Report of the Directors and Audited Financial Statements

# FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司
(Incorporated in Bermuda with limited liability)

31 December 2018

EY 安永
Building a better working world

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

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FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

# REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of FWD Life Insurance Company (Bermuda) Limited (the "Company") for the year ended 31 December 2018.

## Principal activity

The principal activity of the Company is the direct underwriting of long term life insurance business. There were no changes in the nature of the Company's principal activity during the year.

The Company did not carry on insurance business during the year relating to liabilities or risks in respect of which persons are required by any ordinance to be insured,

## Results and dividends

The Company's profit for the year ended 31 December 2018 and the state of affairs of the Company as at that date are set out in the financial statements on pages 7 to 91. Interim dividends of US$4,660,000 was paid on 12 July 2018.

## Plant and equipment

Details of movements in the plant and equipment of the Company during the year are set out in note 14 to the financial statements.

## Share capital

Details of movements in the Company's share capital during the year are set out in note 29(a) to the financial statements.

## Shares issued

During the year, the Company has issued shares with the following details:

| Date of issue | Reason for issue | Class and number of share issued | Consideration received by the Company |
|---|---|---|---|
| 26 January 2018 | Capital injection | 35,400 Class H Preference Shares | US$35,400,000 |

## Reserves

Details of movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 10.

## Directors and controllers

Given below are the names of all the persons who are or were, during the year and up to the date of this report, directors of the Company:

| | |
|---|---|
| Lau Chi Kin | (Appointed with effect from 29 March 2018) |
| Wong David Tai Wai | (Resigned with effect from 29 March 2018) |
| Julian McQueen Lipman | |
| Huynh Phong Thanh | |
| James Andrew Charles Ogilvy-Stuart | |
| Robert Andrew Gazzi | |
| Damis Jacobus Ziengs | |
| Priscilla Murray Brown | |

Directors' and controllers' interests
FWD Limited, an intermediate holding company of the Company, operates a share award plan that provides FWD Limited shares or share options to participants upon vesting. Eligible employees, which include certain directors of the Company, are granted share awards to reward service and the achievement of shareholder value targets. These awards are in the form of a contingent right to receive shares or share options or a conditional allocation of shares or share options. These share awards have vesting periods. Vesting of certain awards is conditional upon the employee being in active employment at the time of vesting. Vesting of certain other awards is subject to certain performance conditions in addition to the employee being in active employment at the time of vesting. Award holders do not have any right to dividends or voting rights attaching to the shares prior to vesting. All awards consist of the ordinary shares of FWD Limited.

Huynh Phong Thanh held ordinary shares of FWD Limited acquired under the share award plan at the end of the year.

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

Directors' and controllers' interests in contracts
No director or controller had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company, its holding companies, any of its subsidiaries or fellow subsidiaries was a party during the year.

Permitted indemnity provision
During the year and up to the date of this report, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the directors of the Company. The permitted indemnity provisions are provided for in the Company's Bye-Laws and in the directors and officers liability insurance in respect of potential liability and costs associated with legal proceedings that may be brought against such directors.

Management contract
No contracts concerning the management and administration of the whole or any part of the substantial part of any business of the Company were entered into during the year or subsisted at the end of the year.

Equity-linked arrangements
During the year, the Company has not entered into any equity-linked agreements.

Charitable donations
During the year, the Company made charitable donation amounting to US$75,000 (2017: US$109,000).

Material reinsurance arrangements
The followings are the material reinsurance arrangements effected by the Company during the year:

| Name of reinsurers | Class of business |
|---|---|
| China Life Reinsurance Company Limited | Life assurance and catastrophe reinsurance |
| General Reinsurance AG | Life assurance |
| RGA Reinsurance Company | Life assurance |
| Munich Reinsurance Company | Life assurance and group life |
| Swiss Reinsurance Company | Life assurance and permanent health |
| Hannover Life Reinsurance Company | Life assurance |
| Tai Ping Reinsurance Company Limited | Life assurance |
| Partner Reinsurance Company Limited | Life assurance |

The Company entered into coinsurance arrangement with Munich Reinsurance Company to cede new business of selected traditional life products issued between 1 January 2014 and 31 December 2018.

Auditor
The financial statements now presented have been audited by Ernst & Young, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

Subsequent events
The Company has agreed to acquire a 49% interest in HSBC Amanah Takaful (Malaysia) Berhad in Malaysia for a consideration of approximately US$25,000,000. Regulatory approval has been obtained from Bank Negara Malaysia in 2018, and the Company has also received no objection letters for the acquisition from the Insurance Authority in Hong Kong and the Bermuda Monetary Authority in January 2019. The acquisition is expected to be closed after all cutover procedures are completed in March 2019. On 18 March 2019, US$25,000,000 was injected by the immediate holding company, FWD Management Holdings Limited, by way of subscription of 25 million ordinary shares of the Company at an issue price of US$1 each.

On 13 March 2019, the Company issued 37,100 non-voting preference shares of US$1,000 each to its intermediate holding company, FWD Limited, with a total consideration of US$37,100,000.

BY ORDER OF THE BOARD

..........................................................
Director

Hong Kong
29 March 2019

EY 安永

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

**Independent auditor's report**
**To the members of FWD Life Insurance Company (Bermuda) Limited**
**富衛人壽保險(百慕達)有限公司**
(Incorporated in Bermuda with limited liability)

## Opinion

We have audited the financial statements of FWD Life Insurance Company (Bermuda) Limited (the "Company") set out on pages 7 to 91, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its 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 financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with 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 financial statements and auditor's report thereon

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

## Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing 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 Company or to cease operations or have no realistic alternative but to do so.

In addition, the directors are required to ensure that the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

**Independent auditor's report (continued)**
**To the members of FWD Life Insurance Company (Bermuda) Limited**
**富衛人壽保險（百慕達）有限公司**
(Incorporated in Bermuda with limited liability)

**Auditor's responsibilities for the audit of the financial statements**
Our objectives are to obtain reasonable assurance about whether the 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. Our 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 financial statements. In addition, we are required to obtain reasonable assurance about whether the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

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 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**Independent auditor's report (continued)**
**To the members of FWD Life Insurance Company (Bermuda) Limited**
**富衛人壽保險（百慕達）有限公司**
(Incorporated in Bermuda with limited liability)

**Auditor's responsibilities for the audit of the financial statements (continued)**
We communicate with the board of 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.

**Report on matters under the Hong Kong Securities and Futures (Keeping of Records) Rules and the Hong Kong Securities and Futures (Accounts and Audit) Rules of the Hong Kong Securities and Futures Ordinance**
In our opinion, the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

Ernst & Young

Certified Public Accountants
Hong Kong
29 March 2019

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

| | Notes | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| REVENUE | | | |
| Gross premiums | 4(a) | 1,710,700 | 1,561,529 |
| Reinsurers' share of gross premiums | 4(b) | ( 431,911) | ( 223,210) |
| Net premiums | 4 | 1,278,789 | 1,338,319 |
| OTHER REVENUE | | | |
| Fees, commission and other income | 5 | 169,397 | 198,108 |
| Investment income | 6 | 343,265 | 292,625 |
| Net realised gains on financial assets | 7 | 53,780 | 32,725 |
| Net fair value (losses)/gains on financial assets | | ( 95,303) | 157,829 |
| | | 471,139 | 681,287 |
| TOTAL REVENUE | | 1,749,928 | 2,019,606 |
| BENEFITS AND CLAIMS | | | |
| Gross benefits and claims paid | 8(a) | ( 825,598) | ( 585,515) |
| Reinsurers' share of gross benefits and claims paid | 8(b) | 19,868 | 17,636 |
| Gross change in contract liabilities | | ( 454,921) | ( 1,489,031) |
| Reinsurers' share of gross change in contract liabilities | | 221,539 | 302,012 |
| Net benefits and claims | | ( 1,039,112) | ( 1,754,898) |
| OTHER EXPENSES | | | |
| Fee and commission expense | 9 | ( 150,927) | ( 126,202) |
| Other operating and administrative expenses | | ( 293,715) | ( 203,289) |
| | | ( 444,642) | ( 329,491) |
| TOTAL BENEFITS, CLAIMS AND OTHER EXPENSES | | ( 1,483,754) | ( 2,084,389) |
| PROFIT/(LOSS) BEFORE TAX | 10 | 266,174 | ( 64,783) |
| INCOME TAX | 12 | ( 34,782) | 13,593 |
| PROFIT/(LOSS) FOR THE YEAR | | 231,392 | ( 51,190) |

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

| | Notes | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| **OTHER COMPREHENSIVE INCOME** | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Available-for-sale financial assets: | | | |
| Change in fair value | 17 | (251,364) | 263,449 |
| Reclassification adjustments for (gains)/losses included in profit or loss | | | |
| - net gains on disposal | 17 | (7,771) | (23,465) |
| - impairment losses | 17 | 2,640 | 1,603 |
| Income tax effect | 21 | 40,574 | (38,181) |
| | | (215,921) | 203,406 |
| Cash flow hedges: | | | |
| Effective portion of change in fair value | | (1,241) | (206) |
| Income tax effect | 21 | 205 | 34 |
| | | (1,036) | (172) |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | | (216,957) | 203,234 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | (216,957) | 203,234 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 14,435 | 152,044 |

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2018

| | Notes | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| ASSETS | | | |
| Plant, equipment and software | 14 | 6,037 | 8,190 |
| Investments in subsidiaries | 15 | 251,001 | 242,011 |
| Financial assets | | | |
| Held-to-maturity financial assets | 16 | 467,081 | 480,368 |
| Available-for-sale financial assets | 17 | 7,484,713 | 7,069,490 |
| Financial assets at fair value through profit or loss | 18 | 1,108,097 | 1,089,002 |
| Loans and receivables | 19 | 141,804 | 146,083 |
| Derivative financial instruments | 20 | 1,931 | 3,447 |
| Deferred tax assets | 21 | 4,903 | - |
| Reinsurance assets | 22 | 1,652,133 | 1,430,594 |
| Prepayments, deposits and other receivables | 23 | 120,339 | 99,260 |
| Insurance receivables | 24 | 114,229 | 104,216 |
| Due from a subsidiary | | 6,563 | 68 |
| Due from fellow subsidiaries | 32(b) | 5,167 | 2,056 |
| Due from a related company | 32(b) | 7,143 | 1,269 |
| Other assets | | - | 2,467 |
| Cash and cash equivalents | 25 | 531,254 | 411,308 |
| | | 11,902,395 | 11,089,829 |
| Assets held for sale | | 456,653 | 462,397 |
| TOTAL ASSETS | | 12,359,048 | 11,552,226 |
| LIABILITIES | | | |
| Insurance contract liabilities | 26 | 10,674,706 | 9,872,045 |
| Investment contract liabilities | 27 | 322,045 | 362,674 |
| Due to subsidiaries | | 7,739 | 737 |
| Due to fellow subsidiaries | 32(b) | 3,233 | 7,737 |
| Due to related companies | 32(b) | 7,837 | 3,275 |
| Financial liabilities | | | |
| Derivative financial instruments | 20 | 8,666 | 12,520 |
| Other liabilities | | 5,856 | - |
| Other payables and accrued liabilities | 28 | 159,342 | 130,901 |
| Deferred tax liabilities | 21 | - | 1,094 |
| | | 11,189,424 | 10,390,983 |
| Liabilities held for sale | 13(a) | 346,386 | 387,246 |
| Total liabilities | | 11,535,810 | 10,778,229 |
| EQUITY | | | |
| Share capital | 29(a) | 503,700 | 468,300 |
| Available-for-sale financial assets revaluation reserve | | 24,565 | 240,486 |
| Cash flow hedge reserve | | (1,208) | (172) |
| Share option reserve | 30 | 4,066 | - |
| Retained earnings | | 292,115 | 65,383 |
| Total equity | | 823,238 | 773,997 |
| TOTAL LIABILITIES AND EQUITY | | 12,359,048 | 11,552,226 |

Ken Lau
Director

Director

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

| | Notes | Share capital US$'000 | Available-for sale financial assets hedge reserve US$'000 | Cash flow hedge reserve US$'000 | Share option reserve US$'000 | Retained earnings US$'000 | Total equity US$'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2017 | | 440,700 | 37,080 | - | - | 125,919 | 603,699 |
| Total comprehensive income for the year | | - | 203,406 | ( 172) | - | ( 51,190) | 152,044 |
| Dividend paid | 29(b) | - | - | - | - | ( 9,346) | ( 9,346) |
| Issue of preference shares | 29(a) | 27,600 | - | - | - | - | 27,600 |
| At 31 December 2017 and 1 January 2018 | | 468,300 | 240,486 | ( 172) | - | 65,383 | 773,997 |
| Total comprehensive income for the year | | - | ( 215,921) | ( 1,036) | - | 231,392 | 14,435 |
| Dividend paid | 29(b) | - | - | - | - | ( 4,660) | ( 4,660) |
| Issue of preference shares | 29(a) | 35,400 | - | - | - | - | 35,400 |
| Equity-settled share option arrangements | 30 | - | - | - | 4,066 | - | 4,066 |
| At 31 December 2018 | | 503,700 | 24,565 | ( 1,208) | 4,066 | 292,115 | 823,238 |

