KPMG

FTLife Insurance Company Limited

(Incorporated in Bermuda with limited liability)

Report of the Directors and
Audited Financial Statements
31 December 2019

Contents

Report of the directors

The directors have pleasure in presenting their annual report and the audited financial statements of FTLife Insurance Company Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2019.

Principal place of business

The 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 Company's principal place of business in Hong Kong has been relocated from 28th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong to 15/F NEO, 123 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong on 16 December 2019.

Principal activities

The Group's principal activities consist of life insurance business, administration of retirement schemes and investment holding. The Group does not carry on insurance business relating to liabilities or risks in respect of which persons are required by any ordinance to be insured.

The Company's principal activities consist of life insurance business, administration of retirement schemes and other related business.

On 1 November 2019, Bright Victory International Limited completed the sale of the Group to NWS Holdings Limited.

Results and dividends

The Group's profit for the year ended 31 December 2019 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 7 to 128.

No interim dividend was paid during the year in respect of all ordinary shares to the sole shareholder (2018: US$Nil). The directors do not recommend the payment of any final dividend (2018: US$Nil) for the year in respect of all ordinary shares issued to the sole shareholder.

The directors also do not recommend the payment of any dividend (2018: US$Nil) for the year in respect of all Class C redeemable preference shares issued to the sole shareholder.

On 23 March 2016, Tongchuang Jiuding Investment Management Group Co., Ltd. ("JD Group"), the then intermediate holding company to the Company, executed an undertaking under which it would obtain prior written consent from the Insurance Authority before any dividend was declared or paid to the shareholder(s) of the Company, insofar as JD Group remained a controller of the Company. The undertaking ceased to be effective on 1 November 2019.

On 21 September 2019, the Company 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 Company.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 16 to the financial statements.

Share capital

Details of movements in the Company's share capital during the year are set out in note 41 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 42(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Charitable contributions

During the year, the Group made charitable contributions of HK$25,000 (2018: HK$48,000).

Directors

The directors of the Company during the year end and up to the date of this report were as follows:

Executive Directors:

FANG Lin	
YANG Tak Ho Gerard	
CHEUNG Sum, Sam	(appointed on 29 November 2019)

Non-Executive Directors:

CHENG Chi Kong, Adrian	(appointed on 1 November 2019)
CHENG Chi Ming, Brian	(appointed on 1 November 2019)
HO Gilbert Chi Hang	(appointed on 1 November 2019)
Cyril Hamilton WHITTER	
QIN Zhengyu	(resigned on 1 November 2019)

Independent Non-Executive Directors:

Stuart Hamilton LECKIE	
CHAN Ka Lok	
NG Chi Shing, Bartholomew	(appointed on 1 November 2019)
CHIU King Yan	(appointed on 29 November 2019)

In accordance with bye-law 74 of the Company's bye-laws, the number of directors shall be such number not less than two as the Company by resolution may from time to time determine. Subject to the Companies Acts and the Company's bye-laws, directors shall serve until re-elected or their successors are appointed at the forthcoming Annual General Meeting.

Indemnity of directors

A permitted indemnity provision for the benefit of the directors of the Company is currently in force and was in force throughout this year.

Directors' rights to acquire shares and debentures

At no time during the year was the Company or its holding companies or fellow subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' material interests in transactions, arrangements or contracts

Details of material related party transactions are disclosed in note 47 to the financial statements. Save as disclosed, no transaction, arrangement or contract of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Director

Hong Kong,

27 MAR 2020

KPMG

Independent auditor's report to the members of FTLife Insurance Company Limited

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of FTLife Insurance Company Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 7 to 128, which comprise the consolidated and company balance sheets as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2019 and of the Group's consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report to the members of FTLife Insurance Company Limited (continued)

(Incorporated in Bermuda with limited liability)

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

KPMG

Independent auditor's report to the members of FTLife Insurance Company Limited (continued)

(Incorporated in Bermuda with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Certified Public Accountants

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

27 MAR 2020

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

(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Income			
Gross premiums		7,736,057	6,191,419
Less: Reinsurance premiums		(292,390)	(254,180)
Premiums, net of reinsurance	4	7,443,667	5,937,239
Interest income	5	1,645,919	1,500,131
Dividend and other investment income	6	62,591	78,424
Realised and unrealised capital gains on investments	7	293,549	338,600
Overlay approach adjustments	7	(253,350)	-
Other realised and unrealised losses		(40,894)	(30,227)
Fee and commission income	8	645,937	662,848
Gains/(losses) related to investments for unit-linked contracts		1,299,907	(903,059)
Other income		5,244	9,396
Total income		11,102,570	7,593,352
Expenses			
Claims and benefits, net of reinsurance	9	(6,203,172)	(5,103,572)
Charges related to unit-linked contracts		(1,322,399)	894,942
Agency commission and allowances		(2,062,288)	(1,741,396)
Change in deferred acquisition costs	19	675,362	603,041
Impairment losses	10	(46,680)	(145,607)
Operating and administrative expenses		(880,865)	(769,257)
Finance costs	11	(148,233)	(126,033)
Total expenses		(9,988,275)	(6,387,882)
Profit before tax		1,114,295	1,205,470

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

(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Profit before tax (continued)	12	1,114,295	1,205,470
Tax	14	(67,968)	(55,187)
Profit for the year attributable to equity holders	15	1,046,327	1,150,283
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	30	243,285	(250,066)
- Available-for-sale financial assets: net movement in the available-for-sale investment revaluation reserve, before and after taxation	24	-	(3,251,667)
- Amount reported in other comprehensive income applying overlay approach, before and after taxation	24	253,350	-
- Shadow accounting adjustment		(324,017)	86,104
- Debt instruments at fair value through other comprehensive income: net movement in the FVOCI reserve (recycling), before and after taxation	24	4,740,932	-
		4,913,550	(3,415,629)
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	24	(614,531)	-
- Shadow accounting adjustment		(95)	
		(614,626)	-
Other comprehensive income for the year		4,298,924	(3,415,629)
Total comprehensive income for the year attributable to equity holders		5,345,251	(2,265,346)

Note: The Group has initially applied HKFRS 9 and HKFRS 16 at 1 January 2019, using the retrospective approach and the modified retrospective approach respectively. Under the transitions method chosen, the comparative information for the year ended 31 December 2018 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 16. See note 2.2(i) and 2.2(ii).

The notes on pages 18 to 128 form part of these financial statements.

Consolidated balance sheet at 31 December 2019

(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Assets			
Property, plant and equipment	16	647,078	126,236
Intangible assets	17	111,219	62,230
Deferred acquisition costs	19	5,527,092	4,851,730
Amounts due from intermediate holding companies		-	1,851,776
Amount due from the immediate holding company		-	27,396
Amounts due from fellow subsidiaries		-	9,288
Pledged deposits	28	10,000	10,000
Financial assets	20	39,952,901	32,194,332
Investments related to unit-linked contracts	25	9,495,230	8,446,744
Derivative financial instruments	30	1,308,802	738,879
Premiums receivables	26	296,194	237,656
Prepayments, deposits and other debtors	27	1,181,413	1,381,131
Cash and cash equivalents	28	6,155,012	2,215,277
Total assets		64,684,941	52,152,675
Liabilities			
Insurance contract liabilities	37	30,218,960	25,673,988
Investment contract liabilities	39	5,166	5,493
Liabilities related to unit-linked contracts	40	9,644,869	8,583,343
Derivative financial instruments	30	18,177	9,283
Interest-bearing liabilities	36	3,311,288	3,082,655
Payables to policyholders	31	1,487,942	1,331,921
Accrued expenses and other creditors	34	1,502,044	662,468
Tax payable		97,585	29,617
Total liabilities		46,286,031	39,378,768

Consolidated balance sheet at 31 December 2019 (continued)

(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Equity			
Issued capital	41	4,085,700	4,085,700
Reserves	42	14,313,210	8,688,207
Total equity attributable to equity holders		18,398,910	12,773,907
Total liabilities and equity		64,684,941	52,152,675

Approved and authorised for issue by the board of directors on **2 7 MAR 2020**

)
)
) Directors
)
)

Note: The Group has initially applied HKFRS 9 and HKFRS 16 at 1 January 2019, using the retrospective approach and the modified retrospective approach respectively. Under the transitions method chosen, the comparative information for the year ended 31 December 2018 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 16. See note 2.2(i) and 2.2(ii).

The notes on pages 18 to 128 form part of these financial statements.

Balance sheet at 31 December 2019

(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Assets			
Property, plant and equipment	16	647,078	126,236
Intangible assets	17	111,219	62,230
Deferred acquisition costs	19	5,527,092	4,851,730
Interests in subsidiaries	18	650	650
Amounts due from intermediate holding companies		-	1,851,776
Amount due from the immediate holding company		-	27,396
Amounts due from fellow subsidiaries		-	9,288
Pledged deposits	28	10,000	10,000
Financial assets	20	39,952,901	32,194,332
Investments related to unit-linked contracts	25	9,495,230	8,446,744
Derivative financial instruments	30	1,308,802	738,879
Premiums receivables	26	296,194	237,656
Prepayments, deposits and other debtors	27	1,181,413	1,381,131
Cash and cash equivalents	28	6,147,400	2,210,343
Total assets		64,677,979	52,148,391
Liabilities			
Insurance contract liabilities	37	30,218,960	25,673,988
Investment contract liabilities	39	5,166	5,493
Liabilities related to unit-linked contracts	40	9,644,869	8,583,343
Derivative financial instruments	30	18,177	9,283
Amount due to a subsidiary	18	1,938,423	1,949,009
Interest-bearing liabilities	36	1,373,702	1,137,120
Payables to policyholders	31	1,487,942	1,331,921
Accrued expenses and other creditors	34	1,487,148	647,506
Tax payable		97,585	29,617
Total liabilities		46,271,972	39,367,280

Balance sheet at 31 December 2019 (continued)

(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Equity			
Issued capital	41	4,085,700	4,085,700
Reserves	42	14,320,307	8,695,411
Total equity attributable to equity holders		18,406,007	12,781,111
Total liabilities and equity		64,677,979	52,148,391

Approved and authorised for issue by the board of directors on 27 MAR 2020

) Directors

Note: The Company has initially applied HKFRS 9 and HKFRS 16 at 1 January 2019, using the retrospective approach and the modified retrospective approach respectively. Under the transitions method chosen, the comparative information for the year ended 31 December 2018 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 16. See note 2.2(i) and 2.2(ii).

The notes on pages 18 to 128 form part of these financial statements.

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

(Expressed in Hong Kong dollars)

	Issued share capital $'000	*Share premium account* $'000	*Contributed surplus* $'000	*Share option reserve* $'000	*Hedging reserve* $'000	*Shadow accounting adjustment* $'000	*FVOCI reserve (recycling)* $'000	*FVOCI reserve (non-recycling)* $'000	*Retained profits* $'000	*Total equity attributable to equity holders* $'000
At 1 January 2018	4,085,700	1,862,664*	1,011,121*	20,615*	1,004,658*	(38,340)	2,965,996	-	4,126,839*	15,039,253
Changes in equity for 2018:										
Profit for the year	-	-	-	-	-	-	-	-	1,150,283	1,150,283
Other comprehensive income for the year	-	-	-	-	(250,066)	86,104	(3,251,667)	-	-	(3,415,629)
Total comprehensive income for the year	-	-	-	-	(250,066)	86,104	(3,251,667)	-	1,150,283	(2,265,346)
At 31 December 2018 (note)	4,085,700	1,862,664*	1,011,121*	20,615*	754,592*	47,764	(285,671)	-	5,277,122*	12,773,907
Impact on initial application of HKFRS 9	-	-	-	-	-	(148)	209,849	(243,182)	33,481	-
Impact on initial application of HKFRS 16	-	-	-	-	-	-	-	-	(3,262)	(3,262)
Adjusted balance at 1 January 2019	4,085,700	1,862,664	1,011,121	20,615	754,592	47,616	(75,822)	(243,182)	5,307,341	12,770,645
Changes in equity for 2019:										
Capital contribution (note 30)	-	-	283,014	-	-	-	-	-	-	283,014
Profit for the year	-	-	-	-	-	-	-	-	1,046,327	1,046,327
Other comprehensive income for the year	-	-	-	-	243,285	(324,112)	4,994,282	(614,531)	-	4,298,924
Transfer upon disposal of equities at FVOCI	-	-	-	-	-	-	-	(9,994)	9,994	-
Total comprehensive income for the year	-	-	-	-	243,285	(324,112)	4,994,282	(624,525)	1,056,321	5,345,251
At 31 December 2019	4,085,700	1,862,664*	1,294,135*	20,615*	997,877*	(276,496)*	4,918,460*	(867,707)*	6,363,662*	18,398,910

* These reserve amounts comprised the consolidated reserves of $14,313,210,000 (2018: $8,688,207,000) in the consolidated balance sheet.

Note: The Group has initially applied HKFRS 9 and HKFRS 16 at 1 January 2019, using the retrospective approach and the modified retrospective approach respectively. Under the transitions method chosen, the comparative information for the year ended 31 December 2018 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 16. See note 2.2(i) and 2.2(ii).

Pursuant to the transfer of ownership of the Group to NWS Holdings Limited, Bright Victory International Limited ("BVI") agreed to buy back certain equity investments of the Group at a specified price within a specified transaction period. This results in a capital contribution in form of a derivative financial instrument as at 31 October 2019. See note 30 for details.

