FTLife Insurance Company Limited

(Incorporated in Bermuda with limited liability)

Report of the Directors and
Audited Financial Statements
31 December 2018

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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 2018.

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 is located at 28th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

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.

In December 2018, the immediate holding company of the Company, Bright Victory International Limited entered into an agreement to sell the Company and its subsidiaries to NWS Holdings Limited ("NWS"). According to the joint announcement issued by New World Development Company Limited and NWS on 27 December 2018, the acquisition constituted a major transaction to NWS under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is subject to the approval of the shareholders of NWS and the relevant regulators.

Results and dividends

The Group's profit for the year ended 31 December 2018 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 107.

No interim dividend was paid during the year in respect of all ordinary shares to the sole shareholder (2017: US$Nil). The directors do not recommend the payment of a final dividend (2017: US$Nil) for the year in respect of all ordinary shares issued to the sole shareholder.

The directors also do not recommend the payment of a final dividend (2017: 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"), an intermediate holding company to 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, insofar as JD Group remains a controller 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 43 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 44(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$48,000 (2017: HK$127,000).

Directors

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

Executive Director:

YANG Gerard Tak Ho

Non-Executive Directors:

QIN Zhengyu
FANG Lin
Cyril Hamilton WHITTER

Independent Non-Executive Directors:

Stuart Hamilton LECKIE
CHAN Ka Lok

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 49 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,

15 MAR 2019

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 107, which comprise the consolidated and company balance sheets as at 31 December 2018, 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 2018 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 the 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.

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

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)

- 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

15 MAR 2019

Consolidated statement of comprehensive income for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	*2018* $'000	*2017* $'000
Income			
Gross premiums		6,191,419	4,807,699
Less: Reinsurance premiums		(254,180)	(270,170)
Premiums, net of reinsurance	4	5,937,239	4,537,529
Interest income	5	1,500,131	1,298,797
Dividend and other investment income	6	78,424	53,133
Realised capital gains/(losses) on investments	7	338,600	65,579
Other realised and unrealised (losses)/gains		(30,227)	46,278
Fee and commission income	8	662,848	684,458
(Losses)/gains related to investments for unit-linked contracts		(903,059)	1,744,441
Other income		9,396	7,205
Total income		7,593,352	8,437,420
Expenses			
Claims and benefits, net of reinsurance	9	(5,103,572)	(4,000,869)
Charges related to unit-linked contracts		894,942	(1,725,872)
Agency commission and allowances		(1,741,396)	(1,281,089)
Change in deferred acquisition costs	19	603,041	464,389
Change in impairment	10	(145,607)	(17,414)
Operating and administrative expenses		(769,257)	(715,181)
Finance costs	11	(126,033)	(122,168)
Total expenses		(6,387,882)	(7,398,204)

Consolidated statement of comprehensive income for the year ended 31 December 2018 (continued)

(Expressed in Hong Kong dollars)

	Note	*2018* $'000	*2017* $'000
Profit before tax	12	1,205,470	1,039,216
Tax	14	(55,187)	(42,817)
Profit for the year attributable to equity holders	15	1,150,283	996,399
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	(250,066)	111,459
- Available-for-sale financial assets: net movement in the available-for-sale investment revaluation reserve, before and after taxation	24	(3,165,563)	1,526,890
Other comprehensive income for the year		(3,415,629)	1,638,349
Total comprehensive income for the year attributable to equity holders		(2,265,346)	2,634,748

The notes on pages 18 to 107 form part of these financial statements.

Consolidated balance sheet at 31 December 2018

(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Assets			
Property, plant and equipment	16	126,236	55,234
Intangible assets	17	62,230	46,499
Deferred acquisition costs	19	4,851,730	4,248,689
Amounts due from intermediate holding companies	36	1,851,776	1,778,027
Amount due from the immediate holding company	37	27,396	27,396
Amounts due from fellow subsidiaries	35	9,288	9,602
Pledged deposits	28	10,000	10,000
Financial assets	20	32,194,332	31,769,048
Investments related to unit-linked contracts	25	8,446,744	9,509,665
Derivative financial instruments	30	738,879	992,791
Premiums receivables	26	237,656	192,410
Prepayments, deposits and other debtors	27	1,381,131	1,361,915
Cash and cash equivalents	28	2,215,277	2,433,839
Total assets		52,152,675	52,435,115
Liabilities			
Insurance contract liabilities	39	25,673,988	22,466,096
Investment contract liabilities	41	5,493	5,372
Liabilities related to unit-linked contracts	42	8,583,343	9,636,651
Derivative financial instruments	30	9,283	13,000
Interest-bearing liabilities	38	3,082,655	3,402,170
Payables to policyholders	31	1,331,921	1,209,975
Accrued expenses and other creditors	34	662,468	649,164
Tax payable		29,617	13,434
Total liabilities		39,378,768	37,395,862

Consolidated balance sheet
at 31 December 2018 (continued)
(Expressed in Hong Kong dollars)

	Note	*2018* $'000	*2017* $'000
Equity			
Issued capital	43	4,085,700	4,085,700
Reserves	44	8,688,207	10,953,553
Total equity attributable to equity holders		12,773,907	15,039,253
Total liabilities and equity		52,152,675	52,435,115

Approved and authorised for issue by the board of directors on 15 MAR 2019

) Directors

The notes on pages 18 to 107 form part of these financial statements.

Balance sheet at 31 December 2018

(Expressed in Hong Kong dollars)

	Note	*2018* $'000	*2017* $'000
Assets			
Property, plant and equipment	16	126,236	55,234
Intangible assets	17	62,230	46,499
Deferred acquisition costs	19	4,851,730	4,248,689
Interests in subsidiaries	18	650	666
Amounts due from intermediate holding companies	36	1,851,776	1,778,027
Amount due from the immediate holding company	37	27,396	27,396
Amounts due from fellow subsidiaries	35	9,288	9,602
Pledged deposits	28	10,000	10,000
Financial assets	20	32,194,332	31,769,048
Investments related to unit-linked contracts	25	8,446,744	9,509,665
Derivative financial instruments	30	738,879	992,791
Premiums receivables	26	237,656	192,410
Prepayments, deposits and other debtors	27	1,381,131	1,361,915
Cash and cash equivalents	28	2,210,343	2,431,620
Total assets		52,148,391	52,433,562
Liabilities			
Insurance contract liabilities	39	25,673,988	22,466,096
Investment contract liabilities	41	5,493	5,372
Liabilities related to unit-linked contracts	42	8,583,343	9,636,651
Derivative financial instruments	30	9,283	13,000
Amount due to a subsidiary	18	1,949,009	1,945,409
Interest-bearing liabilities	38	1,137,120	1,462,747
Payables to policyholders	31	1,331,921	1,209,975
Accrued expenses and other creditors	34	647,506	634,164
Tax payable		29,617	13,434
Total liabilities		39,367,280	37,386,848

Balance sheet at 31 December 2018 (continued)

(Expressed in Hong Kong dollars)

	Note	*2018* $'000	*2017* $'000
Equity			
Issued capital	43	4,085,700	4,085,700
Reserves	44	8,695,411	10,961,014
Total equity attributable to equity holders		12,781,111	15,046,714
Total liabilities and equity		52,148,391	52,433,562

Approved and authorised for issue by the board of directors on 15 MAR 2019

) Directors

The notes on pages 18 to 107 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Issued share capital $'000	Share premium account $'000	Contributed surplus $'000	Share option reserve $'000	Hedging reserve $'000	Available-for-sale investment revaluation reserve $'000	Retained profits $'000	Total equity attributable to equity holders $'000
At 1 January 2017	2,585,700	1,862,664	1,011,121	20,615	893,199	1,400,766	3,130,440	10,904,505
Changes in equity for 2017:								
Issuance of ordinary shares (note 43)	1,500,000	-	-	-	-	-	-	1,500,000
Profit for the year	-	-	-	-	-	-	996,399	996,399
Other comprehensive income for the year	-	-	-	-	111,459	1,526,890	-	1,638,349
Total comprehensive income for the year	-	-	-	-	111,459	1,526,890	996,399	2,634,748
At 31 December 2017 and 1 January 2018	4,085,700	1,862,664*	1,011,121*	20,615*	1,004,658*	2,927,656*	4,126,839*	15,039,253
Changes in equity for 2018:								
Profit for the year	-	-	-	-	-	-	1,150,283	1,150,283
Other comprehensive income	-	-	-	-	(250,066)	(3,165,563)	-	(3,415,629)
Total comprehensive income for the year	-	-	-	-	(250,066)	(3,165,563)	1,150,283	(2,265,346)
At 31 December 2018	4,085,700	1,862,664*	1,011,121*	20,615*	754,592*	(237,907)*	5,277,122*	12,773,907

* These reserve amounts comprised the consolidated reserves of $8,688,207,000 (2017: $10,953,553,000) in the consolidated balance sheet.