FWD LIFE INSURANCE COMPANY (BERMUDA) LIMITED
富衛人壽保險（百慕達）有限公司

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

| | Notes | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit/(Loss) before tax | | 266,174 | ( 64,783) |
| Adjustments for: | | | |
| Depreciation | 14 | 4,558 | 5,502 |
| Loss on disposal of items of plant, equipment and software | 10 | 38 | - |
| Investment income | | ( 297,352) | ( 480,134) |
| Impairment on amount due from a subsidiary | 10 | - | 58 |
| Provision for impairment on secured loans | 6 | 38 | 86 |
| Foreign exchange gains | 10 | ( 1,929) | ( 24,535) |
| Equity-settled share option expenses | 30 | 4,066 | - |
| | | ( 24,407) | ( 563,806) |
| Purchases of available-for-sale financial assets and financial assets at fair value through profit or loss | | ( 2,326,049) | ( 2,708,625) |
| Proceeds from disposals of available-for-sale financial assets and financial assets at fair value through profit or loss | | 1,630,634 | 2,198,982 |
| Decrease in loans and receivables | | 9,374 | 8,713 |
| Increase in reinsurance assets | | ( 221,539) | ( 302,012) |
| Increase in prepayments, deposits and other receivables | | ( 44,435) | ( 29,297) |
| (Increase)/decrease in insurance receivables | | ( 10,013) | 5,452 |
| Increase in due from a subsidiary | | ( 6,495) | ( 66) |
| Decrease in due from an immediate holding company | | - | 28 |
| (Increase)/decrease in due from fellow subsidiaries | | ( 3,111) | 2,722 |
| (Increase)/decrease in due from a related company | | ( 5,516) | 584 |
| Increase/(decrease) in other liabilities, net | | 8,323 | ( 1,697) |
| Increase in insurance contract liabilities | | 802,661 | 1,457,998 |
| (Decrease)/increase in investment contract liabilities | | ( 40,629) | 14,346 |
| Increase in due to subsidiaries | | 7,002 | 663 |
| (Decrease)/increase in due to fellow subsidiaries | | ( 4,504) | 7,612 |
| Increase in due to related companies | | 4,562 | 1,019 |
| Increase/(decrease) in other payables and accrued liabilities | | 28,441 | ( 18,238) |
| Cash flows (used in)/from operations | | ( 195,701) | 74,378 |
| Dividend received from investments | | 65,482 | 41,440 |
| Interest received | | 279,927 | 250,184 |
| Investment expenses paid | | ( 13,595) | ( 13,583) |
| Net cash flows from operating activities | | 136,113 | 352,419 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Purchases of items of plant, equipment and software | 14 | ( 2,801) | ( 1,994) |
| Capital contribution to subsidiaries | | ( 44,106) | ( 259,335) |
| Net cash flow used in investing activities | | ( 46,907) | ( 261,329) |

STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2018

| | Notes | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of preference shares | 29(a) | 35,400 | 27,600 |
| Dividend paid | 29(b) | (4,660) | (9,346) |
| Net cash flows from financing activities | | 30,740 | 18,254 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | | 119,946 | 109,344 |
| Cash and cash equivalents at beginning of year | | 411,308 | 301,964 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 531,254 | 411,308 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | 420,342 | 386,290 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 25 | 110,912 | 25,018 |
| Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows | 25 | 531,254 | 411,308 |

## 1. CORPORATE INFORMATION

FWD Life Insurance Company (Bermuda) Limited (the "Company") is incorporated in Bermuda and registered in Hong Kong to carry on long term insurance business. The principal place of business of the Company in Hong Kong is located at 28th Floor, FWD Financial Centre, 308 Des Voeux Road Central, Hong Kong. The principal activity of the Company is the direct underwriting of long term life insurance business. The controlling party of the Company is FWD Management Holdings Limited, a company incorporated in Hong Kong.

In the opinion of the directors, PCGI Limited, a company incorporated in Cayman Islands, is considered to be the Company's ultimate holding company as at the end of the reporting period. PCGI Limited is wholly owned by Mr. Richard Li Tzar Kai.

## 2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all 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.

The financial statements provide comparative information in respect of the previous period. Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

## 2.2 BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention, except as stated in the accounting policy set out below. These financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand ("US$'000") except when otherwise indicated.

In accordance with the criteria set out in paragraph 4(a) of HKFRS 10, Consolidated Financial Statements, the Company is exempt from the preparation of consolidated financial statements because FWD Limited, which is the intermediate holding company of the Company and incorporated in Cayman Islands, produces consolidated financial statements in accordance with International Financial Reporting Standards that available for public use. The Company presents separate financial statements.

## 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers |
| Amendments to HKFRS 15 | Clarifications to HKFRS 15 Revenue from Contracts with Customers |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Annual Improvements 2014-2016 Cycle | Amendments to HKFRS 1 and HKAS 28 |

[1] The Company is allowed to defer HKFRS 9 adoption to the financial year beginning on 1 January 2021 under HKFRS 4 Amendments.

Other than as explained below regarding the impact of HKFRS 15 and its amendments and Amendments to HKFRS 4, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Company has changed the accounting policy with respect to revenue recognition in note 2.5 to the financial statements. No financial statement line items were affected as at 1 January 2018 as the result of the adoption of HKFRS 15. As at 31 December 2018 and for the year ended 31 December 2018, the adoption of HKFRS 15 has had no impact on each financial statement line item.

The following amendments to standards which the Company elected to apply the temporary exemption option for the first time for the financial year beginning 1 January 2018. The Company has assessed its eligibility and elected to apply the temporary exemption option. Details of these standards and additional disclosures are further set out in this section.

| | |
|---|---|
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Temporary exemption from HKFRS 9

In July 2014, the HKICPA issued the final version of HKFRS 9 Financial Instruments that replaces HKAS 39 Financial Instruments: Recognition and Measurement and all previous versions of HKFRS 9. HKFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. During 2018, the Company performed a high-level impact assessment of all three aspects of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity, except for the effect of applying the impairment requirements of HKFRS 9. The Company expects a higher loss allowance resulting in a negative impact on equity except for those financial assets carried at fair value through other comprehensive income ("OCI") and will perform a detailed assessment in the future to determine the extent.

In September 2016, the HKICPA issued amendments to HKFRS 4 to address issues arising from the different effective dates of HKFRS 9 and the new insurance contracts standard (HKFRS 17). The amendments introduce two alternative options of applying HKFRS 9 for entities issuing contracts within the scope of HKFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of HKFRS 9 for annual periods beginning before 1 January 2021 and continue to apply HKAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from HKFRS 9 if: (i) it has not previously applied any version of HKFRS 9, other than the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying HKFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for certain designated financial assets being the same as if an entity had applied HKAS 39 to these designated financial assets. An entity can apply the temporary exemption from HKFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies HKFRS 9 for the first time. During 2016, the Company performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015. During 2018, the Company performed a reassessment of the amendments due to change from its business combination activities and concluded that its activities continue to be predominately connected with insurance as at 31 December 2018.

The Company meets the eligibility criteria of the temporary exemption from HKFRS 9 and intends to defer the application of HKFRS 9 until the effective date of the new insurance contracts standard (HKFRS 17) to annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from HKFRS 9. Therefore, the Company continues to apply HKAS 39 to its financial assets and liabilities in these financial statements. The Company meets the eligibility criteria, as follows:

- The Company has not previously applied any versions of HKFRS 9; and
- The Company's activities are predominantly connected with insurance at the annual reporting date that immediately preceded 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 was greater than 90% (i.e. 98%) of the total carrying amount of all its liabilities.

## 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Temporary exemption from HKFRS 9 (continued)
After the date of eligibility assessment, there has been no change in the Company's activities that requires a reassessment of the eligibility assessment.

The following disclosure is provided to respond to the HKFRS 4 amendment requirement when HKFRS 9 adoption is deferred.

For the following presentation, the Company's financial assets are separated into the following two groups:

(i) financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("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, receivables, accrued investment income, loans and deposits, and debt securities; and

(ii) financial assets other than those specified in (i), which consist of derivative assets, equity securities, debt securities, and accrued investment income.

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

| | As at 31 December 2018 | For the year ended 31 December 2018 |
|---|---|---|
| US$m | Fair value | Change in fair value |
| Financial assets that met SPPI criteria and not held for trading or managed on fair value basis | 7,458 | (277) |
| Other | 2,352 | ( 98) |
| **Total** | **9,810** | **(375)** |

The following table sets out the credit quality analysis for financial assets that met SPPI criteria and are not held for trading or managed on fair value basis. The amounts presented below represent gross carrying amounts determined in accordance with HKAS 39.

| US$m | As at 31 December 2018 |
|---|---|
| AAA | 937 |
| AA | 348 |
| A | 3,526 |
| BBB | 2,502 |
| Below investment grade | - |
| Not rated | 150 |
| **Total** | **7,463** |

Note: As at 31 December 2018, the fair value of financial assets that do not have low credit risk was US$1,368,989,000.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Temporary exemption from HKFRS 9 (continued)
Financial assets are considered to have low credit risk if:

- the financial instruments have a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Among the new and revised HKFRSs, the following are expected to be relevant to the Company's financial statements upon becoming effective:

| | |
|---|---|
| Amendments to HKFRS 3 | Definition of a Business[2] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[2] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Annual Improvements 2015-2017 Cycle | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1] |

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Company is as follows:

**Amendments to HKFRS 3 Definition of a Business**

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Company expects to adopt the amendments prospectively from 1 January 2020.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

**Amendments to HKFRS 9 Prepayment Features with Negative Compensation**

Amendments to HKFRS 9 allow financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of a contract to be measured at amortised cost or at fair value through other comprehensive income, rather than at fair value through profit or loss. The amendments clarify that a financial asset passes the "solely payments of principal and interest on the principal amount outstanding" criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for that early termination. The Company expects to apply the exemption from restating comparative information of prior periods. Any difference between the previous carrying amount and the adjusted carrying amount will be recognised in the opening balance of equity. The amendments do not apply to the Company as the Company does not have any debt instruments with prepayment features along with compensation for early termination. In addition, as clarified in the amendments to the basis for conclusions on HKFRS 9, the gain or loss arising on modification of a financial liability that does not result in derecognition (calculated by discounting the change in contractual cash flows at the original effective rate) is immediately recognised in profit or loss. As there is no specific relief on this clarification, this requirement shall be applied retrospectively. The Company's current accounting policy is consistent with this clarification and therefore the adoption of the amendments is not expected to have any impact on the Company.

The Company has elected to apply the temporary exemption from HKFRS 9. Additional information on financial assets in relation to the election of the temporary option is provided in note 2.3.

**Amendments to HKFRS 10 and HKAS 28 (2011) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

**HKFRS 16 Leases**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective. HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

**HKFRS 16 Leases (continued)**

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Company currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use and those classified as investment properties, while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively, by the Company.

The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Company presents right-of-use assets separately or within the same line item as the corresponding underlying assets would be presented if they were owned. Other than certain requirements which are also applicable to lessors, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Company has non-cancellable operating lease commitments of US$43,105,000 as disclosed in note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Company will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify as low value or short-term leases. The Company will also recognize depreciation expense and interest expense for those leases.

In addition, the Company currently considers refundable rental deposits paid of US$5,337,000 and nil refundable rental deposits received as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

**HKFRS 16 Leases (continued)**

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Company intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and (HKFRIC)-Int 4, Determining whether an arrangement contains a Lease, and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and (HKFRIC)-Int 4. Therefore, the Company will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Company intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognize the cumulative effect of initial application to opening retained earnings/(accumulated losses) without restating comparative information.

**HKFRS 17 Insurance Contracts**

HKFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, HKFRS 17 will replace the existing HKFRS 4 Insurance Contracts. The standard applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of the standard is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in HKFRS 4, which are largely based on grandfathering previous local accounting policies, the standard provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of the standard is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach); and
- a simplified approach (the premium allocation approach) mainly for short-duration contracts.

HKFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies HKFRS 9 and HKFRS 15 on or before the date it first applies HKFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Company plans to adopt the new standard on the required effective date together with HKFRS 9 (see note 2.3). The Company is in process of implementing HKFRS 17 and assessing the impact of HKFRS 17. The Company expects that the new standard will result in important changes to the accounting policies for insurance contract liabilities of the Company, and is likely to have a significant impact on profit, total equity, financial statement presentation and disclosure.

In November 2018, the IASB proposed a one-year delay in the effective date of both IFRS 17 and IFRS 9 to 1 January 2022. The proposed deferral is subject to public consultation, which is expected in 2019. HKICPA will deliberate whether to defer the effective date of Hong Kong's equivalent insurance standard, HKFRS 17 once the IASB makes its final decisions.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

**Amendments to HKAS 1 and HKAS 8 Definition of Material**

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Company expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Company's financial statements.

**Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures**

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognizing losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Company expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Company also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

**HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments**

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Company expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Company's financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

**Amendments under Annual Improvements to HKFRSs 2015-2017 Cycle**

Annual Improvements to HKFRSs 2015-2017 Cycle sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The Company expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Company. Details of the amendments are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.
- HKFRS 11 *Joint Arrangements*: Clarifies that when an entity that participates in (but does not have joint control of) a joint operation obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.
- HKAS 12 *Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividends.
- HKAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity) directly or indirectly controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Company the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Company's voting rights and potential voting rights.

The results of subsidiaries are included in profit or loss to the extent of dividends received and receivable.

The Company classifies its investments in certain subsidiaries at fair value through profit or loss financial instruments in accordance with HKAS 39 due to the fact that this category of companies is continually managed for total return and evaluated on a fair value basis.

Other investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement
The Company measures its derivative financial instruments, debt investments classified as available for sale and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets
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 of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is an 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 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 profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties
A party is considered to be related to the Company if:

(a) the party is a person or a close member of that person's family and that person:

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

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Company 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 Company or an entity related to the Company;

(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); and

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

Plant and equipment and depreciation

Items of plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of 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 plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

| | |
|---|---|
| Motor vehicles | 20% |
| Furniture and fixtures | 20% |
| Computer equipment | 33⅓% |
| Leasehold improvements | Over the lease terms |

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Plant and equipment and depreciation (continued)
Where parts of an item of 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 financial year end.

An item of plant and equipment including any significant part initially recognised 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 profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Operating leases
Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Disposal groups held for sale
Disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Company retains a non-controlling interest in its former subsidiary after the sale.

Disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company 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.

The Company's financial assets include cash and bank balances, loans and receivables, insurance and other receivables, amount due from an immediate holding company, amounts due from fellow subsidiaries, amount due from a related company, quoted and unquoted financial instruments, and derivative financial instruments.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*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. Financial assets designated upon initial recognition at fair value through profit or loss are so designated only if the criteria under HKAS 39 are satisfied. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)
*Financial assets at fair value through profit or loss (continued)*

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented recognise in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment recognised in profit or loss.

