	188,723
Unlisted	–	–	554,693	–
Total equities	–	–	4,411,218	188,723
Interests in investment funds, at fair value	–	–	172,012	201,404
Total available-for-sale financial assets	–	–	31,297,196	23,837,117

The fair value of bonds and interests in investment funds are based on quoted market prices unless fair value can be more reliably estimated using valuation techniques.

Note: Available-for-sale financial assets were reclassified to financial assets measured at FVOCI (recycling), FVOCI (non-recycling) and FVPL upon the initial application of HKFRS 9 at 1 January 2018 (see note 2.2(i)).

A maturity profile of the bonds as at the reporting date is as follows:

	31 December 2018	1 January 2018	31 December 2017	31 December 2016
	$'000	*$'000*	*$'000*	*$'000*
With a contractual maturity of:				
One year or less	2,205,713	365,018	365,018	743,096
Two years or less but over one year	1,700,228	819,242	819,242	425,848
Three years or less but over two years	911,351	1,863,016	1,863,016	925,075
Four years or less but over three years	559,136	1,012,940	1,012,940	2,089,773
Five years or less but over four years	654,837	725,402	725,402	1,090,597
Over five years	21,711,264	21,928,348	21,928,348	18,172,601
Total bonds	27,742,529	26,713,966	26,713,966	23,446,990

Note: Bonds were reclassified from available-for-sale financial assets to FVOCI (recycling) or FVPL upon the initial application of HKFRS 9 at 1 January 2018 (see note 2.2(i)).

Details for the movements in FVOCI reserve (recycling), FVOCI reserve (non-recycling) and available-for-sale investment revaluation reserve being recognised in other comprehensive income are as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Unrealised gains/(losses) on available-for-sale financial assets	–	1,588,819	(115,309)
Realised gains included in profit or loss *(note 7)*	(32,463)	(65,579)	(23,626)
Impairment loss included in profit or loss *(note 10)*	16,873	3,650	3,975
Net movement in FVOCI reserve (recycling) during the year recognised in other comprehensive income	(2,478,481)	–	–
Overlay approach adjustments in profit or loss	(434,836)	–	–
Net movement in FVOCI reserve (non-recycling) during the year recognised in other comprehensive income	(314,480)	–	–
Net movement in financial assets during the year recognised in other comprehensive income	(3,243,387)	1,526,890	(134,960)

24 Investments related to unit-linked contracts

	2018	2017	2016
	$'000	*$'000*	*$'000*
Financial assets at fair value through profit or loss:			
– Interests in investment funds, at fair value	8,418,739	9,462,109	7,972,900
Cash and cash equivalents	28,005	47,556	47,290
Total investments related to unit-linked contracts	8,446,744	9,509,665	8,020,190

25 Premiums receivables

	2018	2017	2016
	$'000	*$'000*	*$'000*
Premiums receivables	255,102	206,516	153,119
Provision for impairment	(17,446)	(14,106)	(10,366)
Total premiums receivables, net of impairment	237,656	192,410	142,753

The movement in provision for impairment of premiums receivables is as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
At 1 January	14,106	10,366	10,356
Impairment loss recognised *(note 10)*	3,323	3,731	8
Exchange realignment	17	9	2
At 31 December	17,446	14,106	10,366

The above provision for impairment is assessed on a pooled basis based on the past experience related to policyholders in default of settlement.

For those premiums receivables net of impairment, they are all less than 3 months past due and are expected to be settled within the next twelve months.

26 Prepayments, deposits and other debtors

	2018 *$'000*	2017 *$'000*	2016 *$'000*
Prepayments *(note)*	327,083	412,849	514,133
Accrued interest/dividend income on:			
– bonds	634,601	510,961	329,284
– cross currency swap agreements *(note 29)*	36,472	48,008	55,477
– loan due from an intermediate holding company	13,093	13,112	12,966
– equities and interests in investment funds	3,075	8,330	255
– others	111	133	335
Deposits	59,840	44,398	39,559
Reinsurance asset:			
– reinsurers' share of insurance contract liabilities *(note 38)*	114,375	136,441	143,534
– other receivables from reinsurers	117,211	99,293	89,138
Other debtors	75,270	88,390	62,007
	1,381,131	1,361,915	1,246,688

Note: Included in prepayments are advances to agents and other intermediaries of $285,828,000 (2017: $383,461,000; 2016: $475,367,000).

	2018 *$'000*	2017 *$'000*	2016 *$'000*
Advances to agents and other intermediaries	285,828	395,005	486,911
Loss allowance	–	(11,544)	(11,544)
Total advances to agents and other intermediaries, net of loss allowance	285,828	383,461	475,367

The movement in loss allowance of advances to agents and other intermediaries is as follows:

	2018 *$'000*	2017 *$'000*	2016 *$'000*
At 1 January	11,544	11,544	11,421
Impairment loss recognised *(note 10)*	–	–	123
Written off	(11,544)	–	–
At 31 December	–	11,544	11,544

For those advances to agents and other intermediaries net of loss allowance, an ageing analysis is as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Not yet past due	285,828	383,424	475,157
Less than one month past due	–	–	50
More than one month past due	–	37	160
Total advances to agents and other intermediaries, net of loss allowance	285,828	383,461	475,367

Prior to 1 January 2018 the above loss allowance under HKAS 39 was for individually impaired advances related to agents and other intermediaries in default or delinquency in repayments.

Since the adoption of HKFRS 9 from 1 January 2018 the loss allowance is estimated for advances related to agents and other intermediaries based on historical credit loss experience.

Advances to agents and other intermediaries that were past due but not provided with loss allowance relate to a number of agents that have a good track record with the Target Group. Based on past experience, the directors of the Target Company are of the opinion that there is a low probability of default in respect of these balances as there has not been any significant change in credit quality and the balances are still considered fully recoverable. The Target Group does not hold any collateral or other credit enhancements over these balances.

The maturity profile of the carrying amount of the advances to agents and other intermediaries is stated as below:

	2018	2017	2016
	$'000	*$'000*	*$'000*
To be amortised within one year	87,094	171,882	251,179
To be amortised after one year	198,734	211,579	224,188
	285,828	383,461	475,367

Except for the above, other carrying amount of prepayments, deposits and other debtors is to be settled within the next twelve months.

The directors of the Target Company consider that the fair value of the advances to agents and other intermediaries approximately equals the corresponding carrying value.

27 Cash and cash equivalents and pledged deposits

(a) Cash and cash equivalents comprise:

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Cash and bank balances	1,535,717	1,370,299	1,428,522
Time deposits	689,560	1,073,540	2,018,802
	2,225,277	2,443,839	3,447,324
Less: Pledged deposits:			
Time deposit pledged for a bank guarantee *(note)*	(10,000)	(10,000)	(10,000)
Cash and cash equivalents	2,215,277	2,433,839	3,437,324

A maturity profile of the time deposits as at the reporting date is as follows:

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
With an original maturity of:			
Three months or less	679,560	1,063,540	2,008,802
One year or less but over three months	10,000	10,000	10,000
	689,560	1,073,540	2,018,802

Cash at bank earns interest at floating rates based on daily bank deposit rates. Other than pledged deposits, short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Target Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

Note: As at 31 December 2018, a time deposit of $10,000,000 (2017: $10,000,000; 2016: $10,000,000) was pledged to a bank for the bank guarantee given in respect of a rental deposit for a tenancy agreement entered into by the Target Group. The tenancy agreement will expire on 31 July 2020.

(b) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Target Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Target Group's consolidated statements of cash flows as cash flows from financing activities.

	Financial reinsurance arrangement *$'000* *(note 37)*	**Total** *$'000*
At 1 January 2017	557,254	557,254
Changes from financing cash flows:		
Repayment of financing under a financial reinsurance arrangement	(79,708)	(79,708)
Total changes from financing cash flows	(79,708)	(79,708)
Other changes:		
Interest expenses *(note 11)*	19,940	19,940
Total other changes	19,940	19,940
At 31 December 2017 and 1 January 2018	497,486	497,486
Changes from financing cash flows:		
Repayment of financing under a financial reinsurance arrangement	(88,785)	(88,785)
Total changes from financing cash flows	(88,785)	(88,785)
Other changes:		
Interest expenses *(note 11)*	21,972	21,972
Total other changes	21,972	21,972
At 31 December 2018	430,673	430,673

During the years ended 31 December 2017 and 2018, there were no changes from financing cash flows arising from the notes issued by a subsidiary of the Target Company (see note 37(i)). Payments of interest expenses of the notes are classified as operating activities as shown in the consolidated statements of cash flows.

28 Insurance and financial risk management objectives and policies

(a) Regulatory framework

The operations of the Target Group are subject to local regulatory requirements in Hong Kong. The Target Group is required to maintain an appropriate solvency position to meet unforeseen liabilities arising from economic shocks and/or natural disasters.

(b) Capital management framework

The Target Group has an internal risk management framework for identifying risks to which each of its business units and the Target Group as a whole are exposed. The internal framework estimates indicate how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests on the capital position of the business.

The Target Company always maintains a solvency position higher than 150% of the solvency margin required by the Insurance Authority ("IA") to ensure an adequate surplus position. Further objectives are set by the Target Group to maintain a strong credit rating and healthy capital ratios in order to support its business.

The Target Group manages its capital requirements by assessing probable shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Target Group's activities.

The Target Group fully complied with capital requirements imposed by the IA during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous year.

(c) Asset liability management ("ALM") framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risks that the Target Group faces due to the nature of its investments and liabilities are interest rate risk and duration risk. The Target Group manages these positions within an ALM framework that has been developed to achieve long term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Target Group's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders.

The Target Group's ALM also forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flows are available to meet liabilities arising from insurance and investment contracts.

(d) Insurance risk

The Target Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. The Target Group retains a maximum of US$150,000 for each risk it insures, with the excess being reinsured through surplus treaties, coinsurance treaties, facultative reinsurance, catastrophe treaties and quota share arrangements with reputable international reinsurers. Consequently, total claims payable in any given year can be predicted with a higher degree of precision. Over the last five years, the actual claims on average have been less than expected. As part of the Target Group's quality control process, the Target Group regularly invites reinsurers to audit its underwriting and claim practices and procedures, to ensure that the Target Group meet the highest industry standards.

The Target Group offers some products with explicit investment guarantees. One product is Invest-a-surance, an unbundled product with separate insurance and investment benefits and offers a minimum interest credit of 4% per annum. Invest-a-surance is a closed block. Dynasty is Renminbi denominated with maximum guaranteed return of 2.3% per annum at maturity. Dynasty Diamond is Renminbi denominated with guaranteed return of 3.5% per annum at maturity. Due to Renminbi investment restriction, Dynasty and Dynasty Diamond are 99% coinsured so that the investment risk is transferred to the reinsurer. Super Saver is a single-pay five-year endowment plan denominated in US dollar, with guaranteed return of 3.5% per annum at maturity. Elite Choice is a universal life product launched in 2012 and offers a soft-guarantee every 5 year period. The current guaranteed return is 1.0%/0.5%/3.0%/2.0% per annum for USD/HKD/AUD/CNY respectively. Wealth Achiever/Wealth Achiever with Protection are universal life plans launched in 2016 and offer lock-in crediting rates for the first 2 policy years up to 4.8%. Wealth Achiever offers point-to-point guarantees at 2% per annum for the first 10 policy years whilst Wealth Achiever with Protection offers hard guarantees at 2% per annum. The investment funds as at 31 December 2018 for Invest-a-surance amounted to HK$66,176,068 (2017: HK$66,536,788; 2016: HK$67,529,401). The investment fund for Elite Choice amounted to HK$9,232,484 (2017: HK$9,551,219; 2016: HK$7,043,867). The investment fund for Wealth Achiever amounted to HK$939,817,654 (2017: HK$1,042,923,669; 2016: HK$846,842,214). The investment fund for Wealth Achiever with Protection amounted to HK$39,054,003 (2017: HK$27,521,785; 2016: HK$Nil). The net reserve for Dynasty amounted to HK$72,752 (2017: HK$246,890; 2016: HK$429,054) and the net reserve for Dynasty Diamond amounted to HK$1,065,989 (2017: HK$1,113,377; 2016: HK$1,003,053). The reserve for Super Saver amounted to HK$389,058,169 (2017: HK$389,894,185; 2016: HK$371,354,946). The reserve held for the investment guarantee amounted to HK$2,474,104 (2017: HK$3,228,746; 2016: HK$2,935,443) for Invest-a-surance. The reserve held for the Elite Choice guarantee return amounted to HK$90,516 (2017: HK$140,597; 2016: HK$180,380). No guarantee reserve was set up for Dynasty since the net reserve for Dynasty is immaterial.

	2018			2017			2016		
	Gross liabilities	Reinsurers' share of liabilities	Net liabilities	Gross liabilities	Reinsurers' share of liabilities	Net liabilities	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Type of products									
Whole life	20,764,328	(113,959)	20,650,369	18,033,848	(135,892)	17,897,956	15,749,712	(142,975)	15,606,737
Term	79,904	(204)	79,700	76,994	(300)	76,694	74,294	(292)	74,002
Dread disease	1,393,866	(91)	1,393,775	1,225,986	(111)	1,225,875	1,097,059	(122)	1,096,937
Medical	219,637	–	219,637	191,712	–	191,712	173,186	–	173,186
Disability	12,972	(69)	12,903	14,467	(77)	14,390	16,943	(79)	16,864
Accident	20,954	(52)	20,902	20,434	(61)	20,373	21,017	(66)	20,951
At 31 December	22,491,661	(114,375)	22,377,286	19,563,441	(136,441)	19,427,000	17,132,211	(143,534)	16,988,677
Coinsurance liabilities	212,426	–	212,426	203,739	–	203,739	194,427	–	194,427
Insurance contract liabilities *(note 38)*	22,704,087	(114,375)	22,589,712	19,767,180	(136,441)	19,630,739	17,326,638	(143,534)	17,183,104

(i) Key assumptions

Liabilities on insurance contracts offered by the Target Group are predominantly conventional whole life insurance for which premiums are paid for a limited period of time or the whole of life, with fixed benefits paid upon death and surrender benefits increasing with the duration of policy.

Some plans provide for guaranteed periodic payments. Most of the whole life insurance products are entitled to annual dividends and some with terminal dividend upon policy termination. For this block of policies and also for endowment and level term products, the assumptions used for the determination of future liabilities for most products are:

	2018	**2017**	**2016**
Mortality rate	For products with full underwriting, 62% 2001 Hong Kong Assured Life Mortality tables for males and females, with selection factor 50% at year 1 and 75% at year 2.	For products with full underwriting, 62% 2001 Hong Kong Assured Life Mortality tables for males and females, with selection factor 50% at year 1 and 75% at year 2.	For products with full underwriting, 64% 2001 Hong Kong Assured Life Mortality tables for males and females, with selection factor 60% at year 1 and 85% at year 2.
	For products without full underwriting, 62% 2001 Hong Kong Assured Life Mortality tables for males and females.	For products without full underwriting, 62% 2001 Hong Kong Assured Life Mortality tables for males and females.	For non-linked products without full underwriting, 64% 2001 Hong Kong Assured Life Mortality tables for males and females, with different anti-selection factors across the products.
			For linked products without full underwriting, 80% 2001 Hong Kong Assured Life Mortality tables for males, 75% 2001 Hong Kong Assured Life Mortality tables for females.

	2018	2017	2016
Interest rate	2.25% for Regent Insurance Plan, Regent Prestige Insurance Plan, Regent Premier Insurance Plan, Joyful Life Insurance Plan and Regent Insurance Plan 2 3.50% for HealthCare 100 Critical Illness Protector, Regal Premier Saver, @MyLove Insurance Plan I, @MyLove Insurance Plan II, Health@Ease Critical Illness Protector and MediSave Medical Account 2.75% for HealthCare 168 Critical Illness Protector 3.20% for Glorious Protection Insurance Plan 3.55% for IncomePro Annuity Plan (Regular Premium) 4.10% for IncomePro Annuity Plan (Single Premium) 4.00% for most other policies	2.25% for Regent Insurance Plan, Regent Prestige Insurance Plan, Regent Premier Insurance Plan and Joyful Life Insurance Plan 3.50% for HealthCare 100 Critical Illness Protector, Regal Premier Saver, @MyLove Insurance Plan I, @MyLove Insurance Plan II, Health@Ease Critical Illness Protector and MediSave Medical Account 2.75% for HealthCare 168 Critical Illness Protector 4.00% for most other policies	2.50% for Regent Insurance Plan 3.00% for HealthCare 100 Critical Illness Protector and Regal Premier Saver 4.00% for most other policies
Lapse rate	Based on Target Group's experience	Based on Target Group's experience	Based on Target Group's experience
Expense	Based on Target Group's experience	Based on Target Group's experience	Based on Target Group's experience

The method of calculating the liabilities is the net level premium reserve, with an adjustment to remove premium deficiency.

For unit-linked funds, the liabilities are the fund account values.

For insurance with pure risk coverage such as accident benefit, dread disease, medical insurance and disability insurance, the liabilities are the unearned gross premiums.

Most of the policyholders of the insurance contracts issued by the Target Group are residents of Hong Kong.

The Target Group's investment returns on the investment assets backing the insurance fund, including realised and unrealised gains and losses, for the past five years are:

2014	13.85%
2015	1.50%
2016	3.52%
2017	10.24%
2018	-2.14%

The Target Group's actual claims compared to the mortality experience assumed in the calculation of the future insurance contract liabilities for the past five years are:

2014	82%
2015	69%
2016	72%
2017	91%
2018	102%

(ii) Sensitivities

2018

	Assumption change	**(Decrease)/ increase in profit before tax**	**(Decrease)/ increase in equity**
		$'000	*$'000*
Mortality	+10%	(203,533)	(203,533)
Discount rate	-50 basis points	(1,669,495)	(1,669,495)
Expense	+10%	(48,894)	(48,894)
Lapse rate	+20%	(11,060)	(11,060)

2017

	Assumption change	(Decrease)/ increase in profit before tax *$'000*	(Decrease)/ increase in equity *$'000*
Mortality	+10%	(190,334)	(190,334)
Discount rate	-50 basis points	(1,595,936)	(1,595,936)
Expense	+10%	(52,822)	(52,822)
Lapse rate	+20%	(59,960)	(59,960)

2016

	Assumption change	(Decrease)/ increase in profit before tax *$'000*	(Decrease)/ increase in equity *$'000*
Mortality	+10%	(166,334)	(166,334)
Discount rate	-50 basis points	(1,314,884)	(1,314,884)
Expense	+10%	(43,544)	(43,544)
Lapse rate	+20%	21,060	21,060

(e) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Target Group limits its exposure by setting minimum limits of its portfolio mix in bonds and maximum limits of portfolio mix in equities and other investments. The Target Group also sets limits on currency, maturity and credit limit on its fixed income portfolios. The Target Group only deals with institutions with high creditworthiness.