The notes on pages 18 to 128 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Cash flows from operating activities			
Profit before tax		1,114,295	1,205,470
Adjustments for:			
Finance costs	11	148,233	126,033
Depreciation of property, plant and equipment	16	36,712	22,633
Depreciation of right-of-use assets relating to leased properties	16	113,957	-
Amortisation of intangible assets	17	34,769	26,548
Loss on disposal of property, plant and equipment		1,365	9,511
Loss on early termination of right-of-use relating to leased properties	16	11,292	-
Interest income from policy loans, loans to agents and other loan	5	(39,126)	(40,528)
Interest income from bonds, deposits and cash and cash equivalents	5	(1,546,818)	(1,389,265)
Interest income from loan to an intermediate holding company	5	(59,975)	(70,338)
Dividend income from listed and unlisted investments	6	(62,546)	(78,209)
Dividend income related to investments for unit-linked contracts		(12,979)	(10,529)
Net realised and unrealised capital (gains)/losses on financial assets at fair value through profit or loss related to investments for unit-linked contracts		(1,286,928)	913,588
Fair value gains:			
Available-for-sale financial assets (reclassified from other comprehensive income)	24	-	(338,600)
Derivative asset		(15,840)	-
Realised and unrealised capital gains on investments	7	(293,549)	-
Overlay approach adjustments	7	253,350	-
Impairment loss on loans to agents	10	58,159	24,171
Impairment loss on premiums receivables	10	-	3,323
Impairment loss on available-for-sale financial assets	10	-	123,812
Reversal of impairment loss on loans to agents	10	(4,813)	(5,001)
Reversal of impairment loss on premiums receivables	10	(3,268)	-
Reversal of impairment loss on financial assets measured at FVOCI	10	(3,398)	-
Recovery on other receivables	10	-	(698)

Consolidated cash flow statement for the year ended 31 December 2019 (continued)

(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Cash flows from operating activities (continued)			
Operating cash flows before changes in working capital		(1,557,108)	521,921
Increase in policy loans		(17,269)	(11,977)
Increase in loans to agents and other loan		(9,195)	(61,654)
Decrease in amounts due from fellow subsidiaries		-	314
Decrease/(increase) in amounts due from intermediate holding companies		1,861,064	(3,392)
Decrease in amount due from the immediate holding company		27,396	-
Increase in deferred acquisition costs	19	(675,362)	(603,041)
Increase in premiums receivables		(55,269)	(48,569)
(Increase)/decrease in prepayments, deposits and other debtors		(160,152)	88,289
Purchases of available-for-sale financial assets		-	(9,658,922)
Purchases of other financial assets		(10,311,189)	-
Proceeds from disposal of available-for-sale financial assets		-	6,337,453
Proceeds from disposal of other financial assets		6,963,222	-
Purchases of financial assets related to unit-linked contracts at fair value through profit or loss		(4,313,872)	(4,833,567)
Proceeds from disposal of financial assets related to unit-linked contracts at fair value through profit or loss		4,584,936	4,963,349
Increase in payables to policyholders		156,021	121,946
Increase in accrued expenses and other creditors		502,622	24,363
(Decrease)/increase in investment contract liabilities		(327)	121
Increase in insurance contract liabilities		3,952,244	2,936,907
Increase in policyholders' dividends and bonuses		268,616	270,985
Increase/(decrease) in liabilities related to unit-linked contracts		1,061,526	(1,053,308)
Cash generated from/(used in) operations		2,277,904	(1,008,782)

Consolidated cash flow statement for the year ended 31 December 2019 (continued)

(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Cash flows from operating activities (continued)			
Interest received from policy loans, loans to agents and other loan		39,126	40,528
Interest received from bonds, deposits and cash and cash equivalents		1,846,172	1,265,647
Interest received from a loan to an intermediate holding company		73,068	-
Interest paid on cross-currency swap agreements		(140,020)	(165,804)
Interest received from cross-currency swap agreements		132,310	157,340
Dividends received from listed and unlisted investments and investments related to unit-linked contracts		76,702	93,993
Interest paid on cash collateral received for cross-currency swap agreements and forward starting swap agreements		(20,509)	(11,786)
Interest paid on interest-bearing liabilities		(91,478)	(77,221)
Hong Kong profits tax paid		-	(39,004)
Net cash inflow from operating activities		4,193,275	254,911
Cash flows from investing activities			
Purchases of property, plant and equipment	16	(36,335)	(103,154)
Proceeds from disposal of property, plant and equipment		-	8
Acquisition of right-of-use assets relating to leased properties	16	(203,883)	-
Purchases of intangible assets	17	(83,758)	(42,279)
Increase/(decrease) in cash collateral received from counterparties		298,416	(258,814)
Net cash outflow from investing activities		(25,560)	(404,239)

Consolidated cash flow statement for the year ended 31 December 2019 (continued)

(Expressed in Hong Kong dollars)

	Note	*2019* $'000	*2018* $'000
Cash flows from financing activities			
Repayment of financing under a financial reinsurance arrangement	28(b)	(81,656)	(88,785)
Capital element of lease rentals paid		(96,435)	-
Interest element of lease rentals paid		(17,268)	-
Net cash outflow from financing activities		(195,359)	(88,785)
Net increase/(decrease) in cash and cash equivalents		3,972,356	(238,113)
Cash and cash equivalents at beginning of year		2,243,282	2,481,395
Cash and cash equivalents at end of year		6,215,638	2,243,282
Analysis of balances of cash and cash equivalents			
Cash and bank balances	28(a)	2,662,076	1,535,717
Non-pledged time deposits with original maturity of less than three months	28(a)	3,492,936	679,560
		6,155,012	2,215,277
Cash and cash equivalents attributable to investments related to unit-linked contracts	25	60,626	28,005
		6,215,638	2,243,282

Note: The Group has initially applied HKFRS 9 and HKFRS 16 at 1 January 2019, using the retrospective approach and the modified retrospective approach respectively. Under the transitions method chosen, the comparative information for the year ended 31 December 2018 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 16. See note 2.2(i) and 2.2(ii).

The notes on pages 18 to 128 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Corporate statements

The 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 Company's principal place of business in Hong Kong has been relocated from 28th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong to 15/F NEO, 123 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong on 16 December 2019.

During the year, the Company has been 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 Company is also engaged in the administration of retirement schemes. The Company does not accept reinsurance inward business.

In the opinion of the directors, the immediate holding company of the Company is Earning Star Limited which is incorporated in Hong Kong, and the Company's ultimate holding company is NWS Holdings Limited, a company incorporated in Bermuda.

On 1 November 2019, BVI completed the sale of FTLife Insurance Company Limited and its subsidiaries ("the Group") to NWS Holdings Limited.

2.1 Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. They have 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. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except where otherwise indicated.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. 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 Group for the current accounting period reflected in these consolidated financial statements. Note 2.3 provides information on revised and new accounting standards and interpretations issued but not yet effective for the current accounting period.

2.1 Basis of preparation (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the 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 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 new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

In these consolidated financial statements, the Group has applied HKFRS 9, *Financial instruments,* and "overlay approach" under amendments to HKFRS 4, *Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts,* for the first time. The Group has not applied any other standard or interpretation that is not yet effective for the year ended 31 December 2019.

(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,* for annual periods beginning on or after 1 January 2018. However, the Group elected, under the amendments to HKFRS 4 to apply the temporary exemption from HKFRS 9 in its financial statements for the year ended 31 December 2018, deferring the initial application date of HKFRS 9. The new standard 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 issued by the HKICPA in January 2017, permits the Group to apply an "overlay approach", i.e. allows the 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 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*.

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

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

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2019 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2019. Therefore, comparative information continues to be reported under HKAS 39.

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.

(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 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 and pledged deposits; and

- debt securities measured at FVOCI (recycling).

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

The closing loss allowance of loans to agents at amortised cost as at 31 December 2018 under HKAS 39 was $134,233,000, which is the same amount as the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2019.

The closing loss allowance of bonds designated as available-for-sale as at 31 December 2018 under HKAS 39 was nil. Additional credit loss as at 1 January 2019 was $24,846,000 recognised in the opening retained profits and recycled from the FVOCI reserve (recycling).

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

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

(c) Hedge accounting

The Group has elected to continue to apply HKAS 39 for hedge accounting.

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group has preliminarily assessed that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

For an explanation of how the 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 2019. Accordingly, the information presented for 2018 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 2019 (the date of initial application of HKFRS 9 by the 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.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial assets and all financial liabilities at 1 January 2019 have not been impacted by the initial application of HKFRS 9.

The Company did not de-designate any financial asset or financial liability at FVPL at 1 January 2019.

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

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

(d) Transition (continued)

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

Reconciliation of carrying amount for the Group's financial assets at 31 December 2018 and 1 January 2019

	HKAS 39 measurement category	*HKFRS 9 measurement category*	*HKAS 39 carrying amount at 31 December 2018* $'000	*Reclassification* $'000	*Remeasurement* $'000	*HKFRS 9 carrying amount at 1 January 2019* $'000
Amounts due from intermediate holding companies	Amortised cost	Amortised cost	1,851,776	-	-	1,851,776
Amount due from the immediate holding company	Amortised cost	Amortised cost	27,396	-	-	27,396
Amounts due from fellow subsidiaries	Amortised cost	Amortised cost	9,288	-	-	9,288
Pledged deposits	Amortised cost	Amortised cost	10,000	-	-	10,000
Policy loans	Amortised cost	Amortised cost	458,421	-	-	458,421
Loans to agents	Amortised cost	Amortised cost	67,770	-	-	67,770
Other loan	Amortised cost	Amortised cost	122	-	-	122
Prepayments, deposits and other debtors	Amortised cost	Amortised cost	1,381,131	-	-	1,381,131
Cash and cash equivalents	Amortised cost	Amortised cost	2,215,277	-	-	2,215,277
Cash balances attributable to unit-linked contracts	Amortised cost	Amortised cost	28,005	-	-	28,005
FVOCI (recycling) - Bonds (Note (i))	Available-for-sale	FVOCI (recycling)	-	27,742,529	-	27,742,529
FVOCI (non-recycling) - Equities (Note (ii))	Available-for-sale	FVOCI (non-recycling)	-	3,018,064	-	3,018,064
FVPL - Equities (Note (ii))	Available-for-sale	FVPL	-	422,596	-	422,596
FVPL - Interests in investment funds (Note (iii))	Available-for-sale	FVPL	-	484,830	-	484,830
Available-for-sale financial assets	Available-for-sale	-	31,668,019	(31,668,019)	-	-
Derivative financial instruments	FVPL	FVPL	738,879	-	-	738,879
Investments related to unit-linked contracts	FVPL	FVPL	8,418,739	-	-	8,418,739
			46,874,823	-	-	46,874,823

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

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

(d) Transition (continued)

Notes:

(i) Under HKAS 39, bonds were classified as available-for-sale financial assets. All bonds have been reclassified as financial assets at FVOCI (recycling) under HKFRS 9 as they 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 all these bonds give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

(ii) Under HKAS 39, equities not held for trading were classified as available-for-sale financial assets. These equities have been reclassified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI (non-recycling) by the Group. At 1 January 2019, the Group designated certain investment in equities amounting to $3,018,064 at FVOCI (non-recycling), as these investments are held for strategic purposes (see notes 24 and 29(h)).

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

For an explanation of how the 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).

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

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

(d) Transition (continued)

The following table summarises the impact of transition to HKFRS 9 on retained profits and reserves and the related tax impact at 1 January 2019.

	HKAS 39 carrying amount at 31 December 2018 $'000	*Reclassification* $'000	*Overlay approach adjustments* $'000	*Recognition of expected credit losses* $'000	*Reversal of impairment losses* $'000	*Shadow adjustments* $'000	*HKFRS 9 carrying amount at 1 January 2019* $'000
Issued share capital	4,085,700	-	-	-	-	-	4,085,700
Share premium account	1,862,664	-	-	-	-	-	1,862,664
Contributed surplus	1,011,121	-	-	-	-	-	1,011,121
Share option reserve	20,615	-	-	-	-	-	20,615
Hedging reserve	754,592	-	-	-	-	-	754,592
Available-for-sale investment revaluation reserve	(237,907)	285,671	-	-	-	(47,764)	-
FVOCI reserve (recycling)	-	(102,741)	2,073	24,846	-	47,045	(28,777)
FVOCI reserve (non-recycling)	-	(183,657)	-	-	(59,525)	571	(242,611)
Retained profits	5,277,122	727	(2,073)	(24,846)	59,525	148	5,310,603
Total equity attributable to equity holders	12,773,907	-	-	-	-	-	12,773,907

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

(ii) HKFRS 16, *Leases*

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

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

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

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

a New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

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

(ii) HKFRS 16, *Leases* (continued)

b Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 16. For an explanation of how the Group applies lessee accounting, see note 2.4(r)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.63% - 3.89%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

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

(ii) HKFRS 16, *Leases* (continued)

b Lessee accounting and transitional impact (continued)

The following table reconciles the operating lease commitments as disclosed in note 46 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 $'000
Operating lease commitments at 31 December 2018	607,758
Less: commitments relating to leases exempt from capitalisation:	
- short-term leases with expected remaining lease term ending on or before 31 December 2019 (including those with termination options)	(16,208)
- leases commenced on or after 1 January 2019	(35,330)
- Re-calculation of lease payments per HKFRS 16 requirements	(48,094)
	508,126
Less: total future interest expenses	(67,953)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	440,173

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if HKFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at the date of initial application of HKFRS 16). Any difference between the right-of-use assets recognised and the lease liability is recognised as an adjustment to the opening balance of equity at the date of initial application of HKFRS 16.

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

(ii) HKFRS 16, *Leases* (continued)

b Lessee accounting and transitional impact (continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's statement of financial position:

	Carrying amount at 31 December 2018 $'000	*Capitalisation of operating lease contracts* $'000	*Carrying amount at 1 January 2019* $'000
Line items in the statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	126,236	443,950	570,186
Total assets	52,152,675	443,950	52,596,625
Accrued expenses and other creditors	(662,468)	(447,212)	(1,109,680)
Total liabilities	(39,378,768)	(447,212)	(39,825,980)
Reserves	(8,688,207)	3,262	(8,684,945)
Total equity attributable to equity holders	(12,773,907)	3,262	(12,770,645)
Total liabilities and equity	(52,152,675)	(443,950)	(52,596,625)

c Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's statement of profit or loss and other comprehensive income, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 28(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 28(c)).

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

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these consolidated financial statements. These developments include the following which may be relevant to the Group.

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

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 17 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. The actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied. The Group may also change its accounting policy elections, including the transition options, until the new standard is initially applied.

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 Group is in the midst of conducting a detailed assessment of the new standard.

IFRS 17 is currently effective from 1 January 2021. However, at its March 2020 meeting, the IASB decided to defer the effective date of IFRS 17 for two years, so that IFRS 17 should be applied after 1 January 2023.