*Held-to-maturity financial assets*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Company has the positive intention and ability to hold them to maturity. Held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are recognised in profit or loss.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial assets revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in net realised gains or losses on financial assets, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale financial assets revaluation reserve to net realised gains or losses in profit or loss. For available-for-sale financial debt securities, the difference between their cost and par value is amortised using the effective interest rate method. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in profit or loss as investment income in accordance with the policy set out for "Revenue recognition" below.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)
*Available-for-sale financial assets (continued)*

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Company evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

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 primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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 Company could be required to repay.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

<u>Impairment of financial assets</u>

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is 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 through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

*Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)
*Available-for-sale financial assets*

For available-for-sale financial assets, the Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Company generally considers the number of months the cost of an available-for-sale investment is below its fair value and also the ratio of fair value over cost in determining an impairment provision. In addition, the Company evaluates other factors, such as the share price volatility. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income. Impairment losses on debt instruments are reversed through profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Financial liabilities
*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, and payables, net of directly attributable transactions costs.

The Company's financial liabilities include amounts due to fellow subsidiaries, amounts due to related companies, other payables, and derivative financial instruments.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss includes 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 repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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 profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in investment income in profit or loss.

*Derecognition of financial liabilities and insurance payables*

Financial liabilities and insurance payables are derecognised when the obligation under the liability is discharged or cancelled, or has expired.

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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting

*Initial recognition and subsequent measurement*

The Company uses derivative financial instruments, such as forward currency contracts, to hedge the foreign currency or other risks of the Company. 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 of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

*Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Company expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

*Fair value hedge*

Where a derivative financial instrument is designated as a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment (or an identified portion of such asset, liability or firm commitment), changes in the fair value of the derivative are recorded in profit or loss within "Finance costs", together with any changes in fair value of the hedged asset or liability that are attributable to the hedged risk.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the Company revokes the designation of the hedge relationship, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the residual period to maturity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)
*Cash flow hedge*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated separately in the hedging reserve under equity. The ineffective portion of any gain or loss is recognized immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated cumulative gain or loss is removed from equity and recognized in profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when the interest income or expense is recognized).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognized in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting, or the Company revokes the designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the associated cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to occur, the cumulative unrealized gain or loss recognized in equity is recognized immediately in profit or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, which 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 Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 end of the reporting period 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 investment income in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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:

- when 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, associates and joint ventures, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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, associates and joint ventures, 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 profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)
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.

Revenue recognition
Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

(a) Premium income
Gross recurring premiums on life insurance contracts and investment contracts with DPF are recognised as revenue when payable by the policyholders. For single premium business, revenue is recognised on the date on which the policy becomes effective. For regular premium contracts, receivables are recorded at the date when payments are due.

Estimates of premiums written as at the end of the reporting period but not yet received are included in premiums earned on deferred basis.

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

(b) Fees and commission income
(1) Insurance and investment contract policyholders are charged for policy administration services, investment management services and surrenders. The fees are recognised as revenue over the period in which the related services are performed. If the fees are for services to be provided in future periods, these are deferred and recognised in profit or loss as the service is provided over the term of the contract. Initiation and other front end fees are also deferred and recognised over the term of the contract. Regular fees charged at the end of the period in which the related service is performed, are accrued as a receivable.

(2) Commission income is recognised in profit or loss for the business ceded to reinsurers during the accounting year. The commission income charged is based on the premium ceded and several calculation parameters which are mutually agreed by both parties.

(c) Interest income
Interest income is recognised in profit or loss as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortisation of any discount or premium and dividends, which are included on the date the shares become quoted ex dividend.

(d) Realised gains and losses
Realised gains and losses recorded in profit or loss on investments include gains or losses on financial assets. Gains and losses are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

(e) Management fees
Management fees are recognised when the management services have been rendered.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

*Paid leave carried forward*

The Company provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of a reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of a reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

*Retirement benefits schemes*

The Company operates a defined contribution retirement benefits scheme under the Occupational Retirement Scheme Ordinance for those employees who are eligible and have elected to participate in the scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. When an employee leaves the scheme prior to his/her interest in the Company's employer contributions becoming fully vested, the ongoing contributions payable by the Company may be reduced by the relevant amount of forfeited contributions.

The Company also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate and have elected to participate in the scheme. Contributions are made based on a percentage of the participate employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

*Long service payments*

Certain employees of the Company are eligible for long service payments according to the Hong Kong Employment Ordinance in the event of the termination of their employments. The Company is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies
This financial statements is presented in United States dollars, which is the Company's functional and presentation currency. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries are currencies other than United States dollars. As at the end of the reporting period, the assets and liabilities of this entity are translated into the presentation currency of the Company at exchange rates prevailing at the end of the reporting period and its profit or loss is translated into United States dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign entity is recognised in profit or loss.

Dividends to equity holders
The Company recognises a liability to make cash distributions to equity holders when the distribution is authorised and it is no longer at the discretion of the Company. A corresponding amount is recognised directly in equity. Interim dividends are deducted from equity when they are declared and paid.

Insurance funds
The insurance funds represent the liability to life and annuity, linked long term, retirement schemes and permanent health policyholders and are determined by the Company's appointed actuary in accordance with the Hong Kong Insurance (Determination of Long Term Liabilities) Rules. Insurance funds include provisions for investment return guarantees in respect of policies, as determined by the appointed actuary of the Company.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reinsurance
The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurers' policies and are in accordance with the reinsurance contracts.

Reinsurance assets are reviewed for impairment at the end of each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in profit or loss.

Gains or losses on buying reinsurance are recognised in profit or loss immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business when applicable. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies after taking into account adjustments, if any, as required under the Valuation Regulation. Amounts payable are estimated in a manner consistent with the associated reinsurance contracts.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Insurance receivables
Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is the present value of estimated future cash flows discounted at the original effective interest rate. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in "Derecognition of financial assets" above, have been met.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Product classification

*Insurance contracts*

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

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.

*Investment contracts*

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. These contracts are classified with and without DPF. Deposits collected and benefits payments under investment contracts with DPF are accounted for through profit or loss. Deposits collected and benefits payments under investment contracts without DPF are not accounted for through profit or loss, but are accounted for directly through the statement of financial position as a movement in the investment contract liability.

*Options and guarantees*

Options and guarantees within insurance or investment contracts are treated as derivative financial instruments which are closely related to the host insurance or investment contracts and are therefore not separated subsequently. The fair values of insurance or investment contracts therefore include these options and guarantees intrinsic values and time values and their measurement is consistent with observed current market prices.

Insurance contract liabilities

*Life insurance contract liabilities*

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation.

*Insurance contracts with fixed and guaranteed terms*

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and policy administration expenses, based on the valuation assumptions used. The liability is based on assumptions on mortality rates, morbidity rates and investment income.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Insurance contract liabilities (continued)

*Insurance contracts with non-guaranteed terms*

Portions of the Company's insurance contracts contain discretionary participation features, these consist of non-guaranteed annual dividend and non-guaranteed terminal dividend. Insurance contract liabilities for these contracts include provision for the non-guaranteed participation.

*Insurance contracts without fixed terms with and without DPF*

These liabilities values change in relation to the change in unit prices for unit linked contracts or by the credit interest for universal life contracts and are decreased by policy administration fees, mortality and maintenance expenses. Adjustments to the liabilities at each reporting date are also recorded in profit or loss as an expense.

*Discretionary participation features ("DPF")*

A DPF is a contractual right that gives holders of these contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio. The Company has the discretion over the amount and timing of the distribution of these supplements to policyholders.

*Liability adequacy test*

At the end of each reporting period, a liability adequacy test is performed, to ensure the adequacy of insurance liabilities. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to profit or loss by establishing an unexpired risk provision.

Investment contract liabilities

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities. Investment contracts without DPF are carried at fair value. The fair value is established by the current unit fund value.

Benefits and claims

Life insurance business claims reflect the cost of all claims arising during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued to the liability.

Benefits paid for investment contracts with DPF are recognised in profit or loss in the year in which the claim is incurred and includes claims handling costs.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims and policyholder bonuses declared on DPF contracts as well as changes in the gross valuation of insurance and investment contract liabilities. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based compensation
The Company offers share-option award plan for certain key employees as part of a compensation plan aligned with services provided in achieving shareholder value targets. This share-based compensation plan is equity-settled plan and the compensation expense charged to the statement of profit or loss and other comprehensive income is based upon the fair value of the shares granted, the vesting period and the vesting conditions. The cost of the plans is recognized as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

At each period end, the Company assesses the number of share-options that are expected to vest from those so far granted. Any impact arising from revisions to original estimates is recognized in profit or loss with a corresponding adjustment to equity. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognized as a separate award, and the fair value of each tranche is recognized over the applicable vesting period.

The Company estimates the fair value of share options using the Black-Scholes model and an assessment of performance of conditions (IRR achievement) to calculate the fair value of the share-option awards, taking into account the terms and conditions upon which the awards were granted.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Key sources of estimation uncertainty and critical judgements in applying the Company's accounting policies which have a significant effect on the financial statements are set out below.

**Judgements**
In the process of applying the Company'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 financial statements.

(a) *Income taxes*
Significant management judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax laws. Hong Kong tax laws evolve over time, and in some cases taxation positions are uncertain because the tax laws are subject to varied interpretation. When this is the case management seeks to adopt a supportable and prudent tax treatment after consultation with professional tax advisers. However, as judicial and non-judicial interpretations develops these taxation positions may change in the future.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

**Judgements (continued)**

(b) *Valuation of deferred tax assets in respect of unused tax losses*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits with future tax planning strategies.

Further details are discussed in note 21 to the financial statements.

**Estimates and assumptions**

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

(a) *Life insurance contract liabilities*

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

For life insurance contracts, estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company based these estimates on standard industry and national mortality tables that reflects historical mortality experience, adjusted where appropriate to reflect the Company'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 turn is monitored against current and future premiums.

For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure. All of these results in even more uncertainty in estimating the ultimate liability.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts, at discount rates of 2.75%, 3.05% and 3.50% (2017: 2.58%, 2.84% and 3.50%) for liabilities denominated in HKD, USD and RMB respectively. These estimates are based on current market returns as well as expectations about future economic and financial developments. 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 end of the reporting period for these life insurance contracts was US$10,674,706,000 (2017: US$9,872,045,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

**Estimates and assumptions (continued)**

(b) *Impairment of non-financial assets (other than insurance receivables)*

The Company assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. 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.

(c) *Impairment of insurance receivables*

The Company maintains an allowance for estimated loss as arising from the inability of its customers to make the required payments. The Company makes its estimates based on the ageing of its insurance receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Company would be required to revise the basis of making the allowance and its future results would be affected.

(d) *Fair value of financial assets*

The Company determines the fair values of financial assets traded in active markets using quoted bid prices as of each reporting date. The fair values of financial assets that are not traded in active markets are typically determined using a variety of other valuation techniques, such as prices observed in recent transactions, values obtained from current bid prices of comparable investments and expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. More judgment is used in measuring the fair value of financial assets for which market observable prices are not available or are available only infrequently.

Further details of the fair values of financial assets and the sensitivity analysis to interest rates are provided in notes 2.5, 16, 17, 18 and 36.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

**Estimates and assumptions (continued)**

(e) *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for impairment regularly. This requires the exercise of significant judgment. The Company assesses at each reporting date whether there is objective evidence that a financial asset, or a group of financial assets is impaired. Objective evidence that a financial asset, or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- A significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including:
  - Adverse changes in the payment status of issuers; or
  - Economic conditions that correlate with increased default risk.

For loans and receivables, impairment loss is determined using an analytical method based on knowledge of each loan group or receivable. The method is usually based on historical statistics, adjusted for trends in the group of financial assets or individual accounts.

Further details of the impairment of financial assets during the year are provided in notes 2.5 and 16, 17 and 19.

(f) *Share-based compensation*

The Company has adopted the share-option award plan to retain, motivate and align the interests of eligible officers of the Company. This share-based compensation plan is accounted for as equity-settled plan under which share-options are awarded.

The Company estimates the fair value of share options using the Black-Scholes model and an assessment of performance of conditions (IRR achievement) to calculate the fair value of the share-option awards, taking into account the terms and conditions upon which the awards were granted.

The Company determines the fair value of share options by following input:

- Dividend yield
- Expected share price volatility
- Risk-free interest rate
- Expected life of the share options
- Appraisal value per share, using the same valuation methodology as is used in the share award plan

The judgments exercised in the determination of share-option fair value and the assessment of IRR achievement affect the amounts recognized in the financial statements as share-based payment expense and share option reserve. Further details of the related accounting policies and movements in outstanding awards are provided in notes 2.5 and 30.