The notes on pages 18 to 107 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	*2018* $'000	*2017* $'000
Cash flows from operating activities			
Profit before tax		1,205,470	1,039,216
Adjustments for:			
Finance costs	11	126,033	122,168
Depreciation of property, plant and equipment	16	22,633	21,476
Amortisation of intangible assets	17	26,548	26,118
Loss on disposal of property, plant and equipment		9,511	2,149
Interest income from policy loans and loans to agents and other loan	5	(40,528)	(41,545)
Interest income from bonds, deposits and cash and cash equivalents	5	(1,389,265)	(1,187,320)
Interest income from loan to an intermediate holding company	5	(70,338)	(69,932)
Dividend income from listed and unlisted investments	6	(78,209)	(53,137)
Dividend income related to investments for unit-linked contracts		(10,529)	(12,151)
Net realised and unrealised capital losses/(gains) on financial assets at fair value through profit or loss related to investments from unit-linked contracts		913,588	(1,732,290)
Fair value gains:			
Available-for-sale financial assets (reclassified from other comprehensive income)	24	(338,600)	(65,579)
Impairment loss on loans to agents	10	24,171	18,559
Impairment loss on premiums receivables	10	3,323	3,731
Impairment loss on available-for-sale financial assets	10	123,812	3,650
Reversal of impairment loss on loans to agents	10	(5,001)	(8,526)
Recovery on other receivables	10	(698)	-
Operating cash flows before changes in working capital		521,921	(1,933,413)

Consolidated cash flow statement for the year ended 31 December 2018 (continued)

(Expressed in Hong Kong dollars)

	Note	*2018* $'000	*2017* $'000
Cash flows from operating activities (continued)			
Increase in policy loans		(11,977)	(366)
(Increase)/decrease in loans to agents and other loan		(61,654)	24,086
Decrease/(increase) in amounts due from fellow subsidiaries		314	(809)
Increase in amounts due from intermediate holding companies		(3,392)	(18,467)
Increase in amount due from the immediate holding company		-	(2,578)
Increase in deferred acquisition costs		(603,041)	(464,389)
Increase in premiums receivables		(48,569)	(53,388)
Decrease in prepayments, deposits and other debtors		88,289	66,870
Purchases of available-for-sale financial assets		(9,658,922)	(7,919,391)
Proceeds from disposal of available-for-sale financial assets		6,337,453	2,074,207
Purchases of financial assets at fair value through profit or loss		(4,833,567)	(7,107,961)
Proceeds from disposal of financial assets at fair value through profit or loss		4,963,349	7,351,042
Increase in payables to policyholders		121,946	287,550
Increase in accrued expenses and other creditors		24,363	48,659
Increase/(decrease) in investment contract liabilities		121	(96)
Increase in insurance contract liabilities		2,936,907	2,440,542
Increase in policyholders' dividends and bonuses		270,985	300,150
(Decrease)/increase in liabilities related to unit-linked contracts		(1,053,308)	1,493,231
Cash used in operations		(1,008,782)	(3,414,521)

Consolidated cash flow statement for the year ended 31 December 2018 (continued)

(Expressed in Hong Kong dollars)

	Note	2018 $'000	2017 $'000
Cash flows from operating activities (continued)			
Interest received from policy loans, loans to agents and other loan		40,528	41,545
Interest received from bonds, deposits and cash and cash equivalents		1,265,647	1,005,845
Interest paid on cross-currency swap agreements		(165,804)	(195,328)
Interest received from cross-currency swap agreements		157,340	185,098
Dividends received from listed and unlisted investments and investments related to unit-linked contracts		93,993	57,214
Interest paid on cash collateral received for cross-currency swap agreements and forward starting swap agreements		(11,786)	(9,769)
Interest paid on interest-bearing liabilities		(77,221)	(64,962)
Hong Kong profits tax paid		(39,004)	(55,426)
Net cash inflow/(outflow) from operating activities		254,911	(2,450,304)
Cash flows from investing activities			
Purchases of property, plant and equipment	16	(103,154)	(15,461)
Proceeds from disposal of property, plant and equipment		8	-
Purchases of intangible assets	17	(42,279)	(38,774)
(Decrease)/increase in cash collateral received from counterparties	30	(258,814)	81,028
Net cash (outflow)/inflow from investing activities		(404,239)	26,793

Consolidated cash flow statement for the year ended 31 December 2018 (continued)

(Expressed in Hong Kong dollars)

	Note	*2018* $'000	*2017* $'000
Cash flows from financing activities			
Issuance of share capital	43	-	1,500,000
Repayment of financing under a financial reinsurance arrangement	28(b)	(88,785)	(79,708)
Net cash (outflow)/inflow from financing activities		(88,785)	1,420,292
Net decrease in cash and cash equivalents		(238,113)	(1,003,219)
Cash and cash equivalents at beginning of year		2,481,395	3,484,614
Cash and cash equivalents at end of year		2,243,282	2,481,395
Analysis of balances of cash and cash equivalents			
Cash and bank balances	28(a)	1,535,717	1,370,299
Non-pledged time deposits with original maturity of less than three months	28(a)	679,560	1,063,540
		2,215,277	2,433,839
Cash and cash equivalents attributable to investments related to unit-linked contracts	25	28,005	47,556
		2,243,282	2,481,395

The notes on pages 18 to 107 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 is located at 28th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

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 Bright Victory International Limited ("BVI") which is incorporated in the British Virgin Islands, and the Company's ultimate holding company is Tongchuang Jiuding Investment Holding Co. Ltd, a company incorporated in the People's Republic of China.

In December 2018, BVI entered into an agreement to sell the Company and its subsidiaries to NWS Holdings Limited ("NWS"). According to the joint announcement issued by New World Development Company Limited and NWS on 27 December 2018, the acquisition constituted a major transaction to NWS under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is subject to the approval of the shareholders of NWS and the relevant regulators.

2.1 Basis of preparation

These financial statements have been prepared in accordance with 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 available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss 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 2018. 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 number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

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

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

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

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

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

In January 2017, HKICPA issued Amendments to HKFRS 4, *Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts*, which provides two alternative measures to address the different effective dates of HKFRS 9 and the new insurance contracts standard HKFRS 17. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of HKFRS 9 until the earlier of the effective date of HKFRS 17 and the financial reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before HKFRS 17 is applied. The Group has elected to apply the temporary option to defer the effective date of HKFRS 9 since it satisfies the following criteria:

- The Group has not previously applied any versions of HKFRS 9; and
- The Group's activities are predominantly connected with insurance at the annual reporting date that immediately precedes 1 April 2016, i.e. 31 December 2015, based on eligibility assessment that the carrying amount of liabilities arising from contracts within the scope of HKFRS 4 is less than 90% but the total carrying amount of liabilities connected with insurance (including investment contract liabilities, liabilities related to unit-linked contracts, liabilities arising from derivative financial instruments, interest-bearing liabilities, payables to policyholders and tax payable) is greater than 90% of the total carrying amount of all its liabilities.