2.4 Summary of significant accounting policies

(a) Subsidiaries

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

The Company's investments in subsidiaries are stated at cost less any impairment losses in the Company's separate balance sheet.

(b) Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements 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 balance sheet date. 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 Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts for which the 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 Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. The 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 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.

2.4 Summary of significant accounting policies (continued)

(d) Insurance contract liabilities

Insurance contract liabilities represent net future policy liabilities as determined by the appointed actuary of the 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 balance sheet date. 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 value through accumulated cash flows plus investment income credited to the contracts, either at the discretion of the Group or linked to the changes in unit fund values.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the balance sheet, 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 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 Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the 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 Group from its obligations to policyholders.

2.4 Summary of significant accounting policies (continued)

(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 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.

2.4 Summary of significant accounting policies (continued)

(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 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 Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 43(b). These investments are subsequently accounted for as follows, depending on their classification.

(i) Policy applicable from 1 January 2019

Investments other than equity investments

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

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

- 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.

2.4 Summary of significant accounting policies (continued)

(m) Investments and other financial assets (continued)

(i) Policy applicable from 1 January 2019 (continued)

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an 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 2019

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 Group assessed whether a contract contained an embedded derivative when the 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 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 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.

2.4 Summary of significant accounting policies (continued)

(m) Investments and other financial assets (continued)

(ii) Policy applicable prior to 1 January 2019 (continued)

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 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.

2.4 Summary of significant accounting policies (continued)

(m) Investments and other financial assets (continued)

(ii) Policy applicable prior to 1 January 2019 (continued)

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 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 43 to the consolidated financial statements.

2.4 Summary of significant accounting policies (continued)

(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 2019

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

- financial assets measured at amortised cost (including cash and cash equivalents, prepayments, deposits and other debtors, policy loans, loans to agents and corporate agents, other loan, pledged deposits); 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 Group in accordance with the contract and the cash flows that the 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 Group is exposed to credit risk.

2.4 Summary of significant accounting policies (continued)

(n) Credit losses and impairment of financial assets (continued)

(i) Policy applicable from 1 January 2019 (continued)

Measurement of ECLs (continued)

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

ECLs are measured on either of the following bases:

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

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

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

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.

2.4 Summary of significant accounting policies (continued)

(n) Credit losses and impairment of financial assets (continued)

(i) Policy applicable from 1 January 2019 (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the financial instrument has payment default in accordance with the terms and conditions of the agreement. There is a rebuttable presumption that default does not occur later than 90 days past due unless the Group has reasonable and supportable information to support a more lagging default criterion. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- 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 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 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.

2.4 Summary of significant accounting policies (continued)

(n) Credit losses and impairment of financial assets (continued)

(i) Policy applicable from 1 January 2019 (continued)

Basis of calculation of interest income (continued)

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 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 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 2019

Prior to 1 January 2019, 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 Group assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired.

2.4 Summary of significant accounting policies (continued)

(n) Credit losses and impairment of financial assets (continued)

(ii) Policy applicable prior to 1 January 2019 (continued)

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 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.

2.4 Summary of significant accounting policies (continued)

(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 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 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 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 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 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 Group's continuing involvement is the amount of the transferred asset that the 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 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 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 43 to the consolidated financial statements.

2.4 Summary of significant accounting policies (continued)

(p) Derivative financial instruments and hedging (continued)

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 Group formally designates and documents the hedge relationship to which the 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 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.

2.4 Summary of significant accounting policies (continued)

(q) Property, plant and equipment and depreciation (continued)

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 balance sheet 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) Leased assets

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

As a lessee

(i) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group account for lease component and non-lease components separately for all leases.

At the lease commencement date, the Group recognize a right-of-use asset and a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group, are primarily laptops, office furniture and property, plant and machinery with remaining lease term of 12 months or less. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases with those leases which are not capitalized are recognized as an expense in the accounting period in which they are incurred.

2.4 Summary of significant accounting policies (continued)

(r) Leased assets (continued)

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

The right-of-use asset recognized when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2.4 (q)).

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

In the statement of financial position, the Group presents right-of-use assets within the same line item as similar underlying assets and presents lease liabilities separately.

(ii) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases, which did not transfer substantially all the risks and rewards of ownership to the Group, as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized 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.

2.4 Summary of significant accounting policies (continued)

(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 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 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 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.

2.4 Summary of significant accounting policies (continued)

(t) Impairment of non-financial assets (continued)

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 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 to remain 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 cash flow statement, 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 Group's cash management.

2.4 Summary of significant accounting policies (continued)

(w) Cash and cash equivalents (continued)

For the purpose of the balance sheets, 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.

2.4 Summary of significant accounting policies (continued)

(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 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 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 balance sheet, 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 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.

2.4 Summary of significant accounting policies (continued)

(ac) Employee benefits

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 balance sheet 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.

2.4 Summary of significant accounting policies (continued)

(ad) Income tax (continued)

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 balance sheet 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 balance sheet 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 balance sheet 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 balance sheet 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.

2.4 Summary of significant accounting policies (continued)

(af) Interest income (continued)

For financial assets measured at amortised cost or FVOCI (recycling) that are 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 Group if that person:

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

   (ii) has significant influence over the Group; or

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

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

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

   (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;

2.4 Summary of significant accounting policies (continued)

(aj) Related parties (continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the 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 Group or to the Group's parent.

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

3 Significant accounting judgements and estimates

The preparation of the Group's consolidated financial statements 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 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 consolidated financial statements:

Product classification

Contracts are classified as insurance contracts where they transfer significant insurance risk from the holder of the contract to the Group. The 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 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 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.

3 Significant accounting judgements and estimates (continued)

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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 Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimation of the liabilities that the 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 Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables that reflect historical mortality experience, adjusted, where appropriate, to reflect the 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 Group. Expenses are based on the renewal compensation cost structure and the maintenance expenses level of the Group. Investment returns are based on the investment strategy of the 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 balance sheet date of the current year life insurance contract liabilities, net of policyholders' dividends and bonuses was $27,667,116,000 (2018: $23,291,904,000).

DAC

The 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 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.

3 Significant accounting judgements and estimates (continued)

(b) Estimation uncertainty (continued)

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 an option pricing model, before a discounted cash flow analysis is performed, simulations are projected based on historical observation trends as well as current market rates and information that are applicable to the underlying financial instrument.

The carrying values at the balance sheet date of financial assets measured at fair value, derivative financial assets and derivative financial liabilities are $48,888,074,000, $1,308,802,000 and $18,177,000 respectively. (2018: $40,086,758,000, $738,879,000 and $9,283,000 respectively).

Impairment of non-financial assets

The Group assess 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 these cash flows.

Expected credit loss on financial assets

Policy applicable from 1 January 2019

The Group is required to calculate expected credit losses of financial assets measured at amortised cost and debt securities measured at FVOCI (recycling) under HKFRS 9 (see note 2.4(n)(i)). Factors that determine expected credit loss are credit quality, probability of default ("PD"), loss given default ("LGD") and forecast of economic growth factor.

To determine lifetime and 12-month PD, the Group refers to PD tables supplied by Moody's, which are derived based on default history of obligors with the same credit rating.

3 Significant accounting judgements and estimates (continued)

(b) Estimation uncertainty (continued)

Expected credit loss on financial assets (continued)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD for Stage I financial assets based on recovery rates from Moody's recovery study. For amounts due from former intermediate holding companies and certain bonds issued by a former fellow subsidiary, which are Stage II financial assets, management considers there is reasonable and supportable information to rebut the presumption that there was a default in payment for the purpose of applying HKFRS 9. Management determines the LGD estimates for these financial assets to be immaterial after considering certain factors including successful sale of the Group and credit risk protection available from its former group companies. It is considered highly probable that the Group would be able to recover cash flows of these financial assets from the former intermediate holding companies and the former fellow subsidiary.

Impairment of available-for-sale financial assets

Policy applicable prior to 1 January 2019

The 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 2018, impairment loss of $123,812,000 (2017: $3,650,000) has been recognised against an available-for-sale financial asset. The carrying amount of available-for-sale financial assets as at 31 December 2018 was $31,668,019,000 (2017: $31,297,196,000).

4 Premiums, net of reinsurance

	Group *2019* $'000	*2018* $'000
Gross premiums on life insurance contracts:		
Non-linked	7,535,629	5,993,095
Unit-linked	200,428	198,324
	7,736,057	6,191,419
Reinsurers' share of life insurance contracts premiums:		
Non-linked	(289,766)	(252,096)
Unit-linked	(2,624)	(2,084)
	(292,390)	(254,180)
Premiums, net of reinsurance	7,443,667	5,937,239

Further analysis of gross premiums is as follows:

	Group *2019* $'000	*2018* $'000
Single premiums	684,819	278,606
First year premiums	1,798,922	1,702,949
Renewal premiums	5,252,316	4,209,864
Gross premiums on life insurance contracts	7,736,057	6,191,419

5 Interest income

For the year ended 31 December, interest income is broken down as follows:

	Group	
	2019	*2018*
	$'000	$'000
Interest income from listed bonds	1,257,262	1,096,437
Interest income from unlisted bonds	250,784	277,321
Interest income from deposits and cash and cash equivalents	38,772	15,507
Interest income from policy loans, loans to agents and other loan	39,126	40,528
Interest income from a loan to a former intermediate holding company (note 47(a))	59,975	70,338
Total interest income	1,645,919	1,500,131

6 Dividend and other investment income

The details of dividend and other investment income for the year ended 31 December are shown below:

	Group	
	2019	*2018*
	$'000	$'000
Dividend income from listed investments	44,728	64,989
Dividend income from unlisted investments	17,818	13,220
Rebate income from investment	45	215
Total dividend and other investment income	62,591	78,424

7 Realised and unrealised capital gains on investments

For the year ended 31 December, realised and unrealised capital gains on investments are broken down as follows:

	Group 2019 $'000	2018 $'000
Realised and unrealised gains on investments:		
Listed available-for-sale financial assets	-	297,239
Unlisted available-for-sale financial assets	-	41,361
Listed financial assets at FVOCI (recycling)	34,270	-
Unlisted financial assets at FVOCI (recycling)	210	-
Listed financial assets at FVPL	246,602	-
Unlisted financial assets at FVPL	12,467	-
Total realised and unrealised gains on investments	293,549	338,600

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 2019 are stated as below.

	Group 2019 $'000
Realised and unrealised capital gains on investments:	
Amount reported in profit or loss applying HKFRS 9, financial assets to which overlay approach is applied	253,350
Overlay approach adjustment	(253,350)
Amount that would have been reported in profit or loss if HKAS 39 had been applied, financial assets to which overlay approach is applied	-

8 Fee and commission income

For the year ended 31 December, fee and commission income is broken down as follows:

	Group 2019 $'000	2018 $'000
Reinsurance commission income and refund	1,738	15,588
Fee income on insurance and investment contracts	579,533	580,825
Fee on referral business and commission income for general insurance and MPF	8,755	8,223
Others	55,911	58,212
Total fee and commission income	645,937	662,848

9 Claims and benefits, net of reinsurance

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

	Group 2019 $'000	2018 $'000
Claims	809,327	645,040
Reinsurers' and coinsurers' share of claims	(223,992)	(125,846)
Claims, net of reinsurers' and coinsurers' share	585,335	519,194
Surrenders, annuities and maturities	1,130,733	1,176,366
Reinsurers' and coinsurers' share	(114,060)	(66,558)
	1,016,673	1,109,808
Policyholders' dividends and interests	350,007	339,745
Incentives to policyholders	177,859	151,647
Increase in insurance contract liabilities	4,073,298	2,983,178
Total claims and benefits, net of reinsurance	6,203,172	5,103,572

10 Impairment losses

For the year ended 31 December, impairment losses are broken down as follows:

	Group 2019 $'000	2018 $'000
Impairment loss on loans to agents (note 22)	58,159	24,171
Impairment loss on premiums receivables (note 26)	-	3,323
Impairment loss on available-for-sale financial assets (note 24)	-	123,812
Reversal of impairment loss on financial assets measured at FVOCI (recycling) (note 24)	(3,398)	-
Reversal of impairment loss on premiums receivables (note 26)	(3,268)	-
Reversal of impairment loss on loans to agents (note 22)	(4,813)	(5,001)
Recovery on other receivables	-	(698)
Total impairment losses	46,680	145,607

11 Finance costs

For the year ended 31 December, finance costs are broken down as follows:

	Group *2019* $'000	*2018* $'000
Interest on interest-bearing notes	83,449	83,360
Net interest expense on cross currency swap agreements (Note (i))	6,737	8,915
Interest on financing received under a financial reinsurance arrangement (Note (ii))	19,822	21,972
Interest on cash collateral received for cross currency swap agreements and forward starting swap agreements (Note (i))	20,509	11,786
Interest on lease liabilities (Note (iii))	17,716	-
	148,233	126,033

Notes:

(i) Please refer to note 30 to the consolidated financial statements for information on financial derivative arrangements the Group has entered into.

(ii) Please refer to note 36 to the consolidated financial statements for information on the financial reinsurance arrangement the Group has entered into.

(iii) The Group initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition method chosen, the comparative information for the year ended 31 December 2018 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 16. See note 2.2(ii).

12 Profit before tax

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

	Group	
	2019	*2018*
	$'000	$'000
Auditors' remuneration	2,670	2,365
Depreciation from property, plant and equipment (Note (ii) and note 16)	150,669	22,633
Amortisation of intangible assets (note 17)	34,769	26,548
Net foreign exchange	(55,835)	(20,256)
Amortisation of deferred acquisition costs (Note (i) and note 19)	940,816	829,400
Operating lease rentals on land and buildings (Note (ii))	-	143,734
Short term lease rentals on land and buildings (Note (ii))	14,647	-
Employee benefit expenses (including directors' remuneration (note 13)):		
- Wages and salaries	343,847	271,390
- Net retirement benefit scheme contributions for employees	19,231	13,452
- Other benefits	34,678	38,014
Total employee benefit expenses	397,756	322,856
Net retirement benefit scheme contributions for agents	23,337	22,632

Notes:

(i) The amortisation of deferred acquisition costs for the year is included in "Change in deferred acquisition costs" in the consolidated statement of comprehensive income, and is disclosed in note 19 to the consolidated financial statements.