## 4. NET PREMIUMS

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| **(a) Gross premiums** | | |
| Life insurance contracts | | |
| With DPF | 1,509,111 | 1,391,671 |
| Without DPF | 179,554 | 146,611 |
| Total life insurance contracts | 1,688,665 | 1,538,282 |
| Investment contracts with DPF | 20,159 | 21,592 |
| Life insurance contracts from assumed reinsurance | 1,876 | 1,655 |
| Total gross premiums | 1,710,700 | 1,561,529 |
| **(b) Reinsurers' share of gross premiums** | | |
| Life insurance contracts | | |
| With DPF | ( 354,344) | ( 178,601) |
| Without DPF | ( 77,567) | ( 44,609) |
| Total life insurance contracts | ( 431,911) | ( 223,210) |
| Total net premiums | 1,278,789 | 1,338,319 |

## 5. FEES, COMMISSION AND OTHER INCOME

| | Note | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|---|
| Commission incomes received from reinsurance arrangements | | 68,659 | 57,471 |
| Considerations in relation to the Disposal of Hong Kong Pension Business | | - | 38,404 |
| Management fees received from fellow subsidiaries | | 5,365 | 4,939 |
| Management fees received from a related company | 32(a)(ix) | 4,601 | 4,484 |
| Policyholder administration services fee | | | |
| Insurance contracts | | 85,620 | 86,766 |
| Sponsor fee | | - | 1,169 |
| Trailer fee | | 5,152 | 4,875 |
| | | 169,397 | 198,108 |

## 6. INVESTMENT INCOME

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Interest income on | | |
| - available-for-sale financial assets | 237,993 | 216,340 |
| - financial assets at fair value through profit or loss | 7,570 | 8,051 |
| - held-to-maturity financial assets | 20,384 | 17,454 |
| - policy loans | 4,912 | 4,692 |
| - secured loans | 221 | 358 |
| - cash and cash equivalents | 1,889 | 946 |
| Total interest income | 272,969 | 247,841 |
| Dividend income on | | |
| - available-for-sale financial assets | 48,160 | 36,838 |
| - financial assets at fair value through profit or loss | 17,746 | 4,901 |
| Impairment losses on available-for-sale financial assets (transfer from equity) | (2,640) | (1,603) |
| Provision for impairment losses on secured loans | (38) | (86) |
| Others | 7,068 | 4,734 |
| | 343,265 | 292,625 |

## 7. NET REALISED GAINS ON FINANCIAL ASSETS

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Realised gains on financial assets | | |
| Available-for-sale financial assets (transfer from equity on disposal) | 20,736 | 31,652 |
| Financial assets at fair value through profit or loss | 26,569 | 18,357 |
| Derivative financial instruments | 37,923 | - |
| Realised losses on financial assets | | |
| Available-for-sale financial assets (transfer from equity on disposal) | (12,965) | (8,187) |
| Financial assets at fair value through profit or loss | (864) | (230) |
| Derivative financial instruments | (17,619) | (8,867) |
| | 53,780 | 32,725 |

## 8. NET BENEFITS AND CLAIMS INCURRED

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| **(a) Gross benefits and claims paid** | | |
| Life insurance contracts benefits and claims paid | | |
| With DPF | 606,934 | 393,124 |
| Without DPF | 127,460 | 159,922 |
| Total life insurance contracts benefits and claims paid | 734,394 | 553,046 |
| Investment contracts with DPF benefits and claims paid | 91,204 | 32,469 |
| Total gross benefits and claims paid | 825,598 | 585,515 |
| **(b) Reinsurers' share of gross benefits and claims paid** | | |
| Reinsurers' share of life insurance contracts benefits and claims paid | | |
| With DPF | ( 15,472) | ( 12,759) |
| Without DPF | ( 4,396) | ( 4,877) |
| Total reinsurers' share of life insurance contracts benefits and claims paid | ( 19,868) | ( 17,636) |

## 9. FEE AND COMMISSION EXPENSE

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Insurance contracts - | | |
| Commission to agents, brokers and intermediaries | 150,908 | 126,011 |
| Investment contracts - | | |
| Management fee to investment manager | 19 | 191 |
| | 150,927 | 126,202 |

## 10. PROFIT/(LOSS) BEFORE TAX

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

| | Note | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| Auditors' remuneration | | 319 | 291 |
| Depreciation | 14 | 4,558 | 5,502 |
| Minimum lease payments under operating leases | | 12,736 | 11,252 |
| Employee benefit expense (including directors' remuneration (note 11)) | | | |
| Salaries, bonuses and allowances | | 57,694 | 44,601 |
| Pension scheme contribution | | 2,682 | 2,466 |
| Less: forfeited contribution | | ( 67) | ( 39) |
| Net pension scheme contribution | | 2,615 | 2,427 |
| | | 60,309 | 47,028 |
| Loss on disposal of plant, equipment and software | | 38 | - |
| Impairment on amount due from a subsidiary | | - | 58 |
| Foreign exchange differences, net | | ( 1,929) | ( 24,535) |

## 11. DIRECTORS' REMUNERATION

During the year, the directors of the Company received the following remuneration for their services rendered to the Company:

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Fees | 123 | 123 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 797 | 635 |
| Performance related bonuses | 640 | 5,313 |
| Pension scheme contribution | 37 | 32 |
| | 1,474 | 5,980 |
| | 1,597 | 6,103 |
| Aggregate amount of the emoluments of the three highest paid directors | 1,474 | 5,980 |

## 12. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

| | Note | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| Current | | - | - |
| Deferred | 21 | 34,782 | ( 13,593) |
| Total tax charge for the year | | 34,782 | ( 13,593) |

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate to the tax position at the effective tax rate and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$'000 | % | US$'000 | % |
| Profit/(loss) before tax | 266,174 | | ( 64,783) | |
| Tax at the statutory tax rate | 43,919 | 16.5 | ( 10,689) | 16.5 |
| Income not subject to tax | ( 10,542) | ( 4.0) | ( 4,931) | 7.6 |
| Expenses not deductible for tax | 1,032 | 0.4 | 1,066 | ( 1.6) |
| Others | 373 | 0.1 | 961 | ( 1.5) |
| Income tax at the effective rate | 34,782 | 13.0 | ( 13,593) | 21.0 |

13. BUSINESS ACQUISITIONS AND DISPOSALS

(a) Disposal of Hong Kong Pension Business

On 3 August 2016, the controlling parent of the Company, FWD Management Holdings Limited, announced the disposal of its MPF and ORSO businesses in Hong Kong (collectively referred as "Pension Business") to Sun Life Hong Kong Limited ("Sun Life").

In 2017, the disposal of MPF business was completed after receipt of regulatory approval. Total considerations of US$38,404,000 were received by the Company for:- 1) the transfer of employees and business contracts related to the MPF schemes and change of sponsor of the MPF schemes; and 2) entering into a 15-year distribution agreement which allowed the Company to distribute Sun Life's MPF products in the Hong Kong market as Sun Life's principal intermediary.

The disposal of ORSO business is expected to be completed in 2019 subject to the necessary regulatory approvals. As at 31 December 2018, the Company's assets and liabilities associated with the ORSO business are classified as a disposal group held for sale. The major classes of assets and liabilities associated with disposal group classified as held for sale are analysed as follows:

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Financial assets at fair value through profit or loss | 346,386 | 387,246 |
| Assets directly associated with the Pension Business | 346,386 | 387,246 |
| Investment contract liabilities | (346,386) | (387,246) |
| Liabilities directly associated with the Pension Business | (346,386) | (387,246) |

(b) Acquisition and disposal of FWD Vietnam

On 30 June 2016, the Company acquired 100% interest in FWD Vietnam Life Insurance Company Limited ("FWD Vietnam", and formerly named as Great Eastern Life (Vietnam) Company Limited) exclusively with a view to its subsequent disposal. FWD Vietnam is engaged in underwriting of long term life insurance business in Vietnam. The total consideration for the acquisition was US$35,935,000 in cash.

As at 31 December 2017, the final negotiations on the terms and conditions were completed and regulatory approval has been applied. Up to 31 December 2018, the regulatory was not yet approved the sale. Since the acquirer (a related party) is known and the acquirer's purchase commitment is demonstrated, this subsidiary is maintained to be classified as a disposal group for sale.

During the year, the Company has injected US$35,116,000 additional capital to FWD Vietnam.

## 14. PLANT, EQUIPMENT AND SOFTWARE

| | Leasehold improvements US$'000 | Motor vehicles US$'000 | Furniture and fixtures US$'000 | Computer equipment and software US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| At 31 December 2017 and 1 January 2018: | | | | | |
| Cost | 16,245 | 221 | 4,542 | 17,222 | 38,230 |
| Accumulated depreciation | ( 12,653) | ( 133) | ( 3,236) | ( 14,018) | ( 30,040) |
| Net carrying amount | 3,592 | 88 | 1,306 | 3,204 | 8,190 |
| At 1 January 2018, net of accumulated depreciation | 3,592 | 88 | 1,306 | 3,204 | 8,190 |
| Additions | 658 | - | 107 | 2,036 | 2,801 |
| Disposals | ( 327) | - | ( 22) | ( 47) | ( 396) |
| Depreciation provided | ( 1,785) | ( 30) | ( 590) | ( 2,153) | ( 4,558) |
| At 31 December 2018, net of accumulated depreciation | 2,138 | 58 | 801 | 3,040 | 6,037 |
| At 31 December 2018: | | | | | |
| Cost | 16,475 | 221 | 4,611 | 18,981 | 40,288 |
| Accumulated depreciation | ( 14,337) | ( 163) | ( 3,810) | ( 15,941) | ( 34,251) |
| Net carrying amount | 2,138 | 58 | 801 | 3,040 | 6,037 |

14. PLANT, EQUIPMENT AND SOFTWARE (CONTINUED)

| | Leasehold improvements US$'000 | Motor vehicles US$'000 | Furniture and fixtures US$'000 | Computer equipment and software US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **31 December 2017** | | | | | |
| At 1 January 2017: | | | | | |
| Cost | 15,745 | 184 | 4,405 | 15,902 | 36,236 |
| Accumulated depreciation | (10,553) | (96) | (2,590) | (11,299) | (24,538) |
| Net carrying amount | 5,192 | 88 | 1,815 | 4,603 | 11,698 |
| At 1 January 2017, net of accumulated depreciation | 5,192 | 88 | 1,815 | 4,603 | 11,698 |
| Additions | 500 | 37 | 137 | 1,320 | 1,994 |
| Depreciation provided | (2,100) | (37) | (646) | (2,719) | (5,502) |
| At 31 December 2017, net of accumulated depreciation | 3,592 | 88 | 1,306 | 3,204 | 8,190 |
| At 31 December 2017: | | | | | |
| Cost | 16,245 | 221 | 4,542 | 17,222 | 38,230 |
| Accumulated depreciation | (12,653) | (133) | (3,236) | (14,018) | (30,040) |
| Net carrying amount | 3,592 | 88 | 1,306 | 3,204 | 8,190 |

## 15. INVESTMENTS IN SUBSIDIARIES

| | Note | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| Unlisted shares, at cost | | 19,641 | 10,651 |
| Impairment # | | ( 640) | ( 640) |
| | | 19,001 | 10,011 |
| Unlisted shares, at fair value | 34 | 232,000 | 232,000 |
| | | 251,001 | 242,011 |
| Included in assets held for sale – unlisted shares, at cost | | 110,267 | 75,151 |

\# An impairment was recognised for the unlisted investment with a carrying amount of US$640,000 (before deducting the impairment loss) (2017: US$640,000) because the subsidiary requires continuing financial support from the Company. There was no change in the impairment amount during the current and prior year.

Particulars of the subsidiaries are as follows:

| Name | Place of incorporation | Nominal value of issued ordinary shares | Percentage of ownership interest 2018 Direct % | 2018 Indirect % | 2017 Direct % | 2017 Indirect % | Principal activity |
|---|---|---|---|---|---|---|---|
| FWD Financial Limited (b) | Hong Kong | 2018: HK$75,322,561 (2017: HK$5,000,000) | 100 | - | 100 | - | Provision of administration and secondment services |
| Future Radiance Limited | Cayman Islands | 3 ordinary shares of US$1 | 100 | - | 100 | - | Investment holding |
| Sky Accord Limited | Cayman Islands | 3 ordinary shares of US$1 | - | 100 | - | 100 | Property investment and management |
| FWD Vietnam Life Insurance Company Limited (a) | Vietnam | VND2,811,000,000,000 (2017: VND2,014,500,000,000) | 100 | - | 100 | - | Underwriting of life insurance |
| FWD Properties Limited | Hong Kong | US$232,000,000 | 100 | - | 100 | - | Investment holding |
| OGS (I) Limited | Cayman Islands | US$232,000,000 | - | 100 | - | 100 | Investment holding |
| OGS (II) Limited | Cayman Islands | US$232,000,000 | - | 100 | - | 100 | Investment holding |

## 15. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) The subsidiary is classified as a disposal group held for sale as set out in note 13(b).

(b) During the year, the Company injected US$8,990,000 additional capital to one of its subsidiaries, FWD Financial Limited, for subscription of 60,000,000 ordinary shares and loan capital.

## 16. HELD-TO-MATURITY FINANCIAL ASSETS

| | Note | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| Non-current: | | | |
| Held-to-maturity fixed interest securities, at amortised cost | | | |
| - listed | | 392,456 | 403,706 |
| - unlisted | | 65,191 | 64,512 |
| - issued by government, listed | | 9,434 | 9,509 |
| | | 467,081 | 477,727 |
| Current: | | | |
| Held-to-maturity fixed interest securities, at amortised cost | | | |
| - listed | | - | 2,001 |
| - unlisted | | - | 640 |
| | | - | 2,641 |
| Total held-to-maturity financial assets at amortised cost | | 467,081 | 480,368 |
| Market value of held-to-maturity financial assets | 34 | 462,929 | 500,197 |

No provision for impairment is necessary in respect of held-to-maturity financial assets as no objective evidence of impairment exists (2017: Nil).

## 17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Note | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| Non-current: | | | |
| Available-for-sale fixed interest securities, at fair value | | | |
| - listed | | 4,469,275 | 4,407,387 |
| - unlisted | | 842,053 | 828,535 |
| - issued by government, listed | | 664,938 | 690,651 |
| - issued by government, unlisted | | 83,763 | 87,193 |
| | | 6,060,029 | 6,013,766 |
| Available-for-sale variable interest securities, at fair value | | | |
| - listed | | 35,415 | 28,435 |
| - unlisted | | 127,571 | 94,312 |
| | | 162,986 | 122,747 |
| Current: | | | |
| Available-for-sale securities, at fair value | | | |
| - listed fixed interest securities | | 189,292 | 78,353 |
| - unlisted fixed interest securities | | 34,017 | 21,758 |
| - issued by government, listed | | 2,835 | 109,930 |
| - issued by government, unlisted | | 264,459 | - |
| - listed equity securities | | 81,123 | 180,113 |
| - unlisted equity securities | | 640,772 | 340,732 |
| - listed mutual funds | | 49,013 | 201,895 |
| - unlisted mutual funds | | 187 | 196 |
| | | 1,261,698 | 932,977 |
| Total available-for-sale financial assets at fair value | 34 | 7,484,713 | 7,069,490 |

During the year, the gross losses in respect of the Company's available-for-sale financial assets recognised in other comprehensive income amounted to US$251,364,000 (2017: gains of US$263,449,000). Net realised gains of US$7,771,000 (2017: US$23,465,000) and impairment of US$2,640,000 (2017: US$1,603,000) were reclassified from other comprehensive income to profit or loss.