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)

After the date of eligibility assessment (i.e. 31 December 2015), there has been no change in the Group's activities that requires the Group to reassess whether its activities are predominantly connected with insurance.

As at 31 December 2018, the Group has the following two groups of financial assets:

(a) financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. SPPI in accordance with HKFRS 9) and are not held for trading or managed on fair value basis, which consist of cash and cash equivalents, prepayments, deposits and other debtors, pledged deposits, amount due from related parties, policy loans, loans to agents and bonds; and

(b) all financial assets other than those specified in (a), which consist of derivative financial instruments, equities and interests in investment funds.

The following table shows the fair value and changes in fair value of these two groups of financial assets.

	Group	
	As at 31 December 2018	*For the year ended 31 December 2018*
	Fair value	*Change in fair value*
	$'000	$'000
Financial assets that met SPPI criteria and not held for trading or managed on fair value basis	32,753,908	(3,561,746)
Other	13,083,107	(1,510,291)
Total	45,837,015	(5,072,037)

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 table below shows, by credit risk exposure, the gross carrying amounts applying HKAS 39 for financial assets that met SPPI criteria and are not held for trading or managed on fair value basis.

	Group *As at* *31 December* *2018* $'000
Investment grade	28,208,098
Non-investment grade	5,663,779
Unit-linked	54,071
Total	33,925,948

As at 31 December 2018, the fair value of financial assets that do not have low credit risk was $4,491,739,000.

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

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

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

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

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

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

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

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

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

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

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

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

B. Significant financing component

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

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

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

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

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

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

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

2.3 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
HKFRS 17, *Insurance contracts*	1 January 2021

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts 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 in the Group's consolidated financial statements for the year ended 31 December 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in those consolidated financial statements.

2.3 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (continued)

HKFRS 16, *Leases*

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

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

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

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

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

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

2.3 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (continued)

HKFRS 16, *Leases* (continued)

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 47(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to $607,758,000 for office properties. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to $618,496,000 and $642,769,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

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

HKFRS 17, *Insurance contracts*

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

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

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

2.4 Summary of significant accounting policies

(a) Subsidiaries

Subsidiaries are entities controlled by the 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 values 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.

(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.

2.4 Summary of significant accounting policies (continued)

(m) Investments and other financial assets

Financial assets within the scope of HKAS 39 are 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 are recognised initially, they are 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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets 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 or financial guarantee contracts. Gains or losses on financial assets 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 dividends on these financial assets, which are recognised in accordance with the policy stated under "Dividend income" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset 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 assets 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 assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2.4 Summary of significant accounting policies (continued)

(m) Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is 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 includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the profit or loss for the year when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised in other comprehensive income and presented within a separate component of equity in the available-for-sale investment revaluation reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the balance sheet at cost less impairment losses. Interest and dividends earned are reported as interest income and dividend income, respectively and are 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 are also recognised in profit or loss. Losses arising from the impairment of such investments are recognised in the profit or loss for the year as "Impairment loss on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve. When the investments are derecognised or impaired, the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/ derecognised on the date the Group commits to purchase/sell the investments or they expire.

2.4 Summary of significant accounting policies (continued)

(m) Investments and other financial assets (continued)

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 balance sheet 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 45 to the consolidated financial statements.

(n) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have 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 is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the profit or loss for the year. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the profit or loss for the year, to the extent that the carrying value of the asset does 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 is made when there is 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 have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 Summary of significant accounting policies (continued)

(n) Impairment of financial assets (continued)

Available-for-sale financial assets

If an available-for-sale asset is 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, is transferred from other comprehensive income to the profit or loss for the year. A provision for impairment is made for an available-for-sale equity investment when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. Impairment losses on equity instruments classified as available for sale are not reversed through the profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

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

(o) Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the 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.

2.4 Summary of significant accounting policies (continued)

(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 45 to the consolidated financial statements.

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.

2.4 Summary of significant accounting policies (continued)

(q) Property, plant and equipment and depreciation

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

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

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

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each 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) Operating lease charges

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

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 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.

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.

2.4 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

(z) Derecognition of financial liabilities

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

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

2.4 Summary of significant accounting policies (continued)

(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.

(ac) Employee benefits

Share-based payments

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

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

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

2.4 Summary of significant accounting policies (continued)

(ac) Employee benefits (continued)

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.

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.

2.4 Summary of significant accounting policies (continued)

(ad) Income tax (continued)

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.

(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.

2.4 Summary of significant accounting policies (continued)

(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;

   (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.

3 Significant accounting judgements and estimates (continued)

(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.

(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.

3 Significant accounting judgements and estimates (continued)

(b) Estimation uncertainty

Life insurance contract liabilities (continued)

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 $23,291,904,000 (2017: $20,401,658,000).

DAC

For new business issued up to 30 April 2007, DAC was carried at cost and amortised on a straight-line basis over 10 years, adjusted for any unfavourable actual experience and any permanent impairment in value determined by reference to margins in the future premium. Since 1 May 2007, the 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.

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.

3 Significant accounting judgements and estimates (continued)

(b) Estimation uncertainty (continued)

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

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

The carrying values at the balance sheet date of financial assets measured at fair value, derivative financial assets and derivative financial liabilities are $40,086,758,000, $738,879,000 and $9,283,000 respectively (2017: $40,759,305,000, $992,791,000 and $13,000 respectively).

Impairment of non-financial assets

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

Impairment of available-for-sale financial assets

The Group classifies certain financial assets as available-for-sale and recognises movements in their fair values in other comprehensive income. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the profit or loss for the year. At 31 December 2018, an impairment loss of $123,812,000 has been recognised against available-for-sale financial assets (2017: $3,650,000), all of which was recognised for equities. The carrying amount of available-for-sale financial assets was $31,668,019,000 (2017: $31,297,196,000).

As at the balance sheet date, for certain bonds issued by a fellow subsidiary and amounts due from intermediate holding companies, management has performed an impairment assessment taking into account the possibility of a successful sale of the Group and the credit risk protection available from its group companies, and has considered any potential impact of identified loss events on estimated future cash flows of these financial assets. Management determined that no impairment loss should be recognised for the current accounting period as there was no objective evidence of a detrimental impact on the estimated future cash flows of these financial assets.

4 Premiums, net of reinsurance

	Group 2018 $'000	2017 $'000
Gross premiums on life insurance contracts:		
Non-linked	5,993,095	4,607,927
Unit-linked	198,324	199,772
	6,191,419	4,807,699
Reinsurers' share of life insurance contracts premiums:		
Non-linked	(252,096)	(268,508)
Unit-linked	(2,084)	(1,662)
	(254,180)	(270,170)
Premiums, net of reinsurance	5,937,239	4,537,529

Further analysis of gross premiums is as follows:

	Group 2018 $'000	2017 $'000
Single premiums	278,606	206,386
First year premiums	1,702,949	1,100,017
Renewal premiums	4,209,864	3,501,296
Gross premiums on life insurance contracts	6,191,419	4,807,699

5 Interest income

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

	Group	
	2018	*2017*
	$'000	$'000
Interest income from listed bonds	1,096,437	893,663
Interest income from unlisted bonds	277,321	283,539
Interest income from deposits and cash and cash equivalents	15,507	10,118
Interest income from policy loans, loans to agents and other loan	40,528	41,545
Interest income from loan to an intermediate holding company (note 49(a))	70,338	69,932
Total interest income	1,500,131	1,298,797

6 Dividend and other investment income

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

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

7 Realised capital gains/(losses) on investments

For the year ended 31 December, realised capital gains/(losses) on investments are broken down as follows:

	Group	
	2018	*2017*
	$'000	$'000
Realised gains on investments:		
Listed available-for-sale financial assets	297,239	38,172
Unlisted available-for-sale financial assets	41,361	27,407
Total realised gains on investments (note 24)	338,600	65,579