The table below shows the maximum exposure to credit risk for the components of certain financial instruments and insurance assets of the consolidated statements of financial position of the Target Group:

2018

	General and shareholders' fund	**Unit-linked**	**Total**
	$'000	*$'000*	*$'000*
Amounts due from intermediate holding companies	1,851,776	–	1,851,776
Amount due from the immediate holding company	27,396	–	27,396
Amounts due from fellow subsidiaries	9,288	–	9,288
Pledged deposits	10,000	–	10,000
Financial assets:			
Policy loans	458,421	–	458,421
Loans to agents	67,770	–	67,770
Other loan	122	–	122
Other financial assets – bonds	27,742,529	–	27,742,529
Derivative financial instruments	738,879	–	738,879
Premiums receivables	237,656	–	237,656
Prepayments, deposits and other debtors	1,354,953	26,178	1,381,131
Cash and cash equivalents *(note)*	2,215,389	(112)	2,215,277
At 31 December 2018	34,714,179	26,066	34,740,245

Note: As at 31 December 2018, the negative balance was resulted from cash in transit from trades of unit-linked business.

2017

	General and shareholders' fund	Unit-linked	Total
	$'000	*$'000*	*$'000*
Amounts due from intermediate holding companies	1,778,027	–	1,778,027
Amount due from the immediate holding company	27,396	–	27,396
Amounts due from fellow subsidiaries	9,602	–	9,602
Pledged deposits	10,000	–	10,000
Financial assets:			
Policy loans	446,444	–	446,444
Loans to agents	25,167	–	25,167
Other loan	241	–	241
Other financial assets – bonds	26,713,966	–	26,713,966
Derivative financial instruments	992,791	–	992,791
Premiums receivables	192,410	–	192,410
Prepayments, deposits and other debtors	1,329,986	31,929	1,361,915
Cash and cash equivalents	2,420,131	13,708	2,433,839
At 31 December 2017	33,946,161	45,637	33,991,798

2016

	General and shareholders' fund	Unit-linked	Total
	$'000	*$'000*	*$'000*
Amounts due from intermediate holding companies	1,689,645	–	1,689,645
Amount due from the immediate holding company	24,818	–	24,818
Amounts due from fellow subsidiaries	8,793	–	8,793
Pledged deposits	10,000	–	10,000
Financial assets:			
Policy loans	446,078	–	446,078
Loans to agents	59,169	–	59,169
Other loan	358	–	358
Other financial assets – bonds	23,446,990	–	23,446,990
Derivative financial instruments	957,966	–	957,966
Premiums receivables	142,753	–	142,753
Prepayments, deposits and other debtors	1,205,760	40,928	1,246,688
Cash and cash equivalents	3,436,128	1,196	3,437,324
At 31 December 2016	31,428,458	42,124	31,470,582

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Target Group by classifying certain financial instruments and insurance assets according to the Target Group's credit ratings of counterparties.

2018

	Investment grade	**Non-investment grade**	**Unit-linked**	**Total**
	$'000	*$'000*	*$'000*	*$'000*
Amounts due from intermediate holding companies	–	1,851,776	–	1,851,776
Amount due from the immediate holding company	–	27,396	–	27,396
Amounts due from fellow subsidiaries	–	9,288	–	9,288
Pledged deposits	10,000	–	–	10,000
Financial assets:				
Policy loans	–	458,421	–	458,421
Loans to agents	–	67,770	–	67,770
Other loan	–	122	–	122
Other financial assets – bonds	25,611,180	2,131,349	–	27,742,529
Derivative financial instruments	738,879	–	–	738,879
Premiums receivables	–	237,656	–	237,656
Prepayments, deposits and other debtors	371,529	983,424	26,178	1,381,131
Cash and cash equivalents	2,215,389	–	(112)	2,215,277
At 31 December 2018	28,946,977	5,767,202	26,066	34,740,245

2017

	Investment grade *$'000*	Non-investment grade *$'000*	Unit-linked *$'000*	Total *$'000*
Amounts due from intermediate holding companies	–	1,778,027	–	1,778,027
Amount due from the immediate holding company	–	27,396	–	27,396
Amounts due from fellow subsidiaries	–	9,602	–	9,602
Pledged deposits	10,000	–	–	10,000
Financial assets:				
Policy loans	–	446,444	–	446,444
Loans to agents	–	25,167	–	25,167
Other loan	–	241	–	241
Other financial assets – bonds	24,512,417	2,201,549	–	26,713,966
Derivative financial instruments	992,791	–	–	992,791
Premiums receivables	–	192,410	–	192,410
Prepayments, deposits and other debtors	352,248	977,738	31,929	1,361,915
Cash and cash equivalents	2,420,131	–	13,708	2,433,839
At 31 December 2017	28,287,587	5,658,574	45,637	33,991,798

2016

	Investment grade *$'000*	Non-investment grade *$'000*	Unit-linked *$'000*	Total *$'000*
Amounts due from intermediate holding companies	–	1,689,645	–	1,689,645
Amount due from the immediate holding company	–	24,818	–	24,818
Amounts due from fellow subsidiaries	–	8,793	–	8,793
Pledged deposits	10,000	–	–	10,000
Financial assets:				
Policy loans	–	446,078	–	446,078
Loans to agents	–	59,169	–	59,169
Other loan	–	358	–	358
Other financial assets – bonds	21,554,673	1,892,317	–	23,446,990
Derivative financial instruments	957,966	–	–	957,966
Premiums receivables	–	142,753	–	142,753
Prepayments, deposits and other debtors	322,935	882,825	40,928	1,246,688
Cash and cash equivalents	3,436,128	–	1,196	3,437,324
At 31 December 2016	26,281,702	5,146,756	42,124	31,470,582

Aaa and AAA are the highest credit ratings in the Moody's and Standard and Poor's credit rating systems, respectively. The Target Group classifies its bonds below ratings Baa3 and BBB- in the Moody's and Standard and Poor's credit rating systems respectively as non-investment grade bonds.

As at 31 December 2018, the amount of the non-investment grade bonds held by the Target Group was approximately 7% of its invested assets (2017: 7%; 2016: 7%).

The following table set out the credit quality analysis of financial assets measured at FVOCI and at amortised cost. Unless specifically indicated, the amounts in the table represent gross carrying amounts. For explanations of the terms '12-month ECL', 'lifetime ECL' and 'credit-impaired', see note 2.4(n)(i).

31 December 2018

	Investment grade			Non-investment grade			Unit-linked			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Financial assets at amortised cost										
Amounts due from intermediate holding companies *(note (i))*	–	–	–	31,426	1,820,350	–	–	–	–	1,851,776
Amount due from the immediate holding company	–	–	–	27,396	–	–	–	–	–	27,396
Amounts due from fellow subsidiaries	–	–	–	9,288	–	–	–	–	–	9,288
Pledged deposits	10,000	–	–	–	–	–	–	–	–	10,000
Financial assets:										
– Policy Loan	–	–	–	458,421	–	–	–	–	–	458,421
– Loans to agents *(note (ii))*	–	–	–	64,915	5,711	131,377	–	–	–	202,003
– Other loan	–	–	–	122	–	–	–	–	–	122
Prepayments, deposits and other debtors *(note (iii))*	371,529	–	–	764,132	219,292	–	26,178	–	–	1,381,131
Cash and cash equivalents	2,215,389	–	–	–	–	–	(112)	–	–	2,215,277
Gross carrying amount	2,596,918	–	–	1,355,700	2,045,353	131,377	26,066	–	–	6,155,414
Less: Loss allowance – loans to agents	–	–	–	–	(2,856)	(131,377)	–	–	–	(134,233)
Amortised cost	2,596,918	–	–	1,355,700	2,042,497	–	26,066	–	–	6,021,181
Financial assets at FVOCI										
Other financial assets – bonds *(note (iii))*										
Gross carrying amount	24,539,616	–	–	1,799,944	1,505,711	–	–	–	–	27,845,271
Less: Loss allowance	(9,737)	–	–	(15,109)	–	–	–	–	–	(24,846)
Amortised cost	24,529,879	–	–	1,784,835	1,505,711	–	–	–	–	27,820,425
Carrying amount – fair value	25,611,180	–	–	1,769,293	362,056	–	–	–	–	27,742,529

Notes:

(i) Amount due from intermediate holding companies under Stage II represents the outstanding loan from Tongchuang Jiuding Investment Management Group Co., Ltd ("JD Group"), of which the balance is considered to be highly recoverable upon completion of its disposal of the Target Group. The ECL on amounts due from intermediate holding companies has been considered to be immaterial (see note 3(b)).

(ii) The 12-month ECL (Stage I) on loans to agents is considered as immaterial with low credit risk (see note 21).

(iii) Management has assessed that the bonds issued by Jiuzhou Corporate Finance (Hong Kong) Limited ("Jiuzhou") (see note 48(a)) together with the accrued interests are classified as Stage II due to a significant increase in credit risk. However, ECL on these balances has been considered immaterial as credit risk arising from the balances is significantly reduced by the highly probable disposal of the Target Group. See note 3(b) for considerations of estimates used in the ECL measurement.

For credit risk in respect of premiums receivables, the ageing analysis is included in note 25 to the Historical Financial Information.

The following table shows the movement in expected credit losses that have been recognised for the respective financial assets:

Loans to agents

	2018			**2017**
	Lifetime ECL not credit-impaired	**Lifetime ECL credit-impaired**	**Total**	**Impaired**
	$'000	*$'000*	*$'000*	*$'000*
Balance as at 31 December 2017 under HKAS 39				115,068
Adjustment on initial application of HKFRS 9	4,636	110,432	115,068	
Balance as at 1 January 2018 under HKFRS 9	4,636	110,432	115,068	
Net (decrease)/increase in loss allowance recognised in current year, net of those derecognised upon settlement	(1,780)	20,950	19,170	
Write-offs	–	(5)	(5)	
Balance as at 31 December 2018	2,856	131,377	134,233	

For the credit risk in respect of loans to agents, the ageing analysis is included in note 21 to the Historical Financial Information.

Other financial assets – bonds

	2018			2017
	12-month ECL	**Lifetime ECL not credit-impaired**	**Total**	**Impaired**
	$'000	*$'000*	*$'000*	*$'000*
Balance as at 31 December 2017 under HKAS 39				–
Adjustment on initial application of HKFRS 9	9,797	2,638	12,435	
Balance as at 1 January 2018 under HKFRS 9	9,797	2,638	12,435	
Increase in loss allowance recognised in current year	16,873	–	16,873	
Release of loss allowance for bonds derecognised upon settlement	(1,824)	(2,638)	(4,462)	
Balance as at 31 December 2018	24,846	–	24,846	

For the credit risk in respect of the bonds, the maturity profile is included in note 23 to the Historical Financial Information.

(f) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing to repay contractual obligations; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risks the Target Group confronts are the daily calls on its available cash resources in respect of claims arising from insurance and investment contracts and the maturity of debt securities.

The Target Group manages liquidity through its liquidity risk policy which includes determining what constitutes liquidity risk for the Target Group and the minimum proportion of funds to meet emergency calls; the setting up of contingency funding plans; specifying the sources of funding and the events that would trigger the plan; specifying the concentration of funding sources; the reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring the compliance with liquidity risk policy and the reviewing of the Target Group's liquidity risk policy for pertinence and changing environment.

(i) The table below analyses certain financial liabilities of the Target Group at the end of the reporting period into their relevant maturity groups based on their contractual undiscounted cash flows.

2018

	Contractual undiscounted cashflows								
	1 year or less	2 years or less but > 1 year	3 years or less but > 2 years	4 years or less but > 3 years	5 years or less but > 4 years	> 5 years	Unit-linked	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Liabilities related to unit-linked contracts	–	–	–	–	–	–	8,583,343	8,583,343	8,583,343
Derivative financial instruments	8,378	1,740	82	(323)	24	–	–	9,901	9,283
Interest-bearing liabilities	882,201	168,665	161,710	157,958	2,071,004	80,642	–	3,522,180	3,082,655
Payables to policyholders	1,294,108	–	–	–	–	–	37,813	1,331,921	1,331,921
Accrued expenses and other creditors	608,700	20,475	4,113	4,113	1,986	719	22,362	662,468	662,468
	2,793,387	190,880	165,905	161,748	2,073,014	81,361	8,643,518	14,109,813	13,669,670

2017

	Contractual undiscounted cashflows								
	1 year or less	2 years or less but > 1 year	3 years or less but > 2 years	4 years or less but > 3 years	5 years or less but > 4 years	> 5 years	Unit-linked	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Liabilities related to unit-linked contracts	–	–	–	–	–	–	9,636,651	9,636,651	9,636,651
Derivative financial instruments	9,409	7,937	1,612	137	(1,180)	(461)	–	17,454	13,000
Interest-bearing liabilities	1,177,137	183,115	176,082	169,993	166,131	2,045,027	–	3,917,485	3,402,170
Payables to policyholders	1,162,713	–	–	–	–	–	47,262	1,209,975	1,209,975
Accrued expenses and other creditors	550,885	14,780	14,988	–	–	–	68,511	649,164	649,164
	2,900,144	205,832	192,682	170,130	164,951	2,044,566	9,752,424	15,430,729	14,910,960

2016

	Contractual undiscounted cashflows								
	1 year or less	2 years or less but > 1 year	3 years or less but > 2 years	4 years or less but > 3 years	5 years or less but > 4 years	> 5 years	Unit-linked	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Liabilities related to unit-linked contracts	–	–	–	–	–	–	8,143,420	8,143,420	8,143,420
Derivative financial instruments	9,418	8,750	8,016	180	(2,557)	11,278	–	35,085	63,558
Interest-bearing liabilities	1,090,536	177,062	177,993	175,179	169,772	2,179,619	–	3,970,161	3,363,215
Payables to policyholders	862,651	–	–	–	–	–	59,774	922,425	922,425
Accrued expenses and other creditors	556,096	15,288	2,401	15,579	–	–	19,038	608,402	608,402
	2,518,701	201,100	188,410	190,938	167,215	2,190,897	8,222,232	13,679,493	13,101,020

(ii) The table below presents the estimated amounts (on a discounted basis) and timing of cash flows arising from liabilities under insurance and investment contracts. The Target Group has to meet daily calls on its cash resources, notably from claims arising on its insurance and investment contracts and early surrender of policies for surrender value. There is therefore a risk that cash will not be available to settle liabilities when due at a reasonable cost. The Target Group manages this risk by monitoring and setting an appropriate level of cash position to settle these liabilities.

2018

	1 year or less	2 years or less but > 1 year	3 years or less but > 2 years	4 years or less but > 3 years	5 years or less but > 4 years	> 5 years	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Insurance contract liabilities	4,111,039	396,864	272,137	242,425	57,311	20,594,212	25,673,988
Investment contract liabilities	–	–	–	–	–	5,493	5,493
	4,111,039	396,864	272,137	242,425	57,311	20,599,705	25,679,481

2017

	1 year or less	2 years or less but > 1 year	3 years or less but > 2 years	4 years or less but > 3 years	5 years or less but > 4 years	> 5 years	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Insurance contract liabilities	3,687,846	340,769	233,671	208,160	49,210	17,946,440	22,466,096
Investment contract liabilities	–	–	–	–	–	5,372	5,372
	3,687,846	340,769	233,671	208,160	49,210	17,951,812	22,471,468

2016

	1 year or less	2 years or less but > 1 year	3 years or less but > 2 years	4 years or less but > 3 years	5 years or less but > 4 years	> 5 years	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Insurance contract liabilities	3,285,814	299,626	205,459	183,027	43,269	15,708,209	19,725,404
Investment contract liabilities	–	–	–	–	–	5,468	5,468
	3,285,814	299,626	205,459	183,027	43,269	15,713,677	19,730,872

(g) Market risk

Market risk is the risk of changes in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such changes in price are caused by factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. These risks are discussed in the following sections:

(i) Currency risk

It is the Target Group's policy to match its assets and liabilities by currency to minimise its exposure to currency risk. The Target Group sells policies denominated in Hong Kong dollars and United States dollars and its assets are appropriately invested to meet these liabilities. The Hong Kong dollar is pegged to the United States dollar. Management believes that this peg will continue in the near future. Nevertheless, management will monitor the situation closely and take appropriate actions when necessary. As at the reporting date, the Target Group had 0.23% of its investments denominated in foreign currencies, other than the United States dollar (2017: 0.43%; 2016: 0.39%). The Target Group believes that the currency risk in equities is reflected in their share price and therefore its exposure to the foreign currencies has not been hedged.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Target Group's interest risk policy requires it to manage the interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

Change in variables	**(Decrease)/ increase in net assets**	**(Decrease)/ increase in profit before tax**	**(Decrease)/ increase in equity**
	$'000	*$'000*	*$'000*
31 December 2018			
+50 basis points *(note (a))*	(1,771,282)	(1,771,282)	(1,771,282)
-50 basis points *(note (a))*	1,771,282	1,771,282	1,771,282

Change in variables	**(Decrease)/ increase in net assets**	**(Decrease)/ increase in profit before tax**	**(Decrease)/ increase in equity**
	$'000	*$'000*	*$'000*
31 December 2017			
+50 basis points *(note (a))*	(1,780,876)	(1,780,876)	(1,780,876)
-50 basis points *(note (a))*	1,780,876	1,780,876	1,780,876

Change in variables	**(Decrease)/ increase in net assets**	**(Decrease)/ increase in profit before tax**	**(Decrease)/ increase in equity**
	$'000	*$'000*	*$'000*
31 December 2016			
+50 basis points *(note (a))*	(1,577,096)	(1,577,096)	(1,577,096)
-50 basis points *(note (a))*	1,577,096	1,577,096	1,577,096

Note (a): Assumes all changes in assets value are realised and no convexity is considered.

(iii) Price risk

The Target Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices of individual instruments and of any underlying investment portfolio, principally in relation to investment securities not held for the account of unit-linked business.

Such investment securities are subject to price risk due to changes in market values of instruments and any underlying investment portfolio arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Target Group's price risk policy requires it to manage such risk by setting and monitoring objectives and constraints on investments and diversification plans, and to limit the investment in each country, sector and market.

	Change in variables	(Decrease)/ increase in profit before tax *$'000*	(Decrease)/ increase in equity *$'000*
Year 2018			
Market indices *(note (b))*	+10%	90,115	392,204
Market indices *(note (b))*	-10%	(90,115)	(392,204)

	Change in variables	(Decrease)/ increase in profit before tax *$'000*	(Decrease)/ increase in equity *$'000*
Year 2017			
Market indices *(note (b))*	+10%	458,407	458,407
Market indices *(note (b))*	-10%	(458,407)	(458,407)

	Change in variables	(Decrease)/ increase in profit before tax *$'000*	(Decrease)/ increase in equity *$'000*
Year 2016			
Market indices *(note (b))*	+10%	32,762	32,762
Market indices *(note (b))*	-10%	(32,762)	(32,762)

Note (b): Assumes all changes in equity values are realised.