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Note | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| Current: | | | |
| Fair value through profit or loss securities, at fair value | | | |
| - listed fixed interest securities | | 16,769 | 26,462 |
| - unlisted fixed interest securities | | 41,310 | 60,257 |
| - listed variable interest securities | | 2,045 | 2,550 |
| - unlisted variable interest securities | | - | 592 |
| - issued by government, listed | | 133 | 169 |
| - unlisted unit trust | | 774,451 | 881,840 |
| - listed equity securities | | 45,261 | 16,308 |
| - unlisted equity securities | | 228,128 | 100,824 |
| Total financial assets at fair value through profit or loss | 34 | 1,108,097 | 1,089,002 |

All financial assets at fair value through profit or loss at 31 December 2018 and 2017 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

## 19. LOANS AND RECEIVABLES

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Policy loans | 65,381 | 64,347 |
| Secured loans | 6,241 | 15,014 |
| Accreting deposits | 70,703 | 67,205 |
| Provision for impairment | ( 521) | ( 483) |
| Total loans and receivables | 141,804 | 146,083 |
| Current loans and receivables | 687 | 4,205 |
| Non-current loans and receivables | 141,117 | 141,878 |
| | 141,804 | 146,083 |

All loans and receivables are under long term business and belongs to life and annuity.

No provision for impairment is necessary in respect of the policy loans made to policyholders as they are secured by the policies' cash surrender values. Policy loans are stated at amortised cost, interest-bearing at market interest rate and are repayable at the discretion of the policyholders as long as the interest plus the principal of the loans do not exceed the cash value. The carrying amounts of the policy loans approximate to their fair values. The policy loans bear interest at 9% (2017: 9%) per annum.

Secured loans are carried at amortised cost less repayment and any impairment losses. The carrying amounts of secured loans approximate to their fair values.

## 19. LOANS AND RECEIVABLES (CONTINUED)

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

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| At 1 January | 483 | 470 |
| Provision for impairment losses | 38 | 86 |
| Written off | - | ( 73) |
| At 31 December | 521 | 483 |

The above provision for impairment of secured loans is a provision for individually impaired loans related to agents in default or delinquency in repayment. The gross amount of the loans was US$6,241,000 (2017: US$15,014,000) with a carrying amount of US$5,720,000 (2017: US$14,531,000).

Accreting deposits are carried at amortised cost less any impairment losses. The carrying amounts of accreting deposits approximate to their fair values.

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

The Company had the following derivative financial instruments outstanding as at the end of the reporting period.

| | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|
| | Note | Contract/ notional amount US$'000 | Carrying amount - asset US$'000 | Carrying amount - liability US$'000 | Contract/ notional amount US$'000 | Carrying amount - asset US$'000 | Carrying amount - liability US$'000 |
| Forward currency contracts | 34 | 2,626,494 | 1,931 | 7,219 | 2,644,532 | 3,447 | 9,738 |
| Bond forward contracts | 34 | 25,000 | - | 1,447 | 10,000 | - | 206 |
| Interest rate swap options | 34 | - | - | - | 3,500,000 | - | 2,576 |
| | | 2,651,494 | 1,931 | 8,666 | 6,154,532 | 3,447 | 12,520 |

The carrying amounts of the derivative financial instruments are the same as their fair values.

## 21. DEFERRED TAX

The components of deferred tax assets/(liabilities) recognised in the statement of financial position and the movements during the year are as follows:

| | Note | Revaluation of available-for-sale financial assets US$'000 | Tax losses and other temporary differences US$'000 | Total US$'000 |
|---|---|---|---|---|
| At 1 January 2018 | | ( 44,102) | 43,008 | ( 1,094) |
| Deferred tax charged to profit or loss | 12 | - | ( 34,782) | ( 34,782) |
| Deferred tax credited to other comprehensive income | | 40,574 | 205 | 40,779 |
| At 31 December 2018 | | ( 3,528) | 8,431 | 4,903 |

| | Note | Revaluation of available-for-sale financial assets US$'000 | Tax losses and other temporary differences US$'000 | Total US$'000 |
|---|---|---|---|---|
| At 1 January 2017 | | ( 5,921) | 29,381 | 23,460 |
| Deferred tax credited to profit or loss | 12 | - | 13,593 | 13,593 |
| Deferred tax charged to other comprehensive income | | ( 38,181) | 34 | ( 38,147) |
| At 31 December 2017 | | ( 44,102) | 43,008 | ( 1,094) |

Included in the amount credited/charged to profit or loss are realization of deferred tax asset of US$27,996,000 due to utilization of tax losses (2017: recognition of deferred tax asset of US$14,190,000 in respect of cumulative tax losses) and change in deferred tax arising from other temporary differences of US$6,786,000 (2017: US$597,000).

## 22. REINSURANCE ASSETS

| | Notes | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| Reinsurers' share of insurance contract liabilities | | | |
| - other than coinsurance arrangements | 26(b) | 715,574 | 498,600 |
| - under coinsurance arrangements | 26(c) | 936,559 | 931,994 |
| | | 1,652,133 | 1,430,594 |
| Current reinsurance assets | | 1,652,133 | 1,430,594 |

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Rental deposits | 6,425 | 5,010 |
| Prepayments | 30,483 | 11,788 |
| Interest receivables | 74,669 | 69,361 |
| Investment receivables | 4,499 | 11,061 |
| Other receivables | 4,263 | 2,040 |
| Total prepayments, deposits and other receivables | 120,339 | 99,260 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 24. INSURANCE RECEIVABLES

| | Note | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| Due from policyholders | | 102,860 | 95,171 |
| Due from reinsurers | 26 | 11,369 | 9,045 |
| Total insurance receivables | | 114,229 | 104,216 |
| Current insurance receivables | | 114,229 | 104,216 |

The amounts due from policyholders represent premiums due for payment. No provision for impairment is necessary as if and when the total indebtedness on any policy exceeds the cash surrender value, the policy terminates and becomes void. The carrying amounts of the balances with policyholders approximate to their fair values.

The amounts due from reinsurers arise from normal course of reinsurance business and are usually settled within a year. None of the above balances are either past due or impaired as there is no recent history of default. The carrying amounts of the balances with reinsurers approximate to their fair values.

Premium deposit fund under reinsurance arrangement represents premium deposit made with the reinsurer on which interest is accrued. Renewal reinsurance premiums payable to the reinsurer under the policy are deducted from the premium deposit fund on each of its policy anniversary. The carrying amount of the premium deposit fund under reinsurance arrangement approximates to its fair value.

## 25. CASH AND CASH EQUIVALENTS

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Time deposits | 110,912 | 25,018 |
| Saving accounts | 307,278 | 335,665 |
| Current accounts | 113,062 | 50,623 |
| Cash on hand | 2 | 2 |
| | 531,254 | 411,308 |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy counterparties. Credit risk exposure of the balance according to the counterparties' credit ratings is presented in note 36 to the financial statements.

## 26. INSURANCE CONTRACT LIABILITIES

Life insurance contract liabilities may be analysed as follows:

| | | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Insurance contract liabilities US$'000 | Reinsurers' share of liabilities US$'000 | Net US$'000 | Insurance contract liabilities US$'000 | Reinsurers' share of liabilities US$'000 | Net US$'000 |
| Provision for claims reported by policyholders | 24 | 15,644 | ( 7,700) | 7,944 | 13,511 | ( 5,165) | 8,346 |
| Provision for claims incurred but not reported ("IBNR") | | 5,243 | - | 5,243 | 3,692 | - | 3,692 |
| Total claims reported and IBNR | | 20,887 | ( 7,700) | 13,187 | 17,203 | ( 5,165) | 12,038 |
| Provision for insurance creditors | 26(a), 24 | 923,463 | ( 3,669) | 919,794 | 727,110 | ( 3,880) | 723,230 |
| Provision for insurance funds | 26(b), 22 | 8,855,072 | ( 715,574) | 8,139,498 | 8,323,830 | ( 498,600) | 7,825,230 |
| Liabilities under coinsurance arrangements | 26(c), 22 | 875,284 | ( 936,559) | ( 61,275) | 803,902 | ( 931,994) | ( 128,092) |
| Total life insurance contract liabilities | | 10,674,706 | ( 1,663,502) | 9,011,204 | 9,872,045 | ( 1,439,639) | 8,432,406 |

The related reinsurance assets will change in the same proportion as the underlying liabilities.

Included in the insurance fund are dividends of US$20,265,000 (2017: US$14,732,000) distributed to the participating life policyholders.

Reinsurance assets and insurance receivables are set out in notes 22 and 24.

26. INSURANCE CONTRACT LIABILITIES (CONTINUED)

The movements of liabilities related to insurance contracts are as follows:

(a) Provision for insurance creditors

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| As at 1 January | 727,110 | 766,943 |
| Increase/(decrease) in suspense and deposit | 11,664 | (52,772) |
| Increase in liabilities on dividend and cash coupon | 2,761 | 2,743 |
| Increase in interest accrual | 19,156 | 17,500 |
| Increase/(decrease) in reinsurance payables | 162,772 | (7,304) |
| As at 31 December | 923,463 | 727,110 |

The movements of insurance contract liabilities under insurance contracts are as follows:

(b) Provision for insurance funds

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Insurance contract liabilities US$'000 | Reinsurers' share of liabilities US$'000 | Net US$'000 | Insurance contract liabilities US$'000 | Reinsurers' share of liabilities US$'000 | Net US$'000 |
| As at 1 January | 8,323,830 | (498,600) | 7,825,230 | 6,881,438 | (407,590) | 6,473,848 |
| Premiums received | 1,390,464 | (292,802) | 1,097,662 | 1,302,565 | (90,997) | 1,211,568 |
| Liabilities paid for death, maturities, surrenders and other benefits payments | (756,394) | 77,354 | (679,040) | (573,302) | 34,067 | (539,235) |
| Interest accrual and change in unit price | 233,827 | (17,924) | 215,903 | 347,014 | (14,930) | 332,084 |
| Assumption change (Note) | (310,702) | 229 | (310,473) | 367,556 | (287) | 367,269 |
| Exchange differences | (22,472) | 16,256 | (6,216) | (1,092) | (18,723) | (19,815) |
| Reclassification to investment contract liabilities | (3,320) | - | (3,320) | - | - | - |
| Others | (161) | (87) | (248) | (349) | (140) | (489) |
| As at 31 December | 8,855,072 | (715,574) | 8,139,498 | 8,323,830 | (498,600) | 7,825,230 |

Note : For the year ended 31 December 2018, the change in valuation assumption on HKD, USD and RMB interest rate to 2.75% (2017: 2.58%), 3.05% (2017: 2.84%) and 3.50% (2017: 3.50%) respectively has decreased the gross and net insurance contract liabilities by US$210,000,000 (2017: increased by US$387,000,000), and the review on mortality, morbidity and expense decreased the gross and net insurance contract liabilities by US$35,000,000 (2017: US$6,000,000). The adjustment to future dividend scale and refinement in dividend provision further decreased the gross and net insurance contract liabilities by US$66,000,000 (2017: US$13,000,000).

## 26. INSURANCE CONTRACT LIABILITIES (CONTINUED)

The movements of insurance contract liabilities under insurance contracts are as follows:

(c) Liabilities under coinsurance arrangements

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Reinsurance liabilities from coinsurance US$'000 | Reinsurance assets from coinsurance US$'000 | Net US$'000 | Reinsurance liabilities from coinsurance US$'000 | Reinsurance assets from coinsurance US$'000 | Net US$'000 |
| As at 1 January | 803,902 | ( 931,994) | ( 128,092) | 749,177 | ( 720,992) | 28,185 |
| Other movements under coinsurance with funds withheld arrangement | | | | | | |
| - Premiums received | - | ( 70,725) | ( 70,725) | - | ( 71,161) | ( 71,161) |
| - Liabilities paid for death, maturities, surrenders and other benefits payments | - | 21,880 | 21,880 | - | 13,995 | 13,995 |
| Increase/(decrease) in reinsurance payables | 71,382 | 44,280 | 115,662 | 54,725 | ( 153,836) | ( 99,111) |
| As at 31 December | 875,284 | ( 936,559) | ( 61,275) | 803,902 | ( 931,994) | ( 128,092) |

## 27. INVESTMENT CONTRACT LIABILITIES

| | Note | 2018 Gross and net investment contract liabilities US$'000 | 2017 Gross and net investment contract liabilities US$'000 |
|---|---|---|---|
| Investment contract liabilities | | | |
| - investment contract liabilities with DPF | | 142,748 | 165,419 |
| - investment contract liabilities without DPF | | 179,297 | 197,255 |
| | | 322,045 | 362,674 |
| Disposal group held for sale | 13(a) | | |
| - investment contract liabilities with DPF | | 235,621 | 278,663 |
| - investment contract liabilities without DPF | | 110,765 | 108,583 |
| | | 346,386 | 387,246 |

## 27. INVESTMENT CONTRACT LIABILITIES (CONTINUED)

The movements of investment contract liabilities are as follows:

(a) Investment contract liabilities with DPF

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| As at 1 January | 165,419 | 164,756 |
| Premiums received | 6,886 | 7,403 |
| Surrenders | ( 35,009) | ( 12,818) |
| Interest accrual and change in unit price | 2,491 | 2,910 |
| Reclassification from insurance contract liabilities | 3,320 | - |
| Others | ( 359) | 3,168 |
| As at 31 December | 142,748 | 165,419 |

Included in the disposal group held for sale

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| As at 1 January | 278,663 | 265,436 |
| Premiums received | 8,911 | 51,501 |
| Surrenders | ( 51,953) | ( 32,344) |
| Others | - | ( 5,930) |
| As at 31 December | 235,621 | 278,663 |

## 27. INVESTMENT CONTRACT LIABILITIES (CONTINUED)

The movements of investment contract liabilities are as follows: (continued)

(b) Investment contract liabilities without DPF

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| As at 1 January | 197,255 | 183,572 |
| Withdrawals | ( 11,488) | ( 16,766) |
| Interest accrual and change in unit price | ( 6,032) | 31,836 |
| Others | ( 438) | ( 1,387) |
| As at 31 December | 179,297 | 197,255 |

Included in the disposal group held for sale

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| As at 1 January | 108,583 | 97,716 |
| Premiums received | 18,262 | 23,755 |
| Withdrawals | ( 18,099) | ( 18,832) |
| Net investment income | 1,551 | 1,478 |
| Expenses | ( 252) | ( 255) |
| Interest accrual and change in unit price | ( 2,361) | 5,459 |
| Others | 3,081 | ( 738) |
| As at 31 December | 110,765 | 108,583 |

## 28. OTHER PAYABLES AND ACCRUED LIABILITIES

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Accrued commission to agents, brokers and intermediaries | 93,573 | 64,295 |
| Others | 65,769 | 66,606 |
| | 159,342 | 130,901 |

Other payables and accrued liabilities are non-interest bearing and repayable within a year. The carrying amounts of the other payables and accrued liabilities approximate to their fair values.