8 Fee and commission income

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

	Group	
	2018	*2017*
	$'000	$'000
Reinsurance commission income and refund	15,588	46,722
Fee income on insurance and investment contracts	580,825	574,478
General insurance commission under agency agreements	8,223	8,199
Others	58,212	55,059
Total fee and commission income	662,848	684,458

9 Claims and benefits, net of reinsurance

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

	Group	
	2018	*2017*
	$'000	$'000
Claims	645,040	575,355
Reinsurers' and coinsurers' share of claims	(125,846)	(103,927)
Claims, net of reinsurers' and coinsurers' share	519,194	471,428
Surrenders, annuities and maturities	1,176,366	813,708
Reinsurers' and coinsurers' share	(66,558)	(67,070)
	1,109,808	746,638
Policyholders' dividends and interests	339,745	319,274
Incentives to policyholders	151,647	179,676
Increase in insurance contract liabilities	2,983,178	2,283,853
Total claims and benefits, net of reinsurance	5,103,572	4,000,869

10 Change in impairment

For the year ended 31 December, change in impairment is broken down as follows:

	Group	
	2018	*2017*
	$'000	$'000
Impairment loss on loans to agents (note 22)	24,171	18,559
Impairment loss on premiums receivables (note 26)	3,323	3,731
Impairment loss on available-for-sale financial assets (note 24)	123,812	3,650
Reversal of impairment loss on loans to agents (note 22)	(5,001)	(8,526)
Recovery on other receivables	(698)	-
Total change in impairment	145,607	17,414

As at 31 December 2018, certain of the Group's available-for-sale equities were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market where these investees operated, which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses on these investments were recognised in profit or loss in accordance with the policy set out in note 2.4(n).

11 Finance costs

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

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

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 38 to the consolidated financial statements for information on the financial reinsurance arrangement the Group has entered into.

12 Profit before tax

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

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

Note: 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.

13 Directors' remuneration

Directors' remuneration for the year is as follows:

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: $Nil).

14 Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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% (2017: 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	
	2018	*2017*
	$'000	$'000
Current - Hong Kong		
Provision for the year and total tax charge for the year	55,187	42,817

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

	2018		*2017*	
	$'000	%	$'000	%
Profit before tax	1,205,470		1,039,216	
Tax at the statutory rate	198,903	16.5	171,471	16.5
Tax on 5% of net premiums of life insurance business	54,677	4.6	42,300	4.1
Results of life insurance business and other businesses not taxable at the statutory rate	(198,393)	(16.5)	(170,954)	(16.5)
Tax charge at the Group's effective rate	55,187	4.6	42,817	4.1

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

As at 31 December 2018, there were no significant unrecognised deferred tax liabilities (2017: $Nil) 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 2018 includes a profit of $1,150,026,000 (2017: $996,112,000) which has been dealt with in the financial statements of the Company (note 44(b)).

16 Property, plant and equipment

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

16 Property, plant and equipment (continued)

31 December 2017

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

17 Intangible assets

Group and Company

	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)
	62,230

	Computer software $'000
At 1 January 2017:	
Cost	186,939
Accumulated amortisation	(153,096)
Net carrying amount	33,843
At 1 January 2017, net of accumulated amortisation	33,843
Additions	38,774
Amortisation during the year	(26,118)
Disposal, net of accumulated amortisation	-
At 31 December 2017, net of accumulated amortisation	46,499
At 31 December 2017:	
Cost	220,381
Accumulated amortisation	(173,882)
	46,499

18 Interests in subsidiaries and amount due to a subsidiary

	Company 2018 $'000	2017 $'000
Unlisted shares, at cost	650	650
Amounts due from subsidiaries	-	86
Provision for impairment	-	(70)
	650	666
Amount due to a subsidiary	(1,949,009)	(1,945,409)

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 $1,916,241,000 as at 31 December 2018 (2017: $1,908,891,000) 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 45(b) to the consolidated financial statements.

Except for the above, the amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of the amounts due from/to subsidiaries approximate to their fair values.

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	
	2018	*2017*
	$'000	$'000
At 1 January	4,248,689	3,784,300
Additions:		
New business	1,432,441	1,051,164
Less: Amortisation (note 12)	(829,400)	(586,775)
Change in deferred acquisition costs ("DAC")	603,041	464,389
At 31 December	4,851,730	4,248,689

The maturity profile for DAC is stated as below:

	Group and Company	
	2018	*2017*
	$'000	$'000
To be amortised within one year	715,868	589,383
To be amortised after one year	4,135,862	3,659,306
	4,851,730	4,248,689

A sensitivity analysis for DAC is provided below:

2018

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

2017

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

20 Financial assets

	Note	*Group and Company* *2018* $'000	*2017* $'000
Financials assets:			
Policy loans	21	458,421	446,444
Loans to agents	22	67,770	25,167
Other loan	23	122	241
Available-for-sale financial assets	24	31,668,019	31,297,196
Total financial assets		32,194,332	31,769,048

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. On 20 July 2018, the interest rate of policy loans changed from 9% per annum to 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 *2018* $'000	*2017* $'000
Loans to agents:		
Loans to agents	202,003	140,235
Provision for impairment	(134,233)	(115,068)
Total loans to agents, net of impairment	67,770	25,167

22 Loans to agents (continued)

The movements in provision for impairment of loans to agents are as follows:

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

The above provision is for individually impaired loans related to agents in default or delinquency in repayments.

For those loans to agents that are not considered to be impaired, an ageing analysis is as follows:

	Group and Company	
	2018	*2017*
	$'000	$'000
Not yet past due	58,607	-
Within one month past due	130	3,719
More than one month past due	9,033	21,448
Total loans to agents	67,770	25,167

Loans that were neither past due nor impaired relate to a large number of agents for whom there was no recent history of default. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group and Company	
	2018	*2017*
	$'000	$'000
Within one year	67,770	25,167
After one year	-	-
	67,770	25,167

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	
	2018	2017
	$'000	$'000
Within one year	122	119
After one year	-	122
	122	241

24 Available-for-sale financial assets

	Group and Company	
	2018	2017
	$'000	$'000
Fixed rate bonds, at market value:		
Listed - government bonds	4,421,491	4,266,217
Listed - others	19,876,116	17,804,479
Unlisted - others	3,420,048	4,617,497
	27,717,655	26,688,193
Variable rate bonds, at market value:		
Unlisted - government bonds	24,874	25,773
	24,874	25,773
Total bonds	27,742,529	26,713,966
Equities, at fair value:		
Listed	3,273,942	3,856,525
Unlisted	616,712	554,693
Total equities	3,890,654	4,411,218
Interests in investment funds, at fair value		
Listed	6,792	9,094
Unlisted	28,044	162,918
Total interests in investment funds	34,836	172,012
Total available-for-sale financial assets	31,668,019	31,297,196

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.