(ii) The Group initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition method chosen, the comparative information for the year ended 31 December 2018 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 16. See note 2.2(ii).

13 Directors' remuneration

Directors' remuneration for the year is as follows:

	Group 2019 $'000	2018 $'000
Executive and non-executive directors:		
Fees	570	-
Salaries, allowances and benefits in kind	25,026	13,825
Contributions to retirement benefits schemes	964	742
	26,560	14,567

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: $Nil).

14 Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year arising in Hong Kong where the Group operates.

The assessable profits of the 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% (2018: 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 Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group 2019 $'000	2018 $'000
Current - Hong Kong		
Provision for the year and total tax charge for the year	67,968	55,187

14 Tax (continued)

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:

	2019 $'000	%	*2018* $'000	%
Profit before tax	1,114,295		1,205,470	
Tax at the statutory rate	183,859	16.5	198,903	16.5
Tax on 5% of net premiums of life insurance business	66,983	6.1	54,677	4.6
Results of life insurance business and other businesses not taxable at the statutory rate	(182,874)	(16.4)	(198,393)	(16.5)
Tax charge at the Group's effective rate	67,968	6.2	55,187	4.6

The Group has tax losses arising in Hong Kong of $6,907,000 (2018: $7,073,000) 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 2019, there were no significant unrecognised deferred tax liabilities (2018: $Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the 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 2019 includes a profit of $1,046,220,000 (2018: $1,150,026,000) which has been dealt with in the financial statements of the Company (note 42(b)).

16 Property, plant and equipment

31 December 2019

	Group and Company				
	Computer equipment $'000	*Vehicles* $'000	*Furniture, fixtures and equipment* $'000	*Right-of-use assets of leased properties* $'000	*Total* $'000
At 31 December 2018:					
Cost	22,142	589	152,657	-	175,388
Accumulated depreciation	(13,930)	(50)	(35,172)	-	(49,152)
	8,212	539	117,485	-	126,236
Impact on initial application of HKFRS 16 (Note)	-	-	-	443,950	443,950
At 1 January 2019:					
Cost	22,142	589	152,657	470,267	645,655
Accumulated depreciation	(13,930)	(50)	(35,172)	(26,317)	(75,469)
Net carrying amount	8,212	539	117,485	443,950	570,186
At 1 January 2019, net of accumulated depreciation	8,212	539	117,485	443,950	570,186
Additions	8,264	-	28,071	203,883	240,218
Depreciation during the year	(3,376)	(117)	(33,219)	(113,957)	(150,669)
Disposal, net of accumulated depreciation	-	-	(1,365)	(11,292)	(12,657)
At 31 December 2019, net of accumulated depreciation	13,100	422	110,972	522,584	647,078
At 31 December 2019:					
Cost	30,139	589	169,529	649,918	850,175
Accumulated depreciation	(17,039)	(167)	(58,557)	(127,334)	(203,097)
Net carrying amount	13,100	422	110,972	522,584	647,078

16 Property, plant and equipment (continued)

31 December 2018

	Group and Company			
	Computer equipment $'000	*Vehicles* $'000	*Furniture, fixtures and equipment* $'000	*Total* $'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

Note: The Group has initially applied HKFRS 16 at 1 January 2019, using the modified retrospective approach. Under the transition method chosen, the comparative information for the year ended 31 December 2018 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 16. See note 2.2(ii).

17 Intangible assets

Group and Company

	Computer software $'000
At 1 January 2019:	
Cost	262,660
Accumulated amortisation	(200,430)
Net carrying amount	62,230
At 1 January 2019, net of accumulated amortisation	62,230
Additions	83,758
Amortisation during the year	(34,769)
Disposal, net of accumulated amortisation	-
At 31 December 2019, net of accumulated amortisation	111,219
At 31 December 2019:	
Cost	346,418
Accumulated amortisation	(235,199)
Net carrying amount	111,219

	Computer software $'000
At 1 January 2018:	
Cost	220,381
Accumulated amortisation	(173,882)
Net carrying amount	46,499
At 1 January 2018, net of accumulated amortisation	46,499
Additions	42,279
Amortisation during the year	(26,548)
Disposal, net of accumulated amortisation	-
At 31 December 2018, net of accumulated amortisation	62,230
At 31 December 2018:	
Cost	262,660
Accumulated amortisation	(200,430)
Net carrying amount	62,230

18 Interests in subsidiaries and amount due to a subsidiary

	Company 2019 $'000	2018 $'000
Unlisted shares, at cost	650	650
Amount due to a subsidiary	(1,938,423)	(1,949,009)

On 26 April 2013, a loan of US$250,000,000 was obtained from a subsidiary and is unsecured, interest-bearing at 4.215% per annum and repayable on 25 April 2023. Interest is payable semi-annually in arrears on 25 April and 25 October in each year.

The loan of US$250,000,000 has a fair value of $1,968,723,000 as at 31 December 2019 (2018: $1,916,241,000) and is classified as a level 2 financial instrument in 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 43(b) to the consolidated financial statements.

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 Company* *Direct*	*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

19 Deferred acquisition costs

	Group and Company 2019 $'000	2018 $'000
At 1 January	4,851,730	4,248,689
Additions: New business	1,616,178	1,432,441
Less: Amortisation (note 12)	(940,816)	(829,400)
Change in deferred acquisition costs ("DAC")	675,362	603,041
At 31 December	5,527,092	4,851,730

The maturity profile for DAC is stated as below:

	Group and Company 2019 $'000	2018 $'000
To be amortised within one year	846,528	715,868
To be amortised after one year	4,680,564	4,135,862
	5,527,092	4,851,730

A sensitivity analysis for DAC is provided below:

2019

	Assumption change	Group and Company Decrease in profit before tax $'000	Decrease in equity $'000
Mortality	+10%	(1,459)	(1,459)
Investment return	-0.5%	(12,672)	(12,672)

2018

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

20 Financial assets

	Note	*Group and Company* 2019 $'000	2018 $'000
Financials assets:			
Policy loans	21	475,690	458,421
Loans to agents	22	23,741	67,770
Other loan	23	-	122
Other financial assets	24	39,453,470	31,668,019
Total financial assets		39,952,901	32,194,332

21 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. The policy loans bear interest at a rate of 8.5% per annum. The directors consider that the fair value of the loans approximately equals to the corresponding carrying value.

22 Loans to agents

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

	Group and Company 2019 $'000	2018 $'000
Loans to agents:		
Loans to agents	88,538	202,003
Loss allowance	(64,797)	(134,233)
Total loans to agents, net of loss allowance	23,741	67,770

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

	Group and Company 2019 $'000	2018 $'000
At 1 January	134,233	115,068
Impairment loss recognised (note 10)	58,159	24,171
Reversal of impairment loss (note 10)	(4,813)	(5,001)
Written-off	(122,782)	(5)
At 31 December	64,797	134,233

22 Loans to agents (continued)

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

	Group and Company	
	2019	*2018*
	$'000	$'000
Not yet past due	14,498	58,607
Within one month past due	2,256	130
More than one month past due	6,987	9,033
Total loans to agents, net of loss allowance	23,741	67,770

Prior to 1 January 2019, the above loss allowance under HKAS 39 was for individually impaired loans related to agents in default or delinquency in repayments.

Upon adoption of HKFRS 9 on 1 January 2019, the Group measures loss allowances for loans to agents at an amount equal to lifetime ECLs, which is calculated using a provision matrix. The Group assesses credit quality of individual loan to agent based on historical credit loss experience and the status of debt collection.

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

	Group and Company	
	2019	*2018*
	$'000	$'000
Within one year	23,741	67,770
After one year	-	-
	23,741	67,770

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

23 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:

	Group and Company	
	2019	*2018*
	$'000	$'000
Within one year	-	122
After one year	-	-
	-	122

24 Other financial assets

	31 December 2019 $'000	*1 January 2019* $'000	*31 December 2018* $'000
Financial assets measured at FVOCI (recycling) (Note)			
Fixed rate bonds, at market value:			
Listed - government bonds	5,231,596	4,421,491	-
Listed - others	25,875,744	19,876,116	-
Unlisted - others	3,132,516	3,420,048	-
	34,239,856	27,717,655	-
Variable rate bonds, at market value:			
Unlisted - government bonds	26,062	24,874	-
Total financial assets at FVOCI (recycling)	34,265,918	27,742,529	-
Financial assets measured at FVOCI (non-recycling) (Note)			
Equities, at fair value:			
Listed	2,060,470	2,823,948	-
Unlisted	-	194,116	-
Total financial assets at FVOCI (non-recycling)	2,060,470	3,018,064	-
Financial assets measured at FVPL (Note)			
Equities, at fair value:			
Listed	58,742	-	-
Unlisted	499,179	422,596	-
	557,921	422,596	-
Interests in investment funds, at fair value	2,569,161	484,830	-
Total financial assets at FVPL	3,127,082	907,426	-
Total other financial assets	39,453,470	31,668,019	-

24 Other financial assets (continued)

	31 December 2019 $'000	*1 January 2019* $'000	*31 December 2018* $'000
Available-for-sale financial assets (Note)			
Fixed rate bonds, at market value:			
Listed - government bonds	-	-	4,421,491
Listed - others	-	-	19,876,116
Unlisted - others	-	-	3,420,048
Variable rate bonds, at market value:	-	-	27,717,655
Unlisted – government bonds	-	-	24,874
Total bonds	-	-	27,742,529
Equities, at fair value:			
Listed	-	-	3,273,942
Unlisted	-	-	616,712
Total equities	-	-	3,890,654
Interests in investment funds, at fair value	-	-	34,836
Total available-for-sale financial assets	-	-	31,668,019

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 2019 (see note 2.2(i)).

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

	31 December 2019 $'000	*1 January 2019* $'000	*31 December 2018* $'000
With a contractual maturity of:			
One year or less	1,571,005	2,205,713	2,205,713
Two years or less but over one year	774,807	1,700,228	1,700,228
Three years or less but over two years	384,590	911,351	911,351
Four years or less but over three years	642,001	559,136	559,136
Five years or less but over four years	111,073	654,837	654,837
Over five years	30,782,442	21,711,264	21,711,264
Total bonds	34,265,918	27,742,529	27,742,529

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 2019 (see note 2.2(i)).

24 Other financial assets (continued)

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:

	Group and Company 2019 $'000	2018 $'000
Unrealised losses on available-for-sale financial assets	-	(3,036,879)
Realised gains included in profit or loss (note 7)	(34,480)	(338,600)
Impairment loss included in profit or loss (note 10)	-	123,812
Reversal of impairment on financial assets measured at FVOCI (recycling) (note 10)	(3,398)	-
Net movement in FVOCI reserve (recycling)	4,778,810	-
Overlay approach adjustments in profit or loss	253,350	-
Net movement in FVOCI reserve (non-recycling) during the year recognised in other comprehensive income	(614,531)	-
Net movement in financial assets during the year recognised in other comprehensive income	4,379,751	(3,251,667)

At 1 January 2019 and 31 December 2019, the carrying amounts of the Group's financial assets being accounted for under the overlay approach are shown as below.

	31 December 2019 $'000	*1 January 2019* $'000
Equities, at fair value		
- Listed	58,742	-
- Unlisted	499,179	422,596
Total equities	557,921	422,596
Interests in investment funds, at fair value		
- Listed	2,510,295	449,994
- Unlisted	26,909	-
Total interests in investment funds	2,537,204	449,994
Total financial assets measured at FVPL	3,095,125	872,590

25 Investments related to unit-linked contracts

	Group and Company 2019 $'000	2018 $'000
Financial assets at fair value through profit or loss:		
- Interests in investment funds, at fair value	9,434,604	8,418,739
Cash and cash equivalents	60,626	28,005
Total investments related to unit-linked contracts	9,495,230	8,446,744

26 Premiums receivables

	Group and Company 2019 $'000	2018 $'000
Premiums receivables	310,318	255,102
Provision for impairment	(14,124)	(17,446)
Total premiums receivables, net of impairment	296,194	237,656

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

	Group and Company 2019 $'000	2018 $'000
At 1 January	17,446	14,106
Impairment loss recognised (note 10)	-	3,323
Reversal of impairment loss	(3,268)	-
Exchange realignment	(54)	17
At 31 December	14,124	17,446

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 that are not considered to be impaired, they are all less than 3 months past due and are expected to be settled within the next twelve months.

27 Prepayments, deposits and other debtors

	Group and Company 2019 $'000	2018 $'000
Prepayments (Note)	377,716	327,083
Accrued interest/dividend income on:		
- bonds	368,316	634,601
- cross currency swap agreements (note 30)	23,255	36,472
- loan due from an intermediate holding company	-	13,093
- equities and interests in investment funds	1,895	3,075
- others	69	111
Deposits	59,428	59,840
Reinsurance asset:		
- reinsurers' share of insurance contract liabilities (note 37)	56,106	114,375
- other receivables from reinsurers	203,429	117,211
Other debtors	91,199	75,270
	1,181,413	1,381,131

Note: Included in prepayments are advances to agents and other intermediaries of $284,196,000 (2018: $285,828,000), which are not yet past due.

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

	Group and Company 2019 $'000	2018 $'000
To be amortised within one year	115,820	87,094
To be amortised after one year	168,376	198,734
	284,196	285,828

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

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

28 Cash and cash equivalents and pledged deposits

(a) Cash and cash equivalents comprise:

	Group	
	2019	*2018*
	$'000	$'000
Cash and bank balances	2,662,076	1,535,717
Time deposits	3,502,936	689,560
	6,165,012	2,225,277
Less: Pledged deposits:		
Time deposit pledged for a bank guarantee (Note (i))	(10,000)	(10,000)
Cash and cash equivalents	6,155,012	2,215,277

	Company	
	2019	*2018*
	$'000	$'000
Cash and bank balances	2,654,464	1,530,783
Time deposits	3,502,936	689,560
	6,157,400	2,220,343
Less: Pledged deposits:		
Time deposit pledged for a bank guarantee (Note (i))	(10,000)	(10,000)
Cash and cash equivalents	6,147,400	2,210,343

28 Cash and cash equivalents and pledged deposits (continued)

(a) Cash and cash equivalents comprise: (continued)

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

	Group and Company	
	2019	*2018*
	$'000	$'000
With an original maturity of:		
Three months or less	3,492,936	679,560
One year or less but over three months	10,000	10,000
	3,502,936	689,560

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 Group and the Company, 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:

(i) As at 31 December 2019, a time deposit of $10,000,000 (2018: $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 Group. The tenancy agreement will expire on 31 July 2020.