## 29. SHARE CAPITAL AND DIVIDENDS

### (a) Share capital

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Authorised: | | |
| 503,500,000 (2017: 288,899,999) ordinary shares of US$1 each | 503,500 | 288,900 |
| 246,500 (2017: 211,100) preference shares of US$1,000 each | 246,500 | 211,100 |
| Issued and fully paid: | | |
| 257,200,000 (2017: 257,200,000) ordinary shares | 257,200 | 257,200 |
| 246,500 (2017: 211,100) preference shares (note (i)) | 246,500 | 211,100 |

Notes:

(i) On 23 February 2018, the authorised share capital was increased from US$499,999,999 to US$750,000,000.

(ii) On 26 January 2018, the Company issued 35,400 (2017: 11,200 on 25 January 2017 and 16,400 on 2 June 2017) non-voting preference shares of US$1,000 each to its intermediate holding company, FWD Limited, with a total consideration of US$35,400,000 for business expansion.

### (b) Dividends

During the year, dividends of US$4,660,000 (US$0.03452 per preference share) (2017: US$4,660,000 (US$0.03452 per preference share) and US$4,686,000 (US$0.03471 per preference share) in June 2017 and December 2017 respectively) were declared to the holder of non-voting preference shares in June 2018. Non-cumulative dividend is granted at the discretion of the Company on an semi-annual basis.

30. SHARE-BASED COMPENSATION

Eligible employees are granted share-option awards operated by the intermediate holding company, FWD Limited, to reward service and the achievement of shareholder value targets. These awards are in the form of a contingent right to receive share-options or a conditional allocation of share-options. These share-option awards have vesting periods of up to three years and are at nil cost to the employee. Vesting of certain awards is conditional upon the employee being in active employment at the time of vesting. Each share-option grant has a 10 year exercise period and confers the right to the award holder to subscribe for an ordinary share of FWD Limited at a nominal exercise price of US$0.01.

The following table shows the movement in outstanding awards under the Company's share-option award plan:

| **Number of share-options** | **2018** | **2017** |
|---|---|---|
| At beginning of year | - | - |
| Granted during the year | 148,576 | - |
| Vested during the year | ( 17,013) | - |
| Forfeited during the year | - | - |
| At end of year | 131,563 | - |

**Valuation methodology**

To calculate the fair value of the share awards with performance conditions, the Company estimates the fair value of share-option using the Black-Scholes model and an assessment of performance conditions (IRR achievement), taking into account the terms and conditions upon which the awards were granted. The fair value calculated for share awards is inherently subjective due to the assumptions made.

The Company determines the fair value of share options by following input:

| | 2018 | 2017 |
|---|---|---|
| • Dividend yield (%) | - | - |
| • Expected share price volatility (%) | 30 | - |
| • Risk-free interest rate (%) | 1.82 | - |
| • Expected life of share options (years) | 2.5 | - |
| • Exercise price (US$ per share) | 0.01 | - |
| • Weighted average share price (US$ per share) | 104.48 | - |

The expected volatility reflects the assumption that historical volatility patterns continue, which may not be the actual outcome.

Share price per share is determined by appraisal value per share, using the same valuation methodology as is used in the share award plan.

No share options were exercised during the year (2017: nil).

The total fair value of share-option awards granted during the year ended 31 December 2018 is US$15,523,000 (2017: nil).

30. SHARE-BASED COMPENSATION (CONTINUED)

**Recognized compensation cost**

The fair value of the employee services received in exchange for the grant of share-options is recognized as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity.

The total expense recognized in the financial statements related to share-based compensation awards granted under the share-option award plan by the Company for the year ended 31 December 2018 is US$4,066,000 (2017: nil).

31. COMMITMENTS

The Company leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 8 years. The Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 31 December 2018 | 31 December 2017 | |
|---|---|---|---|
| | US$'000 | US$'000<br>Lowest | US$'000<br>Highest |
| Within one year | 18,156 | 14,510 | 15,214 |
| In the second to fifth years, inclusive | 24,949 | 29,779 | 34,150 |
| | 43,105 | 44,289 | 49,364 |

The monthly rental of two operating lease arrangements is subject to change once the first term expires, with the rental amount determined by an independent surveyor within agreed ranges according to the market condition.

32. RELATED PARTY TRANSACTIONS

A portion of the Company's business is represented by transactions with certain related companies and these financial statements reflect the effect of these transactions which are conducted in accordance with terms mutually agreed between the parties.

(a) In addition to the transactions detailed elsewhere in these financial statements, the Company had the following related parties transactions during the year:

(i) The Company charged US$5,365,000 (2017: US$4,332,000) to fellow subsidiaries for provision of management services to these fellow subsidiaries and charged US$286,000 (2017: US$277,000) to a fellow subsidiary for HR services. The management service fees were in accordance with terms mutually agreed by the parties.

(ii) The Company entered into a coinsurance agreement with a fellow subsidiary for accepting 100% (2017: 100%) of a specified block of insurance policies written by the fellow subsidiary from 1 June 2007 to 31 December 2012. The agreement was agreed to be terminated and recaptured on 28 February 2017. The total premium revenue and total commission expense under the coinsurance agreement for the period were nil (2017: US$332,000 and US$14,000 respectively), based on the terms as agreed between the Company and the fellow subsidiary.

(iii) The Company entered into a risk premium reinsurance agreement with a fellow subsidiary of the Company to transfer 70% risk of a specified block of policies underwritten by the fellow subsidiary on 1 January 2017. The total premium revenue and total commission expense, based on the terms determined between the Company and the fellow subsidiary, under the risk premium reinsurance agreement for the year were US$1,819,000 and US$3,039,000 (2017: US$1,248,000 and US$2,666,000), respectively.

(iv) The Company charged overriding commission of US$454,000 (2017: US$644,000) and telecommunication and maintenance fee of US$47,000 (2017: US$48,000) from a fellow subsidiary based on terms mutually agreed by both parties.

(v) The Company purchased general insurance policies for its staff and agents from a fellow subsidiary on terms mutually agreed by both parties. Total insurance expenses paid to fellow subsidiary for the year amounted to US$2,866,000 (2017: US$2,373,000).

(vi) The Company paid US$1,291,000 (2017: US$788,000) premium expense to a fellow subsidiary for several promotion campaigns on terms mutually agreed by the parties.

(vii) A fellow subsidiary participated in a retirement scheme administered by the Company on terms mutually agreed by both parties. Total contribution received from the fellow subsidiary and its scheme members to the scheme for the year amounted to US$786,000 (2017: US$740,000).

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Company had the following related parties transactions during the year: (continued)

(viii) The Company paid telecommunication and maintenance fee of US$2,480,000 (2017: US$2,577,000) to a related company for the telecommunication and advisory services received, and investment management fee of US$10,248,000 (2017: US$10,183,000) to a related company for investment management services received, in accordance with terms mutually agreed by parties. Such investment management services relate to a key outsourcing arrangement, which is subject to the Company's outsourcing policy developed based on Guideline 14.

(ix) The Company paid US$6,353,000 (2017: US3,496,000) to related companies for administration, consultancy and management services received and reimbursed US$4,601,000 (2017: US$4,484,000) from a related company for the IT and HR services. The transactions were based on terms mutually agreed by both parties.

(x) The Company sold life and medical insurance policies for its staff and agents to related companies on terms mutually agreed by the parties. Total insurance incomes from the related companies for the year amounted US$983,000 (2017: US$1,005,000).

(xi) The Company received nil administration fee (2017: US$607,000) on behalf of a fellow subsidiary for the provision of trustee services to retirement schemes.

(xii) The Company paid US$1,256,000 (2017: US$1,225,000) to a related company for the branding services received based on terms mutually agreed by both parties.

(xiii) The Company paid commissions of US$126,000 (2017: US$146,000) to a fellow subsidiary based on terms mutually agreed by both parties.

(b) All balances with related parties as disclosed in the statements of financial position are unsecured, interest-free and repayable on demand.

(c) The compensation of key management personnel of the Company represented directors' emoluments, further details are disclosed in note 11 to the financial statements.

## 33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Company, other than insurance and investment contract liabilities and associated reinsurance assets, as at the end of the reporting period are as follows:

**31 December 2018**

Financial assets

| | Held-to-maturity financial assets US$'000 | Available-for-sale financial assets US$'000 | Financial assets at fair value through profit or loss US$'000 | Loans and receivables US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Held-to-maturity financial assets | 467,081 | - | - | - | 467,081 |
| Available-for-sale financial assets | - | 7,484,713 | - | - | 7,484,713 |
| Financial assets at fair value through profit or loss | - | - | 1,108,097 | - | 1,108,097 |
| Loans and receivables | - | - | - | 141,804 | 141,804 |
| Derivative financial instruments | - | - | 1,931 | - | 1,931 |
| Deposits and other receivables | - | - | - | 89,856 | 89,856 |
| Insurance receivables | - | - | - | 114,229 | 114,229 |
| Due from fellow subsidiaries | - | - | - | 5,167 | 5,167 |
| Due from a related company | - | - | - | 7,143 | 7,143 |
| Due from a subsidiary | - | - | - | 6,563 | 6,563 |
| Cash and cash equivalents | - | - | - | 531,254 | 531,254 |
| | 467,081 | 7,484,713 | 1,110,028 | 896,016 | 9,957,838 |

Financial liabilities

| | Financial liabilities at fair value through profit or loss US$'000 | Financial liabilities at amortised cost US$'000 | Total US$'000 |
|---|---|---|---|
| Due to subsidiaries | - | 7,739 | 7,739 |
| Due to fellow subsidiaries | - | 3,233 | 3,233 |
| Due to related companies | - | 7,837 | 7,837 |
| Financial liabilities | | | |
| Derivative financial instruments | 8,666 | - | 8,666 |
| Other liabilities | - | 5,856 | 5,856 |
| Other payables and accrued liabilities | - | 159,342 | 159,342 |
| | 8,666 | 184,007 | 192,673 |

33. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments of the Company, other than insurance and investment contract liabilities and associated reinsurance assets, as at the end of the reporting period are as follows: (continued)

**31 December 2017**

Financial assets

| | Held-to-maturity financial assets US$'000 | Available-for-sale financial assets US$'000 | Financial assets at fair value through profit or loss US$'000 | Loans and receivables US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Held-to-maturity financial assets | 480,368 | - | - | - | 480,368 |
| Available-for-sale financial assets | - | 7,069,490 | - | - | 7,069,490 |
| Financial assets at fair value through profit or loss | - | - | 1,089,002 | - | 1,089,002 |
| Loans and receivables | - | - | - | 146,083 | 146,083 |
| Derivative financial instruments | - | - | 3,447 | - | 3,447 |
| Deposits and other receivables | - | - | - | 87,472 | 87,472 |
| Insurance receivables | - | - | - | 104,216 | 104,216 |
| Due from fellow subsidiaries | - | - | - | 2,056 | 2,056 |
| Due from a related company | - | - | - | 1,269 | 1,269 |
| Due from a subsidiary | - | - | - | 68 | 68 |
| Other assets | - | - | - | 2,467 | 2,467 |
| Cash and cash equivalents | - | - | - | 411,308 | 411,308 |
| | 480,368 | 7,069,490 | 1,092,449 | 754,939 | 9,397,246 |

Financial liabilities

| | Financial liabilities at fair value through profit or loss US$'000 | Financial liabilities at amortised cost US$'000 | Total US$'000 |
|---|---|---|---|
| Due to subsidiaries | - | 737 | 737 |
| Due to fellow subsidiaries | - | 7,737 | 7,737 |
| Due to related companies | - | 3,275 | 3,275 |
| Financial liabilities | | | |
| Derivative financial instruments | 12,520 | - | 12,520 |
| Other payables and accrued liabilities | - | 130,901 | 130,901 |
| | 12,520 | 142,650 | 155,170 |

34. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

*Assets measured at fair value*

**31 December 2018**

| | Notes | Fair value measurement using Quoted prices in active markets (Level 1) US$'000 | Significant observable inputs (Level 2) US$'000 | Significant unobservable inputs (Level 3) US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Investments in subsidiaries | 15 | - | - | 232,000 | 232,000 |
| Available-for-sale financial assets | 17 | 1,033,111 | 5,810,832 | 640,770 | 7,484,713 |
| Financial assets at fair value through profit or loss | 18 | 819,713 | 60,256 | 228,128 | 1,108,097 |
| Derivative financial instruments | 20 | - | 1,931 | - | 1,931 |
| | | 1,852,824 | 5,873,019 | 1,100,898 | 8,826,741 |

**31 December 2017**

| | Notes | Fair value measurement using Quoted prices in active markets (Level 1) US$'000 | Significant observable inputs (Level 2) US$'000 | Significant unobservable inputs (Level 3) US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Investments in subsidiaries | 15 | - | - | 232,000 | 232,000 |
| Available-for-sale financial assets | 17 | 1,172,342 | 5,556,416 | 340,732 | 7,069,490 |
| Financial assets at fair value through profit or loss | 18 | 898,148 | 90,030 | 100,824 | 1,089,002 |
| Derivative financial instruments | 20 | - | 3,447 | - | 3,447 |
| | | 2,070,490 | 5,649,893 | 673,556 | 8,393,939 |

34. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

*Liabilities measured at fair value*

**31 December 2018**

| | Note | Level 1 US$'000 | Level 2 US$'000 | Level 3 US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Derivative financial instruments | 20 | - | 8,666 | - | 8,666 |

**31 December 2017**

| | Note | Level 1 US$'000 | Level 2 US$'000 | Level 3 US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Derivative financial instruments | 20 | - | 12,520 | - | 12,520 |

The movement in fair value measurements in the Company's Level 3 financial assets during the year is as follows:

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Financial assets – unlisted | | |
| At 1 January | 673,556 | 197,314 |
| Fair value gains/(losses) recognised in profit or loss included in fair value gains on financial assets | 13,110 | ( 2,451) |
| Fair value losses recognised in other comprehensive income | 57,931 | 30,724 |
| Impairment losses | ( 647) | ( 1,291) |
| Purchases | 356,948 | 217,260 |
| Capital contribution | - | 232,000 |
| At 31 December | 1,100,898 | 673,556 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

34. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

*Assets for which fair values are disclosed*

**31 December 2018**

| | Note | Fair value measurement using Quoted prices in active markets (Level 1) US$'000 | Significant observable inputs (Level 2) US$'000 | Significant unobservable inputs (Level 3) US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Held-to-maturity financial assets | 16 | - | 462,929 | - | 462,929 |

**31 December 2017**

| | Note | Fair value measurement using Quoted prices in active markets (Level 1) US$'000 | Significant observable inputs (Level 2) US$'000 | Significant unobservable inputs (Level 3) US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Held-to-maturity financial assets | 16 | - | 500,197 | - | 500,197 |

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of loans and receivables and financial liabilities at amortised cost approximate to their carrying amounts largely because these instruments either have short term maturities or are interest-bearing at market interest rates.