(h) Designation of equities at FVOCI (non-recycling)

As at 1 January 2018 and 31 December 2018, the Target Group designated the following list of equities at FVOCI (non-recycling):

	31 December 2018 $'000	1 January 2018 $'000
1) a listed Hong Kong-based investment holding company principally engaged in investment in listed and unlisted enterprises	849,700	–
2) a listed Chinese bank headquartered in Zhejiang, the PRC	1,476,191	–
3) a listed Chinese company engaged in securities brokerage, securities investment consulting, financial advisers related to securities trading and securities investment activities and other securities related businesses	99,460	432,365
4) a listed investment holding company mainly engaged in the investment, financial services and real estate businesses	–	71,887
5) a listed Chinese company principally engaged in the design, marketing and sale of apparel products with a focus on mass-market ladies' casual wear in the PRC	–	9,550
6) a listed Chinese provincial city commercial bank headquartered in Nanchang, Jiangxi Province	398,597	–
7) a private equity fund established to achieve long-term growth through investment in Chinese companies	152,175	116,422
8) a private equity fund established to invest in an underlying fund that primarily achieves capital appreciation through investment in US real estate assets and non-real estate PRC-related investment opportunities in US	41,941	42,848
	3,018,064	673,072

The designated list of equities indicated the strategic relationship ("strategic assets") of the Target Group. To fulfil the definition as strategic assets, two of the following conditions must be met:

– the Target Group and/or its affiliated companies has existing or the intention to enter into strategic cooperation with these companies;

– the primary investment objective is for earning dividend income; and/or

– the Target Group has the intention to hold such investments for no less than 6 months.

As at 31 December 2018, the fair value of the strategic assets amounted to $3,018,064,000 (2017: $673,072,000). The dividend income from the strategic assets amounted to $63,413,000 during the year, of which $3,359,000 was earned from investments derecognised during the year and the remaining $60,054,000 was earned from the investments held as at the reporting date.

The disposal loss of strategic assets amounted to $18,584,000 during the year. For strategic assets 2, 3, 4 and 5 listed above, these investments were disposed for stop-loss and rebalancing/de-risk purposes. The fair value at the derecognition date was $311,211,000.

29 Derivative financial instruments

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Assets:			
Cross currency swap agreements, at fair value	3,341	3,226	2
Forward starting swap agreements, at fair value	735,211	989,565	957,964
Forward exchange agreements, at fair value	327	–	–
	738,879	992,791	957,966
Liabilities:			
Cross currency swap agreements, at fair value	(8,494)	(13,000)	(63,558)
Forward exchange agreements, at fair value	(789)	–	–
	(9,283)	(13,000)	(63,558)

Cross currency swap agreements – cash flow hedges for bond investments

From November 2009 onwards, the Target Group entered into certain cross currency swap agreements designated as cash flow hedges against its foreign currency risk in respect of cash flows from certain bond investments of US$348 million (2017: US$440 million; 2016: US$524 million) with maturities ranging from 2019 to 2025. These cross currency swap agreements are entered with several counterparties over the counter. The Target Group seeks to hedge the foreign currency risk by the exchange of payments denominated in targeted currency, and applies a hedge ratio of 1:1. The existence of an economic relationship between the cross currency swap agreements and the highly probable forecast transactions is determined based on their currency amounts and the timing of their respective cash flows. The terms of the cross currency swap agreements have been negotiated to match the terms of the underlying bond investments. The cash flow hedges were assessed to be highly effective and the net asset in the hedging reserve amounted to HK$19,381,000 (2017: HK$15,093,000; 2016: net liability of HK$64,765,000).

Forward starting swap agreements – cash flow hedges for bonds to be purchased in the future

From 2013 onwards, the Target Group entered into certain forward starting swap agreements designated as cash flow hedges against its interest rate risk in respect of bonds to be purchased in the future. Under the agreements, the Target Group will be entitled to receive fixed rate of around 4% to 5% per annum, and required to pay floating rate of 3-month LIBOR, in USD published by the British Banker's Association. As at 31 December 2018, the total notional amount was US$580 million (2017: US$655 million; 2016: US$705 million). The cash flow hedge was assessed to be highly effective and the net asset in the hedging reserve amounted to HK$735,211,000 (2017: HK$989,565,000; 2016: HK$957,964,000).

The Target Group seeks to hedge the interest rate risk by the exchange of payments benchmarked against the targeted fixed interest rate. The Target Group applies an approximate hedge ratio of 1:1 and determines the existence of an economic relationship between the forward starting swap agreements and the debt security investments by matching their critical terms, including the reference interest rates and interest payments.

As at 31 December 2018, the Target Group received HK$706,447,000 cash and bank balance from counterparties as collateral which are repayable on demand (2017: HK$965,261,000; 2016: HK$884,233,000). Interest is calculated on overnight federal fund rate and payable to counterparties.

Forward exchange agreements – hedges for foreign exchange exposure of equities

In November and December 2018, the Target Group entered into forward exchange agreements for hedging the foreign exchange exposure of Renminbi denominated equities (2017: Nil; 2016: Nil).

As at 31 December 2018, the Target Group was entitled to sell total notional amount of RMB76,035,000 (2017: Nil; 2016: Nil) with the equities sold, and the Target Group entered into opposite agreements to buy total notional amount of RMB76,035,000 (2017: Nil; 2016: Nil). All agreements will be ended in March 2019 and April 2019. No hedge accounting is applied for these forward exchange agreements.

Details for the hedging reserve being recognised in other comprehensive income are as follows:

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Net movement in hedging reserve during the year recognised in other comprehensive income	(250,066)	111,459	(25,251)

The derivative financial instruments are subject to an enforceable master netting arrangement and the gross amount is reported in the statements of financial position.

The following tables sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Gross amount presented in the statements of financial position			
Assets			
Derivative financial instruments	738,879	992,791	957,966
Accrued interest receivable included in prepayments, deposits and other debtors	36,472	48,008	55,477
	775,351	1,040,799	1,013,443
Liabilities			
Derivative financial instruments	9,283	13,000	63,558
Accrued interest payable included in accrued expenses and other creditors	38,384	49,470	57,484
	47,667	62,470	121,042

	2018	2017	2016
	$'000	*$'000*	*$'000*
Net amounts			
Assets			
Derivative financial instruments	729,596	979,791	895,093
Accrued interest receivable included in prepayments, deposits and other debtors	40	814	26
	729,636	980,605	895,119
Liabilities			
Derivative financial instruments	–	–	685
Accrued interest payable included in accrued expenses and other creditors	1,952	2,276	2,033
	1,952	2,276	2,718

30 Payables to policyholders

	2018	2017	2016
	$'000	*$'000*	*$'000*
Claims payable *(note 31)*	209,759	192,969	212,909
Premium deposits *(note 32)*	1,021,592	915,397	627,353
Other payables	100,570	101,609	82,163
	1,331,921	1,209,975	922,425

The carrying amounts disclosed above reasonably approximated to their fair values at the reporting date.

31 Claims payable

	2018	2017	2016
	$'000	*$'000*	*$'000*
Life and annuity	201,926	187,357	205,972
Linked long term	7,833	5,612	6,937
	209,759	192,969	212,909

The movements in the provision for claims reported by policyholders and claims incurred but not reported are analysed as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
At 1 January	192,969	212,909	160,939
Provided during the year	869,262	843,290	793,855
Utilised during the year	(852,405)	(863,306)	(741,932)
Exchange realignment	(67)	76	47
At 31 December	209,759	192,969	212,909

Claims incurred but not reported amounted to $31,860,000 as at 31 December 2018 (2017: $31,987,000; 2016: $30,592,000), which are included in claims payable.

The claims payable is expected to be settled within the next twelve months.

32 Premium deposits

Premium deposits are amounts that are left in deposits with the Target Group for the payment of future premiums and are expected to be utilised within the next twelve months.

	2018	2017	2016
	$'000	*$'000*	*$'000*
At 1 January	915,397	627,353	445,372
Received during the year	8,416,265	6,978,909	7,244,540
Utilised during the year	(8,311,637)	(6,695,262)	(7,062,478)
Exchange realignment	1,567	4,397	(81)
At 31 December	1,021,592	915,397	627,353

33 Accrued expenses and other creditors

	2018	2017	2016
	$'000	*$'000*	*$'000*
Commission payable	288,965	261,347	253,779
Reinsurance payable *(note)*	58,722	21,187	14,541
Other payables and accruals	314,781	366,630	340,082
	662,468	649,164	608,402

The maturity profile of the accrued expenses and other creditors is stated as below:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Payable within one year	631,062	619,396	575,134
Payable after one year	31,406	29,768	33,268
	662,468	649,164	608,402

The carrying amounts disclosed above approximate to their fair values. Accrued expenses and other creditors are non-interest bearing.

Note: Reinsurance premium and commission are offset and the net amount is reported in the statements of financial position when the Target Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Gross amount			
Assets			
Prepayments, deposits and other debtors			
– Reinsurance receivable	28,614	43,861	52,589
Liabilities			
Accrued expenses and other creditors			
– Reinsurance payable	87,336	65,048	67,130
Net amounts presented in the statements of financial position			
Liabilities			
Accrued expenses and other creditors			
– Reinsurance payable	58,722	21,187	14,541

34 Amounts due from fellow subsidiaries

The amounts due from fellow subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts reasonably approximate to their fair values at the reporting date.

35 Amounts due from intermediate holding companies

The amounts due from intermediate holding companies comprised the following:

(i) An outstanding loan of US$210,000,000 originally due from Ageas Insurance International N.V. ("AII") which is unsecured, interest-bearing at 4.215% per annum and will mature on 25 April 2023.

On 12 May 2016, a novation deed was signed among AII, JD Group and the Target Company. The financing arrangements continued with JD Group replacing AII as the borrower of the loan. Other terms of the financing arrangements remained unchanged.

The loan due from JD Group has a fair value of HK$606,744,000 as at 31 December 2018 (2017: HK$1,603,361,000; 2016: HK$1,597,936,000) and is classified as a level 2 financial instrument within the fair value hierarchy. The fair value of the loan is determined based on its discounted cashflow with the credit risk of the issuer taken into consideration. Further details of fair value classification are discussed in note 44 to the Historical Financial Information. For details of the transaction, please refer to note 48(a)(i) to the Historical Financial Information.

(ii) Other amounts due from intermediate holding companies are unsecured, interest-free and repayable on demand.

The carrying amounts reasonably approximate to their fair values at the reporting date.

36 Amount due from the immediate holding company

The amount due from the immediate holding company is unsecured, interest-free and repayable on demand. The carrying amount reasonably approximates to its fair value at the reporting date.

37 Interest-bearing liabilities

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
4.125% notes due 2023 *(note (i))*	1,945,535	1,939,423	1,921,728
Financing received under a financial reinsurance arrangement *(note (ii))*	430,673	497,486	557,254
Cash collateral received for cross currency swap agreements and forward starting swap agreements *(note 29)*	706,447	965,261	884,233
	3,082,655	3,402,170	3,363,215

Notes:

(i) On 25 April 2013, FTL Capital Limited issued an aggregate principal amount of US$250 million (approximately HK$1,940 million) of guaranteed bonds with a coupon rate of 4.125% (the "Bonds II") due 25 April 2023 to independent third party investors, whereby FTL Capital Limited raised approximately HK$1,915,364,000 (US$246,790,000), net of expenses.

Interest on the Bonds II is repayable on 25 April and 25 October of each year, beginning on 25 October 2013. The Bonds II are fully and unconditionally guaranteed by the Target Group. The Target Group's guarantee is an unsecured and unsubordinated obligation which ranks equally with all of the Target Group's other existing and future unsecured and unsubordinated obligations. As required by the insurance laws of Hong Kong and Bermuda, the Target Group's guarantee is effectively junior to the liabilities of its long term business, to the extent of the assets maintained by the Target Group in respect of its long term business. The Bonds II are listed on the Main Board of the Singapore Exchange Securities Trading Limited and under the provisions of Regulation S of the United States Securities Act.

The Bonds II will fully mature on 25 April 2023 and thus are not repayable within the next twelve months. The effective interest rate of the Bonds II is 4.29% per annum. The amortised cost of the Bonds II was HK$1,945,535,000 as at 31 December 2018 (2017: HK$1,939,423,000; 2016: HK$1,921,728,000).

At 31 December 2018, the fair value of the Bonds II was HK$1,929,412,000 (2017: HK$1,958,973,000; 2016: HK$1,915,136,000).

For the purpose of HKFRS 13, the fair value of Bonds II is determined based on the recent price offered by third parties in the market. As Bonds II is not actively traded in the market during 2018, the fair value of Bonds II is categorised as Level 2 as at 31 December 2018 (2017: Level 2; 2016: Level 2).

The Target Group's policy is to recognise transfers between levels of fair value hierarchy at each reporting date.

(ii) The Target Group had a financial reinsurance arrangement with a reinsurer. Under the financial reinsurance arrangement with effect from 2012, the Target Group had received an up-front fee of US$45 million at a finance cost of 90-day LIBOR plus 5.4%. During 2016, the Target Group had obtained another up-front fee of US$58 million from the reinsurer. Together with the previous US$45 million, the finance cost is revised to 90-day HIBOR plus 2.975%. The directors of the Target Company consider that the fair value of the financing approximately equals to the corresponding carrying value.

The maturity profile of the financing received is stated as below:

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Repayable within one year	92,283	128,318	123,668
Repayable after one year	338,390	369,168	433,586
	430,673	497,486	557,254

38 Insurance contract liabilities

Insurance contract liabilities are composed of liabilities for guaranteed benefits, liabilities for coinsurance payments and a provision for policyholders' dividends earned. Liabilities for guaranteed benefits take into account future guaranteed benefit payments and premium receipts.

Liabilities for coinsurance payments are set aside to fund future payments on coinsurance arrangements. The provision for dividends represents half of the expected annual policyholders' dividends payable in 2019 as this is considered to have been earned in 2018. The dividend policy is at the discretion of the Target Company's board. During 2018, the Target Group paid out total annual dividends of $167.9 million (2017: $168.1 million; 2016: $164.6 million).

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Liabilities for guaranteed benefits	22,418,659	19,491,672	17,051,588
Liabilities for coinsurance payments	212,426	203,739	194,427
Provision for annual dividends	73,002	71,769	80,623
Insurance contract liabilities *(note 28(d))*	22,704,087	19,767,180	17,326,638
Policyholders' dividends and bonuses *(note 39)*	2,969,901	2,698,916	2,398,766
Total insurance contract liabilities	25,673,988	22,466,096	19,725,404

Insurance contract liabilities, net of the unexpired reinsurance risk, are as below.

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Insurance contract liabilities *(note 28(d))*	22,704,087	19,767,180	17,326,638
Reinsurers' share of insurance contract liabilities *(note 28(d))*	(114,375)	(136,441)	(143,534)
Insurance contract liabilities, net of reinsurers' share *(note 28(d))*	22,589,712	19,630,739	17,183,104

The maturity profile of insurance contract liabilities is stated as below:

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Payable within one year	4,111,039	3,687,846	3,285,814
Payable after one year	21,562,949	18,778,250	16,439,590
	25,673,988	22,466,096	19,725,404

Movements in insurance contract liabilities are as follows:

	2018			
	Insurance contract liabilities	**Coinsurance liabilities**	**Reinsurers' share of liabilities**	**Net liabilities**
	$'000	*$'000*	*$'000*	*$'000*
At 1 January	19,563,441	203,739	(136,441)	19,630,739
Premiums received	4,471,856	(47,332)	(154,173)	4,270,351
Liabilities incurred for death, surrender and maturity	(1,973,240)	26,251	125,406	(1,821,583)
Benefit and claim experience variations	(333,196)	4,617	47,155	(281,424)
Investment income variations	(458,132)	8,102	–	(450,030)
Investment income	1,170,812	–	(4,313)	1,166,499
Financing cost for coinsurance	–	17,049	–	17,049
Adjustment due to change in reserve assumptions	63,158	–	1,838	64,996
Exchange realignment	(13,038)	–	6,153	(6,885)
At 31 December	22,491,661	212,426	(114,375)	22,589,712

	2017			
	Insurance contract liabilities	**Coinsurance liabilities**	**Reinsurers' share of liabilities**	**Net liabilities**
	$'000	*$'000*	*$'000*	*$'000*
At 1 January	17,132,211	194,427	(143,534)	17,183,104
Premiums received	3,639,354	(50,900)	(159,288)	3,429,166
Liabilities incurred for death, surrender and maturity	(1,510,413)	27,101	103,927	(1,379,385)
Benefit and claim experience variations	(557,433)	6,210	76,581	(474,642)
Investment income variations	(373,731)	7,733	–	(365,998)
Investment income	1,009,338	–	(4,797)	1,004,541
Financing cost for coinsurance	–	19,168	–	19,168
Adjustment due to change in reserve assumptions	113,976	–	762	114,738
Exchange realignment	110,139	–	(10,092)	100,047
At 31 December	19,563,441	203,739	(136,441)	19,630,739

	2016			
	Insurance contract liabilities	Coinsurance liabilities	Reinsurers' share of liabilities	Net liabilities
	$'000	*$'000*	*$'000*	*$'000*
At 1 January	14,568,646	185,186	(217,050)	14,536,782
Premiums received	4,124,808	(73,410)	(168,276)	3,883,122
Liabilities incurred for death, surrender and maturity	(1,537,409)	26,201	97,941	(1,413,267)
Benefit and claim experience variations	(578,616)	26,873	142,900	(408,843)
Investment income variations	(219,199)	7,390	–	(211,809)
Investment income	810,724	–	(7,072)	803,652
Financing cost for coinsurance	–	22,187	–	22,187
Adjustment due to change in reserve assumptions	(27,814)	–	(3,007)	(30,821)
Exchange realignment	(8,929)	–	11,030	2,101
At 31 December	17,132,211	194,427	(143,534)	17,183,104

39 Policyholders' dividends and bonuses

	2018	2017	2016
	$'000	*$'000*	*$'000*
At 1 January	2,698,916	2,398,766	2,115,983
Provided during the year	522,408	525,295	486,442
Utilised during the year	(254,530)	(236,453)	(204,309)
Exchange realignment	3,107	11,308	650
At 31 December	2,969,901	2,698,916	2,398,766

40 Investment contract liabilities

Movements in investment contract liabilities are as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
At 1 January	5,372	5,468	6,436
Withdrawals	(35)	(281)	(1,047)
Interest, bonus credited and fair value movement	156	185	79
At 31 December	5,493	5,372	5,468

The above amounts are repayable after the next twelve months.

41 Liabilities related to unit-linked contracts

	2018	2017	2016
	$'000	*$'000*	*$'000*
Insurance contract liabilities	587,817	634,478	524,771
Investment contract liabilities	7,995,526	9,002,173	7,618,649
Liabilities related to unit-linked contracts	8,583,343	9,636,651	8,143,420

42 Share capital

	2018	2017	2016
	US$'000	*US$'000*	*US$'000*
Authorised share capital	700,000	500,000	200,000
Increase of authorised share capital on 20 September 2017 and 18 August 2016	–	200,000	300,000
	700,000	700,000	500,000
	HK$'000	*HK$'000*	*HK$'000*
Issued and fully paid:			
506,100,141 (2017: 506,100,141; 2016: 314,218,034) ordinary shares of US$1 each *(note (i))*	3,938,134	3,938,134	2,438,134
9,000,000 (2017: 9,000,000; 2016: 9,000,000) Class A redeemable preference shares of US$1 each *(note (ii))*	69,955	69,955	69,955
10,000,000 (2017: 10,000,000; 2016: 10,000,000) Class C redeemable preference shares of US$1 each *(note (iii))*	77,611	77,611	77,611
	4,085,700	4,085,700	2,585,700

Notes:

(i) The movement of the ordinary shares during 2017 resulted from an allotment of 191,882,107 additional new ordinary shares of par value US$1 each at an aggregate subscription price of HK$1.5 billion on 20 September 2017.