28 Cash and cash equivalents and pledged deposits (continued)

(b) Reconciliation of liabilities arising from financing activities:

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

	Financial reinsurance arrangement $'000 (Note 36)	*Lease liabilities* $'000 (Note 35)	*Total* $'000
At 31 December 2018	430,673	-	430,673
Impact on initial application on HKFRS 16	-	440,173	440,173
At 1 January 2019	430,673	440,173	870,846
Changes from financing cash flows:			
Repayment of financing under a financial reinsurance arrangement	(81,656)	-	(81,656)
Capital element of lease rentals paid	-	(96,435)	(96,435)
Interest element of lease rentals paid	-	(17,268)	(17,268)
Total changes from financing cash flows	(81,656)	(113,703)	(195,359)
Other changes:			
Interest expenses (note 11)	19,822	17,716	37,538
Increase in lease liabilities from new leased properties	-	198,324	198,324
Decrease in lease liabilities from termination of leased properties	-	(10,759)	(10,759)
Total other changes	19,822	205,281	225,103
At 31 December 2019	368,839	531,751	900,590

28 Cash and cash equivalents and pledged deposits (continued)

(b) Reconciliation of liabilities arising from financing activities: (continued)

	Financial reinsurance arrangement $'000 (Note 36)	*Lease liabilities* $'000 (Note 35)	*Total* $'000
At 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 2018 and 2019, there were no changes from financing cash flows arising from the notes issued by a subsidiary of the Company (see note 36(i)). Payments of interest expenses of the notes are classified as operating activities as shown in the consolidated cash flow statement.

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 $'000	*2018* $'000
Within operating cash flows	125,249	-
Within investing cash flows	(203,883)	-
Within financing cash flows	(113,703)	-
	(192,337)	-

Note: The adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

29 Insurance and financial risk management objectives and policies

(a) Regulatory framework

The operations of the Group are subject to local regulatory requirements in Hong Kong. The Bermuda Monetary Authority continues to give the Group concession to submit these consolidated financial statements in satisfaction of the Bermuda Monetary Authority's filing requirements. The 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 Group has an internal risk management framework for identifying risks to which each of its business units and the 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 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 Group to maintain a strong credit rating and healthy capital ratios in order to support its business.

The 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 Group's activities.

The 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 Group faces due to the nature of its investments and liabilities are interest rate risk and duration risk. The 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 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 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.

29 Insurance and financial risk management objectives and policies (continued)

(d) Insurance risk

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents and related risks. The 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 Group's quality control process, the Group regularly invites reinsurers to audit its underwriting and claim practices and procedures, to ensure that the Group meet the highest industry standards.

The 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/Gorgeous Universal Life Protection Plan are universal life plans launched in 2016 and 2019 respectively 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 Gorgeous Universal Life Protection Plan offers hard guarantees at 2% per annum. The investment funds as at 31 December 2019 for Invest-a-surance amounted to $64,074,772 (2018: $66,176,068). The investment fund for Elite Choice amounted to $10,037,732 (2018: $9,232,484). The investment fund for Gorgeous Universal Life Protection Plan amounted to $897,418,355 (2018: $939,817,654). The investment fund for Wealth Achiever with Protection amounted to $51,218,552 (2018: $39,054,003). The net reserve for Dynasty amounted to $nil (2018: $72,752) and the net reserve for Dynasty Diamond amounted to $541,986 (2018: $1,065,989). The reserve for Super Saver amounted to $379,780,414 (2018: $389,058,169). The reserve held for the investment guarantee amounted to $3,451,015 (2018: $2,474,104) for Invest-a-surance. The reserve held for the Elite Choice guarantee return amounted to $89,989 (2018: $90,516). No guarantee reserve was set up for Dynasty since the net reserve for Dynasty is immaterial.

29 Insurance and financial risk management objectives and policies (continued)

(d) Insurance risk (continued)

Group and Company

	2019			*2018*		
	Gross liabilities $'000	*Reinsurers' share of liabilities* $'000	*Net liabilities* $'000	*Gross liabilities* $'000	*Reinsurers' share of liabilities* $'000	*Net liabilities* $'000
Type of products						
Whole life	24,870,280	(55,617)	24,814,663	20,764,328	(113,959)	20,650,369
Term	84,641	(308)	84,333	79,904	(204)	79,700
Dread disease	1,544,229	(79)	1,544,150	1,393,866	(91)	1,393,775
Medical	228,358	-	228,358	219,637	-	219,637
Disability	12,074	(49)	12,025	12,972	(69)	12,903
Accident	21,492	(53)	21,439	20,954	(52)	20,902
At 31 December	26,761,074	(56,106)	26,704,968	22,491,661	(114,375)	22,377,286
Coinsurance liabilities	219,369	-	219,369	212,426	-	212,426
Insurance contract liabilities (note 37)	26,980,443	(56,106)	26,924,337	22,704,087	(114,375)	22,589,712

(i) Key assumptions

Liabilities on insurance contracts offered by the 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:

	2019	*2018*
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 without full underwriting, 62% 2001 Hong Kong Assured Life Mortality tables for males and females.	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 without full underwriting, 62% 2001 Hong Kong Assured Life Mortality tables for males and females.

29 Insurance and financial risk management objectives and policies (continued)

(d) Insurance risk (continued)

(i) Key assumptions (continued)

	2019	*2018*
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) 3.70% for Prosperous Deferred Annuity Plan 3.31 % for Fortune Saver 4.00% for most other policies	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
Lapse rate	Based on Group's experience	Based on Group's experience
Expense	Based on Group's experience	Based on 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 Group are residents of Hong Kong.

29 Insurance and financial risk management objectives and policies (continued)

(d) Insurance risk (continued)

(i) Key assumptions (continued)

The 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:

2015	1.50%
2016	3.52%
2017	10.24%
2018	-2.14%
2019	14.29%

The 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:

2015	69%
2016	72%
2017	91%
2018	102%
2019	99%

(ii) Sensitivities

2019

	Assumption change	*(Decrease)/ increase in profit before tax* $'000	*(Decrease)/ increase in equity* $'000
Mortality	+10%	(214,605)	(214,605)
Discount rate	-50 basis points	(1,943,277)	(1,943,277)
Expense	+10%	(51,394)	(51,394)
Lapse rate	+20%	24,892	24,892

2018

	Assumption change	*(Decrease)/ increase in profit before tax* $'000	*(Decrease)/ increase in equity* $'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)

29 Insurance and financial risk management objectives and policies (continued)

(e) *Credit risk*

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The 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 Group also sets targets on currency, maturity and credit limit on its fixed income portfolios. The Group mainly 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 balance sheet of the Group:

2019

	General and shareholders' fund $'000	*Unit-linked* $'000	*Total* $'000
Pledged deposits	10,000	-	10,000
Financial assets:		-	
Policy loans	475,690	-	475,690
Loans to agents	23,741	-	23,741
Other financial assets – bonds	34,265,918	-	34,265,918
Derivative financial instruments	1,308,802	-	1,308,802
Prepayments, deposits and other debtors	1,118,947	62,466	1,181,413
Cash and cash equivalents (Note)	6,153,667	1,345	6,155,012
At 31 December 2019	43,356,765	63,811	43,420,576

Note: Cash and cash equivalents of unit-linked business represent cash in transit from trades of unit-linked business.

29 Insurance and financial risk management objectives and policies (continued)

(e) Credit risk (continued)

2018

	General and shareholders' fund $'000	*Unit-linked* $'000	*Total* $'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
Available-for-sale financial assets – bonds	27,742,529	-	27,742,529
Derivative financial instruments	738,879	-	738,879
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	34,476,523	26,066	34,502,589

Note: Cash and cash equivalents of unit-linked business represents cash-in-transit from trades of unit-linked business.

29 Insurance and financial risk management objectives and policies (continued)

(e) Credit risk (continued)

Credit exposure by credit rating

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

2019

	Investment grade $'000	*Non-investment grade* $'000	*Unit-linked* $'000	*Total* $'000
Pledged deposits	10,000	-	-	10,000
Financial assets:				
Policy loans	-	475,690	-	475,690
Loans to agents	-	23,741	-	23,741
Other financial assets – bonds	34,043,940	221,978	-	34,265,918
Derivative financial instruments	1,009,948	298,854	-	1,308,802
Prepayments, deposits and other debtors	389,711	729,236	62,466	1,181,413
Cash and cash equivalents	6,153,667	-	1,345	6,155,012
At 31 December 2019	41,607,266	1,749,499	63,811	43,420,576

29 Insurance and financial risk management objectives and policies (continued)

(e) Credit risk (continued)

Credit exposure by credit rating (continued)

2018

	Investment grade $'000	*Non-investment grade* $'000	*Unit-linked* $'000	*Total* $'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
Available-for-sale financial assets – bonds	25,611,180	2,131,349	-	27,742,529
Derivative financial instruments	738,879	-	-	738,879
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	5,529,546	26,066	34,502,589

Aaa and AAA are the highest credit ratings in the Moody's and Standard and Poor's credit rating systems, respectively. The Group classifies its bonds which are below 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 2019, the amount of the non-investment grade bonds held by the Group was approximately 1% of its invested assets (2018: 7%).

29 Insurance and financial risk management objectives and policies (continued)

(e) Credit risk (continued)

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

	Investment grade			*Non-investment grade*			*Unit–linked*			
	12-month ECL $'000	*Lifetime ECL not credit - impairment* $'000	*Lifetime ECL credit - impaired* $'000	*12-month ECL* $'000	*Lifetime ECL not credit - impairment* $'000	*Lifetime ECL credit - impaired* $'000	*12-month ECL* $'000	*Lifetime ECL not credit - impairment* $'000	*Lifetime ECL credit - impaired* $'000	*Total* $'000
Financial assets at amortised cost										
Pledge Deposit	10,000	-	-	-	-	-	-	-	-	10,000
Financial asset:										
- Policy Loan	-	-	-	475,690	-	-	-	-	-	475,690
- Loans to agents	-	-	-	-	31,124	57,414	-	-	-	88,538
Prepayments, deposits and other debtors	389,711	-	-	729,236	-	-	62,466	-	-	1,181,413
Cash and cash equivalents	6,153,667	-	-	-	-	-	1,345	-	-	6,155,012
Gross carrying amount	6,553,378			1,204,926	31,124	57,414	63,811	-	-	7,910,653
Less: Loss allowance	-	-	-	-	(9,221)	(55,576)	-	-	-	(64,797)
Amortised cost	6,553,378	-	-	1,204,926	21,903	1,838	63,811	-	-	7,845,856
Financial assets at FVOCI (recycling)										
Financial assets at FVOCI (recycling)										
Other financial assets - bonds										
Gross carrying amount	29,384,666	-	-	233,635	-	-	-	-	-	29,618,301
Less: Loss allowance	(14,271)	-	-	(916)	-	-	-	-	-	(15,187)
Amortised cost	29,370,395	-	-	232,719	-	-	-	-	-	29,603,114
Carrying amount – fair value	34,043,940	-	-	221,978	-	-	-	-	-	34,265,918

For credit risk in respect of premiums receivables, the ageing analysis is included in note 26 to the consolidated financial statements.

29 Insurance and financial risk management objectives and policies (continued)

(e) Credit risk (continued)

Reconciliation from opening to closing balance of loss allowance by class of instruments

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

	2019			2018
	Lifetime ECL not credit-impaired $'000	Lifetime ECL credit-impaired $'000	Total $'000	Impaired $'000
Loans to agents				
Balance as at 31 December 2018 under HKAS 39	-	-	-	134,233
Adjustment on initial application of HKFRS 9	269	133,964	134,233	(134,233)
Balance as at 1 January 2019 under HKFRS 9	269	133,964	134,233	-
Increase in loss allowance recognised in current year	11,439	46,720	58,159	
Release of loss allowance for loans derecognised upon settlement	(2,487)	(2,326)	(4,813)	
Written off in current year	-	(122,782)	(122,782)	
Balance as at 31 December 2019	9,221	55,576	64,797	

	2019		2018
	12-month ECL $'000	Total $'000	Impaired $'000
Other financial assets - bonds			
Balance as at 31 December 2018 under HKAS 39	-	-	-
Adjustment on initial application of HKFRS 9	24,846	24,846	-
Balance as at 1 January 2019 under HKFRS 9	24,846	24,846	-
Decrease in loss allowance recognised in current year	(3,398)	(3,398)	
Release of loss allowance for bonds derecognised upon settlement	(6,261)	(6,261)	
Written off in current year	-	-	
Balance as at 31 December 2019	15,187	15,187	

For credit risk in respect of bonds, the maturity profile is included in note 24 in the consolidated financial statements.

29 Insurance and financial risk management objectives and policies (continued)

(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 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 Group manages liquidity through its liquidity risk policy which includes determining what constitutes liquidity risk for the 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 Group's liquidity risk policy for pertinence and changing environment.

29 Insurance and financial risk management objectives and policies (continued)

(f) Liquidity risk (continued)

(i) The table below analyses certain financial liabilities of the Group at the balance sheet date into their relevant maturity groups based on their contractual undiscounted cash flows.