The fair values of the financial assets and liabilities are included at the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity and fixed income investments are based on quoted market prices.

The fair values of unlisted debt securities are valued internally using a discounted cash flow model, which incorporates observable market data based on security specific characteristics. Inputs to the valuation model include credit ratings, credit spreads, treasury yields and issue-specific liquidity adjustments. The carrying amounts of unlisted debt securities are equal to their fair values.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of unlisted private equity funds are based on the reported net asset value (NAV) in their financial statements. Management has obtained the most recent audited financial statements that are available from investees and considered various factors when assessing whether the reported NAV represents the fair value of the investments. These factors include the accounting policies adopted by the investees, the restrictions and barriers preventing the Company from disposing the investments, the Company's ownership percentage over the investee and other relevant factors. Fair value will be adjusted when such factors suggest the reported NAV does not represent its fair value. In 2017 and 2018, no reported NAV is adjusted. Management also engaged an external fund manager to perform independent review for rolling the reported NAV forward in arriving their fair value as at the end of reporting period. The directors believe that the fair values resulting from the reported NAV, which are recorded in the statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they are the most appropriate values at the end of the reporting period. Assuming 5% increase/decrease on the NAV, the impact on the fair value before any tax impact for the unlisted private equity is US$39,624,000 (2017: US$22,078,000).

The Company enters into derivative financial instruments with various counterparties, principally financial institutions with sound credit ratings. Derivative financial instruments are measured using valuation technique similar to forward pricing and swap models. The model incorporates various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amounts of these financial instruments are the same as their fair values.

The Company invests in 50% interest of a private property fund through investment holding subsidiaries. The property fund holds an investment property stated at fair value based on valuations performed by independent professional valuer. Management reviews the valuations performed by the independent professional valuer for financial reporting purposes by assessing the reasonableness of the property valuation. A valuation report with analysis of changes in fair value measurement was prepared at the end of each reporting date and was reviewed and approved by senior management. In determining the fair value, the valuations are prepared by considering the estimated rental value of the property by applying the appropriate valuation methods i.e. the capitalisation method and discounted cashflow method. With reference to the independent valuation of the investment property, the net assets and dividend discounting models were applied to measure the fair value of investment holding subsidiaries of the property fund.

## 36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

**Risk Management Framework**

The Company's Risk Management Framework has been established for the identification, evaluation and management of the key risks faced by the organisation within its stated risk appetite. The framework includes an established risk governance structure consisting of the Board of Directors and the three lines of defence, with clear oversight and assignment of responsibility for monitoring, managing and considering financial and non-financial risks in business strategy and decision making. The first line of defence consists of business functions which maintain a system of internal controls to mitigate risks. The second line of defence comprises the Risk function and the Compliance function. Compliance follows the Company's Compliance Risk Management Framework, works with the Risk function and Legal function to assist the first line of defence in complying with relevant regulations. Internal Audit as the third line of defence reports to the Audit Committee of FWD Group Management Holdings Limited.

The Company issues contracts that transfer insurance risks or financial risks or both. The insurance risks and financial risks associated with the Company's operation and the Company's management of these risks are summarised below:

**Insurance risks**

(1) Life insurance contracts and investment contracts

(i) Terms and conditions

Life insurance contracts offered by the Company include whole life, term insurances, endowment and other products that insure against morbidity risks including health, disability, critical illness and personal accident. These products pay lump sum, monthly benefit, or reimbursement for medical expenses upon occurrences of insured events.

The Company issues investment contracts which are unlisted investment funds without DPF. The Company also issues retirement products that credit interest to each participant's account according to investment performance of the underlying fund, with minimum guarantee on the credit interest. In addition, the Company issues endowment products with DPF.

(ii) Key assumptions

Material judgement is required in determining the liabilities and in the choice of assumptions relating to both life insurance contracts and investment contracts. Assumptions in use are based on past experience, current internal data and conditions and external market indexes and benchmarks, which reflect current observable market prices and other published information. Assumptions are determined as appropriate and prudent estimates at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure reasonable valuations and conformation with regulations.

For insurance contracts and endowment products with DPF, the Company determines the assumptions at each reporting date in relation to future deaths, investment returns and administration expenses implicit in the margin.

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Insurance risks (continued)**

(1) Life insurance contracts and investment contracts (continued)

(ii) Key assumptions (continued)

For investment contracts without DPF, the liability equals to the fair value of the net asset value. For retirement products with interest guarantee, the liability equals the fund balance plus the reserve for investment guarantee. The assumptions used to determine the investment guarantee reserves are updated at each reporting date to reflect latest estimates.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows.

*Mortality and morbidity rates*
Assumptions are based on standard industry and national mortality table, according to the type of contract written and the territory in which the insured person resides, reflecting mortality experience and which are adjusted where appropriate to reflect the Company's own experience.

An increase in mortality rates will lead to an increase in anticipated deaths, which will increase the liabilities and reduce profits for the shareholders.

*Investment return*
The weighted average rate of return is derived based on the return of the existing assets backing the liabilities on the valuation date and the yield of the long term government fixed-security. These estimates are based on current market returns as well as expectations about future economic and financial developments and in accordance with the restrictions imposed by regulations.

An increase in investment return would lead to a reduction in liabilities and an increase in profits for the shareholders.

*Expense Reserve*
Provisions are made for future expenses occurring after paid-up of traditional life limited-pay products. The future expense assumptions are based on the Company's expense experience study as well as expectations on inflation.

Increase in renewal year expenses assumption would lead to an increase in expense reserve, which will increase the liabilities and reduce profits for the shareholders.

The assumptions that have the greatest effect on the statement of financial position and profit or loss of the Company are as follow:

| | |
|---|---|
| Investment return | 2.75% for HKD (2017: 2.58%), 3.05% for USD (2017: 2.84%) and 3.50% for RMB (2017: 3.50%) |
| Mortality rates | 90.4% of Modified HKA01 (2017: 91.3%) |
| Morbidity rates for CI Riders | Best estimated assumption with an additional 20% morbidity risk margin (2017: 20%) |
| Expense reserve | Provision for future expenses after paid up for all traditional limited pay products |

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Insurance risks (continued)**

(1) Life insurance contracts and investment contracts (continued)

(iii) Sensitivities

The Company issues contracts that provide protection against mortality risk and morbidity risk (including health, disability, critical illness and personal accident). The risk under an insurance contract is that an insured event occurs and the uncertainty of the amount and timing of the claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the estimated amount. Insurance events are random and the actual number and amount of claims and benefit will vary year to year from the estimate established using statistical techniques.

Experience shows that the variability of outcome is reduced by having a larger pool of contracts that insure similar risk. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as use of reinsurance arrangements. Catastrophe reinsurance is procured to limit catastrophic losses. It should be noted, however, that although the Company has reinsurance arrangements in place, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements.

It is the Company's policy that the trends and claims experience for insurance risks are continuously reviewed to ensure that the policies, guidelines and limits put in place to manage the risks remain adequate and appropriate.

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Insurance risks (continued)**

(1) Life insurance contracts and investment contracts (continued)
(iii) Sensitivities (continued)

The table below sets out the concentration of insured death benefits across five bands of benefits per individual life assured.

| Death benefit per life insured as at 31 December 2018 US$'000 | Gross death benefit US$ million | Reinsurers' share of death benefit US$ million | Net death benefit US$ million |
|---|---|---|---|
| 0-50 | 3,445 | ( 1,511) | 1,934 |
| 50-100 | 5,233 | ( 2,548) | 2,685 |
| 100-200 | 8,680 | ( 4,311) | 4,369 |
| 200-1,000 | 8,790 | ( 5,150) | 3,640 |
| Greater than 1,000 | 4,782 | ( 1,949) | 2,833 |
| Total | 30,930 | ( 15,469) | 15,461 |

| Death benefit per life insured as at 31 December 2017 US$'000 | Gross death benefit US$ million | Reinsurers' share of death benefit US$ million | Net death benefit US$ million |
|---|---|---|---|
| 0-50 | 3,536 | ( 1,487) | 2,049 |
| 50-100 | 5,089 | ( 2,432) | 2,657 |
| 100-200 | 8,437 | ( 3,982) | 4,455 |
| 200-1,000 | 6,817 | ( 3,846) | 2,971 |
| Greater than 1,000 | 4,215 | ( 1,760) | 2,455 |
| Total | 28,094 | ( 13,507) | 14,587 |

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Insurance risks (continued)**

(1) Life insurance contracts and investment contracts (continued)
(iii) Sensitivities (continued)

Sensitivity analyses produced below are based on the increase/decrease in mortality and morbidity experience in 2018 and 2017:

| | Impact on 2018 profit before tax | | Impact on 2017 profit before tax | |
|---|---|---|---|---|
| | Increase 10% | Decrease 10% | Increase 10% | Decrease 10% |
| | US$'000 | US$'000 | US$'000 | US$'000 |
| Mortality | | | | |
| Gross impact | (2,224) | 2,224 | (2,220) | 2,220 |
| Net of reinsurance | (2,116) | 2,116 | (2,120) | 2,120 |
| Morbidity | | | | |
| Gross impact | (4,156) | 4,156 | (3,699) | 3,699 |
| Net of reinsurance | (3,979) | 3,979 | (3,511) | 3,511 |

Assumptions:

(a) Mortality - increase/decrease of 10%
The impact was estimated as 10% of incurred claims within 2018, less the release in reserve. The impact due to interaction of additional claims and lapse of the underlying policies was not included in calculation. As the actuarial assumptions will not be changed due to temporary fluctuation in experience, there was no change in insurance liability in the calculation.

(b) Morbidity - increase/decrease of 10%
The impact was estimated as 10% of incurred claims within 2018, less the release in reserve. The impact due to interaction of additional claims and lapse of the underlying policies was not included in calculation. As the actuarial assumptions will not be changed due to temporary fluctuation in experience, there was no change in insurance liability in the calculation.

(c) Reinsurance: the same proportion (10%) was applied to the reinsurance recoverable. Impact on profit sharing was included.

A substantial portion of the Company's life insurance fund is participating in nature. In the event of volatile investment environment and/or unusual claims experience, the Company has the option of adjusting the bonus and dividends payable to policyholders.

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Insurance risks (continued)**

(1) Life insurance contracts and investment contracts (continued)
(iii) Sensitivities (continued)

Sensitivity analyses produced below are based on the increase/decrease in discount rate for the liabilities with regard to insurance contracts in 2018 and 2017:

| | Impact on 2018 profit before tax US$'000 | Impact on 2017 profit before tax US$'000 |
|---|---|---|
| Discount rate + 0.25% | 158,881 | 156,973 |
| Discount rate - 0.25% | (194,934) | (193,510) |

The base discount rates for HKD, USD and RMB for 2018 were 2.75% (2017: 2.58%), 3.05% (2017: 2.84%) and 3.50% (2017: 3.50%) respectively.

**Financial risks**

The Company is exposed to certain different financial risks, including credit risk, liquidity risk, and market risk. The Company applies a consistent risk management philosophy that is embedded in management processes and controls such that both existing and emerging risks are considered and addressed.

The following section summarises the Company's key risk exposures and the primary policies and processes used by the Company to manage its exposures to these risks.

(1) Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Although the primary source of credit risk is the Company's investment portfolio, credit risk also arises in reinsurance, settlement and treasury activities.

The level of credit risk the Company accepts is managed and monitored by the Asset and Liability Management Committee, through establishment of exposure limits for each counterparty or group of counterparties, reporting of credit risk exposures, monitoring compliance with exposure limits, and a regular review of limits due to changes in the macro-economic environment. The Company actively manages its investments to ensure that there is no significant concentration of credit risk.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder.

Management of the Company directs the Company's reinsurance placement policy and annually assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit ratings provided by rating agencies and other publicly available financial statements. The Company also monitors the recoverability of its reinsurance assets on an ongoing basis.

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Financial risks (continued)**

(1) Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Company at the end of the reporting period by classifying assets according to credit ratings of the counterparties.