The movement of the ordinary shares during 2016 was due to the fact that on 18 August 2016, the allotment of 193,218,034 additional new ordinary shares of par value US$1 each at an aggregate subscription price of HK$1.5 billion was paid via the transfer of the US$96.5 million 10% bonds due 2031 and the HK$750 million 10% bonds due 2031 as issued by Jiuzhou from the sole member to the Target Company.

(ii) The Class A redeemable preference shares contain the following terms:

(a) The Class A redeemable preference shares shall, subject to the provisions of the Companies Act 1981 of Bermuda (as amended), be redeemed at the option of the Target Company only.

(b) Redemption of any of the Class A redeemable preference shares shall be effected by delivery of a notice in writing from the Target Company, giving at least fourteen days' notice of redemption, which shall be delivered to the holder of such Class A redeemable preference shares at his address in the register of members.

(c) Upon redemption, the holder of the Class A redeemable preference shares shall be entitled to the par value thereof and to such premium, as the Board may in its absolute discretion think fit, subject to the provisions of the Companies Act.

(d) Upon redemption, the holders of the Class A redeemable preference shares shall be entitled to receive the par value thereof and to such premium in priority to the holders of any other issued shares in the capital of the Target Company including Class B redeemable preference shares.

(e) Subject only to the provisions in the schedule attached to the Target Company's bye-laws, the Class A redeemable preference shares shall rank pari passu with and have all the rights attaching to the ordinary shares of the Target Company.

(iii) The Class C redeemable preference shares contain the following terms:

(a) The Class C redeemable preference shares are subscribed at US$25.00 per share ("Notional Amount").

(b) Dividend Rights: Each holder of the Class C redeemable preference shares shall be entitled to a dividend at a fixed rate of 7.715% of the Notional Amount payable at the full discretion of the Board on a non-cumulative basis and subject to applicable laws. The declaration of dividend shall be subject to the approval of the Board every year.

(c) Dividends shall be paid prior and in preference to any and all other shares in the capital of the Target Company.

(d) Redemption Rights: Subject to the requirements of the Companies Act 1981 of Bermuda, the Class C redeemable preference shares shall be redeemable at the option of the Target Company at a redemption price equal to the Notional Amount on completion of a ten-year period from the initial issuance date of the Class C redeemable preference shares. The Target Company shall effect redemption upon providing fourteen days' notice in writing to each relevant holder at the address set out in the register of members of the Target Company. Any redemption shall be subject to the prior written consent of the Hong Kong Insurance Authority or any equivalent regulatory authority.

(e) Conversion Rights: Upon the Target Company and the holder's mutual agreement, the Class C redeemable preference shares may be converted into ordinary shares of the Target Company ("Ordinary Shares") at the Conversion Ratio. The initial Conversion Ratio shall be 1:1 subject to standard adjustments for sub divisions and consolidations of the Ordinary Shares where there is no like subdivision or consolidation of the Class C redeemable preference shares such that the number of Ordinary Shares issuable on conversion of each Class C redeemable preference share will be increased or decreased in proportion to such increase or decrease of the aggregate Ordinary Shares outstanding.

(f) Voting: The holder(s) of the Class C redeemable preference shares shall be entitled to the notice of and to attend and, on a poll, to one vote for each Class C redeemable preference share held at all general meetings of the Target Company.

(g) Liquidation: On any liquidation of the Target Company or on any return of capital, the holder of the Class C redeemable preference shares shall rank pari passu with the holders of the Ordinary Shares to the surplus assets of the Target Company.

(h) Other rights: Subject to the above terms, the holder(s) of the Class C redeemable preference shares shall otherwise rank pari passu with the holder(s) of the Ordinary Shares.

(iv) On 23 March 2016, JD Group executed an undertaking under which it will obtain prior written consent from the Insurance Authority before any dividend is declared or paid to the shareholder(s) of the Target Company, insofar as JD Group remains a controller of the Target Company.

43 Reserves

The amounts of the Target Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity on page II-7 of the Historical Financial Information.

44 Financial instruments

(a) Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the reporting date are as follows:

2018

	Financial assets at fair value through profit or loss *$'000*	Financial assets at fair value through other comprehensive income *$'000*	Amortised costs *$'000*	Total *$'000*
Financial assets				
Amounts due from intermediate holding companies	–	–	1,851,776	1,851,776
Amount due from the immediate holding company	–	–	27,396	27,396
Amounts due from fellow subsidiaries	–	–	9,288	9,288
Pledged deposits	–	–	10,000	10,000
Policy loans	–	–	458,421	458,421
Loans to agents	–	–	67,770	67,770
Other loan	–	–	122	122
Other financial assets	907,425	30,760,594	–	31,668,019
Investments related to unit-linked contracts	8,418,739	–	28,005	8,446,744
Derivative financial instruments	738,879	–	–	738,879
Prepayments, deposits and other debtors	–	–	1,381,131	1,381,131
Cash and cash equivalents	–	–	2,215,277	2,215,277
At 31 December 2018	10,065,043	30,760,594	6,049,186	46,874,823

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	$'000	*$'000*	*$'000*
Financial liabilities			
Investment contract liabilities	5,493	–	5,493
Liabilities related to unit-linked contracts	8,583,343	–	8,583,343
Derivative financial instruments	9,283	–	9,283
Interest-bearing liabilities	–	3,082,655	3,082,655
Accrued expenses and other creditors	–	662,468	662,468
At 31 December 2018	8,598,119	3,745,123	12,343,242

2017

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
	$'000	*$'000*	*$'000*	*$'000*
Financial assets				
Amounts due from intermediate holding companies	–	–	1,778,027	1,778,027
Amount due from the immediate holding company	–	–	27,396	27,396
Amounts due from fellow subsidiaries	–	–	9,602	9,602
Pledged deposits	–	–	10,000	10,000
Policy loans	–	–	446,444	446,444
Loans to agents	–	–	25,167	25,167
Other loan	–	–	241	241
Other financial assets	–	31,297,196	–	31,297,196
Investments related to unit-linked contracts	9,462,109	–	47,556	9,509,665
Derivative financial instruments	992,791	–	–	992,791
Prepayments, deposits and other debtors	–	–	1,361,915	1,361,915
Cash and cash equivalents	–	–	2,433,839	2,433,839
At 31 December 2017	10,454,900	31,297,196	6,140,187	47,892,283

	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
	$'000	*$'000*	*$'000*
Financial liabilities			
Investment contract liabilities	5,372	–	5,372
Liabilities related to unit-linked contracts	9,636,651	–	9,636,651
Derivative financial instruments	13,000	–	13,000
Interest-bearing liabilities	–	3,402,170	3,402,170
Accrued expenses and other creditors	–	649,164	649,164
At 31 December 2017	9,655,023	4,051,334	13,706,357

2016

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
	$'000	*$'000*	*$'000*	*$'000*
Financial assets				
Amounts due from intermediate holding companies	–	–	1,689,645	1,689,645
Amount due from the immediate holding company	–	–	24,818	24,818
Amounts due from fellow subsidiaries	–	–	8,793	8,793
Pledged deposits	–	–	10,000	10,000
Policy loans	–	–	446,078	446,078
Loans to agents	–	–	59,169	59,169
Other loan	–	–	358	358
Other financial assets	–	23,837,117	–	23,837,117
Investments related to unit-linked contracts	7,972,900	–	47,290	8,020,190
Derivative financial instruments	957,966	–	–	957,966
Prepayments, deposits and other debtors	–	–	1,246,688	1,246,688
Cash and cash equivalents	–	–	3,437,324	3,437,324
At 31 December 2016	8,930,866	23,837,117	6,970,163	39,738,146

	Financial liabilities at fair value through profit or loss $'000	Financial liabilities at amortised cost $'000	Total $'000
Financial liabilities			
Investment contract liabilities	5,468	–	5,468
Liabilities related to unit-linked contracts	8,143,420	–	8,143,420
Derivative financial instruments	63,558	–	63,558
Interest-bearing liabilities	–	3,363,215	3,363,215
Accrued expenses and other creditors	–	608,402	608,402
At 31 December 2016	8,212,446	3,971,617	12,184,063

(b) Financial instruments measured at fair value

Fair value hierarchy

The following table presents the fair value of the Target Group's financial instruments measured at the reporting date 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 financial instruments measured at fair value on a recurring basis are further analysed as below:

2018

	Total *$'000*	**Level 1** *$'000*	**Level 2** *$'000*	**Level 3** *$'000*
Assets				
Other financial assets:				
– Bonds	27,742,529	18,522,487	9,220,042	–
– Equities	3,890,654	3,273,942	–	616,712
– Interests in investment funds	34,836	34,836	–	–
Investments related to unit-linked contracts	8,418,739	8,418,739	–	–
Derivative financial instruments:				
– Cross currency swap agreements	3,341	–	3,341	–
– Forward starting swap agreements	735,211	–	735,211	–
– Forward exchange agreements	327	–	327	–
At 31 December 2018	40,825,637	30,250,004	9,958,921	616,712
Liabilities				
Investment contract liabilities	5,493	–	5,493	–
Liabilities related to unit-linked contracts	8,583,343	–	8,583,343	–
Derivative financial instruments:				
– Cross currency swap agreements	8,494	–	8,494	–
– Forward exchange agreements	789	–	789	–
At 31 December 2018	8,598,119	–	8,598,119	–

2017

	Total *$'000*	**Level 1** *$'000*	**Level 2** *$'000*	**Level 3** *$'000*
Assets				
Other financial assets:				
– Bonds	26,713,966	19,602,675	7,111,291	–
– Equities	4,411,218	3,856,525	–	554,693
– Interests in investment funds	172,012	172,012	–	–
Investments related to unit-linked contracts	9,462,109	9,462,109	–	–
Derivative financial instruments:				
– Cross currency swap agreements	3,226	–	3,226	–
– Forward starting swap agreements	989,565	–	989,565	–
At 31 December 2017	41,752,096	33,093,321	8,104,082	554,693
Liabilities				
Investment contract liabilities	5,372	–	5,372	–
Liabilities related to unit-linked contracts	9,636,651	–	9,636,651	–
Derivative financial instruments:				
– Cross currency swap agreements	13,000	–	13,000	–
At 31 December 2017	9,655,023	–	9,655,023	–

2016

	Total	**Level 1**	**Level 2**	**Level 3**
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Other financial assets:				
– Bonds	23,446,990	18,010,391	5,436,599	–
– Equities	188,723	188,723	–	–
– Interests in investment funds	201,404	201,404	–	–
Investments related to unit-linked contracts	7,972,900	7,972,900	–	–
Derivative financial instruments:				
– Cross currency swap agreements	2	–	2	–
– Forward starting swap agreements	957,964	–	957,964	–
At 31 December 2016	32,767,983	26,373,418	6,394,565	–
Liabilities				
Investment contract liabilities	5,468	–	5,468	–
Liabilities related to unit-linked contracts	8,143,420	–	8,143,420	–
Derivative financial instruments:				
– Cross currency swap agreements	63,558	–	63,558	–
At 31 December 2016	8,212,446	–	8,212,446	–

As at 31 December 2018, bonds with a market value of $698,622,000 (2017: $180,753,000; 2016: $135,171,000) and $Nil (2017: $98,853,000; 2016: $622,102,000) included in FVOCI financial assets (2017 and 2016: available-for-sale financial assets), were reclassified from Level 1 to Level 2 and from Level 2 to Level 1 respectively. There were no transfers into or out of Level 3 (2017: Nil; 2016: Nil). For other financial instruments measured at fair value on a recurring basis, there are no transfers between Level 1 and Level 2, or transfers in or out of Level 3. The Target Group's policy is to recognise transfers between levels of the fair value hierarchy at each reporting date.

Valuation techniques and the inputs used in the Level 2 fair value measurements

The fair value of forward starting swap agreements and forward exchange agreements is determined by discounting the contractual future cash flows. The discount rate used is derived from the relevant swap curve as at the reporting date, with potential adjustment made for various collateralisation agreement.

The fair value of cross currency swap agreements is determined by discounting the contractual future cash flows. The exchange rate and discount rate used are derived from the relevant foreign exchange forward rates and swap curve as at the reporting date, with potential adjustment made for various collateralisation agreement.

The fair value of bonds in Level 2 is determined by the latest transaction price quoted by the custodian. As there was no active market for such bonds as at the reporting date, they are classified as Level 2. There is no change in valuation approach for the Level 2 financial instruments.

The fair value of the bonds is determined based on its discounted cashflow with the credit risk of the issuer taken into consideration and is classified as level 2 financial instrument within the fair value hierarchy.

Information about Level 3 fair value measurements

All of the Target Group's Level 3 financial instruments were investments in partnerships in private equity funds (the "Partnerships"). Fair value is estimated by reference to the quoted market prices of underlying investments held or based upon valuation techniques developed by the managers of the Partnerships that use, where possible, current market based or independently sourced market parameters, such as interest rates, currency rates and option volatilities. The fair value measurement of underlying investments is positively correlated to the fund valuation. The transaction price is used as the best estimate of fair value at inception.

The following table shows the sensitivity of the fair value of Level 3 financial instruments to reasonably possible alternative assumptions used in the fair value measurement derived from valuation techniques or market prices of underlying investments:

				31 December 2018	
	Valuation techniques	**Significant unobservable inputs**	**Change in variables**	**Increase/ (decrease) in profit or loss**	**Increase/ (decrease) in equity**
				$'000	*$'000*
Financial assets (FVPL): *(note)*					
– Unlisted equities	Adjusted net asset value	Discount for lack of marketability/ restricted redemptions	+10%	–	42,260
			-10%	–	(42,260)
Financial assets (FVOCI):					
– Unlisted equities	Adjusted net asset value	Discount for lack of marketability/ restricted redemptions	+10%	–	19,412
			-10%	–	(19,412)

				31 December 2017	
	Valuation techniques	**Significant unobservable inputs**	**Change in variables**	**Increase/ (decrease) in profit or loss**	**Increase/ (decrease) in equity**
				$'000	*$'000*
Available for sale financial assets:					
– Unlisted equities	Adjusted net asset value	Discount for lack of marketability/ restricted redemptions	+10%	–	55,469
			-10%	–	(55,469)

Note: An unlisted equity is eligible for designation for the overlay approach as at 1 January 2018. Any changes in the fair value of this financial asset are reclassified from profit or loss to other comprehensive income.

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

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Other financial assets – Unlisted equities (FVPL) (2017 and 2016: Available-for-sale financial assets)			
At 1 January	395,423	–	–
Net purchases	–	390,174	–
Total unrealised gains recognised in other comprehensive income during the year *(note)*	27,173	5,249	–
At 31 December	422,596	395,423	–
Total gains or losses for the year included in the profit or loss for assets held at the reporting date	10,341	5,605	–

Note: An unlisted equity is eligible for designation for the overlay approach as at 1 January 2018. Any changes in the fair value of this financial asset are reclassified from profit or loss to other comprehensive income.

	2018 *$'000*	2017 *$'000*	2016 *$'000*
Other financial assets – Unlisted equities (FVOCI) (2017 and 2016: Available-for-sale financial assets)			
At 1 January	159,270	–	–
Net purchases	16,748	152,054	–
Total realised gains recognised in other comprehensive income during the year	5,015	–	–
Total unrealised gains recognised in other comprehensive income during the year	13,083	7,216	–
At 31 December	194,116	159,270	–
Total gains or losses for the year included in the profit or loss for assets held at the reporting date	2,840	2,540	–

45 Contingent liabilities

As at 31 December 2018, the Target Group had no material contingent liabilities and contingencies arising from the ordinary course of the Target Group's long term insurance business (2017: Nil; 2016: Nil).

46 Operating lease arrangements

(a) As lessor

As at 31 December 2018, the Target Group did not enter into any operating lease arrangement as a lessor (2017: Nil; 2016: Nil).

(b) As lessee

The Target Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to nine years.

As at the reporting date, the Target Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Within one year	130,169	135,742	144,958
In the second to fifth years, inclusive	255,193	113,392	282,877
After five years	222,396	–	–
	607,758	249,134	427,835

47 Commitments

In addition to the operating lease commitments detailed in note 46(b) above, the Target Group had the following capital commitments as at the reporting date:

	2018	2017	2016
	$'000	*$'000*	*$'000*
Contracted, but not provided for, in respect of several ongoing projects	19,122	–	14,791

48 Material related party transactions

(a) Details of the material transactions and outstanding balances with companies related to the Target Group were as follows:

	Note	2018	2017	2016
		$'000	*$'000*	*$'000*
AII:				
Interest income from AII	*(i)*	–	–	25,215
JD Group:				
Loan due from JD Group	*(i)*	1,644,552	1,641,507	1,628,550
Interest income from JD Group	*(i)*	70,338	69,932	44,636
Jiuzhou:				
Bonds issued by Jiuzhou	*(ii)*	362,056	1,500,530	1,391,642
Interest income from bonds issued by Jiuzhou	*(ii)*	150,078	151,487	55,356

	Note	2018 $'000	2017 $'000	2016 $'000
Kunwu Jiuding Capital Holdings Co., Ltd. ("JD Capital"):				
Investment funds managed by JD Capital	*(iii)*	152,175	159,270	–
Dividends from investment funds managed by JD Capital	*(iii)*	–	2,540	–
Realised gain from sale of investment funds managed by JD Capital	*(iii)*	5,015	–	–
JD International Advisors Limited ("JD International"):				
Investment fund with JD International as adviser to general partner	*(iii)*	41,941	–	–
Dividend from investment fund with JD International as adviser to general partner	*(iii)*	2,840	–	–
Kind Luck Wealth Management Limited ("Kind Luck"):				
Commission expense paid to Kind Luck	*(iv)*	38,616	59,969	–
Commission payable to Kind Luck	*(iv)*	1,229	–	–
Sub-lease rental earned from Kind Luck	*(iv)*	1,004	–	–

Notes:

(i) In 2013, the Target Company signed a loan agreement (the "Loan Agreement II") with AII. Pursuant to the Loan Agreement II, the Target Company provided a loan of US$250,000,000 to AII on 26 April 2013, with fixed interest charged at 4.215% per annum. The principal will be repaid in full on 25 April 2023 and interest is to be settled on every 25 April and 25 October of each year.

On 12 May 2016, a novation deed was signed among AII, JD Group and the Target Company. The financing arrangements continued with JD Group replacing AII as the borrower of the loan. Other terms of the financing arrangements remained unchanged.

As at 31 December 2018, the outstanding loan amounted to US$210,000,000 (2017: US$210,000,000; 2016: US$210,000,000), and the unsettled interest due amounted to HK$175,798,000 (2017: HK$105,322,000; 2016: HK$34,894,000), and interest accrued amounted to HK$13,093,000 (2017: HK$13,112,000; 2016: HK$12,966,000).

(ii) On 18 August 2016, the allotment of 193,218,034 additional new ordinary shares of par value US$1 each at an aggregate subscription price of HK$1.5 billion was paid via the transfer of the US$96.5 million 10% bonds due in 2031 and the HK$750 million 10% bond due in 2031 as issued by Jiuzhou from the sole member to the Target Company. Jiuzhou is a fellow subsidiary to the Target Group.

As at 31 December 2018, the unsettled interest due amounted to HK$150,571,000 (2017: HK$144,285,000; 2016: HK$Nil), and interest accrued amounted to HK$55,628,000 (2017: HK$62,558,000; 2016: HK$55,356,000).