2019

	Contractual undiscounted cashflows								
	1 year or less $'000	*2 years or less but >1 year* $'000	*3 years or less but >2 years* $'000	*4 years or less but >3 years* $'000	*5 years or less but >4 years* $'000	*> 5 years* $'000	*Unit-linked* $'000	*Total* $'000	*Carrying amount* $'000
Liabilities related to unit-linked contracts	-	-	-	-	-	-	9,644,869	9,644,869	9,644,869
Derivative financial instruments	5,669	5,537	3,075	1,855	465	2,369	-	18,970	18,177
Interest-bearing liabilities	1,177,608	164,375	157,579	2,059,248	66,070	24,982	-	3,649,862	3,311,288
Payables to policyholders	1,443,588	-	-	-	-	-	44,354	1,487,942	1,487,942
Accrued expenses and other creditors	759,265	84,331	94,788	79,108	79,108	180,347	291,288	1,568,235	1,502,044
	3,386,130	254,243	255,442	2,140,211	145,643	207,698	9,980,511	16,369,878	15,964,320

2018

	Contractual undiscounted cashflows								
	1 year or less $'000	*2 years or less but >1 year* $'000	*3 years or less but >2 years* $'000	*4 years or less but >3 years* $'000	*5 years or less but >4 years* $'000	*> 5 years* $'000	*Unit-linked* $'000	*Total* $'000	*Carrying amount* $'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

29 Insurance and financial risk management objectives and policies (continued)

(f) Liquidity risk (continued)

(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 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 Group manages this risk by monitoring and setting an appropriate level of cash position to settle these liabilities.

2019

	1 year or less $'000	*2 years or less but >1 year* $'000	*3 years or less but >2 years* $'000	*4 years or less but >3 years* $'000	*5 years or less but >4 years* $'000	*> 5 years* $'000	*Total* $'000
Insurance contract liabilities	3,566,132	(775,600)	(765,832)	(282,295)	169,590	28,306,965	30,218,960
Investment contract liabilities	-	-	-	-	-	5,166	5,166
	3,566,132	(775,600)	(765,832)	(282,295)	169,590	28,312,131	30,224,126

2018

	1 year or less $'000	*2 years or less but >1 year* $'000	*3 years or less but >2 years* $'000	*4 years or less but >3 years* $'000	*5 years or less but >4 years* $'000	*> 5 years* $'000	*Total* $'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

29 Insurance and financial risk management objectives and policies (continued)

(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 Group's policy to match its assets and liabilities by currency to minimise its exposure to currency risk. The 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 balance sheet date, the Group had 0.3% of its investments denominated in foreign currencies, other than the United States dollar (2018: 0.23%). The 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 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* $'000	*(Decrease)/ increase in other comprehensive income* $'000	*(Decrease)/ increase in equity* $'000
31 December 2019			
+50 basis points (Note (a))	(2,384,716)	(2,384,716)	(2,384,716)
-50 basis points (Note (a))	2,384,716	2,384,716	2,384,716

Change in variables	*(Decrease)/ increase in net assets* $'000	*(Decrease)/ increase in other comprehensive income* $'000	*(Decrease)/ increase in equity* $'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

29 Insurance and financial risk management objectives and policies (continued)

(g) Market risk (continued)

(iii) Price risk

The Group's price risk exposure relates to financial assets and liabilities which 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 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	*Increase/ (decrease) in profit before tax* $'000	*Increase/ (decrease) in equity* $'000
Year 2019			
Market indices (Note (b))	+10%	312,329	518,376
Market indices (Note (b))	-10%	(312,329)	(518,376)

	Change in variables	*Increase/ (decrease) in profit before tax* $'000	*Increase/ (decrease) in equity* $'000
Year 2018			
Market indices (Note (b))	+10%	392,204	392,204
Market indices (Note (b))	-10%	(392,204)	(392,204)

Note (b): Assumes all changes in equity values are realised. For financial assets measured at FVOCI (non-recycling), change in market indices would have no impact on the profit before tax.

29 Insurance and financial risk management objectives and policies (continued)

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

As at 1 January 2019 and 31 December 2019, the Group designated the following list of equities at FVOCI (non-recycling):

	31 December 2019 $'000	*1 January 2019* $'000
1) a listed Hong Kong based investment holding company principally engaged in investment in listed and unlisted enterprises	435,000	849,700
2) a listed Chinese bank headquartered in Zhejiang, the PRC	1,377,964	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 business	-	99,460
4) a listed Chinese provincial city commercial bank headquartered in Nanchang, Jiangxi Province	247,506	398,597
5) a private equity fund established to achieve long-term growth through investment in Chinese companies	-	152,175
6) 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 the US	-	41,941
	2,060,470	3,018,064

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

- the 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 Group has an intention to hold such investments for not less than 6 months.

As at 31 December 2019, the fair value of the strategic assets amounted to $2,060,470,000. Dividend income from the strategic assets amounted to $24,672,000 during the year, of which $6,503,000 was earned from investments derecognised during the year and the remaining $18,169,000 was earned from the investments held as at the reporting date.

Disposal gain of strategic assets amounted to $69,520,000 during the year. Strategic assets 1 to 4 listed above were partially disposed for stop-loss and rebalancing/de-risk purposes. Strategic assets 5 and 6 listed above were disposed of in accordance with the disposal agreement between the former parent and the current parent of the Group.

The fair value at derecognition date was $356,017,000.

30 Derivative financial instruments

	Group and Company 2019 $'000	2018 $'000
Assets:		
Cross currency swap agreements, at fair value	112	3,341
Forward starting swap agreements, at fair value	1,009,836	735,211
Forward exchange agreements, at fair value	-	327
	1,009,948	738,879
Put option, at fair value	298,854	-
	1,308,802	738,879
Liabilities:		
Cross currency swap agreements, at fair value	(18,177)	(8,494)
Forward exchange agreements, at fair value	-	(789)
	(18,177)	(9,283)

Cross currency swap agreements - cash flow hedges for bond investments

From November 2009 onwards, the 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$244 million (2018: US$348 million) with maturities ranging from 2019 to 2025. These cross currency swap agreements are entered with several counterparties over the counter. The 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 $11,959,000 (2018: $19,381,000).

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

From 2013 onwards, the 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 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 2019, the total notional amount was US$495 million (2018: US$580 million). The cash flow hedge was assessed to be highly effective and the net asset in the hedging reserve amounted to $1,009,836,000 (2018: $735,211,000).

The agreements were used to hedge the interest rate risk by the exchange of payments benchmarked against the targeted fixed interest rate. The 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.

30 Derivative financial instruments (continued)

Forward starting swap agreements - cash flow hedges for bonds to be purchased in the future (continued)

As at 31 December 2019, the Company received $1,004,863,000 cash and bank balance from counterparties as collateral which are repayable on demand (2018: $706,447,000). Interest is calculated on overnight federal fund rate and payable to counterparties.

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

	Group and Company	
	2019	*2018*
	$'000	$'000
Net movement in hedging reserve during the year recognised in other comprehensive income	243,285	(250,066)

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

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

	Group and Company	
	2019	*2018*
Gross amount presented in the balance sheet	$'000	$'000
Assets		
Derivative financial instruments	1,009,948	738,879
Accrued interest receivable included in prepayments, deposits and other debtors	23,255	36,472
	1,033,203	775,351
Liabilities		
Derivative financial instruments	18,177	9,283
Accrued interest payable included in accrued expenses and other creditors	24,194	38,384
	42,371	47,667

30 Derivative financial instruments (continued)

	Group and Company 2019 $'000	Group and Company 2018 $'000
Net amounts		
Assets		
Derivative financial instruments	992,399	729,596
Accrued interest receivable included in prepayments, deposits and other debtors	4	40
	992,403	729,636
Liabilities		
Derivative financial instruments	628	-
Accrued interest payable included in accrued expenses and other creditors	943	1,952
	1,571	1,952

Put option – hedges for market risks associated with certain equities

Pursuant to the transfer of ownership of the Group to NWS Holdings Limited, BVI agreed to buy back certain equity investments held by the Group at a specified price within a specified transaction period. This results in a capital contribution in form of a derivative financial instrument as at 31 October 2019, which hedges the Group's market risk exposure on the underlying equity investments. The underlying equity investments are designated at FVOCI (non-recycling) with a total market value of HKD 461m as at 31 October 2019.

The put option does not meet all the qualifying criteria for hedge accounting. As such, it is measured at FVTPL without being designated as a hedging instrument.

31 Payables to policyholders

	Group and Company 2019 $'000	Group and Company 2018 $'000
Claims payable (note 32)	241,287	209,759
Premium deposits (note 33)	1,107,450	1,021,592
Other payables	139,205	100,570
	1,487,942	1,331,921

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

32 Claims payable

	Group and Company 2019 $'000	2018 $'000
Life and annuity	234,072	201,926
Linked long term	7,215	7,833
	241,287	209,759

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

	Group and Company 2019 $'000	2018 $'000
At 1 January	209,759	192,969
Provided during the year	1,000,992	869,262
Utilised during the year	(968,835)	(852,405)
Exchange realignment	(629)	(67)
At 31 December	241,287	209,759

Claims incurred but not reported amounted to $35,560,000 as at 31 December 2019 (2018: $31,860,000), which are included in claims payable.

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

33 Premium deposits

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

	Group and Company 2019 $'000	2018 $'000
At 1 January	1,021,592	915,397
Received during the year	9,937,937	8,416,265
Utilised during the year	(9,846,813)	(8,311,637)
Exchange realignment	(5,266)	1,567
At 31 December	1,107,450	1,021,592

34 Accrued expenses and other creditors

	Group 2019 $'000	Group 2018 $'000
Commission payable	311,193	288,965
Reinsurance payable (Note)	1,454	58,722
Lease liabilities (note 35)	531,751	-
Other payables and accruals	657,646	314,781
	1,502,044	662,468

	Company 2019 $'000	Company 2018 $'000
Commission payable	311,193	288,965
Reinsurance payable (Note)	1,454	58,722
Lease liabilities (note 35)	531,751	-
Other payables and accruals	642,750	299,819
	1,487,148	647,506

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

	Group 2019 $'000	Group 2018 $'000
Payable within one year	1,033,219	631,062
Payable after one year	468,825	31,406
	1,502,044	662,468

	Company 2019 $'000	Company 2018 $'000
Payable within one year	1,018,323	616,100
Payable after one year	468,825	31,406
	1,487,148	647,506

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

34 Accrued expenses and other creditors (continued)

Note: Reinsurance premium and commission are offset and the net amount is reported in the balance sheet when the 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:

	Group and Company	
	2019	*2018*
	$'000	$'000
Gross amount presented in the balance sheet		
Assets		
Prepayments, deposits and other debtors – Reinsurance receivable	83,395	28,614
Liabilities		
Accrued expenses and other creditors – Reinsurance payable	84,849	87,336
Net amounts presented in the balance sheet		
Liabilities		
Accrued expenses and other creditors – Reinsurance payable	1,454	58,722

35 Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at balance sheet date and at the date of transition to HKFRS 16:

	31 December 2019		*1 January 2019*	
	Present value of the lease payments $'000	*Total lease payments* $'000	*Present value of the lease payments* $'000	*Total lease payments* $'000
Within 1 year	96,004	113,339	83,430	98,631
After 1 year but within 2 years	69,829	84,331	65,006	77,230
After 2 year but within 3 years	81,115	92,977	22,318	33,039
After 3 year but within 4 years	69,851	79,108	44,058	53,593
After 4 year but within 5 years	72,439	79,108	45,804	53,593
After 5 years	142,513	149,079	179,557	192,041
	531,751	597,942	440,173	508,127
Less: total future interest expenses	-	(66,191)	-	(67,954)
Present value of lease liabilities	531,751	531,751	440,173	440,173
Effective interest rate %	3.64%		3.85%	

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2.2(ii). There was no lease liabilities recognised as at 31 December 2018 as the Group does not expose to any financial lease arrangement under HKAS 17.

36 Interest-bearing liabilities

	Group	
	2019	*2018*
	$'000	$'000
4.125% notes due 2023 (Note (i))	1,937,586	1,945,535
Financing received under a financial reinsurance arrangement (Note (ii))	368,839	430,673
Cash collateral received for cross currency swap agreements and forward starting swap agreements (note 30)	1,004,863	706,447
	3,311,288	3,082,655

	Company	
	2019	*2018*
	$'000	$'000
Financing received under a financial reinsurance arrangement (Note (ii))	368,839	430,673
Cash collateral received for cross currency swap agreements and forward starting swap agreements (note 30)	1,004,863	706,447
	1,373,702	1,137,120

Notes:

(i) On 25 April 2013, FTL Capital Limited issued an aggregate principal amount of US$250 million (approximately $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 $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 Company. The Company's guarantee is an unsecured and unsubordinated obligation which ranks equally with all of the Company's other existing and future unsecured and unsubordinated obligations. As required by the insurance laws of Hong Kong and Bermuda, the Company's guarantee is effectively junior to the liabilities of its long term business, to the extent of the assets maintained by the Company 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 $1,937,586,000 as at 31 December 2019 (2018: $1,945,535,000).

36 Interest-bearing liabilities (continued)

Notes: (continued)

(i) At 31 December 2019, the fair value of the Bonds II was $1,990,597,000 (2018: $1,929,412,000).

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 2019, the fair value of Bonds II is categorised as Level 2 as at 31 December 2019 (2018: Level 2).

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

(ii) The Company had a financial reinsurance arrangement with a reinsurer. Under the financial reinsurance arrangement with effect from 2012, the Company had received an up-front fee of US$45 million at a finance cost of 90-day LIBOR plus 5.4%. During 2016, the Company 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 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:

	Group and Company	
	2019	*2018*
	$'000	$'000
Repayable within one year	88,312	92,283
Repayable after one year	280,527	338,390
	368,839	430,673

37 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 2019. The dividend policy is at the discretion of the Company's board. During 2019, the Group paid out total annual dividends of $177.3 million (2018: $167.9 million).