24 Available-for-sale financial assets (continued)

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

	Group and Company 2018 $'000	2017 $'000
With a contractual maturity of:		
One year or less	2,205,713	365,018
Two years or less but over one year	1,700,228	819,242
Three years or less but over two years	911,351	1,863,016
Four years or less but over three years	559,136	1,012,940
Five years or less but over four years	654,837	725,402
Over five years	21,711,264	21,928,348
Total bonds	27,742,529	26,713,966

Details for the movements in available-for-sale investment revaluation reserve being recognised in other comprehensive income are as follows:

	Group and Company 2018 $'000	2017 $'000
Unrealised (losses)/gains on available-for-sale financial assets	(2,950,775)	1,588,819
Realised gains included in profit or loss (note 7)	(338,600)	(65,579)
Impairment loss included in profit or loss (note 10)	123,812	3,650
Net movement in available-for-sale investment revaluation reserve during the year recognised in other comprehensive income	(3,165,563)	1,526,890

25 Investments related to unit-linked contracts

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

26 Premiums receivables

	Group and Company 2018 $'000	2017 $'000
Premiums receivables	255,102	206,516
Provision for impairment	(17,446)	(14,106)
Total premiums receivables, net of impairment	237,656	192,410

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

	Group and Company 2018 $'000	2017 $'000
At 1 January	14,106	10,366
Impairment loss recognised (note 10)	3,323	3,731
Exchange realignment	17	9
At 31 December	17,446	14,106

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 2018 $'000	2017 $'000
Prepayments (Note)	327,083	412,849
Accrued interest/dividend income on:		
- bonds	634,601	510,961
- cross currency swap agreements (note 30)	36,472	48,008
- loan due from an intermediate holding company	13,093	13,112
- equities and interests in investment funds	3,075	8,330
- others	111	133
Deposits	59,840	44,398
Reinsurance asset:		
- reinsurers' share of insurance contract liabilities (note 39)	114,375	136,441
- other receivables from reinsurers	117,211	99,293
Other debtors	75,270	88,390
	1,381,131	1,361,915

27 Prepayments, deposits and other debtors (continued)

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

	Group and Company	
	2018	*2017*
	$'000	$'000
Advances to agents and other intermediaries	285,828	395,005
Provision for impairment	-	(11,544)
Total advances to agents and other intermediaries, net of impairment	285,828	383,461

The movement in provision for impairment of advances to agents and other intermediaries is as follows:

	Group and Company	
	2018	*2017*
	$'000	$'000
At 1 January	11,544	11,544
Impairment losses recognised (note 10)	-	-
Written off	(11,544)	-
At 31 December	-	11,544

The above provision for impairment is for individually impaired advances related to agents and other intermediaries in default or delinquency in repayments.

For those advances to agents and other intermediaries that are not considered to be impaired, an ageing analysis is as follows:

	Group and Company	
	2018	*2017*
	$'000	$'000
Not yet past due	285,828	383,424
Less than one month past due	-	-
More than one month past due	-	37
Total advances to agents and other intermediaries	285,828	383,461

Advances to agents and other intermediaries that were past due but not impaired relate to a number of agents that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

27 Prepayments, deposits and other debtors (continued)

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

	Group and Company	
	2018	*2017*
	$'000	$'000
To be amortised within one year	87,094	171,882
To be amortised after one year	198,734	211,579
	285,828	383,461

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

28 Cash and cash equivalents and pledged deposits (continued)

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

	Company 2018 $'000	2017 $'000
Cash and bank balances	1,530,783	1,368,080
Time deposits	689,560	1,073,540
	2,220,343	2,441,620
Less: Pledged deposits:		
Time deposit pledged for a bank guarantee (note (i))	(10,000)	(10,000)
Cash and cash equivalents	2,210,343	2,431,620

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

	Group and Company 2018 $'000	2017 $'000
With an original maturity of:		
Three months or less	679,560	1,063,540
One year or less but over three months	10,000	10,000
	689,560	1,073,540

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 2018, a time deposit of $10,000,000 (2017: $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 38)	*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
At 1 January 2017	557,254	557,254
Changes from financing cash flows:		
Repayment of financing under a financial reinsurance arrangement	(79,708)	(79,708)
Total changes from financing cash flows	(79,708)	(79,708)
Other changes:		
Interest expenses (note 11)	19,940	19,940
Total other changes	19,940	19,940
At 31 December 2017	497,486	497,486

During the years ended 31 December 2017 and 2018, there were no changes from financing cash flows arising from the notes issued by a subsidiary of the Company (see note 38(i)). Payments of interest expenses of the notes are classified as operating activities as shown in the consolidated cash flow statement.

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 regulators require the Group 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/Wealth Achiever with Protection are universal life plans launched in 2016 and offer lock-in crediting rates for the first 2 policy years up to 4.8%. Wealth Achiever offers point-to-point guarantees at 2% per annum for the first 10 policy years whilst Wealth Achiever with Protection offers hard guarantees at 2% per annum. The investment funds as at 31 December 2018 for Invest-a-surance amounted to $66,176,068 (2017: $66,536,788). The investment fund for Elite Choice amounted to $9,232,484 (2017: $9,551,219). The investment fund for Wealth Achiever amounted to $939,817,654 (2017: $1,042,923,669). The investment fund for Wealth Achiever with Protection amounted to $39,054,003 (2017: $27,521,785). The net reserve for Dynasty amounted to $72,752 (2017: $246,890) and the net reserve for Dynasty Diamond amounted to $1,065,989 (2017: $1,113,377). The reserve for Super Saver amounted to $389,058,169 (2017: $389,894,185). The reserve held for the investment guarantee amounted to $2,474,104 (2017: $3,228,746) for Invest-a-surance. The reserve held for the Elite Choice guarantee return amounted to $90,516 (2017: $140,597). 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

	2018			2017		
	Gross liabilities	*Reinsurers' share of liabilities*	*Net liabilities*	*Gross liabilities*	*Reinsurers' share of liabilities*	*Net liabilities*
Type of products	$'000	$'000	$'000	$'000	$'000	$'000
Whole life	20,764,328	(113,959)	20,650,369	18,033,848	(135,892)	17,897,956
Term	79,904	(204)	79,700	76,994	(300)	76,694
Dread disease	1,393,866	(91)	1,393,775	1,225,986	(111)	1,225,875
Medical	219,637	-	219,637	191,712	-	191,712
Disability	12,972	(69)	12,903	14,467	(77)	14,390
Accident	20,954	(52)	20,902	20,434	(61)	20,373
At 31 December	22,491,661	(114,375)	22,377,286	19,563,441	(136,441)	19,427,000
Coinsurance liabilities	212,426	-	212,426	203,739	-	203,739
Insurance contract liabilities (note 39)	22,704,087	(114,375)	22,589,712	19,767,180	(136,441)	19,630,739

(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:

	2018	*2017*
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)

	2018	*2017*
Interest rate	2.25% for Regent Insurance Plan, Regent Prestige Insurance Plan, Regent Premier Insurance Plan, Joyful Life Insurance Plan and Regent Insurance Plan 2 3.50% for HealthCare 100 Critical Illness Protector, Regal Premier Saver, @MyLove Insurance Plan I, @MyLove Insurance Plan II, Health@Ease Critical Illness Protector and MediSave Medical Account 2.75% for HealthCare 168 Critical Illness Protector 3.20% for Glorious Protection Insurance Plan 3.55% for IncomePro Annuity Plan (Regular Premium) 4.10% for IncomePro Annuity Plan (Single Premium) 4.00% for most other policies	2.25% for Regent Insurance Plan, Regent Prestige Insurance Plan, Regent Premier Insurance Plan and Joyful Life Insurance Plan 3.50% for HealthCare 100 Critical Illness Protector, Regal Premier Saver, @MyLove Insurance Plan I, @MyLove Insurance Plan II, Health@Ease Critical Illness Protector and MediSave Medical Account 2.75% for HealthCare 168 Critical Illness Protector 4.00% for most other policies
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:

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

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:

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

(ii) Sensitivities

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)

2017

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

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 limits on currency, maturity and credit limit on its fixed income portfolios. The Group only deals with institutions with high creditworthiness.

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

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
Premiums receivables	237,656	-	237,656
Prepayments, deposits and other debtors	1,354,953	26,178	1,381,131
Cash and cash equivalents (Note)	2,215,389	(112)	2,215,277
At 31 December 2018	34,714,179	26,066	34,740,245

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

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

(e) Credit risk (continued)

2017

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

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.

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
Premiums receivables	-	237,656	-	237,656
Prepayments, deposits and other debtors	371,529	983,424	26,178	1,381,131
Cash and cash equivalents	2,215,389	-	(112)	2,215,277
At 31 December 2018	28,946,977	5,767,202	26,066	34,740,245

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

(e) *Credit risk (continued)*

Credit exposure by credit rating (continued)

2017

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

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 below ratings Baa3 and BBB- in the Moody's and Standard and Poor's credit rating systems respectively as non-investment grade bonds.