(iii) During 2017, the Target Company purchased two investment funds, which are managed by two Cayman Islands Exempted Limited Partnerships, which are 100% controlled by JD Capital, a company publicly listed on National Equities Exchange and Quotations in the People's Republic of China. JD Capital is a fellow subsidiary to the Target Group.

On 25 September 2018, the ownership of the general partner to one of the investment funds changed from JD Capital to a third party. Though, JD International remained as an adviser to the general partner of the investment fund.

As at 31 December 2018, the dividend accrued amounted to HK$2,833,000 (2017: HK$2,540,000; 2016: HK$Nil) and the receivables from unsettled sale trades amounted to HK$9,628,000 (2017: HK$Nil; 2016: HK$Nil).

(iv) Kind Luck acted as a broker to the Target Company for selling insurance products to policyholders. Kind Luck is a fellow subsidiary to the Target Group.

In March 2018, the Target Company signed a sub-leasing agreement with Kind Luck at arm's length basis. Pursuant to the agreement, Kind Luck paid a security deposit at the commencement date and monthly rentals during contractual period. The agreement was then terminated in November 2018. A security deposit was returned to Kind Luck upon termination of the sub-leasing agreement.

(b) The Target Group has provided loans to agents which bear interest at the prevailing bank lending rates, and some are repayable on a monthly instalment basis. Details of these loans are included in note 21 to the Historical Financial Information. The Target Group has also provided advances to agents which are interest-free, details of these advances are included in note 26 to the Historical Financial Information.

(c) Compensation of key management personnel of the Target Group:

	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Short term employee benefits	26,769	20,990	59,265
Post-employment benefits	1,382	1,482	1,393
Total compensation paid to key management personnel	28,151	22,472	60,658

Further details of directors' emoluments are included in note 13 to the Historical Financial Information.

49 Interests in structured entities

There are interests in investment funds included in financial assets and investments related to unit linked contracts (see notes 23 and 24), in which they have been designed so that voting or similar rights are not the dominant factor in deciding who controls these schemes. These investment funds provide the policyholders, the Target 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 28(g)(iii)). There is no outstanding capital commitment to invest in the structured entities. The maximum exposure to loss, which represents the maximum loss that the Target Group could be required to report as a result of its involvement with these investment funds regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments (see notes 23 and 24).

There are also some investments in the Partnerships. The Target Group hold the interests as limited partners and do not control nor consolidate the Partnerships. Subject to the terms of respective Partnerships, there shall be further capital call for investments. As at 31 December 2018, the outstanding capital commitment to invest in these Partnerships amounted to US$37,842,000 (2017: US$5,128,000; 2016: US$Nil), including US$35,000,000 for two new partnerships confirmed as at that date. The maximum exposure to loss is the carrying amount of these investments (see note 44(b)).

50 Comparative figures

The Target Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transitions method chosen, the comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.2.

51 Company-level statements of financial position

	Note	**2018** *$'000*	**2017** *$'000*	**2016** *$'000*
Assets				
Property, plant and equipment		126,236	55,234	63,398
Intangible assets		62,230	46,499	33,843
Deferred acquisition costs		4,851,730	4,248,689	3,784,300
Interests in subsidiaries and amounts due from subsidiaries	*52*	650	666	666
Amounts due from intermediate holding companies		1,851,776	1,778,027	1,689,645
Amount due from the immediate holding company		27,396	27,396	24,818
Amounts due from fellow subsidiaries		9,288	9,602	8,793
Pledged deposits		10,000	10,000	10,000
Financial assets		32,194,332	31,769,048	24,342,722
Investments related to unit-linked contracts		8,446,744	9,509,665	8,020,190
Derivative financial instruments		738,879	992,791	957,966
Premiums receivables		237,656	192,410	142,753
Prepayments, deposits and other debtors		1,381,131	1,361,915	1,246,688
Cash and cash equivalents		2,210,343	2,431,620	3,436,659
Total assets		52,148,391	52,433,562	43,762,441
Liabilities				
Insurance contract liabilities		25,673,988	22,466,096	19,725,404
Investment contract liabilities		5,493	5,372	5,468
Liabilities related to unit-linked contracts		8,583,343	9,636,651	8,143,420
Derivative financial instruments		9,283	13,000	63,558
Amount due to subsidiaries		1,949,009	1,945,409	1,928,847
Interest-bearing liabilities		1,137,120	1,462,747	1,441,487
Payables to policyholders		1,331,921	1,209,975	922,425
Accrued expenses and other creditors		647,506	634,164	593,536
Tax payable		29,617	13,434	26,043
Total liabilities		39,367,280	37,386,848	32,850,188
Equity				
Issued capital	*42*	4,085,700	4,085,700	2,585,700
Reserves	*53*	8,695,411	10,961,014	8,326,553
Total equity attributable to equity holders		12,781,111	15,046,714	10,912,253
Total liabilities and equity		52,148,391	52,433,562	43,762,441

52 Interests in subsidiaries and amounts due from subsidiaries

Particulars of all subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Target Company: Direct	Percentage of equity attributable to the Target Company: Indirect	Principal activities
FTL Capital Limited	British Virgin Islands	Ordinary US$1	100%	–	Bond issuance
FTL Wealth Management (HK) Limited	Hong Kong	Ordinary HK$650,000	100%	–	Inactive

53 Company-level statements of changes in equity

	Issued share capital	Share premium account	Contributed surplus	Share option reserve	Hedging reserve	FVOCI reserve (recycling)	FVOCI reserve (non-recycling)	Retained profits	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2016	1,087,390	1,862,664	1,011,121	20,615	918,450	1,535,726	–	2,529,543	8,965,509
Changes in equity for 2016:									
Issuance of shares	1,498,310	–	–	–	–	–	–	–	1,498,310
Profit for the year	–	–	–	–	–	–	–	608,645	608,645
Other comprehensive income for the year	–	–	–	–	(25,251)	(134,960)	–	–	(160,211)
Total comprehensive income for the year	–	–	–	–	(25,251)	(134,960)	–	608,645	448,434
Balance at 31 December 2016	2,585,700	1,862,664	1,011,121	20,615	893,199	1,400,766	–	3,138,188	10,912,253

	Issued share capital	Share premium account	Contributed surplus	Share option reserve	Hedging reserve	FVOCI reserve (recycling)	FVOCI reserve (non-recycling)	Retained profits	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2017	2,585,700	1,862,664	1,011,121	20,615	893,199	1,400,766	–	3,138,188	10,912,253
Changes in equity for 2017:									
Issuance of shares	1,500,000	–	–	–	–	–	–	–	1,500,000
Profit for the year	–	–	–	–	–	–	–	996,112	996,112
Other comprehensive income for the year	–	–	–	–	111,459	1,526,890	–	–	1,638,349
Total comprehensive income for the year	–	–	–	–	111,459	1,526,890	–	996,112	2,634,461
Balance at 31 December 2017	4,085,700	1,862,664	1,011,121	20,615	1,004,658	2,927,656	–	4,134,300	15,046,714
Balance at 1 January 2018	4,085,700	1,862,664	1,011,121	20,615	1,004,658	2,927,656	–	4,134,300	15,046,714
Impact on initial application of HKFRS 9	–	–	–	–	–	(27,526)	(10,214)	37,740	–
Adjusted balance at 1 January 2018	4,085,700	1,862,664	1,011,121	20,615	1,004,658	2,900,130	(10,214)	4,172,040	15,046,714
Changes in equity for 2018:									
Profit for the year	–	–	–	–	–	–	–	1,227,850	1,227,850
Other comprehensive income for the year	–	–	–	–	(250,066)	(2,928,907)	(314,480)	–	(3,493,453)
Total comprehensive income for the year	–	–	–	–	(250,066)	(2,928,907)	(314,480)	1,227,850	(2,265,603)
Transfer upon disposal of equities at FVOCI	–	–	–	–	–	–	18,584	(18,584)	–
Balance at 31 December 2018	4,085,700	1,862,664	1,011,121	20,615	754,592	(28,777)	(306,110)	5,381,306	12,781,111

54 Total available capital under Hong Kong Insurance Ordinance

The table below sets forth a summary of the total available capital of the Target Group, pursuant to the Hong Kong Insurance Ordinance ("HKIO").

	As at 31 December		
	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Total available capital	7,566,107	8,043,595	6,080,427

(a) Reconciliation of the net asset in the consolidated statements of financial position to total available capital at 31 December 2016, 2017 and 2018:

	As at 31 December		
	2018	**2017**	**2016**
	$'000	*$'000*	*$'000*
Net assets in the consolidated statements of financial position	12,773,907	15,039,253	10,904,505
Basis of change of reserves balance *(notes (i) and (ii))*	(748,069)	(3,202,889)	(1,571,408)
Elimination of deferred acquisition costs *(note (iii))*	(4,851,730)	(4,248,689)	(3,784,300)
Financial reinsurance arrangement *(note (iv))*	391,999	455,920	531,630
Total available capital	7,566,107	8,043,595	6,080,427

Notes:

(i) Accounting policies of insurance funds and investment contracts for the financial information prepared in accordance with the provisions of the HKIO

Insurance contract liabilities

Insurance contract liabilities represent policy liabilities plus retained surplus determined by year end actuarial valuations prepared by the appointed actuary of the Target Company in accordance with the provisions of the HKIO. Insurance contract liabilities are predominantly determined based on the net premium valuation method with expense allowance limited to 150% of net level premium, which is a basis set out by the provisions of the HKIO for long term insurance business carried on in or from Hong Kong.

Investment contracts

For the purpose of the financial information prepared in accordance with the provisions of the HKIO, investment contracts are accounted for as if they were insurance contracts. Deposits collected and benefits payments of them are accounted for through the consolidated income statements and consolidated revenue accounts and the liabilities of them are measured in accordance with the provisions of the HKIO.

(ii) HKFRS 4 – Insurance contracts

In respect of the consolidated statements of comprehensive income prepared under HKFRS, deposits collected and benefits payments of investment contracts without discretionary participation features are not accounted for through consolidated statements of comprehensive income. For the purpose of the financial information prepared in accordance with the provisions of the HKIO, they are accounted for through the consolidated revenue accounts in accordance with the provisions of the HKIO. The adjustment represents the recording of premium income, claims, surrenders and reserve for future benefits arising from investment contracts without discretionary participation features in the consolidated revenue accounts prepared in accordance with the provisions of the HKIO.

(iii) DAC

In respect of the consolidated statements of comprehensive income prepared under HKFRS, the direct acquisition costs and a portion of indirect acquisition costs relating to the production of new business are deferred in so far as there are sufficient margins in the future premiums of the new business to fund the amortisation of the DAC. For the purpose of the financial information prepared in accordance with the provisions of the HKIO, all direct acquisition costs and indirect acquisition costs relating to the production of new business are expensed as and when incurred.

(iv) Financial reinsurance arrangement

In the consolidated statements of financial position and consolidated statements of comprehensive income prepared under HKFRS, the financial reinsurance arrangement is accounted for as a loan and the costs of the arrangement included as finance costs.

For the purpose of the financial information prepared in accordance with the provisions of the HKIO, the financial reinsurance arrangement is captured as a reinsurance arrangement and are accounted for in accordance with the accounting policy stated in note 2.4, and so include adjustments for reinsurance premium, commission and claims recoverable.

55 Regulatory minimum capital and solvency ratio under Insurance (Margin of Solvency) Rules

The table below sets forth a summary of the regulatory minimum capital and solvency ratio of the Target Group, pursuant to Insurance (Margin of Solvency) Rules.

		As at 31 December		
	Note	**2018**	**2017**	**2016**
		$'000	*$'000*	*$'000*
Total available capital	*54*	7,566,107	8,043,595	6,080,427
Exclusion of assets not eligible for supporting solvency		(568,255)	(1,707,374)	–
Total available capital (for solvency margin calculation)		6,997,852	6,336,221	6,080,427
Regulatory minimum capital		1,260,655	1,230,312	1,061,660
Solvency ratio		555%	515%	573%

Subsequent financial statements

No audited financial statements have been prepared by the Target Company and its subsidiaries in respect of any period subsequent to 31 December 2018.

Set out below is the management discussion and analysis of the Target Group (which refers to the Target Company and its subsidiaries) for the three financial years ended 31 December 2016, 2017 and 2018. The discussion and analysis relate to the consolidated results and financial position of the Target Group. You should read the discussion and analysis together with the Target Group's financial information as of and for each of the three years ended 31 December 2016, 2017 and 2018 and the accompanying notes thereto, which is set forth in the Accountants' Report on the Target Group included as Appendix II to this Circular. The Accountants' Report on the Target Group has been prepared in accordance with HKFRS on such basis as is set forth in note 2.1 thereto.

1. OVERVIEW

The Target Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act 1981 (as amended) on 27 June 1985, and has been known as FTLife Insurance Company Limited since 21 June 2016. The Target Company has been operating in the life insurance business in Hong Kong for more than 30 years and has been principally engaged in the provision of a wide range of whole life, endowment, unit-linked and term life insurance products and other insurance products which includes accident, medical and disability insurance products, serving both individual and institutional clients via tied agents and brokers. The Target Company has an insurer financial strength (IFS) rating by Fitch of A- and an insurance financial strength rating (IFSR) by Moody's of Baa1 (according to their respective latest reports as at the Latest Practicable Date), and was ranked as the 11th largest Hong Kong life insurance company by APE for the year ended 31 December 2018 (based on provisional statistics for long term business published by the IA[6]).

For the year ended 31 December 2018, the Target Group had total income of approximately HK$7,565.0 million and profit attributable to equity holders of approximately HK$1,228.1 million. As at 31 December 2018, the Target Group had total assets of approximately HK$52,152.7 million, total equity attributable to equity holders of approximately HK$12,773.9 million, and an embedded value of approximately HK$16,076 million (assuming a risk discount rate of 7.75% and adjusted for the difference between market value and assumed value of certain investments as agreed in the Share Purchase Agreement).

The Target Group has a high-quality product portfolio that suits customers' needs throughout their life cycles. It designs attractive products with innovative features in response to customers' diverse needs, and has received numerous awards in recognition of its products and services, including the "*Hong Kong Business* High Flyers Award" in the life insurance category from the Hong Kong Business magazine for 12 consecutive years and the "PROchoice Life Insurance Award" from the *Capital Weekly* magazine for 10 consecutive years. One of its flagship savings products, "Regent Insurance Plan 2 (Prestige Version)", ranked No. 1 by whole life savings projected return score (9 to 12 years and 15 years or above payment term, assuming the insured is male, age 35, non-smoker) according to

[6] Please refer to https://www.ia.org.hk/en/infocenter/statistics/quarterly_release_of_provisional_statistics_for_long_term_business.html.

insurance information and comparison platform *10Life* as at the Latest Practicable Date[7]. Its critical illness flagship product "HealthCare 168 2" ranked No. 1 by whole life critical illness overall score according to *10Life* as at the Latest Practicable Date[8].

The Target Group possesses strong distribution channels which, as of 31 December 2018, was constituted by a large and highly productive agency sales force of 2,858 tied agents and strategic partnerships with 248 brokers. For the year ended 31 December 2018, the Target Group ranks 6th and 4th in the Hong Kong life insurance industry in terms of APE from agency channel and APE from brokerage channel, respectively (based on provisional statistics for long term business published by the IA[9]). In recent years, the Target Group has proactively removed underperforming agents and focused on improving the productivity of its sales force. Meanwhile, the Target Group has achieved success in organically growing its agency force by the continuous recruitment of high-productivity agents.

With the competitive product suite and distribution channels, the Target Group has achieved strong business performance and value growth. The APE of the Target Group for 2016, 2017 and 2018 reached HK$1,128 million, HK$1,351 million and HK$1,943 million, respectively, representing an annual growth of 19.8% from 2016 to 2017 and 43.8% from 2017 to 2018, higher than the respective corresponding industry growth rates of -16.2% and 9.8%, according to provisional statistics for long term business published by the IA[10]. The Target Group's VONB for the year ended 31 December 2018 was approximately HK$604 million (2017: HK$347 million), representing a remarkable annual growth rate of 74.1% compared to the previous year.

2. REVIEW OF FINANCIAL RESULTS

The following table sets out the consolidated results of the Target Group, for each of the three years ended 31 December 2016, 2017 and 2018, which are derived from and should be read in conjunction with, the financial information prepared in accordance with HKFRS set out in the Accountants' Report on the Target Group in Appendix II to this Circular.

[7] Please refer to https://10life.com/products?locale=en&category=whole-life-savings-insurance&filters=%7B%22384%22%3A%229to12Pay%22%7D&sort-by-id=92 (9 to 12 years) and https://10life.com/products?locale=en&category=whole-life-savings-insurance&filters=%7B%22384%22%3A%2215to20Pay%22%7D&sort-by-id=92 (15 years or above).

[8] Please refer to https://www.10life.com/products?locale=en&category=whole-life-critical-illness-insurance&filters=%7B%22154%22%3A%22Y%22%2C%22155%22%3A%22Y%22%2C%22156%22%3A%22Y%22%2C%22157%22%3A%22Y%22%2C%22162%22%3A%22Y%22%7D.

[9] Please refer to https://www.ia.org.hk/en/infocenter/statistics/quarterly_release_of_provisional_statistics_for_long_term_business.html.

[10] Please refer to https://www.ia.org.hk/en/infocenter/statistics/quarterly_release_of_provisional_statistics_for_long_term_business.html.

	2018 (HK$'000)	2017 (HK$'000)	2016 (HK$'000)
Income			
Gross premiums	6,191,419	4,807,699	5,135,305
Less: Reinsurance premiums	(254,180)	(270,170)	(288,415)
Premiums, net of reinsurance	5,937,239	4,537,529	4,846,890
Interest income	1,500,131	1,298,797	1,053,472
Dividend and other investment income	78,424	53,133	2,747
Realized and unrealized capital (losses)/gains on investments	(124,569)	65,579	23,626
Overlay approach adjustments	434,836	–	–
Other realized and unrealized (losses)/gains	(30,227)	46,278	7,152
Fee and commission income	662,848	684,458	673,859
(Losses)/gains related to investments for unit-linked contracts	(903,059)	1,744,441	143,847
Other income	9,396	7,205	9,397
Total income	7,565,019	8,437,420	6,760,990
Expenses			
Claims and benefits, net of reinsurance	(5,104,354)	(4,000,869)	(4,246,047)
Charges related to unit-linked contracts	894,942	(1,725,872)	(145,875)
Agency commission and allowances	(1,741,396)	(1,281,089)	(1,106,657)
Change in deferred acquisition costs	603,041	464,389	272,605
Impairment losses	(38,668)	(17,414)	(24,996)
Operating and administrative expenses	(769,257)	(715,181)	(748,711)
Finance costs	(126,033)	(122,168)	(106,365)
Total expenses	(6,281,725)	(7,398,204)	(6,106,046)
Profit before tax	1,283,294	1,039,216	654,944
Tax	(55,187)	(42,817)	(45,654)
Profit for the year attributable to equity holders	1,228,107	996,399	609,290

Note: The Target Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transitions method chosen, the Historical Financial Information of the Target Group for the years ended 31 December 2016 and 2017 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 15. Please see notes 2.2(i) and 2.2(ii) to the Accountants' Report on the Target Group in Appendix II to this Circular.