	Group and Company	
	2019	*2018*
	$'000	$'000
Liabilities for guaranteed benefits	26,687,419	22,418,659
Liabilities for coinsurance payments	219,369	212,426
Provision for annual dividends	73,655	73,002
Insurance contract liabilities (note 29(d))	26,980,443	22,704,087
Policyholders' dividends and bonuses (note 38)	3,238,517	2,969,901
Total insurance contract liabilities	30,218,960	25,673,988

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

	Group and Company	
	2019	*2018*
	$'000	$'000
Insurance contract liabilities (note 29(d))	26,980,443	22,704,087
Reinsurers' share of insurance contract liabilities (note 29(d))	(56,106)	(114,375)
Insurance contract liabilities, net of reinsurers' share (note 29(d))	26,924,337	22,589,712

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

	Group and Company	
	2019	*2018*
	$'000	$'000
Payable within one year	3,566,132	4,111,039
Payable after one year	26,652,828	21,562,949
	30,218,960	25,673,988

37 Insurance contract liabilities (continued)

Movements in insurance contract liabilities are as follows:

Group and Company

	2019				2018			
	Insurance contract liabilities $'000	*Coinsurance liabilities* $'000	*Reinsurers' share of liabilities* $'000	*Net liabilities* $'000	*Insurance contract liabilities* $'000	*Coinsurance liabilities* $'000	*Reinsurers' share of liabilities* $'000	*Net liabilities* $'000
At 1 January	22,491,661	212,426	(114,375)	22,589,712	19,563,441	203,739	(136,441)	19,630,739
Premiums received	5,825,582	(48,571)	(201,748)	5,575,263	4,471,856	(47,332)	(154,173)	4,270,351
Liabilities incurred for death, surrender and maturity	(2,103,378)	29,233	223,592	(1,850,553)	(1,973,240)	26,251	125,406	(1,821,583)
Benefit and claim experience variations	(155,300)	4,777	37,372	(113,151)	(333,196)	4,617	47,155	(281,424)
Investment income variations	(557,979)	8,527	-	(549,452)	(458,132)	8,102	-	(450,030)
Investment income	1,357,442	-	(3,668)	1,353,774	1,170,812	-	(4,313)	1,166,499
Financing cost for coinsurance	-	12,977	-	12,977	-	17,049	-	17,049
Adjustment due to change in reserve assumptions	(16,345)	-	615	(15,730)	63,158	-	1,838	64,996
Exchange realignment	(80,609)	-	2,106	(78,503)	(13,038)	-	6,153	(6,885)
At 31 December	26,761,074	219,369	(56,106)	26,924,337	22,491,661	212,426	(114,375)	22,589,712

38 Policyholders' dividends and bonuses

	Group and Company 2019 $'000	2018 $'000
At 1 January	2,969,901	2,698,916
Provided during the year	541,821	522,408
Utilised during the year	(263,030)	(254,530)
Exchange realignment	(10,175)	3,107
At 31 December	3,238,517	2,969,901

39 Investment contract liabilities

Movements in investment contract liabilities are as follows:

	Group and Company 2019 $'000	2018 $'000
At 1 January	5,493	5,372
Withdrawals	(529)	(35)
Interest, bonus credited and fair value movement	202	156
At 31 December	5,166	5,493

The above amounts are repayable after the next twelve months.

40 Liabilities related to unit-linked contracts

	Group and Company 2019 $'000	2018 $'000
Insurance contract liabilities	686,673	587,817
Investment contract liabilities	8,958,196	7,995,526
Liabilities related to unit-linked contracts	9,644,869	8,583,343

41 Share capital

	2019 US$'000	*2018* US$'000
Authorised share capital	700,000	700,000
	HK$'000	HK$'000
Issued and fully paid:		
506,100,141 (2018: 506,100,141) ordinary shares of US$1 each	3,938,134	3,938,134
9,000,000 (2018: 9,000,000) Class A redeemable preference shares of US$1 each (Note (i))	69,955	69,955
10,000,000 (2018: 10,000,000) Class C redeemable preference shares of US$1 each (Note (ii))	77,611	77,611
	4,085,700	4,085,700

Notes:

(i) 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 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 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 Company including Class B redeemable preference shares.

(e) Subject only to the provisions in the schedule attached to the 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 Company.

41 Share capital (continued)

Notes: (continued)

(ii) 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 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 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 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 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 Company and the holder's mutual agreement, the Class C redeemable preference shares may be converted into ordinary shares of the 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 Company.

(g) Liquidation: On any liquidation of the 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 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.

41 Share capital (continued)

Notes: (continued)

(iii) 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 Company, insofar as JD Group remained a controller of the Company. The undertaking ceased to be effective on 1 November 2019.

(iv) On 21 September 2019, the Company 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 Company.

42 Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 13 of the consolidated financial statements.

42 Reserves (continued)

(b) *Company*

	Issued share capital $'000	*Share premium account* $'000	*Contributed surplus* $'000	*Share option reserve* $'000	*Hedging reserve* $'000	*Shadow accounting adjustment* $'000	*FVOCI reserve (recycling)* $'000	*FVOCI reserve (non-recycling)* $'000	*Retained profits* $'000	*Total* $'000
Balance at 1 January 2018	4,085,700	1,862,664	1,011,121	20,615	1,004,658	(38,340)	2,965,996	-	4,134,300	15,046,714
Changes in equity for 2018:										
Profit for the year	-	-	-	-	-	-	-	-	1,150,026	1,150,026
Other comprehensive income for the year	-	-	-	-	(250,066)	86,104	(3,251,667)	-	-	(3,415,629)
Total comprehensive income for the year	-	-	-	-	(250,066)	86,104	(3,251,667)	-	1,150,026	(2,265,603)
Balance at 31 December 2018	4,085,700	1,862,664	1,011,121	20,615	754,592	47,764	(285,671)	-	5,284,326	12,781,111
Impact on initial application of HKFRS 9	-	-	-	-	-	(148)	209,849	(243,182)	33,481	-
Impact on initial application of HKFRS 16	-	-	-	-	-	-	-	-	(3,262)	(3,262)
Balance at 1 January 2019	4,085,700	1,862,664	1,011,121	20,615	754,592	47,616	(75,822)	(243,182)	5,314,545	12,777,849
Changes in equity for 2019:										
Capital contribution (note 30)	-	-	283,014	-	-	-	-	-	-	283,014
Profit for the year	-	-	-	-	-	-	-	-	1,046,220	1,046,220
Other comprehensive income for the year	-	-	-	-	243,285	(324,112)	4,994,282	(614,531)	-	4,298,924
Transfer upon disposal of equities at FVOCI (non-recycling)	-	-	-	-	-	-	-	(9,994)	9,994	-
Total comprehensive income for the year	-	-	-	-	243,285	(324,112)	4,994,282	(624,525)	1,056,214	5,345,144
Balance at 31 December 2019	4,085,700	1,862,664	1,294,135	20,615	997,877	(276,496)	4,918,460	(867,707)	6,370,759	18,406,007

Note: The Company has initially applied HKFRS 9 and HKFRS 16 at 1 January 2019, using the retrospective approach and the modified retrospective approach respectively. Under the transitions method chosen, the comparative information for the year ended 31 December 2018 has not been adjusted retrospectively to reflect the impact of adopting HKFRS 9 and HKFRS 16. See note 2.2(i) and 2.2(ii).

Pursuant to the transfer of ownership of the Group to NWS Holdings Limited, BVI agreed to buy back certain equity investments held by the Group at a specified price within a specified transaction period. This results in a capital contribution in form of a derivative financial instrument as at 31 October 2019. See note 30 for details.

43 Financial instruments

(a) *Financial instruments by category*

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

2019

	Group			
Financial assets	*Financial assets at fair value through profit or loss* $'000	*Financial assets at fair value through other comprehensive income* $'000	*Financial assets at amortised costs* $'000	*Total* $'000
Pledged deposits	-	-	10,000	10,000
Policy loans	-	-	475,690	475,690
Loans to agents	-	-	23,741	23,741
Other financial assets	3,127,082	36,326,388	-	39,453,470
Investments related to unit-linked contracts	9,434,604	-	60,626	9,495,230
Derivative financial instruments	1,308,802	-	-	1,308,802
Prepayments, deposits and other debtors	-	-	1,181,413	1,181,413
Cash and cash equivalents	-	-	6,155,012	6,155,012
At 31 December 2019	13,870,488	36,326,388	7,906,482	58,103,358

	Group		
Financial liabilities	*Financial liabilities at fair value through profit or loss* $'000	*Financial liabilities at amortised cost* $'000	*Total* $'000
Investment contract liabilities	5,166	-	5,166
Liabilities related to unit-linked contracts	9,644,869	-	9,644,869
Derivative financial instruments	18,177	-	18,177
Interest-bearing liabilities	-	3,311,288	3,311,288
Accrued expenses and other creditors	-	1,502,044	1,502,044
At 31 December 2019	9,668,212	4,813,332	14,481,544

43 Financial instruments (continued)

(a) Financial instruments by category (continued)

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

2019

	Company			
	Financial assets at fair value through profit or loss $'000	*Financial assets at fair value through other comprehensive income* $'000	*Financial assets at amortised costs* $'000	*Total* $'000
Financial assets				
Pledged deposits	-	-	10,000	10,000
Policy loans	-	-	475,690	475,690
Loans to agents	-	-	23,741	23,741
Other financial assets	3,127,082	36,326,388	-	39,453,470
Investments related to unit-linked contracts	9,434,604	-	60,626	9,495,230
Derivative financial instruments	1,308,802	-	-	1,308,802
Prepayments, deposits and other debtors	-	-	1,181,413	1,181,413
Cash and cash equivalents	-	-	6,147,400	6,147,400
At 31 December 2019	13,870,488	36,326,388	7,898,870	58,095,746

	Company		
	Financial liabilities at fair value through profit or loss $'000	*Financial liabilities at amortised cost* $'000	*Total* $'000
Financial liabilities			
Investment contract liabilities	5,166	-	5,166
Liabilities related to unit-linked contracts	9,644,869	-	9,644,869
Derivative financial instruments	18,177	-	18,177
Amount due to a subsidiary	-	1,938,423	1,938,423
Interest-bearing liabilities	-	1,373,702	1,373,702
Accrued expenses and other creditors	-	1,487,148	1,487,148
At 31 December 2019	9,668,212	4,799,273	14,467,485

43 Financial instruments (continued)

(a) Financial instruments by category (continued)

2018

	Group			
Financial assets	*Financial assets at fair value through profit or loss* $'000	*Available-for-sale financial assets* $'000	*Loans and receivables* $'000	*Total* $'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
Policy loans	-	-	458,421	458,421
Loans to agents	-	-	67,770	67,770
Other loan	-	-	122	122
Available-for-sale financial assets	-	31,668,019	-	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	9,157,618	31,668,019	6,049,186	46,874,823

	Group		
Financial liabilities	*Financial liabilities at fair value through profit or loss* $'000	*Financial liabilities at amortised cost* $'000	*Total* $'000
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

43 Financial instruments (continued)

(a) Financial instruments by category (continued)

2018

	Company			
Financial assets	*Financial assets at fair value through profit or loss* $'000	*Available-for-sale financial assets* $'000	*Loans and receivables* $'000	*Total* $'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
Policy loans	-	-	458,421	458,421
Loans to agents	-	-	67,770	67,770
Other loan	-	-	122	122
Available-for-sale financial assets	-	31,668,019	-	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	-	-	2,210,343	2,210,343
At 31 December 2018	9,157,618	31,668,019	6,044,252	46,869,889

	Company		
Financial liabilities	*Financial liabilities at fair value through profit or loss* $'000	*Financial liabilities at amortised cost* $'000	*Total* $'000
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
Amount due to a subsidiary	-	1,949,009	1,949,009
Interest-bearing liabilities	-	1,137,120	1,137,120
Accrued expenses and other creditors	-	647,506	647,506
At 31 December 2018	8,598,119	3,733,635	12,331,754

43 Financial instruments (continued)

(b) Financial instruments measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the balance sheet 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:

	Group and Company			
	Total	*Level 1*	*Level 2*	*Level 3*
2019	$'000	$'000	$'000	$'000
Assets				
Other financial assets:				
- Bonds	34,265,918	24,787,457	9,478,461	-
- Equities	2,618,391	2,119,212	-	499,179
- Interests in investment funds	2,569,161	2,569,161	-	-
Investments related to unit-linked contracts	9,434,604	9,434,604	-	-
Derivative financial instruments:				-
- Cross currency swap agreements	112	-	112	-
- Forward starting swap agreements	1,009,836	-	1,009,836	-
- Put option	298,854	-	-	298,854
At 31 December 2019	50,196,876	38,910,434	10,488,409	798,033
Liabilities				
				-
Investment contract liabilities	5,166	-	5,166	-
Liabilities related to unit-linked contracts	9,644,869	-	9,644,869	
Derivative financial instruments:				
- Cross currency swap agreements	18,177	-	18,177	-
- Forward exchange agreements	-	-	-	-
At 31 December 2019	9,668,212	-	9,668,212	-

43 Financial instruments (continued)

(b) Financial instruments measured at fair value (continued)

	Group and Company			
	Total $'000	*Level 1* $'000	*Level 2* $'000	*Level 3* $'000
2018				
Assets				
Available-for-sale 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	-

As at 31 December 2019, bonds with a market value of $Nil (2018: $698,622,000) and $917,849 (2018: $ Nil) included in FVOCI (recycling) financial assets (2018: 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 (2018: $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 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 balance sheet 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 balance sheet date, with potential adjustment made for various collateralisation agreement.

43 Financial instruments (continued)

(b) Financial instruments measured at fair value (continued)

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 balance sheet 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

(i) Investments in partnerships in private equity funds

Fair value of investments in partnerships in private equity funds (the "Partnerships") 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. 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 2019	
	Valuation technique	*Significant unobservable inputs*	*Change in variables*	*Increase/ (decrease) in profit or loss* $'000	*Increase/ (decrease) in equity* $'000
Financial assets (FVPL):					
– Unlisted equities	Adjusted net asset value	Discount for lack of marketability/ restricted redemptions	+10%	49,918	-
			-10%	(49,918)	-
- Put option	Monte Carlo simulation model	Drift rate	+8%	(37,250)	(37,250)
			-8%	37,250	37,250
		Discount for lack of marketability	+10%	(33,961)	(33,961)
			-10%	33,961	33,961

				31 December 2018	
	Valuation technique	*Significant unobservable inputs*	*Change in variables*	*Increase/ (decrease) in profit or loss* $'000	*Increase/ (decrease) in equity* $'000
Available-for-sale financial assets:					
– Unlisted equities	Adjusted net asset value	Discount for lack of marketability/ restricted redemptions	+10%	-	61,671
			-10%	-	(61,671)

43 Financial instruments (continued)

(b) Financial instruments measured at fair value (continued)

Information about Level 3 fair value measurements (continued)

(ii) Put option

Fair value of the put option is estimated by an independent valuation consultant. Valuation techniques used involve the use of current market based or independently sourced market parameters, such as interest rates, currency rates and option volatilities. Fair value measurement of the underlying investments is negatively correlated with the put option valuation. Transaction price is used as the best estimate of fair value at inception unless no net investment is required at inception.