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

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

(e) *Credit risk (continued)*

Premiums receivables

The credit risk in respect of policyholder balances, incurred on the non-payment of premiums or contributions, will only persist during the grace period specified in the policy documents or trust deed on the expiry of which either the premium is paid or the policy will be terminated or changed to reduced paid-up or term cover according to the provision of the policy.

Advances to agents and loans to agents

For the credit risk in respect of the advances to agents, loans to agents, and the ageing analysis of these two items are included in note 27 and note 22 to the consolidated financial statements, respectively.

(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.

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

2017

	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	-	-	-	-	-	-	9,636,651	9,636,651	9,636,651
Derivative financial instruments	9,409	7,937	1,612	137	(1,180)	(461)	-	17,454	13,000
Interest-bearing liabilities	1,177,137	183,115	176,082	169,993	166,131	2,045,027	-	3,917,485	3,402,170
Payables to policyholders	1,162,713	-	-	-	-	-	47,262	1,209,975	1,209,975
Accrued expenses and other creditors	550,885	14,780	14,988	-	-	-	68,511	649,164	649,164
	2,900,144	205,832	192,682	170,130	164,951	2,044,566	9,752,424	15,430,729	14,910,960

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.

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

2017

	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	3,687,846	340,769	233,671	208,160	49,210	17,946,440	22,466,096
Investment contract liabilities	-	-	-	-	-	5,372	5,372
	3,687,846	340,769	233,671	208,160	49,210	17,951,812	22,471,468

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 0.23% of its investments denominated in foreign currencies, other than the United States dollar (2017: 0.43%). 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 profit before tax* $'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

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

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

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 whose values will fluctuate as a result of changes in market prices of individual instruments and of any underlying investment portfolio, principally in relation to investment securities not held for the account of unit-linked business.

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

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

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

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

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

30 Derivative financial instruments

	Group and Company	
	2018	*2017*
	$'000	$'000
Assets:		
Cross currency swap agreements, at fair value	3,341	3,226
Forward starting swap agreements, at fair value	735,211	989,565
Forward exchange agreements, at fair value	327	-
	738,879	992,791
Liabilities:		
Cross currency swap agreements, at fair value	(8,494)	(13,000)
Forward exchange agreements, at fair value	(789)	-
	(9,283)	(13,000)

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$348 million (2017: US$440 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 $19,381,000 (2017: $15,093,000).

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 2018, the total notional amount was US$580 million (2017: US$655 million). The cash flow hedge was assessed to be highly effective and the net asset in the hedging reserve amounted to $735,211,000 (2017: $989,565,000).

The Group seeks 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.

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

30 Derivative financial instruments (continued)

Forward exchange agreements - hedges for foreign exchange exposure of equities

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

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

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

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

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	
	2018	*2017*
Gross amount presented in the balance sheet	$'000	$'000
Assets		
Derivative financial instruments	738,879	992,791
Accrued interest receivable included in prepayments, deposits and other debtors	36,472	48,008
	775,351	1,040,799
Liabilities		
Derivative financial instruments	9,283	13,000
Accrued interest payable included in accrued expenses and other creditors	38,384	49,470
	47,667	62,470

30 Derivative financial instruments (continued)

	Group and Company	
	2018	*2017*
	$'000	$'000
Net amounts		
Assets		
Derivative financial instruments	729,596	979,791
Accrued interest receivable included in prepayments, deposits and other debtors	40	814
	729,636	980,605
Liabilities		
Accrued interest payable included in accrued expenses and other creditors	1,952	2,276
	1,952	2,276

31 Payables to policyholders

	Group and Company	
	2018	*2017*
	$'000	$'000
Claims payable (note 32)	209,759	192,969
Premium deposits (note 33)	1,021,592	915,397
Other payables	100,570	101,609
	1,331,921	1,209,975

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

32 Claims payable

	Group and Company	
	2018	*2017*
	$'000	$'000
Life and annuity	201,926	187,357
Linked long term	7,833	5,612
	209,759	192,969

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

	Group and Company	
	2018	*2017*
	$'000	$'000
At 1 January	192,969	212,909
Provided during the year	869,262	843,290
Utilised during the year	(852,405)	(863,306)
Exchange realignment	(67)	76
At 31 December	209,759	192,969

Claims incurred but not reported amounted to $31,860,000 as at 31 December 2018 (2017: $31,987,000), 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	
	2018	*2017*
	$'000	$'000
At 1 January	915,397	627,353
Received during the year	8,416,265	6,978,909
Utilised during the year	(8,311,637)	(6,695,262)
Exchange realignment	1,567	4,397
At 31 December	1,021,592	915,397

34 Accrued expenses and other creditors

	Group 2018 $'000	Group 2017 $'000
Commission payable	288,965	261,347
Reinsurance payable (Note)	58,722	21,187
Other payables and accruals	314,781	366,630
	662,468	649,164

	Company 2018 $'000	Company 2017 $'000
Commission payable	288,965	261,347
Reinsurance payable (Note)	58,722	21,187
Other payables and accruals	299,819	351,630
	647,506	634,164

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

	Group 2018 $'000	Group 2017 $'000
Payable within one year	631,062	619,396
Payable after one year	31,406	29,768
	662,468	649,164

	Company 2018 $'000	Company 2017 $'000
Payable within one year	616,100	604,396
Payable after one year	31,406	29,768
	647,506	634,164

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	
	2018	*2017*
	$'000	$'000
Gross amount		
Assets		
Prepayments, deposits and other debtors		
- Reinsurance receivable	28,614	43,861
Liabilities		
Accrued expenses and other creditors		
- Reinsurance payable	87,336	65,048
Net amounts presented in the balance sheet		
Liabilities		
Accrued expenses and other creditors		
- Reinsurance payable	58,722	21,187

35 Amounts due from fellow subsidiaries

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

36 Amounts due from intermediate holding companies

The amounts due from intermediate holding companies comprised the following:

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

On 12 May 2016, a novation deed was signed among AII, Tongchuang Jiuding Investment Management Group Co., Ltd ("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 due from JD Group has a fair value of $606,744,000 as at 31 December 2018 (2017: $1,603,361,000) and is classified as a level 2 financial instrument within the fair value hierarchy. The fair value of the loan is determined based on its discounted cashflow with the credit risk of the issuer taken into consideration. Further details of fair value classification are discussed in note 45 to the consolidated financial statements. For details of the transaction, please refer to note 49(a)(i) to the consolidated financial statements.

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

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

37 Amount due from the immediate holding company

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

38 Interest-bearing liabilities

	Group	
	2018	*2017*
	$'000	$'000
4.125% notes due 2023 (note (i))	1,945,535	1,939,423
Financing received under a financial reinsurance arrangement (note (ii))	430,673	497,486
Cash collateral received for cross currency swap agreements and forward starting swap agreements (note 30)	706,447	965,261
	3,082,655	3,402,170

38 Interest-bearing liabilities (continued)

	Company *2018* $'000	*2017* $'000
Financing received under a financial reinsurance arrangement (note (ii))	430,673	497,486
Cash collateral received for cross currency swap agreements and forward starting swap agreements (note 30)	706,447	965,261
	1,137,120	1,462,747

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 $1,945,535,000 as at 31 December 2018 (2017: $1,939,423,000).