Comparison of financial results between 2018 and 2017

(1) Premiums

Gross premiums mainly represent gross premium income received in respect of life and other insurance business of the Target Group during the corresponding period. Reinsurance premiums represent the portion of gross premium income ceded to reinsurers which share part of the insurance risk that the Target Group has assumed.

The following table illustrates the breakdown of the gross premiums of the Target Group by product type and premium nature as well as the portion of gross premiums ceded to reinsurers for each of the years ended 31 December 2017 and 2018.

	2018	**2017**
	(HK$'000)	*(HK$'000)*
Gross premiums on life insurance contracts by product type:		
Non-linked	5,993,095	4,607,927
Unit-linked	198,324	199,772
Or, *gross premiums on life insurance contracts by premium nature:*		
Single premiums	278,606	206,386
First year premiums	1,702,949	1,100,017
Renewal premiums	4,209,864	3,501,296
Gross premiums	6,191,419	4,807,699
Less: Reinsurance premiums	(254,180)	(270,170)
Premiums, net of reinsurance	5,937,239	4,537,529

The gross premiums of the Target Group increased by approximately 28.8% from HK$4,807.7 million for the year ended 31 December 2017 to HK$6,191.4 million for the year ended 31 December 2018 and the premiums net of reinsurance premiums of the Target Group increased by approximately 30.8% from HK$4,537.5 million for the year ended 31 December 2017 to HK$5,937.2 million for the year ended 31 December 2018. The increase was primarily due to the strong growth in the sale of high savings products as well as health and critical illness products.

(2) Investment income

Investment income mainly represents the income from investments of the Target Group including interests, dividends, realized and unrealized capital gains and other income from invested bonds, equity securities and other investments during the corresponding period. The following table illustrates the breakdown of the investment income of the Target Group for each of the years ended 31 December 2017 and 2018.

	2018	**2017**
	(HK$'000)	*(HK$'000)*
Interest income	1,500,131	1,298,797
Realized and unrealized capital (losses)/gains on investments	(124,569)	65,579
Overlay approach adjustments	434,836	–
Other realized and unrealized (losses)/gains	(30,227)	46,278
	280,040	111,857
Dividend and other investment income	78,424	53,133
Total investment income	1,858,595	1,463,787

The investment income of the Target Group increased by approximately 27.0% from HK$1,463.8 million for the year ended 31 December 2017 to HK$1,858.6 million for the year ended 31 December 2018. The increase was primarily due to the further increased holding of bonds, more realized gain on equities and more dividends received from listed equities as a result of the Portfolio Diversification (as defined in the sub-section headed "Comparison of financial results between 2017 and 2016" below), as well as the growth in investment portfolio as a result of business growth.

Realised and unrealised gains and losses, together with the overlay approach adjustments as allowed by HKFRS 4 for insurance companies adopting HKFRS 9, amounted to HK$280.0 million for 2018, which were mainly attributable to the realized gains on equities in the first half of 2018.

(3) Fee and commission income

Fee and commission income mainly represents fee income on insurance and investment contracts, reinsurance commission income and refund and commission income under agency agreements.

The fee and commission income of the Target Group decreased by approximately 3.2% from HK$684.5 million for the year ended 31 December 2017 to HK$662.8 million for the year ended 31 December 2018. The decrease was primarily due to the decrease in reinsurance commission income and also the decrease in experience refund from reinsurers in 2018 caused by more reinsurance claims recovery received from reinsurers as a result of more claims from policyholders.

(4) Losses or gains related to investments for unit-linked contracts

Losses or gains related to investments for unit-linked contracts mainly represent loss or gain on financial assets of the Target Group designated at fair value through profit or loss during the corresponding period. Such losses or gains are negatively correlated to, and are largely offset by, the charges related to unit-linked contracts discussed in the sub-section headed "(6) Charges related to unit-linked contracts" below.

Losses or gains related to investments for unit-linked contracts of the Target Group turned from a net gain of HK$1,744.4 million for the year ended 31 December 2017 to a net loss of HK$903.1 million for the year ended 31 December 2018. The change was primarily due to the bearish equity market in the second half of 2018.

(5) Claims and benefits, net of reinsurance

Claims and benefits net of reinsurance primarily include the costs of all claims, surrenders, withdrawals and the net movement in the insurance contract liabilities during the corresponding period. The following table sets out the breakdown of the claims and benefits net of reinsurance of the Target Group for each of the years ended 31 December 2017 and 2018.

	2018	**2017**
	(HK$'000)	*(HK$'000)*
Claims	645,040	575,355
Reinsurers' and coinsurers' share of claims	(125,846)	(103,927)
Claims, net of reinsurers' and coinsurers' share	519,194	471,428
Surrenders, annuities and maturities	1,176,366	813,708
Reinsurers' and coinsurers' share	(66,558)	(67,070)
	1,109,808	746,638
Policyholders' dividends and interests	339,745	319,274
Incentives to policyholders	151,647	179,676
Increase in insurance contract liabilities	2,983,960	2,283,853
Total claims and benefits, net of reinsurance	5,104,354	4,000,869

Claims and benefits net of reinsurance of the Target Group increased by approximately 27.6% from HK$4,000.9 million for the year ended 31 December 2017 to HK$5,104.4 million for the year ended 31 December 2018. The increase was primarily due to an increase in insurance contract liabilities as a result of business growth as well as more claims and surrenders in 2018.

(6) Charges related to unit-linked contracts

Charges related to unit-linked contracts mainly represent the change in reserve related to unit-linked contracts which covers the change attributed to the fair value change related to financial assets of the unit-linked contracts during the corresponding period. Such charges are negatively correlated to, and are largely offset by, the losses or gains related to investments for unit-linked contracts discussed in the sub-section headed "(4) Losses or gains related to investments for unit-linked contracts" above.

Charges related to unit-linked contracts of the Target Group turned from a negative amount of HK$1,725.9 million for the year ended 31 December 2017 to a positive amount of HK$894.9 million for the year ended 31 December 2018. The change was primarily due to the bearish equity market in the second half of 2018.

(7) Agency commission and allowances

Agency commission and allowances mainly represent commission payable or paid by the Target Group to its agents and brokers relating to the sales of its insurance and investment contracts during the corresponding period. Agency commission and allowances of the Target Group increased by approximately 35.9% from HK$1,281.1 million for the year ended 31 December 2017 to HK$1,741.4 million for the year ended 31 December 2018. The increase was primarily due to the strong growth in new business in 2018 as discussed in the sub-section headed "(1) Premiums" above.

(8) Change in deferred acquisition costs

Deferred acquisition costs comprise the direct acquisition costs and a portion of indirect acquisition costs relating to the production of new business which are deferred in so far as there are sufficient margins in the future profits of the new business to fund the amortization of the deferred acquisition costs, and include first year commissions and other costs related to the acquisition of new business. The following table illustrates the change in deferred acquisition costs during each of the years ended 31 December 2017 and 2018:

	2018	**2017**
	(HK$'000)	*(HK$'000)*
At 1 January	4,248,689	3,784,300
Additions:		
New business	1,432,441	1,051,164
Less: Amortization	(829,400)	(586,775)
Change in deferred acquisition costs	603,041	464,389
At 31 December	4,851,730	4,248,689

Deferred acquisition costs of the Target Group increased by HK$603.0 million during the year ended 31 December 2018; such increase is approximately 29.9% higher than the corresponding increase of HK$464.4 million during the year ended 31 December 2017. The rise in the magnitude of increase was primarily due to the more rapid growth of new business in 2018.

(9) Impairment losses

Impairment losses mainly represent the impairment losses on loans to agents, premiums receivables, available-for-sale financial assets as well as financial assets measured at fair value through other comprehensive income, net of recovery.

Impairment losses of the Target Group increased by approximately 122.1% from HK$17.4 million for the year ended 31 December 2017 to HK$38.7 million for the year ended 31 December 2018. The increase was primarily due to the expected credit loss being applied on bonds in 2018, as a result of the adoption of the "expected credit loss" model under HKFRS 9 in contrast with the previous "incurred loss" model under Hong Kong Accounting Standard 39.

(10) Operating and administrative expenses

Operating and administrative expenses mainly comprise management expenses, which primarily include salaries and allowances to employees and directors, rental charges, advertising and promotional expenses, office expenses, depreciation, professional fees, audit fees and other administrative fees, as well as investment charges and other operating expenses. Operating and administrative expenses of the Target Group increased by approximately 7.6% from HK$715.2 million for the year ended 31 December 2017 to HK$769.3 million for the year ended 31 December 2018. The increase was primarily due to increased salary expenses and marketing costs in connection with efforts to strengthen the sales force.

(11) Finance costs

Finance costs mainly represent the interest on interest-bearing notes and other interest-bearing financial instruments.

Finance costs of the Target Group increased by approximately 3.2% from HK$122.2 million for the year ended 31 December 2017 to HK$126.0 million for the year ended 31 December 2018. The increase was primarily due to the increased interest rates on reinsurance arrangements (based on HIBOR) and on cash collateral received in relation to derivative arrangements.

(12) Profit before tax

Mainly due to the result of the foregoing, the profit before tax of the Target Group increased by approximately 23.5% from HK$1,039.2 million for the year ended 31 December 2017 to HK$1,283.3 million for the year ended 31 December 2018.

(13) Tax

The Target Group operates in Hong Kong, and is subject to Hong Kong profits tax at a rate of 16.5% (2017: 16.5%; 2016: 16.5%) on the estimated assessable profits for the relevant period arising in Hong Kong. The assessable profits of the Target Group are computed in accordance with the special provisions of the IRO. Tax for the long term insurance business, as defined by the IRO, is computed at a rate of 16.5% (2017: 16.5%; 2016: 16.5%) of 5% of net premiums (i.e. gross premiums received less reinsurance premiums ceded) of the life insurance business in accordance with Section 23(1)(a) of the IRO.

Tax expenses of the Target Group increased by approximately 28.9% from HK$42.8 million for the year ended 31 December 2017 to HK$55.2 million for the year ended 31 December 2018. The increase was primarily due to the growth in net premiums.

(14) Profit for the year attributable to equity holders

As a result of the foregoing, the profit for the year attributable to equity holders of the Target Group increased by approximately 23.3% from HK$996.4 million for the year ended 31 December 2017 to HK$1,228.1 million for the year ended 31 December 2018.

Comparison of financial results between 2017 and 2016

Following Jiuding's indirect acquisition of the Target Group in May 2016 (the "**2016 Change of Ownership**"), a number of initiatives were carried out, including, among others, the following:

- the introduction of a single premium universal life product and a single premium short term endowment product (the "**Single Premium Products**") in the third quarter of 2016 to promote the Target Group's brand awareness. Since the sale of the two Single Premium Products mainly took place in the second half of 2016 (with one of them shelved in the fourth quarter of 2016 and the other one subsequently shelved in the third quarter of 2017), there was a decline in single premiums from 2016 to 2017; and

- the gradual diversification of the Target Group's investment portfolio to include assets other than fixed income financial instruments (the "**Portfolio Diversification**") since the first quarter of 2017, in order to align its asset allocation more closely with the payout characteristics and target return rates of its new insurance products.

(1) Premiums

The following table illustrates the breakdown of the gross premiums of the Target Group by product type and premium nature as well as the portion of gross premiums ceded to reinsurers for each of the years ended 31 December 2016 and 2017.

	2017 *(HK$'000)*	**2016** *(HK$'000)*
Gross premiums on life insurance contracts by product type:		
Non-linked	4,607,927	4,949,706
Unit-linked	199,772	185,599
Or, *gross premiums on life insurance contracts by premium nature:*		
Single premiums	206,386	1,288,146
First year premiums	1,100,017	671,122
Renewal premiums	3,501,296	3,176,037
Gross premiums	4,807,699	5,135,305
Less: Reinsurance premiums	(270,170)	(288,415)
Premiums, net of reinsurance	4,537,529	4,846,890

The gross premiums of the Target Group decreased by approximately 6.4% from HK$5,135.3 million for the year ended 31 December 2016 to HK$4,807.7 million for the year ended 31 December 2017 and the premiums net of reinsurance premiums of the Target Group decreased by approximately 6.4% from HK$4,846.9 million for the year ended 31 December 2016 to HK$4,537.5 million for the year ended 31 December 2017. The decrease was primarily due to the decline in single premiums in 2017 as a result of the shelving of the Single Premium Products which were introduced in the second half of 2016.

(2) Investment income

The following table illustrates the breakdown of the investment income of the Target Group for each of the years ended 31 December 2016 and 2017.

	2017	**2016**
	(HK$'000)	*(HK$'000)*
Interest income	1,298,797	1,053,472
Realized and unrealized capital gains on investments	65,579	23,626
Other realized and unrealized gains	46,278	7,152
Dividend and other investment income	53,133	2,747
Total investment income	1,463,787	1,086,997

The investment income of the Target Group increased by approximately 34.7% from HK$1,087.0 million for the year ended 31 December 2016 to HK$1,463.8 million for the year ended 31 December 2017. The increase was primarily due to the Portfolio Diversification which resulted in an increased holding of equities and high-yield bonds with higher returns in 2017, as well as unrealized foreign exchange gains from the appreciation of USD against HKD in 2017.

(3) Fee and commission income

The fee and commission income of the Target Group increased by approximately 1.6% from HK$673.9 million for the year ended 31 December 2016 to HK$684.5 million for the year ended 31 December 2017. The increase was primarily due to the larger portfolio of assets under management in 2017 as a result of business growth.

(4) Gains related to investments for unit-linked contracts

Gains related to investments for unit-linked contracts of the Target Group significantly increased by approximately 11.1 times from HK$143.8 million for the year ended 31 December 2016 to HK$1,744.4 million for the year ended 31 December 2017. The increase was primarily due to the bullish equity and fund markets in 2017. Such gains are negatively correlated to, and are largely offset by, the charges related to unit-linked contracts discussed in the sub-section headed "(6) Charges related to unit-linked contracts" below.

(5) Claims and benefits, net of reinsurance

The following table sets out the breakdown of the claims and benefits net of reinsurance of the Target Group for each of the years ended 31 December 2016 and 2017.

	2017	**2016**
	(HK$'000)	*(HK$'000)*
Claims	575,355	547,247
Reinsurers' and coinsurers' share of claims	(103,927)	(97,941)
Claims, net of reinsurers' and coinsurers' share	471,428	449,306
Surrenders, annuities and maturities	813,708	895,526
Reinsurers' and coinsurers' share	(67,070)	(154,143)
	746,638	741,383
Policyholders' dividends and interests	319,274	261,085
Incentives to policyholders	179,676	146,220
Increase in insurance contract liabilities	2,283,853	2,648,053
Total claims and benefits, net of reinsurance	4,000,869	4,246,047

Claims and benefits net of reinsurance of the Target Group decreased by approximately 5.8% from HK$4,246.0 million for the year ended 31 December 2016 to HK$4,000.9 million for the year ended 31 December 2017. The decrease was primarily due to a smaller increase in insurance contract liabilities as a result of the decline in sale of the Single Premium Products as discussed in the sub-section headed "(1) Premiums" above, which was partially offset by the increase in net claims as a result of the overall larger in-force policy portfolio.

(6) Charges related to unit-linked contracts

Charges related to unit-linked contracts of the Target Group significantly increased by approximately 10.8 times from HK$145.9 million for the year ended 31 December 2016 to HK$1,725.9 million for the year ended 31 December 2017. The increase was primarily due to the bullish equity and fund markets in 2017. Such charges are negatively correlated to, and are largely offset by, the gains related to investments for unit-linked contracts discussed in the sub-section headed "(4) Gains related to investments for unit-linked contracts" above.

(7) Agency commission and allowances

Agency commission and allowances of the Target Group increased by approximately 15.8% from HK$1,106.7 million for the year ended 31 December 2016 to HK$1,281.1 million for the year ended 31 December 2017. The increase was primarily due to the higher commission rate of new high savings products sold in 2017, contrasted with the significant sale of the Single Premium Products with a lower commission rate in the second half of 2016.

(8) Change in deferred acquisition costs

The following table illustrates the change in deferred acquisition costs during each of the years ended 31 December 2016 and 2017:

	2017	**2016**
	(HK$'000)	*(HK$'000)*
At 1 January	3,784,300	3,511,695
Additions:		
New business	1,051,164	835,914
Less: Amortization	(586,775)	(563,309)
Change in deferred acquisition costs	464,389	272,605
At 31 December	4,248,689	3,784,300

Deferred acquisition costs of the Target Group increased by HK$464.4 million during the year ended 31 December 2017; such increase is approximately 70.4% higher than the corresponding increase of HK$272.6 million during the year ended 31 December 2016. The rise in the magnitude of increase was primarily due to the more rapid growth of new business and the higher commission rate of products sold in 2017.

(9) Impairment losses

Impairment losses of the Target Group decreased by approximately 30.3% from HK$25.0 million for the year ended 31 December 2016 to HK$17.4 million for the year ended 31 December 2017. The decrease was primarily due to the improved recovery rate of loans to agents in 2017.

(10) Operating and administrative expenses

Operating and administrative expenses of the Target Group decreased by approximately 4.5% from HK$748.7 million for the year ended 31 December 2016 to HK$715.2 million for the year ended 31 December 2017. The decrease was primarily due to the non-recurring staff reorganization costs and rebranding expenses in connection with the 2016 Change of Ownership.

(11) Finance costs

Finance costs of the Target Group increased by approximately 14.9% from HK$106.4 million for the year ended 31 December 2016 to HK$122.2 million for the year ended 31 December 2017. The increase was primarily due to the interest charges on a significant additional upfront fee obtained in the fourth quarter of 2016 in connection with certain financial reinsurance arrangements with a reinsurer in connection with unit-linked contracts.

(12) Profit before tax

Mainly due to the result of the foregoing, the profit before tax of the Target Group increased by approximately 58.7% from HK$654.9 million for the year ended 31 December 2016 to HK$1,039.2 million for the year ended 31 December 2017.

(13) Tax

Tax expenses of the Target Group decreased by approximately 6.2% from HK$45.7 million for the year ended 31 December 2016 to HK$42.8 million for the year ended 31 December 2017. The decrease was primarily due to the decline in net premiums in 2017 as explained in the sub-section headed "(1) Premiums" above.

(14) Profit for the year attributable to equity holders

As a result of the foregoing, the profit for the year attributable to equity holders of the Target Group increased by approximately 63.5% from HK$609.3 million for the year ended 31 December 2016 to HK$996.4 million for the year ended 31 December 2017.

3. REVIEW OF CERTAIN BALANCE SHEET ITEMS

(1) Capital Structure

As at 31 December 2018 and the Latest Practicable Date, the Target Company had in issue 506,100,141 ordinary shares of US$1 each, 9,000,000 Class A redeemable preference shares of US$1 each and 10,000,000 Class C redeemable preference shares of US$1 each.

As at the Latest Practicable Date, the Target Group had no share option scheme or share award scheme in place.

(2) Significant investments held

The following table illustrates the breakdown of investments held by the Target Group by type of assets as at 31 December 2016, 2017 and 2018.