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

	2019 $'000	*2018* $'000
Other financial assets – Unlisted equities (FVPL) (2018: Available-for-sale financial assets)		
At 1 January	422,596	395,423
Purchases	71,056	-
Total unrealised gains recognised in other comprehensive income during the year (Note)	5,527	27,173
At 31 December	499,179	422,596
Total gains or losses for the year included in the profit or loss for assets held at the reporting date	15,398	10,341
Other financial assets – Unlisted equities (FVOCI) (2018: Available-for-sale financial assets)		
At 1 January	194,116	159,270
Purchases	12,955	35,702
Sales	(227,994)	(18,954)
Total realised gains recognised in other comprehensive income during the year	41,222	5,015
Total unrealised gains recognised in other comprehensive income during the year	(20,299)	13,083
At 31 December	-	194,116
Total gains or losses for the year included in the profit or loss for assets held at the reporting date	2,383	2,840

Note: An unlisted equity is eligible for designation for the overlay approach as at 1 January 2019. Any changes in the fair value of this financial asset are reclassified from profit or loss to other comprehensive income.

43 Financial instruments (continued)

(b) Financial instruments measured at fair value (continued)

Information about Level 3 fair value measurements (continued)

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

	2019 *$'000*	*2018* *$'000*
Derivative financial instrument – Put option		
At 1 January	-	-
Capital injection (note 30)	283,014	-
Total unrealised gains recognised in the profit or loss during the year	15,840	-
At 31 December	298,854	-

44 Contingent liabilities

As at 31 December 2019, the Group and the Company had no material contingent liabilities and contingencies arising from the ordinary course of the Group's long term insurance business (2018: $Nil).

45 Lease arrangements

(a) As lessor

As at 31 December 2019, the Group and the Company did not enter into any lease arrangement as a lessor (2018: $Nil).

(b) As lessee

The Group and the Company leases certain of its office properties under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using modified retrospective approach at 1 January 2019. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2.2(ii)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.2(ii), and the details regarding the Group's future lease payments are disclosed in note 35.

45 Lease arrangements (continued)

(b) As lessee (continued)

At 31 December 2018, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group and Company *2018* $'000
Within one year	130,169
In the second to fifth years, inclusive	255,193
After five years	222,396
	607,758

46 Commitments

In addition to the operating lease commitments detailed in note 45(b) above, the Group and the Company had the following capital commitments as at the balance sheet date:

	Group and Company	
	2019 $'000	*2018* $'000
Contracted, but not provided for, in respect of		
- several ongoing projects	12,601	19,122
- property, plant and machinery	138,491	-
- capital contribution of investment funds	209,065	-
	360,157	19,122

The Group was committed at 31 December 2019 to enter into a lease of 5 years and 3 months that is not yet commenced, the lease payments under which accounted to $25,704,000 per annum.

47 Material related party transactions

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

	Note	Group 2019 $'000	Group 2018 $'000
NWD Group:			
Interest income from two bonds acquired after the change of ownership	(i)	1,292	-
Interest income from bond acquired after the change of ownership	(ii)	201	-
Bonds acquired	(ii)	1,502,250	-
Other expenses	(iii)	3,017	-
JD Group:			
Loan due from JD Group	(iv)	-	1,644,552
Interest income from JD Group	(iv)	59,975	70,338
Jiuzhou:			
Bonds issued by Jiuzhou	(v)	-	362,056
Interest income from bonds issued by Jiuzhou	(v)	125,997	150,078
Kunwu Jiuding Capital Holdings Co., Ltd. ("JD Capital"):			
Investment funds managed by JD Capital	(vi)	-	152,175
Realised gain from sale of investment funds managed by JD Capital	(vi)	44,320	5,015
JD International Advisors Limited ("JD International"):			
Investment fund with JD International as adviser to general partner	(vi)	-	41,941
Dividend from investment fund with JD International as adviser to general partner	(vi)	2,383	2,840
Realised loss from sale of investment funds managed by JD International	(vi)	3,099	-
Kind Luck Wealth Management Limited ("Kind Luck"):			
Commission expense paid to Kind Luck	(vii)	3,299	38,616
Commission payable to Kind Luck	(vii)	-	1,229
Sub-lease rental earned from Kind Luck	(vii)	-	1,004

47 Material related party transactions (continued)

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

	Note	*Company* 2019 $'000	2018 $'000
NWD Group:			
Interest income from two bonds acquired after the change of ownership	(i)	1,292	-
Interest income from bond acquired after the change of ownership	(ii)	201	-
Bonds acquired	(ii)	1,502,250	-
Other expenses	(iii)	3,017	-
JD Group:			
Loan due from JD Group	(iv)	-	1,644,552
Interest income from JD Group	(iv)	59,975	70,338
Jiuzhou:			
Bonds issued by Jiuzhou	(v)	-	362,056
Interest income from bonds issued by Jiuzhou	(v)	125,997	150,078
JD Capital:			
Investment funds managed by JD Capital	(vi)	-	152,175
Realised gain from sale of investment funds managed by JD Capital	(vi)	44,320	5,015
JD International:			
Investment fund with JD International as adviser to general partner	(vi)	-	41,941
Dividend from investment fund with JD International as adviser to general partner	(vi)	2,383	2,840
Realised loss from sale of investment funds managed by JD International	(vi)	3,099	-
Kind Luck:			
Commission expense paid to Kind Luck	(vii)	3,299	38,616
Commission payable to Kind Luck	(vii)	-	1,229
Sub-lease rental earned from Kind Luck	(vii)	-	1,004
FTL Capital Limited:			
Loan due to FTL Capital Limited	(viii)	1,962,678	1,949,009
Interest expense to FTL Capital Limited	(viii)	83,713	83,735

47 Material related party transactions (continued)

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

Notes:

(i) The Company held two bonds issued by its fellow subsidiaries under NWD Group. These bonds were subscribed for before the change of ownership and remained in the Company's investment portfolio subsequent to the change. The Company has disposed of its holdings in both bonds before year end. The interest income derived from the 2 bonds during the period from the date of change till disposal was HK$1,292,000.

(ii) During the year, the Company subscribed for a bond issued by a wholly-owned subsidiary of NWD for HK$1,502,250,000. As at 31 December 2019, its fair value amounted to HK$1,501,725,000. Interest income of HK$201,000 was derived from the bond during the year.

(iii) The Company mainly purchased goods from and obtained convention and exhibition facilities provided by the fellow subsidiaries within NWD Group.

(iv) In 2013, the Company signed a loan agreement (the "Loan Agreement II") with AII. Pursuant to the Loan Agreement II, the 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 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 with accrued interest were settled upon the disposal of the Group by BVI in November 2019.

(v) 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 Company. Jiuzhou is a fellow subsidiary to the Group.

The bonds with accrued interest were sold upon the disposal of the Group by BVI in November 2019.

(vi) During 2017, the 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 was a former fellow subsidiary to the 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.

47 Material related party transactions (continued)

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

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

In March 2018, the 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 on November 2018. A security deposit was returned to Kind Luck upon termination of the sub-leasing agreement.

In June 2019, Kind Luck was sold to third party.

(viii) On 26 April 2013, a loan of US$250,000,000 was obtained from FTL Capital Limited, a subsidiary to the Company. The loan is unsecured, interest-bearing at 4.125% per annum and repayable on 25 April 2023.

Interest is payable semi-annually in arrears on 25 April and 25 October in each year. As at 31 December 2019, the interest accrued amounted to HK$15,503,000 (2018: HK$15,587,000).

(b) The Group and Company have 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 22 to the consolidated financial statements. The Group and Company have also provided advances to agents which are interest-free, details of these advances are included in note 27 to the consolidated financial statements.

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

	2019	*2018*
	$'000	$'000
Short term employee benefits	43,497	26,769
Post-employment benefits	2,033	1,382
Total compensation paid to key management personnel	45,530	28,151

Further details of directors' emoluments are included in note 13 to the consolidated financial statements.

48 Interests in structured entities

There are interests in investment funds included in financial assets and investments related to unit-linked contracts (see notes 24 and 25), 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 Group and the Company with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated equity price risk (see note 29(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 Group and the Company 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 24 and 25).

There are also some investments in the Partnerships. The Group and the Company 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 2019, the outstanding capital commitment to invest in these Partnerships amounted to US$26,842,000 (2018: US$37,842,000), which are for two new partnerships confirmed as at that date. The maximum exposure to loss is the carrying amount of these investments (see note 43(b)).

49 Event after the reporting period

In the first quarter of 2020, the Hong Kong market is facing uncertain impact of the COVID-19 virus. The Group is closely monitoring the development of the outbreak. There has been no significant disruption in the Group's business up to the date of issue of these financial statements.

Notes to financial statements - Unaudited
(Expressed in Hong Kong dollars unless otherwise indicated)

Year ended 31 December 2019

	Consolidated Income Statement in Conformity with Schedule 3 of the Insurance Ordinance $'000	Consolidated Revenue Account: Life and Annuity Business $'000	Linked Long Term Business $'000	Retirement Scheme Management Category I Business $'000	Retirement Scheme Management Category II Business $'000	Retirement Scheme Management Category III Business $'000	Total $'000
Continuing operations							
Income							
Gross premiums	-	7,532,105	200,427	-	-	3,525	7,736,057
Less: Reinsurance premiums	-	(287,436)	(2,624)	-	-	(2,330)	(292,390)
Premiums, net of reinsurance	-	7,244,669	197,803	-	-	1,195	7,443,667
Interest income	228,259	1,417,660	-	-	-	-	1,645,919
Dividend and other investment income	2,739	59,852	-	-	-	-	62,591
Realised and unrealised capital gains on investments	7,368	286,181	-	-	-	-	293,549
Overlay approach adjustment	-	(253,350)	-	-	-	-	(253,350)
Other realised and unrealised (losses)/gains	9,549	(51,017)	573	-	-	1	(40,894)
Fee and commission income	8,755	19,020	618,162	-	-	-	645,937
Gains related to investments for unit-linked contracts	-	-	1,299,907	-	-	-	1,299,907
Other income	3,820	1,424	-	-	-	-	5,244
Total income	260,490	8,724,439	2,116,445	-	-	1,196	11,102,570
Expenses							
Claims and benefits, net of reinsurance	-	(5,961,689)	(239,432)	-	-	(2,051)	(6,203,172)
Charges related to unit-linked contracts	-	-	(1,322,399)	-	-	-	(1,322,399)
Agency commission and allowances	-	(1,958,235)	(103,996)	-	-	(57)	(2,062,288)
Change in deferred acquisition costs	-	749,603	(74,241)	-	-	-	675,362
Change in impairment	(1,561)	(45,119)	-	-	-	-	(46,680)
Operating and administrative expenses	(6,950)	(668,824)	(205,080)	-	-	(11)	(880,865)
Finance cost	(83,449)	(44,962)	(19,822)	-	-	-	(148,233)
Total expenses	(91,960)	(7,929,226)	(1,964,970)	-	-	(2,119)	(9,988,275)
Profit before tax	168,530	795,213	151,475	-	-	(923)	1,114,295
Tax	(67,968)	-	-	-	-	-	(67,968)
Profit for the year attributable to equity holders	100,562	795,213	151,475	-	-	(923)	1,046,327

Notes to financial statements - Unaudited (continued)
(Expressed in Hong Kong dollars unless otherwise indicated)

Year ended 31 December 2018

		Consolidated Revenue Account					
	Consolidated Income Statement in Conformity with Schedule 3 of the Insurance Ordinance $'000	*Life and Annuity Business* $'000	*Linked Long Term Business* $'000	*Retirement Scheme Management Category I Business* $'000	*Retirement Scheme Management Category II Business* $'000	*Retirement Scheme Management Category III Business* $'000	*Total* $'000
Continuing operations							
Income							
Gross premiums	-	5,990,554	198,324	-	-	2,541	6,191,419
Less: Reinsurance premiums	-	(250,761)	(2,084)	-	-	(1,335)	(254,180)
Premiums, net of reinsurance	-	5,739,793	196,240	-	-	1,206	5,937,239
Interest income	241,018	1,259,113	-	-	-	-	1,500,131
Dividend and other investment income	39,040	39,384	-	-	-	-	78,424
Realised and unrealised capital gains/(losses) on investments	(41,380)	379,980	-	-	-	-	338,600
Other realised and unrealised (losses)/gains	(10,211)	(20,355)	339	-	-	-	(30,227)
Fee and commission income	8,223	40,754	614,262	-	-	(391)	662,848
Losses related to investments for unit-linked contracts	-	-	(903,059)	-	-	-	(903,059)
Other income	5,101	4,295	-	-	-	-	9,396
Total income	241,791	7,442,964	(92,218)	-	-	815	7,593,352
Expenses							
Claims and benefits, net of reinsurance	-	(4,836,181)	(265,949)	-	-	(1,442)	(5,103,572)
Charges related to unit-linked contracts	-	-	894,942	-	-	-	894,942
Agency commission and allowances	-	(1,627,120)	(114,220)	-	-	(56)	(1,741,396)
Change in deferred acquisition costs	-	579,018	24,023	-	-	-	603,041
Change in impairment	(25,654)	(119,953)	-	-	-	-	(145,607)
Operating and administrative expenses	(7,503)	(569,390)	(192,354)	-	-	(10)	(769,257)
Finance cost	(83,360)	(20,701)	(21,972)	-	-	-	(126,033)
Total expenses	(116,517)	(6,594,327)	324,470	-	-	(1,508)	(6,387,882)
Profit before tax	125,274	848,637	232,252	-	-	(693)	1,205,470
Tax	(55,187)	-	-	-	-	-	(55,187)
Profit for the year attributable to equity holders	70,087	848,637	232,252	-	-	(693)	1,150,283