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

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

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

38 Interest-bearing liabilities (continued)

Notes: (continued)

(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	
	2018	*2017*
	$'000	$'000
Repayable within one year	92,283	128,318
Repayable after one year	338,390	369,168
	430,673	497,486

39 Insurance contract liabilities

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

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

	Group and Company	
	2018	*2017*
	$'000	$'000
Liabilities for guaranteed benefits	22,418,659	19,491,672
Liabilities for coinsurance payments	212,426	203,739
Provision for annual dividends	73,002	71,769
Insurance contract liabilities (note 29(d))	22,704,087	19,767,180
Policyholders' dividends and bonuses (note 40)	2,969,901	2,698,916
Total insurance contract liabilities	25,673,988	22,466,096

39 Insurance contract liabilities (continued)

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

	Group and Company	
	2018	2017
	$'000	$'000
Insurance contract liabilities (note 29(d))	22,704,087	19,767,180
Reinsurers' share of insurance contract liabilities (note 29(d))	(114,375)	(136,441)
Insurance contract liabilities, net of reinsurers' share (note 29(d))	22,589,712	19,630,739

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

	Group and Company	
	2018	2017
	$'000	$'000
Payable within one year	4,111,039	3,687,846
Payable after one year	21,562,949	18,778,250
	25,673,988	22,466,096

39 Insurance contract liabilities (continued)

Movements in insurance contract liabilities are as follows:

Group and Company

	2018				2017			
	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	19,563,441	203,739	(136,441)	19,630,739	17,132,211	194,427	(143,534)	17,183,104
Premiums received	4,471,856	(47,332)	(154,173)	4,270,351	3,639,354	(50,900)	(159,288)	3,429,166
Liabilities incurred for death, surrender and maturity	(1,973,240)	26,251	125,406	(1,821,583)	(1,510,413)	27,101	103,927	(1,379,385)
Benefit and claim experience variations	(333,196)	4,617	47,155	(281,424)	(557,433)	6,210	76,581	(474,642)
Investment income variations	(458,132)	8,102	-	(450,030)	(373,731)	7,733	-	(365,998)
Investment income	1,170,812	-	(4,313)	1,166,499	1,009,338	-	(4,797)	1,004,541
Financing cost for coinsurance	-	17,049	-	17,049	-	19,168	-	19,168
Adjustment due to change in reserve assumptions	63,158	-	1,838	64,996	113,976	-	762	114,738
Exchange realignment	(13,038)	-	6,153	(6,885)	110,139	-	(10,092)	100,047
At 31 December	22,491,661	212,426	(114,375)	22,589,712	19,563,441	203,739	(136,441)	19,630,739

40 Policyholders' dividends and bonuses

	Group and Company 2018 $'000	2017 $'000
At 1 January	2,698,916	2,398,766
Provided during the year	522,408	525,295
Utilised during the year	(254,530)	(236,453)
Exchange realignment	3,107	11,308
At 31 December	2,969,901	2,698,916

41 Investment contract liabilities

Movements in investment contract liabilities are as follows:

	Group and Company 2018 $'000	2017 $'000
At 1 January	5,372	5,468
Withdrawals	(35)	(281)
Interest, bonus credited and fair value movement	156	185
At 31 December	5,493	5,372

The above amounts are repayable after the next twelve months.

42 Liabilities related to unit-linked contracts

	Group and Company 2018 $'000	2017 $'000
Insurance contract liabilities	587,817	634,478
Investment contract liabilities	7,995,526	9,002,173
Liabilities related to unit-linked contracts	8,583,343	9,636,651

43 Share capital

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

Notes:

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

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

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

43 Share capital (continued)

Notes: (continued)

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

(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.

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

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

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

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

43 Share capital (continued)

Notes: (continued)

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

(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.

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

44 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.

(b) Company

	Issued share capital $'000	Share premium account $'000	Contributed surplus $'000	Share option reserve $'000	Hedging reserve $'000	Available-for-sale investment revaluation reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2017	2,585,700	1,862,664	1,011,121	20,615	893,199	1,400,766	3,138,188	10,912,253
Changes in equity for 2017:								
Issuance of shares	1,500,000	-	-	-	-	-	-	1,500,000
Profit for the year	-	-	-	-	-	-	996,112	996,112
Other comprehensive income for the year	-	-	-	-	111,459	1,526,890	-	1,638,349
Total comprehensive income for the year	-	-	-	-	111,459	1,526,890	996,112	2,634,461
Balance at 31 December 2017	4,085,700	1,862,664	1,011,121	20,615	1,004,658	2,927,656	4,134,300	15,046,714
Balance at 1 January 2018	4,085,700	1,862,664	1,011,121	20,615	1,004,658	2,927,656	4,134,300	15,046,714
Changes in equity for 2018:								
Profit for the year	-	-	-	-	-	-	1,150,026	1,150,026
Other comprehensive income for the year	-	-	-	-	(250,066)	(3,165,563)	-	(3,415,629)
Total comprehensive income for the year	-	-	-	-	(250,066)	(3,165,563)	1,150,026	(2,265,603)
Balance at 31 December 2018	4,085,700	1,862,664	1,011,121	20,615	754,592	(237,907)	5,284,326	12,781,111

45 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:

2018

	Group			
	Financial assets at fair value through profit or loss $'000	*Available-for-sale financial assets* $'000	*Loans and receivables* $'000	*Total* $'000
Financial assets				
Amounts due from intermediate holding companies	-	-	1,851,776	1,851,776
Amount due from the immediate holding company	-	-	27,396	27,396
Amounts due from fellow subsidiaries	-	-	9,288	9,288
Pledged deposits	-	-	10,000	10,000
Policy loans	-	-	458,421	458,421
Loans to agents	-	-	67,770	67,770
Other loan	-	-	122	122
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 at fair value through profit or loss $'000	*Financial liabilities at amortised cost* $'000	*Total* $'000
Financial liabilities			
Investment contract liabilities	5,493	-	5,493
Liabilities related to unit-linked contracts	8,583,343	-	8,583,343
Derivative financial instruments	9,283	-	9,283
Interest-bearing liabilities	-	3,082,655	3,082,655
Accrued expenses and other creditors	-	662,468	662,468
At 31 December 2018	8,598,119	3,745,123	12,343,242

45 Financial instruments (continued)

(a) *Financial instruments by category (continued)*

2017

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

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

45 Financial instruments (continued)

(a) Financial instruments by category (continued)

2018

	Company			
	Financial assets at fair value through profit or loss $'000	*Available-for-sale financial assets* $'000	*Loans and receivables* $'000	*Total* $'000
Financial assets				
Amounts due from intermediate holding companies	-	-	1,851,776	1,851,776
Amount due from the immediate holding company	-	-	27,396	27,396
Amounts due from fellow subsidiaries	-	-	9,288	9,288
Pledged deposits	-	-	10,000	10,000
Policy loans	-	-	458,421	458,421
Loans to agents	-	-	67,770	67,770
Other loan	-	-	122	122
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 at fair value through profit or loss $'000	*Financial liabilities at amortised cost* $'000	*Total* $'000
Financial liabilities			
Investment contract liabilities	5,493	-	5,493
Liabilities related to unit-linked contracts	8,583,343	-	8,583,343
Derivative financial instruments	9,283	-	9,283
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

45 Financial instruments (continued)

(a) Financial instruments by category (continued)

2017

	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	-	-	1,778,027	1,778,027
Amount due from the immediate holding company	-	-	27,396	27,396
Amounts due from fellow subsidiaries	-	-	9,602	9,602
Amounts due from subsidiaries	-	-	16	16
Pledged deposits	-	-	10,000	10,000
Policy loans	-	-	446,444	446,444
Loans to agents	-	-	25,167	25,167
Other loan	-	-	241	241
Available-for-sale financial assets	-	31,297,196	-	31,297,196
Investments related to unit-linked contracts	9,462,109	-	47,556	9,509,665
Derivative financial instruments	992,791	-	-	992,791
Prepayments, deposits and other debtors	-	-	1,361,915	1,361,915
Cash and cash equivalents	-	-	2,431,620	2,431,620
At 31 December 2017	10,454,900	31,297,196	6,137,984	47,890,080

	Company		
Financial liabilities	*Financial liabilities at fair value through profit or loss* $'000	*Financial liabilities at amortised cost* $'000	*Total* $'000
Investment contract liabilities	5,372	-	5,372
Liabilities related to unit-linked contracts	9,636,651	-	9,636,651
Derivative financial instruments	13,000	-	13,000
Amount due to a subsidiary	-	1,945,409	1,945,409
Interest-bearing liabilities	-	1,462,747	1,462,747
Accrued expenses and other creditors	-	634,164	634,164
At 31 December 2017	9,655,023	4,042,320	13,697,343

45 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 $'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	-

45 Financial instruments (continued)

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

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

As at 31 December 2018, bonds with a market value of $698,622,000 (2017: $180,753,000) and $Nil (2017: $98,853,000) included in available-for-sale financial assets, were reclassified from Level 1 to Level 2 and from Level 2 to Level 1 respectively. There were no transfers into or out of Level 3 (2017: $Nil). 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.