	As at 31 December		
	2018	**2017**	**2016**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Bonds	27,742,529	26,713,966	23,446,990
Equities	3,890,654	4,411,218	188,723
Funds	34,836	172,012	201,404
Total investments held	31,668,019	31,297,196	23,837,117

The fair value of investments held by the Target Group increased by approximately 31.3% from HK$23,837.1 million as at 31 December 2016 to HK$31,297.2 million as at 31 December 2017, which further increased by approximately 1.2% to HK$31,668.0 million as at 31 December 2018. The increases were primarily due to the growth of the Target Group's investment portfolio as a result of business growth as well as the increased holding of equities and bonds as a result of the Portfolio Diversification.

(3) Insurance contract liabilities

The following table illustrates the breakdown of insurance contract liabilities of the Target Group as at 31 December 2016, 2017 and 2018.

	As at 31 December		
	2018	**2017**	**2016**
	(HK$'000)	*(HK$'000)*	*(HK$'000)*
Liabilities for guaranteed benefits	22,418,659	19,491,672	17,051,588
Liabilities for coinsurance payments	212,426	203,739	194,427
Provision for annual dividends	73,002	71,769	80,623
Insurance contract liabilities	22,704,087	19,767,180	17,326,638
Policyholders' dividends and bonuses	2,969,901	2,698,916	2,398,766
Total insurance contract liabilities	25,673,988	22,466,096	19,725,404

The total insurance contract liabilities of the Target Group increased by approximately 13.9% from HK$19,725.4 million as at 31 December 2016 to HK$22,466.1 million as at 31 December 2017, which further increased by approximately 14.3% to HK$25,674.0 million as at 31 December 2018. The increases were primarily due to business growth.

(4) Ratio of total liabilities to total assets

The ratio of total liabilities to total assets of the Target Group was 75.1%, 71.3% and 75.5% as at 31 December 2016, 2017 and 2018, respectively. The decrease during the year ended 31 December 2017 was primarily due to the increase in market value of bond assets due to the unrealized gain from the fall in market interest rates, while the rebound during the year ended 31 December 2018 was primarily due to the decrease in market value of bond assets due to the unrealized loss from the rise in market interest rates.

(5) Contingent liabilities

As at 31 December 2018, the Target Group and the Target Company had no material contingent liabilities and contingencies arising from the ordinary course of the Target Group's long term insurance business.

4. LIQUIDITY AND FINANCIAL RESOURCES

(1) Liquidity

In the insurance industry, liquidity generally refers to the ability of an insurance company to generate adequate amounts of cash from its normal operations, including its investment portfolio, in order to meet its financial commitments, which are principally obligations under its insurance policies.

The principal cash inflows of the Target Group come from insurance premiums and investment income. The principal sources of funds generated by the Target Group's insurance operations are generally affected by fluctuations in the level of policy surrenders, withdrawals, maturities, benefits and claims. The Target Group closely monitors and manages liquidity risk by setting a minimum level of liquidity cash that will be available to cover claims, maturities and surrenders. For further details on the liquidity risk, please refer to the section headed "5. Risk Analysis – (5) Liquidity risk" in this appendix.

Liquidity is also available from the Target Group's portfolio of investment assets. The Target Group's investments generally comprise highly liquid and marketable securities, which generally could be liquidated to meet cash needs.

The Target Group's uses of funds include payments for policyholders benefit including claims and benefits payable on policy surrenders, interest payable to policyholders for their deposits, dividends to policyholders, agency commissions and allowances, investment management fee and management and other operating expenses.

(2) Financial resources

The Target Group generally finances its daily operations primarily by internally generated cash flows as well as other financial instruments. As at 31 December 2018, the total borrowings of the Target Group amounted to HK$3,082.7 million, the breakdown of which is set out in the following table.

	Outstanding amount *(HK$'000)*	Maturity date Within 1 year *(HK$'000)*	Over 1 year *(HK$'000)*	Interest rate
Notes due 25 April 2023 in an aggregate principal amount of US$250 million	1,945,535	–	1,945,535	4.125%
Financing received under financial reinsurance arrangements with a reinsurer in connection with unit-linked contracts	430,673	92,283	338,390	90-day HIBOR plus 2.975%
Cash collateral received for cross currency swap agreements and forward starting swap agreements	706,447	706,447	–	US federal funds rate
Total	3,082,655	798,730	2,283,925	

(3) Cash flows

The following table sets out a summary of the Target Group's consolidated statements of cash flows for the periods indicated.

	For the year ended 31 December		
	2018	**2017**	**2016**
	(HK\$'000)	*(HK\$'000)*	*(HK\$'000)*
Net cash inflow/(outflow) from operating activities	254,911	(2,450,304)	1,511,356
Net cash (outflow)/inflow from investing activities	(404,239)	26,793	(102,624)
Net cash (outflow)/inflow from financing activities	(88,785)	1,420,292	404,692
Net (decrease)/increase in cash and cash equivalents	(238,113)	(1,003,219)	1,813,424
Cash and cash equivalents at beginning of year	2,481,395	3,484,614	1,671,190
Cash and cash equivalents at end of year	2,243,282	2,481,395	3,484,614

The Target Group's cash and cash equivalents amounted to HK\$3,484.6 million, HK\$2,481.4 million and HK\$2,243.3 million as at 31 December 2016, 2017 and 2018, respectively. The decrease in cash and cash equivalents during the year ended 31 December 2017 was primarily due to the cash received from policyholders in 2016 which was subsequently invested in early 2017. With the capital injection received from the Vendor in 2017 being used for investments, the cash outflow from operating activities significantly increased in 2017. The decrease in cash and cash equivalents during the year ended 31 December 2018 was primarily due to the refund of cash collateral of HK\$258.8 million to counterparties in response to the less favourable price changes of forward starting swap contracts as a result of the rise in market interest rates in 2018.

(4) Solvency ratio

Solvency ratio is a measure of capital adequacy for insurance companies in Hong Kong. The Target Company is required by the IA to maintain a surplus of assets over its liabilities with a specified solvency margin of no less than 150%. The Target Company's solvency ratio depends on its ability to increase its capital base timely and adequately to meet the growth of its business. The solvency ratio is calculated by dividing total available capital by regulatory minimum capital. Total available capital is the amount of assets in excess of liabilities measured in accordance with the IO and regulatory minimum capital is the minimum required margin of solvency calculated in accordance with the IO.

As at 31 December 2016, 2017 and 2018, the solvency ratio of the Target Company was 573%, 515%, and 555%, respectively. The decrease during the year ended 31 December 2017 was primarily due to the fall in market interest rates, while the rebound during the year ended 31 December 2018 was primarily due to the rise in market interest rates, both reflected by changes in the US 10-year and 30-year treasury yield curve rates.

5. RISKS ANALYSIS

(1) Insurance risk

The Target Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. The Target Group retains a maximum of US$150,000 for each risk it insures, with the excess being reinsured through surplus treaties, coinsurance treaties, facultative reinsurance, catastrophe treaties and quota share arrangements with reputable international reinsurers. Consequently, total claims payable in any given year can be predicted with a higher degree of precision. Over the last five years, the actual claims on average have been less than expected. As part of the Target Group's quality control process, the Target Group regularly invites reinsurers to audit its underwriting and claim practices and procedures, to ensure that the Target Group meet the highest industry standards.

(2) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Target Group limits its exposure by setting minimum limits of its portfolio mix in bonds and maximum limits of portfolio mix in equities and other investments. The Target Group also sets limits on currency, maturity and credit limit on its fixed income portfolios.

The credit risk in respect of customer balances, incurred on the non-payment of premiums or contributions, will only persist during the grace period specified in the policy documents or trust deed on the expiry of which either the premium is paid or the policy will be terminated or changed to reduced paid-up or term cover according to the provision of the policy.

(3) Interest rate risk

Interest rate risk is the risk that the assets and liabilities of the Target Group will fluctuate because of changes in market interest rates. To ensure that adequate actions are taken to mitigate risks faced by the Target Group, a proper understanding of its investments is required considering the risk profile of liabilities. Therefore, the asset liability management function of the Target Group should ensure that they have a proper understanding of the nature of the risks and the probabilities of the possible outcomes related to its risk exposure. The Target Group's interest risk policy requires it to manage the interest rate risk by maintaining an appropriate strategic asset allocation for each business. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

The investment management function of the Target Group focuses on maximizing investment returns considering the matching of assets to liabilities. This does not mean that the matching should be perfect but rather that the careful use of mismatches is recognized as a valid source of potential profits as well as risks. Adequate processes and measurements are in place to monitor and manage the exposure and the evolution of the mismatch, taking into account the complexity of the instruments and exposures.

(4) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will change as a result of changes in foreign currency exchange rates. It is the Target Group's policy to match its assets and liabilities by currency to minimize its exposure to currency risk. The Target Group sells policies denominated in HKD and USD and the Target Group's policy requires it to invest its assets appropriately to meet these liabilities. As at 31 December 2018, the Target Group had 0.23% of its investments denominated in foreign currencies, other than USD (2017: 0.43%; 2016: 0.39%). As at 31 December 2018, the Target Group had not hedged its exposure to the foreign currencies in equities.

(5) Liquidity risk

Liquidity risk primarily refers to the possibility that the Target Group would have insufficient cash available to meet its payment obligations as they become due. Such payment obligations arise from insurance claims and insurance products that allow surrender, withdrawal or any other forms of early termination of insurance policy for a cash value.

The Target Group manages its liquidity risk by focusing on effective asset and liability management and maintaining an investment portfolio that consists mainly of liquid investment assets. The Target Group aims at matching the duration of its investment assets with the duration of its insurance liabilities. The majority of the Target Group's investment assets are financial instruments that are listed and have good liquidity, allowing the Target Group to convert investment assets into cash within a short period in the event of unexpected payment obligations. The Target Group develops multi-year business forecasts on an annual basis in order to minimize the risk of unexpected cash obligations.

(6) Price risk

The Target Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices of individual instruments and of any underlying investment portfolio, principally in relation to investment securities not held for the account of unit-linked business. Such investment securities are subject to price risk due to changes in market values of instruments and any underlying investment portfolio arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Target Group's price risk policy requires it to manage such risk by setting and monitoring objectives and constraints on investments and diversification plans, and to limit the investment in each country, sector and market.

(7) Hedging activities

From November 2009 onwards, the Target Group entered into certain cross currency swap agreements designated as cash flow hedges against its foreign currency risk in respect of cash flows from certain bond investments of US$348 million (2017: US$440 million; 2016: US$524 million) with maturities ranging from 2019 to 2025. These cross currency swap agreements were entered into with several counterparties over the counter. The terms of the cross currency swap agreements had been negotiated to match the terms of the underlying bond investments. The cash flow hedge was assessed to be highly effective.

From 2013 onwards, the Target Group entered into certain forward starting swap agreements designated as cash flow hedges against its interest rate risk in respect of bonds to be purchased in the future. Under these agreements, the Target Group has been entitled to receive fixed rate of around 4% to 5% per annum, and required to pay floating rate of 3-month LIBOR, in USD, published by the British Banker's Association. As at 31 December 2018, total notional amount was US$580 million (2017: US$655 million; 2016: US$705 million). The cash flow hedge was assessed to be highly effective.

In November and December 2018, the Target Group entered into forward exchange agreements for hedging the foreign exchange exposure of RMB denominated equities (2017: Nil; 2016: Nil).

As at 31 December 2018, the Target Group was entitled to sell total notional amount of RMB76,035,000 (2017: Nil; 2016: Nil) with the equities sold, and the Target Group entered into opposite agreements to buy total notional amount of RMB76,035,000 (2017: Nil; 2016: Nil), of which certain of such agreements representing a notional amount of RMB44,039,000 had matured as at the Latest Practicable Date and the remainder representing a notional amount of RMB31,996,000 will mature in April 2019 subsequent to the Latest Practicable Date. No hedge accounting is applied for these forward exchange agreements.

6. MATERIAL ACQUISITION AND DISPOSALS

There was no material acquisition or disposal of subsidiaries of the Target Group during the financial year ended 31 December 2016, 2017 and 2018, respectively.

7. EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Target Group had 381 full-time employees, representing a decrease of 6 full-time employees compared to 2017 and a decrease of 55 full-time employees compared to 2016.

The Target Group recruits, employs, promotes and remunerates its employees based on their qualifications, experience, skills, performances and contributions. To foster a motivated and skilled working team, the Target Group provided on-the-job training and competitive remuneration packages including salaries and discretionary bonuses for employees.

8. CHARGES ON THE TARGET GROUP ASSETS

There was no charge created on the assets of the Target Group's companies during the financial year ended 31 December 2016, 2017 and 2018, respectively.

9. LOOKING FORWARD

In 2019, the Target Group will continue to recruit high-calibre talents to expand the sales teams through various innovative platforms, and will continue to focus on key strategic initiatives in areas such as talent development, product innovation, sales and distribution management, finance and actuarial, as well as investment portfolio management.

Leveraging the Target Group's success in innovating and marketing new flagship products, the Target Group will continue to upgrade its existing products in light of latest market developments and emerging customers' needs. The Target Group has also entered the market of Voluntary Health Insurance Scheme (VHIS) with a series of new medical products to generate additional growth.

The Target Group will continue to upgrade and transform both its technology systems and its business processes with different automation and digitalization initiatives in all aspects of business, spanning from developing online distribution platforms to supporting mobile customer self-servicing capabilities to optimizing back-end systems. The Target Group is expected to enhance its overall operational efficiency, while enriching customer experience and delivering product innovation via seamless technological solutions in the coming years.

Furthermore, the NWS Group's development strategy of "deep roots in Hong Kong and focus on the Greater Bay Area" is highly complementary with the Target Group's long-term vision of "achieving long-term growth in Hong Kong, while strengthening integration with China and focusing on the Greater Bay Area". Upon Completion, the Target Group will achieve synergy through collaboration with the NWS Group's expanding healthcare portfolio, as well as with the NWS Group's well-known brand name in Hong Kong and the PRC to attract new customers.

Basis of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group

The following is the Unaudited Pro Forma Financial Information of the Enlarged Group, being the Group together with the Target Group, as if the Acquisition had been completed on 31 December 2018 for the unaudited pro forma statement of assets and liabilities.

The Unaudited Pro Forma Financial Information of the Enlarged Group is based on:

(a) the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2018 which has been extracted from the interim report of the Company for the six months ended 31 December 2018;

(b) the audited consolidated statement of financial position of the Target Group as at 31 December 2018 which has been extracted from Appendix II to this Circular; and

(c) after taking into account the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the acquisition of 100% equity interest of the Target Group might have affected the historical financial information in respect of the Group as if the Acquisition had been completed on 31 December 2018 (the "Completion Date").

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information contained in this Circular and the Accountant's Report on the Target Group as set out in Appendix II to this Circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group is for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the consolidated financial position of the Enlarged Group as at 31 December 2018 or at any future date.

Unaudited Pro Forma Financial Information of the Enlarged Group

	Unaudited **The Group as at 31 December 2018**	*Audited* **The Target Group as at 31 December 2018**	**Unaudited Pro Forma Adjustments**			*Unaudited Pro Forma* **The Enlarged Group as at 31 December 2018**
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
ASSETS						
Investment properties	1,726.5	–				1,726.5
Property, plant and equipment	5,497.2	126.2				5,623.4
Intangible concession rights	10,556.0	–				10,556.0
Intangible assets						
– Goodwill	406.7	–	4,217.1			4,623.8
– Value of in-force business	–	–	8,302.0			8,302.0
– Operating right and others	328.5	62.2				390.7
Deferred acquisition costs	–	4,851.7	(4,851.7)			–
Associated companies	14,593.6	–				14,593.6
Joint ventures	13,901.0	–				13,901.0
Financial assets at fair value through other comprehensive income	3,526.6	30,760.6	(1,410.9)			32,876.3
Financial assets at fair value through profit or loss	3,241.3	907.5				4,148.8
Other non-current assets	870.8	–				870.8
Inventories	482.2	–				482.2
Trade and other receivables	14,342.5	1,381.1	(270.5)			15,453.1
Cash and bank balances	7,275.6	2,215.3	(16,711.1)	21,500.0		14,279.8
Amounts due from intermediate holding companies	–	1,851.8	(1,851.8)			–
Amount due from the immediate holding company	–	27.4	(27.4)			–
Amounts due from fellow subsidiaries	–	9.3	(9.3)			–
Pledged deposits	–	10.0				10.0
Policy loans	–	458.4				458.4
Loans to agents	–	67.8				67.8
Investments related to unit-linked contracts	–	8,446.8				8,446.8
Derivative financial instruments	1.1	738.9	88.7			828.7
Premium receivables	–	237.7				237.7
Total assets	76,749.6	52,152.7				137,877.4

	Unaudited **The Group as at 31 December 2018**	*Audited* **The Target Group as at 31 December 2018**	**Unaudited Pro Forma Adjustments**			*Unaudited Pro Forma* **The Enlarged Group as at 31 December 2018**
	HK$'million	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*	*HK$'million*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
LIABILITIES						
Borrowings	12,815.4	–		21,500.0		34,315.4
Deferred tax liabilities	2,355.1	–	249.0			2,604.1
Other non-current liabilities	168.0	–				168.0
Trade and other payables	11,289.4	662.5			160.0	12,111.9
Taxation	650.3	29.6				679.9
Insurance contract liabilities	–	25,674.0				25,674.0
Investment contract liabilities	–	5.5				5.5
Liabilities related to unit-linked contracts	–	8,583.3				8,583.3
Derivative financial instruments	36.5	9.3				45.8
Interest-bearing liabilities	–	3,082.7				3,082.7
Payables to policyholders	–	1,331.9				1,331.9
Total liabilities	27,314.7	39,378.8				88,602.5

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

(1) The balances were extracted from the published interim report of the Company for the six months ended 31 December 2018. For simplification, the current and non-current classification is not presented in this Unaudited Pro Forma Financial Information.

(2) The balances were extracted from Appendix II to this Circular.

(3) The adjustment reflects the effects of the Acquisition:

	As at 31 December 2018 *HK$'million*
Net consideration payable by the Group *(note 3a)*	21,481.6
Identifiable net assets acquired and assets transferred post-Completion *(note 3b)*	(17,264.5)
Goodwill arising from the Acquisition	4,217.1

The amount of goodwill and fair value of identifiable assets and liabilities acquired on the date of completion are subject to (1) the valuation of the fair value of the identifiable assets and liabilities acquired on the date of completion and (2) the consideration adjustments upon completion of the Acquisition. In addition, intangible assets of the Target Group which were not otherwise recognised in Unaudited Pro Forma Financial Information may be recognised at their fair value upon completion of the Acquisition.

Note 3a

The net consideration payable by the Group is determined as follows:

	HK$'million
Consideration	*21,500.0*
Add: Interest accrued among the date of Share Purchase Agreement, the Completion Date and the date of relevant payments on each of the Deposit and the Prepayment as detailed in sub-section headed "Consideration" in "Letter From the Board" section	*5.6*
Less: Amount deducted for loss upon disposal of certain investments as detailed in sub-section headed "Consideration" in "Letter From the Board" section	*(24.0)*
Net consideration payable by the Group	*21,481.6*
Represented by:	
Net consideration payable by the Group settled in cash (including an amount payable to a bank to settle the outstanding bank loan obtained by the Vendor's Parent)	*21,481.6*
Increase in cash and bank balances of The Target Group upon Completion (note i)	*(4,770.5)*
Net decrease in cash and bank balances from the Enlarged Group's perspective	*16,711.1*

note i: As detailed in sub-sections headed "Pre-Completion undertakings in relation to certain intragroup transactions" and "Pre-Completion undertakings in relation to certain investments" in "Letter From the Board" section, the cash and bank balances of the Target Group is increased by approximately HK$4,770.5 million upon Completion, which represents the settlement of amounts due from Vendor's Group (approximately HK$1,888.5 million) and the proceeds from the Vendor arising from disposal of certain investments (approximately HK$2,882.0 million).

Note 3b

The identifiable net assets acquired and assets transferred post-Completion is shown below:

	HK$'million
Net asset value of the Target Group as extracted from Appendix II to this Circular	*12,773.9*
Increase in net asset value of the Target Group arising from the undertakings (note i)	*1,200.6*
Identification of VIF as detailed below, net of deferred tax (note ii)	*3,201.3*
Identifiable net assets acquired	*17,175.8*
Recognition of derivative financial assets as detailed in sub-section headed "Post-Completion undertakings in relation to certain investments" in "Letter From the Board" section	*88.7*
Identifiable net assets acquired and assets transferred post-Completion	*17,264.5*

note i: As detailed in sub-sections headed "Pre-Completion undertakings in relation to certain investments" and "Post-Completion undertakings in relation to certain investments" in "Letter From the Board" section, the Vendor has undertaken to purchase certain investments held by the Target Group at corresponding agreed value of approximately HK$2,882.0 million (as shown in Note 3a(i) above) and compensate the loss resulting from redemption upon maturity of certain bonds (classified as financial assets at fair value through other comprehensive income "FVOCI") of approximately HK$26.8 million. The carrying value of those investments is approximately HK$1,708.2 million (which comprised of FVOCI of approximately HK$1,437.7 million and related interest/dividend receivables classified as trade and other receivables of approximately HK$270.5 million) as at 31 December 2018. Accordingly, the net asset value of the Target Group is increased by approximately HK$1,200.6 million arising from the undertakings.

note ii: In assessing the fair value of net identifiable assets and liabilities acquired, the Directors of the Company, based on the best information available, identified an intangible asset and its related deferred tax liability of approximately HK$8,302.0 million and HK$249.0 million respectively, which represents the value of in-force business ("VIF") of the Target Group as at 31 December 2018. The fair value of the VIF has taken into account the deferred acquisition costs of approximately HK$4,851.7 million recognised by the Target Group as such amount would form part of the VIF upon completion of the Acquisition.

Other than the above, for the purpose of this Unaudited Pro Forma Financial Information, it was assumed that the carrying amounts of other identifiable assets and liabilities of the Target Group approximated to their fair values.

(4) The adjustment represents the banking facilities available to the Group of approximately HK$21.5 billion as at the Completion Date for financing of the Acquisition.

(5) The adjustment represents the transaction, legal and professional fees to be included which is directly attributable to the Acquisition.

(6) No adjustment has been made to reflect any trading results or other transactions of the Enlarged Group subsequent to 31 December 2018.

REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of NWS Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of NWS Holdings Limited ("NWS") and its subsidiaries (collectively the "NWS Group"), and FTLife Insurance Company Limited and its subsidiaries (the "Target Group") (collectively the "Enlarged Group") by the directors of NWS for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2018, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages IV-1 to IV-7 of the circular of NWS dated 11 April 2019, in connection with the proposed acquisition of the Target Group (the "Transaction") by the NWS Group. The applicable criteria on the basis of which the directors of NWS have compiled the Unaudited Pro Forma Financial Information are described on pages IV-4 to IV-7.

The Unaudited Pro Forma Financial Information has been compiled by the directors of NWS to illustrate the impact of the Transaction on the NWS Group's financial position as at 31 December 2018 as if the Transaction had taken place at 31 December 2018. As part of this process, information about the NWS Group's financial position has been extracted by the directors of NWS from the NWS Group's condensed consolidated interim financial information for the six months ended 31 December 2018, on which a review report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of NWS are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors of NWS have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 31 December 2018 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of NWS in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of NWS on the basis stated;

(b) such basis is consistent with the accounting policies of the NWS Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 11 April 2019

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2. DIRECTORS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests of Directors in the shares, underlying shares and debentures (within the meaning of Part XV of the SFO) of the Company and its associated corporations (within the meaning of Part XV of the SFO) which would be required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which a Director or chief executive of the Company would be taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

2.1 Long position in shares

	Number of shares				Approximate percentage to the total issued shares of the relevant company as at the Latest Practicable Date
	Personal interests	Family interests	Corporate interests	Total	
The Company					
(Ordinary shares of HK$1.00 each)					
Dr. Cheng Kar Shun, Henry	18,349,571	–	12,000,000[(1)]	30,349,571	0.777%
Mr. Tsang Yam Pui	180,000	–	–	180,000	0.005%
Mr. Lam Wai Hon, Patrick	1,446,207	–	7,608[(2)]	1,453,815	0.037%
Mr. William Junior Guilherme Doo	–	–	128,869[(3)]	128,869	0.003%
Mr. Kwong Che Keung, Gordon	1,207,077	–	–	1,207,077	0.031%
Dr. Cheng Wai Chee, Christopher	2,875,786	–	–	2,875,786	0.074%

	Number of shares				Approximate percentage to the total issued shares of the relevant company as at the Latest Practicable Date
	Personal interests	Family interests	Corporate interests	Total	
Associated corporation					
NWD					
(Ordinary shares)					
Mr. Cheung Chin Cheung	124,400	–	–	124,400	0.001%
Mr. William Junior Guilherme Doo	–	40,000[(4)]	–	40,000	0.000%
Mr. Kwong Che Keung, Gordon	40,000	–	–	40,000	0.000%

Notes:

(1) The Shares were held by a company wholly-owned by Dr. Cheng Kar Shun, Henry.

(2) The Shares were held by a company wholly-owned by Mr. Lam Wai Hon, Patrick.

(3) The Shares were held by a company wholly-owned by Mr. William Junior Guilherme Doo.

(4) The shares were held by the spouse of Mr. William Junior Guilherme Doo.

2.2 Long position in underlying shares – share options

Under the respective share option schemes of the Company and NWD, an associated corporation of the Company within the meaning of Part XV of the SFO, options may be granted to their respective directors and employees and also to certain eligible participants of these companies as defined in their respective share option schemes to subscribe for their respective shares. As at the Latest Practicable Date, the following Directors had personal interests in the following share options granted to them to subscribe for shares in the Company and NWD:

	Date of grant	Exercisable period *(Notes)*	Number of share options outstanding as at the Latest Practicable Date	Exercise price per share *HK$*
The Company				
Dr. Cheng Kar Shun, Henry	9 March 2015	(1)	7,420,739	14.120
Mr. Cheung Chin Cheung	9 March 2015	(1)	3,710,368	14.120
Mr. Cheng Chi Ming, Brian	9 March 2015	(1)	3,710,368	14.120
Mr. Chow Tak Wing	9 March 2015	(1)	508,212	14.120
Mr. To Hin Tsun, Gerald	9 March 2015	(1)	701,960	14.120
Mr. Dominic Lai	9 March 2015	(1)	701,960	14.120
Mr. Tsang Yam Pui	9 March 2015	(1)	3,710,368	14.120
Mr. Lam Wai Hon, Patrick	9 March 2015	(1)	2,740,368	14.120
Mr. Kwong Che Keung, Gordon	9 March 2015	(1)	1,403,922	14.120
Dr. Cheng Wai Chee, Christopher	9 March 2015	(1)	1,403,922	14.120
Mr. Shek Lai Him, Abraham	9 March 2015	(1)	1,403,922	14.120
Mr. Lee Yiu Kwong, Alan	9 March 2015	(1)	889,922	14.120
NWD				
Dr. Cheng Kar Shun, Henry	10 June 2016	(2)	10,675,637	7.540
	3 July 2017	(3)	2,000,000	10.036

Notes:

(1) 60% of the share options granted are exercisable from 9 May 2015 to 8 March 2020 while the remaining 40% of the share options granted are divided into 2 tranches exercisable from 9 March 2016 and 9 March 2017 respectively to 8 March 2020.

(2) Divided into 4 tranches exercisable from 10 June 2016, 10 June 2017, 10 June 2018 and 10 June 2019 respectively to 9 June 2020.

(3) Divided into 4 tranches exercisable from 3 July 2017, 3 July 2018, 3 July 2019 and 3 July 2020 respectively to 2 July 2021.

(4) The cash consideration paid by each of the Directors for each grant of share options of the Company or NWD was HK$10.

2.3 Long position in debentures

As at the Latest Practicable Date, the following Directors had interests in the debentures issued by Fita International Limited, New World China Land Limited, NWD Finance (BVI) Limited and NWD (MTN) Limited, all of them are associated corporations of the Company within the meaning of Part XV of the SFO:

	Amount of debentures				Approximate Percentage to the total amount of debentures in issue as at the Latest Practicable Date
	Personal interests	Family interests	Corporate interests	Total	
Fita International Limited					
Mr. William Junior Guilherme Doo	–	–	US$3,000,000(1)	US$3,000,000	0.400%
New World China Land Limited					
Mr. William Junior Guilherme Doo	–	–	HK$15,600,000(2)	HK$15,600,000	0.123%
NWD Finance (BVI) Limited					
Mr. William Junior Guilherme Doo	–	–	US$5,310,000(1)	US$5,310,000	0.312%
NWD (MTN) Limited					
Mr. William Junior Guilherme Doo	–	–	US$2,000,000(1)	US$2,000,000	0.071%

Notes:

(1) The debentures were held by a company wholly-owned by Mr. William Junior Guilherme Doo.

(2) The debentures were held by a company wholly-owned by Mr. William Junior Guilherme Doo and were issued in USD and had been translated into HKD using the rate of US$1=HK$7.8.

Other than the interests in the shares, underlying shares and debentures as set out above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures (within the meaning of Part XV of the SFO) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which a Director or chief executive of the Company would be taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons had an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

Name	Number of Shares			Approximate percentage to the issued share capital of the Company as at the Latest Practicable Date
	Beneficial interests	Corporate interests	Total	
Cheng Yu Tung Family (Holdings) Limited	–	2,477,530,362[(1)]	2,477,530,362	63.44%
Cheng Yu Tung Family (Holdings II) Limited	–	2,477,530,362[(2)]	2,477,530,362	63.44%
Chow Tai Fook Capital Limited ("**CTFC**")	–	2,477,530,362[(3)]	2,477,530,362	63.44%
Chow Tai Fook (Holding) Limited ("**CTFH**")	–	2,477,530,362[(4)]	2,477,530,362	63.44%
Chow Tai Fook Enterprises Limited ("**CTF Enterprises**")	97,034,424	2,380,495,938[(5)]	2,477,530,362	63.44%
NWD	1,588,468,276	792,027,662[(6)]	2,380,495,938	60.95%
Mombasa Limited	718,384,979	–	718,384,979	18.39%

Notes:

(1) Cheng Yu Tung Family (Holdings) Limited held approximately 48.98% direct interest in CTFC and was accordingly deemed to have an interest in the Shares deemed to be interested by CTFC.

(2) Cheng Yu Tung Family (Holdings II) Limited held approximately 46.65% direct interest in CTFC and was accordingly deemed to have an interest in the Shares deemed to be interested by CTFC.

(3) CTFC held approximately 81.03% direct interest in CTFH and was accordingly deemed to have an interest in the Shares deemed to be interested by CTFH.

(4) CTFH held 100% direct interest in CTF Enterprises and was accordingly deemed to have an interest in the Shares interested by or deemed to be interested by CTF Enterprises.

(5) CTF Enterprises, together with its subsidiaries, held more than one-third of the issued shares of NWD and was accordingly deemed to have an interest in the Shares interested by or deemed to be interested by NWD.

(6) NWD held 100% indirect interest in Mombasa Limited and was accordingly deemed to have an interest in the Shares held by Mombasa Limited. NWD was also deemed to be interested in 2,979,975 Shares held by Financial Concepts Investment Limited, 35,331,354 Shares each held by Hing Loong Limited and Fine Reputation Incorporated respectively, all of them being subsidiaries of NWD.

(7) All the interests stated above represented long positions.

Save as disclosed above, as at the Latest Practicable Date and so far as is known to any Director or chief executive of the Company, no other person had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, the following Directors were considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group, pursuant to the Listing Rules as set out below:

Name	Entity whose business is considered to compete or likely to compete with the businesses of the Group	Description of business of the entity which is considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Dr. Cheng Kar Shun, Henry	CTF Enterprises group of companies	Investment in healthcare, commercial aircraft leasing and aircraft trading businesses	Director
	FSE Holdings Limited group of companies	Carpark management	Shareholder
	Silver City International Limited group of companies	Food and beverage operations	Director
Mr. Cheng Chi Ming, Brian	Integrated Waste Solutions Group Holdings Limited	Investment in waste management business	Director
Mr. To Hin Tsun, Gerald	Mongolia Energy Corporation Limited	Investment in coal mining	Director
Mr. Lam Wai Hon, Patrick	FSE Holdings Limited group of companies	Carpark management	Director
Mr. William Junior Guilherme Doo	FSE Holdings Limited group of companies	Carpark management	Director
	Silver City International Limited group of companies	Food and beverage operations	Director

5. ADDITIONAL DISCLOSURE OF INTERESTS

As at the Latest Practicable Date:

(a) none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the businesses of the Enlarged Group;

(b) none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group which was not determinable by the relevant member of the Group within one year without payment of compensation, other than statutory compensation;

(c) none of the Directors had any direct or indirect interest in any assets which had been, since 30 June 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by, or leased to, any member of the Enlarged Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group; and

(d) the following Director was a director or employee of a company which had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of common director	Name of company
Dr. Cheng Kar Shun, Henry	Cheng Yu Tung Family (Holdings) Limited
Dr. Cheng Kar Shun, Henry	Cheng Yu Tung Family (Holdings II) Limited
Dr. Cheng Kar Shun, Henry	CTFC
Dr. Cheng Kar Shun, Henry	CTFH
Dr. Cheng Kar Shun, Henry	CTF Enterprises
Dr. Cheng Kar Shun, Henry	NWD
Dr. Cheng Kar Shun, Henry	Mombasa Limited

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Enlarged Group) had been entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date which are or may be material:

(a) a placing agreement dated 11 January 2018 entered into between Fortland Ventures Limited (an indirect wholly-owned subsidiary of the Company) as seller and J.P. Morgan Securities plc as placing agent in relation to the placing of 208,000,000 issued H shares of Beijing Capital International Airport Company Limited ("**BCIA**"), representing approximately 11.07% of the total issued H shares of BCIA, held by Fortland Ventures Limited at the placing price of HK$11.35 per H share of BCIA, details of which are set out in the announcements of the Company dated 12 January 2018 and 2 February 2018;

(b) a sale and purchase agreement dated 8 June 2018 entered into between NWS CON Limited (an indirect wholly-owned subsidiary of the Company) as vendor and Sherman Drive Limited (a direct wholly-owned subsidiary of NWD) as purchaser in relation to, among others, the sale of the one share of par value of US$1.00 in the share capital of Celestial Path Limited, representing its entire issued share capital, by NWS CON Limited to Sherman Drive Limited at the cash consideration of HK$168 million, details of which are set out in the announcement of the Company dated 8 June 2018, the circular of the Company dated 20 July 2018 and the announcement of the Company dated 14 August 2018;

(c) the deed of counter-indemnity dated 10 August 2018 entered into among New World Sports (a direct wholly-owned subsidiary of NWD), NWD, NWS Sports (an indirect wholly-owned subsidiary of the Company) and the Company in relation to the provision of indemnity (i) by New World Sports and NWD to the Group from all liabilities and claims suffered or incurred by the Group under the guarantees provided for the obligations of KTSPL (a company owned as to 75% by New World Sports and 25% by NWS Sports) to the extent in excess of 25%; and (ii) by NWS Sports and the Company to the NWD Group from all liabilities and claims suffered or incurred by the NWD Group under the guarantees provided for the obligations of KTSPL to the extent in excess of 75%, details of which are set out in the announcement of the Company dated 28 December 2018;

(d) the Share Purchase Agreement;

(e) the shareholders' agreement dated 28 December 2018 entered into among NWD, New World Sports, the Company and NWS Sports to regulate the respective rights and obligations of New World Sports and NWS Sports towards the operation and management of KTSPL, details of which are set out in the announcement of the Company dated 28 December 2018;

(f) the guarantee dated 31 January 2019 entered into by New World Sports and NWS Sports in favour of the Government pursuant to which, among others, New World Sports and NWS Sports have jointly and severally guaranteed to the Government, as a primary obligation, the punctual, true and faithful performance and observance by KTSPL of the obligations, terms, conditions and liabilities to be performed, observed and assumed by KTSPL under the DBO Contract dated 29 January 2019 entered into between the Government and KTSPL and any further agreement entered into between the Government and KTSPL in connection with the DBO Contract, details of which are set out in the announcement of the Company dated 28 December 2018; and

(g) the deed of counter-indemnity dated 15 February 2019 entered into between the Company and NWD in relation to the provision of indemnity by the Company to NWD from all liabilities and claims suffered or incurred by NWD under the guarantee and undertaking provided by NWD in favour of the Government for the obligations of KTSPL under the DBO Contract and any further agreement entered into between the Government and KTSPL in connection with the DBO Contract to the extent proportionate to 25%, details of which are set out in the announcement of the Company dated 28 December 2018.

7. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group that would have a material adverse effect on the results of operations or financial conditions of the Enlarged Group.

8. QUALIFICATIONS AND CONSENTS OF EXPERTS

The following sets out the qualifications of the experts who have given opinion or advice which is contained or referred to in this Circular:

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
KPMG	Certified Public Accountants

Each of the above-mentioned experts has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter, advice and/or report and references to its name and its letter, advice and/or report in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above-mentioned experts had any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above-mentioned experts had any direct or indirect interest in any assets which had been, since 30 June 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by, or leased to, any member of the Enlarged Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

9. MISCELLANEOUS

(a) The English text of this Circular shall prevail over the Chinese text in the event of any inconsistency.

(b) The Company Secretary of the Company is Mr. Chow Tak Wing, who is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants (UK), The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

(c) The head office and principal place of business of the Company is at 28/F., New World Tower, 18 Queen's Road Central, Hong Kong. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

(d) The principal share registrar and transfer office of the Company in Bermuda is MUFG Fund Services (Bermuda) Limited whose address is situated at The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda.

(e) The branch share registrar of the Company in Hong Kong is Tricor Standard Limited whose address is situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 28/F., New World Tower, 18 Queen's Road Central, Hong Kong during normal business hours on any business day (Saturdays excluded) from the date of this Circular up to and including 10 May 2019:

(a) the memorandum of association and bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "6. Material contracts" in this appendix;

(c) the written consents of the experts referred to in the paragraph headed "8. Qualifications and consents of experts" in this appendix;

(d) the Accountants' Report on the Target Group for the financial years ended 31 December 2016, 2017 and 2018 respectively from KPMG, the text of which is set out in Appendix II to this Circular;

(e) the Unaudited Pro Forma Financial Information of the Enlarged Group from PricewaterhouseCoopers, the text of which is set out in Appendix IV to this Circular;

(f) the annual reports of the Company for each of the financial years ended 30 June 2016, 2017 and 2018 respectively;

(g) the interim report of the Company for the six months ended 31 December 2018; and

(h) this Circular.