45 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

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

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

				31 December 2018	
	Valuation techniques	*Significant unobservable inputs*	*Change in variables*	*Increase/ (decrease) in profit or loss* $'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% -10%	- -	61,671 (61,671)

				31 December 2017	
	Valuation techniques	*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% -10%	- -	55,469 (55,469)

45 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:

		Group and Company
	2018	*2017*
	$'000	$'000
Available-for-sale financial assets - Unlisted equities		
At 1 January	554,693	-
Net purchases	16,748	542,228
Total realised gains recognised in other comprehensive income during the year	5,015	-
Total unrealised gains recognised in other comprehensive income during the year	40,256	12,465
At 31 December	616,712	554,693
Total gains or losses for the year included in the profit or loss for assets held at the balance sheet date	13,181	8,145

46 Contingent liabilities

As at 31 December 2018, 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 (2017: $Nil).

47 Operating lease arrangements

(a) As lessor

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

(b) As lessee

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

As at the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group and Company	
	2018	*2017*
	$'000	$'000
Within one year	130,169	135,742
In the second to fifth years, inclusive	255,193	113,392
After five years	222,396	-
	607,758	249,134

48 Commitments

In addition to the operating lease commitments detailed in note 47(b) above, the Group and the Company had the following capital commitments as at the balance sheet date:

	Group and Company	
	2018	*2017*
	$'000	$'000
Contracted, but not provided for, in respect of several ongoing projects	19,122	-

49 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* 2018 $'000	2017 $'000
JD Group:			
Loan due from JD Group	(i)	1,644,552	1,641,507
Interest income from JD Group	(i)	70,338	69,932
Jiuzhou:			
Bonds issued by Jiuzhou	(ii)	362,056	1,500,530
Interest income from bonds issued by Jiuzhou	(ii)	150,078	151,487
Kunwu Jiuding Capital Holdings Co., Ltd. ("JD Capital"):			
Investment funds managed by JD Capital	(iii)	152,175	159,270
Dividends from investment funds managed by JD Capital	(iii)	-	2,540
Realised gain from sale of investment funds managed by JD Capital	(iii)	5,015	-
JD International Advisors Limited ("JD International"):			
Investment fund with JD International as adviser to general partner	(iii)	41,941	-
Dividend from investment fund with JD International as adviser to general partner	(iii)	2,840	-
Kind Luck Wealth Management Limited ("Kind Luck"):			
Commission expense paid to Kind Luck	(iv)	38,616	59,969
Commission payable to Kind Luck	(iv)	1,229	-
Sub-lease rental earned from Kind Luck	(iv)	1,004	-

49 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* *2018* $'000	*2017* $'000
JD Group:			
Loan due from JD Group	(i)	1,644,552	1,641,507
Interest income from JD Group	(i)	70,338	69,932
Jiuzhou:			
Bonds issued by Jiuzhou	(ii)	362,056	1,500,530
Interest income from bonds issued by Jiuzhou	(ii)	150,078	151,487
JD Capital:			
Investment funds managed by JD Capital	(iii)	152,175	159,270
Dividends from investment funds managed by JD Capital	(iii)	-	2,540
Realised gain from sale of investment funds managed by JD Capital	(iii)	5,015	-
JD International:			
Investment fund with JD International as adviser to general partner	(iii)	41,941	-
Dividend from investment fund with JD International as adviser to general partner	(iii)	2,840	-
Kind Luck:			
Commission expense paid to Kind Luck	(iv)	38,616	59,969
Commission payable to Kind Luck	(iv)	1,229	-
Sub-lease rental earned from Kind Luck	(iv)	1,004	-
FTL Capital Limited:			
Loan due to FTL Capital Limited	(v)	1,949,009	1,945,409
Interest expense to FTL Capital Limited	(v)	83,735	83,251

49 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) 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.

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

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

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

(iii) 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 is a 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.

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

(iv) 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 in November 2018. A security deposit was returned to Kind Luck upon termination of the sub-leasing agreement.

49 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)

(v) 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 in 25 April 2023.

Interest is payable semi-annually in arrears on 25 April and 25 October in each year. As at 31 December 2018, the interest accrued amounted to HK$15,587,000 (2017: HK$15,558,000).

(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:

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

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

50 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 2018, the outstanding capital commitment to invest in these Partnerships amounted to US$37,842,000 (2017: US$5,128,000), including US$35,000,000 for two new partnerships confirmed as at that date. The maximum exposure to loss is the carrying amount of these investments (see note 45(b)).

Notes to financial statements - Unaudited

(Expressed in Hong Kong dollars unless otherwise indicated)

Year ended 31 December 2018

	Consolidated Income Statement in Conformity with Schedule 3 of the Insurance Ordinance $'000	Consolidated Revenue Account: Life and Annuity Business $'000	Consolidated Revenue Account: Linked Long Term Business $'000	Consolidated Revenue Account: Retirement Scheme Management Category I Business $'000	Consolidated Revenue Account: Retirement Scheme Management Category II Business $'000	Consolidated Revenue Account: 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 (losses)/gains on investments	(41,380)	379,980	-	-	-	-	338,600
Other realised and unrealised (losses)/losses	(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

Notes to financial statements - Unaudited (continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

Year ended 31 December 2017

	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	-	4,605,036	199,772	-	-	2,891	4,807,699
Less: Reinsurance premiums	-	(267,582)	(1,662)	-	-	(926)	(270,170)
Premiums, net of reinsurance	-	4,337,454	198,110	-	-	1,965	4,537,529
Interest income	222,407	1,076,390	-	-	-	-	1,298,797
Dividend and other investment income	615	52,518	-	-	-	-	53,133
Realised and unrealised capital gains/(losses) on investments	12,694	52,885	-	-	-	-	65,579
Other realised and unrealised gains/(losses)	6,677	44,251	(4,649)	-	-	(1)	46,278
Fee and commission income	8,199	61,787	614,472	-	-	-	684,458
Gains related to investments for unit-linked contracts	-	-	1,744,441	-	-	-	1,744,441
Other income	6,908	311	(14)	-	-	-	7,205
Total income	257,500	5,625,596	2,552,360	-	-	1,964	8,437,420
Expenses							
Claims and benefits, net of reinsurance	-	(3,695,685)	(304,458)	-	-	(726)	(4,000,869)
Charges related to unit-linked contracts	-	-	(1,725,872)	-	-	-	(1,725,872)
Agency commission and allowances	-	(1,161,950)	(119,066)	-	-	(73)	(1,281,089)
Change in deferred acquisition costs	-	385,256	79,133	-	-	-	464,389
Change in impairment	-	(17,414)	-	-	-	-	(17,414)
Operating and administrative expenses	(9,341)	(519,769)	(186,062)	-	-	(9)	(715,181)
Finance cost	(82,774)	(19,453)	(19,941)	-	-	-	(122,168)
Total expenses	(92,115)	(5,029,015)	(2,276,266)	-	-	(808)	(7,398,204)
Profit before tax	165,385	596,581	276,094	-	-	1,156	1,039,216
Tax	(42,817)	-	-	-	-	-	(42,817)
Profit for the year attributable to equity holders	122,568	596,581	276,094	-	-	1,156	996,399