31 December 2018

| | AAA US$'000 | AA US$'000 | A US$'000 | BBB US$'000 | BB US$'000 | B US$'000 | CCC US$'000 | C US$'000 | Not rated US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial assets | | | | | | | | | | |
| Held-to-maturity financial assets | - | 72,728 | 202,407 | 182,886 | 9,060 | - | - | - | - | 467,081 |
| Available-for-sale financial assets | 936,510 | 283,879 | 2,832,273 | 2,596,884 | 27,315 | 10,735 | - | - | 797,117 | 7,484,713 |
| Financial assets at fair value through profit or loss | - | 29,461 | 27,842 | 2,953 | - | - | - | - | 1,047,841 | 1,108,097 |
| Loans and receivables | - | - | 70,703 | - | - | - | - | - | 71,101 | 141,804 |
| Derivative financial instruments | - | - | 1,931 | - | - | - | - | - | - | 1,931 |
| Reinsurance assets | - | - | - | - | - | - | - | - | 1,652,133 | 1,652,133 |
| Deposits and other receivables | - | - | - | - | - | - | - | - | 89,856 | 89,856 |
| Insurance receivables | - | - | - | - | - | - | - | - | 114,229 | 114,229 |
| Due from a subsidiary | - | - | - | - | - | - | - | - | 6,563 | 6,563 |
| Due from fellow subsidiaries | - | - | - | - | - | - | - | - | 5,167 | 5,167 |
| Due from a related company | - | - | - | - | - | - | - | - | 7,143 | 7,143 |
| Cash and cash equivalents | - | 183 | 527,382 | 3,686 | - | - | - | - | 3 | 531,254 |
| Total assets | 936,510 | 386,251 | 3,662,538 | 2,786,409 | 36,375 | 10,735 | - | - | 3,791,153 | 11,609,971 |

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Financial risks (continued)**

(1) Credit risk (continued)

31 December 2017

| | AAA US$'000 | AA US$'000 | A US$'000 | BBB US$'000 | BB US$'000 | B US$'000 | CCC US$'000 | C US$'000 | Not rated US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial assets | | | | | | | | | | |
| Held-to-maturity financial assets | - | 72,850 | 213,272 | 183,183 | 11,063 | - | - | - | - | 480,368 |
| Available-for-sale financial assets | 819,225 | 251,409 | 2,713,639 | 2,542,876 | 9,056 | 9,283 | - | - | 724,002 | 7,069,490 |
| Financial assets at fair value through profit or loss | 446 | 39,773 | 46,971 | 2,840 | - | - | - | - | 998,972 | 1,089,002 |
| Loans and receivables | - | - | 67,205 | - | - | - | - | - | 78,878 | 146,083 |
| Derivative financial instruments | - | - | 3,447 | - | - | - | - | - | - | 3,447 |
| Reinsurance assets | - | - | - | - | - | - | - | - | 1,430,594 | 1,430,594 |
| Deposits and other receivables | - | - | - | - | - | - | - | - | 87,472 | 87,472 |
| Insurance receivables | - | - | - | - | - | - | - | - | 104,216 | 104,216 |
| Due from fellow subsidiaries | - | - | - | - | - | - | - | - | 2,056 | 2,056 |
| Due from a related company | - | - | - | - | - | - | - | - | 1,269 | 1,269 |
| Due from a subsidiary | - | - | - | - | - | - | - | - | 68 | 68 |
| Other assets | - | - | - | - | - | - | - | - | 2,467 | 2,467 |
| Cash and cash equivalents | - | 86 | 408,783 | 2,437 | - | - | - | - | 2 | 411,308 |
| Total assets | 819,671 | 364,118 | 3,453,317 | 2,731,336 | 20,119 | 9,283 | - | - | 3,429,996 | 10,827,840 |

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Financial risks (continued)**

(2) Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet payment obligations when they become due. The Company is exposed to liquidity risk in respect of insurance and investment contracts that permit surrender, withdrawal or other forms of early termination for a cash surrender value specified in the contractual terms and conditions.

To manage liquidity risk the Company has implemented a variety of measures, with an emphasis on flexible insurance product design, so that it can retain the greatest flexibility to adjust contract pricing or crediting rates. The Company also seeks to match, to the extent possible and appropriate, the duration of its investment assets with the duration of its insurance and investment contracts. The Company performs regular monitoring of its liquidity position through cash flow projections.

The table below summarises financial assets and liabilities of the Company into relevant maturity groupings based on the remaining period at the end of the reporting period to their contractual maturities or expected repayment dates. Most of the Company's assets are used to support its insurance and investment contract liabilities, which are not shown in the table below. Refer to notes 26 and 27 for additional information on the Company's insurance and investment contract liabilities, respectively, as well as the insurance risks section within note 36.

31 December 2018

| | Less than 1 year US$'000 | 1 to less than 3 years US$'000 | 3-5 years US$'000 | Over 5 years US$'000 | No term US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| Financial assets | | | | | | |
| Held-to-maturity financial assets | - | 37,450 | 144,746 | 284,885 | - | 467,081 |
| Available-for-sale financial assets | 490,603 | 673,141 | 1,163,458 | 4,386,417 | 771,094 | 7,484,713 |
| Financial assets at fair value through profit or loss | 7,284 | 21,209 | 21,094 | 10,669 | 1,047,841 | 1,108,097 |
| Loans and receivables | 1,208 | 508 | 1,578 | 73,650 | 64,860 | 141,804 |
| Derivative financial instruments | 1,182 | 421 | 328 | - | - | 1,931 |
| Deposits and other receivables | 84,566 | 5,290 | - | - | - | 89,856 |
| Insurance receivables | 114,229 | - | - | - | - | 114,229 |
| Due from a subsidiary | 6,563 | - | - | - | - | 6,563 |
| Due from fellow subsidiaries | 5,167 | - | - | - | - | 5,167 |
| Due from a related company | 7,143 | - | - | - | - | 7,143 |
| Cash and cash equivalents | 531,254 | - | - | - | - | 531,254 |
| Total assets | 1,249,199 | 738,019 | 1,331,204 | 4,755,621 | 1,883,795 | 9,957,838 |
| Insurance contract liabilities | 1,848,931 | 126,969 | 135,928 | 8,065,692 | 497,186 | 10,674,706 |
| Investment contract liabilities | 15,934 | 33,186 | 17,487 | 37,038 | 218,400 | 322,045 |
| Due to subsidiaries | 7,739 | - | - | - | - | 7,739 |
| Due to fellow subsidiaries | 3,233 | - | - | - | - | 3,233 |
| Due to related companies | 7,837 | - | - | - | - | 7,837 |
| Financial liabilities | | | | | | |
| Derivative financial instruments | 4,232 | 4,434 | - | - | - | 8,666 |
| Other liabilities | 5,856 | - | - | - | - | 5,856 |
| Other payable and liabilities | 159,342 | - | - | - | - | 159,342 |
| Total liabilities | 2,053,104 | 164,589 | 153,415 | 8,102,730 | 715,586 | 11,189,424 |

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Financial risks (continued)**

(2) Liquidity risk (continued)

31 December 2017

| | Less than 1 year US$'000 | 1 to less than 3 years US$'000 | 3-5 years US$'000 | Over 5 years US$'000 | No term US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| Financial assets | | | | | | |
| Held-to-maturity financial assets | 2,641 | 12,078 | 125,810 | 339,839 | - | 480,368 |
| Available-for-sale financial assets | 210,041 | 643,007 | 833,019 | 4,660,486 | 722,937 | 7,069,490 |
| Financial assets at fair value through profit or loss | 8,965 | 25,231 | 31,025 | 24,809 | 998,972 | 1,089,002 |
| Loans and receivables | 4,688 | 1,858 | 2,978 | 72,695 | 63,864 | 146,083 |
| Derivative financial instruments | 40 | 2,964 | 443 | - | - | 3,447 |
| Deposits and other receivables | 82,861 | 4,611 | - | - | - | 87,472 |
| Insurance receivables | 104,216 | - | - | - | - | 104,216 |
| Due from a subsidiary | 68 | - | - | - | - | 68 |
| Due from fellow subsidiaries | 2,056 | - | - | - | - | 2,056 |
| Due from a related company | 1,269 | - | - | - | - | 1,269 |
| Other assets | 2,467 | - | - | - | - | 2,467 |
| Cash and cash equivalents | 411,308 | - | - | - | - | 411,308 |
| Total assets | 830,620 | 689,749 | 993,275 | 5,097,829 | 1,785,773 | 9,397,246 |
| Insurance contract liabilities | 1,565,954 | 77,300 | 92,579 | 7,563,767 | 572,445 | 9,872,045 |
| Investment contract liabilities | 12,598 | 31,113 | 20,813 | 39,542 | 258,608 | 362,674 |
| Due to subsidiaries | 737 | - | - | - | - | 737 |
| Due to fellow subsidiaries | 7,737 | - | - | - | - | 7,737 |
| Due to related companies | 3,275 | - | - | - | - | 3,275 |
| Financial liabilities | | | | | | |
| Derivative financial instruments | 8,524 | 1,954 | 2,042 | - | - | 12,520 |
| Other payable and liabilities | 130,901 | - | - | - | - | 130,901 |
| Total liabilities | 1,729,726 | 110,367 | 115,434 | 7,603,309 | 831,053 | 10,389,889 |

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Financial risks (continued)**

(3) Market risk

(i) Currency risk

The Company's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities, which serves to mitigate the foreign currency exchange risk arising from recognised assets and liabilities denominated in currencies other than those in which insurance and investment contract liabilities are expected to be settled. The level of currency risk the Company accepts is managed and monitored by the Asset and Liability Management Committee of the Company, through regular monitoring of currencies position of financial assets and insurance and investment contracts.

The Company's financial assets and liabilities are primarily denominated in United States dollars and Hong Kong dollars, for which the exchange rates have remained stable for the years ended 31 December 2018 and 2017.

At 31 December 2018, assets denominated in United States dollars and Hong Kong dollars accounted for 71% (2017: 73%) and 25% (2017: 23%) of the Company's total assets, respectively, and liabilities denominated in United States dollars and Hong Kong dollars accounted for 44% (2017: 47%) and 53% (2017: 50%) of the Company's total liabilities respectively. The Company has more United States dollar denominated assets than it has corresponding United States dollar denominated liabilities due to the much deeper pool of investment assets available in United States dollars. As a result, some of the United States dollar denominated assets are used to back Hong Kong dollar denominated liabilities. This currency mismatch is then hedged, using forward currency contracts, to reduce the currency risk.

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Financial risks (continued)**

(3) Market risk (continued)

(ii) Interest rate risk

The Company's exposure to interest rate risk predominantly arises from any difference between the tenor of the Company's liabilities and assets, or any difference between the return on investments and the return required to meet the Company's commitments, predominantly its traditional insurance liabilities. This exposure is heightened in products with inherent interest rate options or guarantees.

The Company seeks to manage interest rate risk by ensuring appropriate product design and underlying assumptions as part of the product approval process and by matching, to the extent possible and appropriate, the duration of investment assets with the duration of insurance and investment contracts. Given the long duration of policy liabilities and the uncertainty of future cash flows arising from these contracts, it is not possible to acquire assets that will perfectly match the policy liabilities. This results in interest rate risk, which is managed and monitored by the Asset and Liability Management Committee of the Company. The duration of interest bearing financial assets is regularly reviewed and monitored by referencing the estimated duration of insurance contract liabilities.

The analysis below illustrates the sensitivity of shareholders' equity to changes in interest rates. The analysis illustrates the impact of changing interest rates in isolation, and does not quantify potential impacts arising from changes in other assumptions.

The Company has no significant concentration of interest rate risk.

In the analysis, it is assumed that the discount rates for the liabilities with regard to insurance contracts remain unchanged.

| | | Impact on equity | |
|---|---|---|---|
| Currency | Change in variables | 31 December 2018 US$'000 | 31 December 2017 US$'000 |
| USD | +25 basis points | (109,854) | (117,661) |
| HKD | +25 basis points | ( 5,873) | ( 7,155) |
| USD | -25 basis points | 109,854 | 117,661 |
| HKD | -25 basis points | 5,873 | 7,155 |

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Financial risks (continued)**

(3) Market risk (continued)

(iii) Price risk

The Company's equity price risk exposure relates to financial assets and liabilities whose values fluctuate as a result of changes in equity market prices, principally investment securities not held for the account of investment-linked policyholders.

The Company manages these risks by setting and monitoring investment limits in each country and sector.

The analysis below is performed for reasonably possible movements in Hang Seng Index with all other variables held constant, showing the impact on equity.

| | | Impact on equity | |
|---|---|---|---|
| | Change in variables | 31 December 2018 US$'000 | 31 December 2017 US$'000 |
| Hang Seng Index | +5% | 4,056 | 9,006 |
| Hang Seng Index | -5% | (4,056) | (9,006) |

**Capital Management**

The Company's capital management objective is focused on maintaining a strong capital base to safeguard the Company's ability to continue as a going concern in view of its risk exposures, to support the development of the business, maximise shareholders' value and to ensure that the Company complies with regulatory capital requirements.

The Company determines its internal capital target with considerations of the regulatory capital requirements, the Company strategic planning and the capital buffer to maintain in view of the various risk exposures. Capital risk metrics and thresholds are established within the Company risk appetite, by which the risk ratings on the Company solvency is regularly assessed. The risk ratings are reported in the risk dashboard delivered to the board and senior executives. Sensitivity testing on current and projected capital position under adverse scenarios are performed annually and oversight by the board and senior executives.

The Company complied with all regulatory capital requirements during the year. The Company's insurance regulator is the independent Insurance Authority (the "IIA"), which requires that the Company meet the solvency margin requirements of the Hong Kong Insurance Ordinance ("HKIO"). The HKIO (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The IIA requires the Company to maintain an excess of assets over liabilities of not less than the required minimum solvency margin. The amount required under the HKIO is 100 per cent of the required minimum solvency margin.

The required margin of solvency is determined by the Company's appointed actuary who lead the actuarial function. The actuarial function plays a key role in capital management in addition to its ordinary function of actuarial valuations, pricing and asset & liability management.

36. INSURANCE AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

**Capital Management (continued)**

The capital position of the Company at 31 December 2018 and 31 December 2017 according to the Section 10 of the HKIO are as follows:

Company

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Total available capital | 874,289 | 821,140 |
| Required capital | 328,057 | 304,802 |
| Solvency ratio | 267% | 269% |

The Company defines "total available capital" as the amount of assets in excess of liabilities measured in accordance with the HKIO and "required capital" as the minimum required margin of solvency calculated in accordance with the HKIO. The "solvency ratio" is the ratio of total available capital to required capital.

The Company is also required to meet the capital requirements set and regulated by the Hong Kong Securities and Futures Ordinance (the "SFO"). The SFO (among other matters) set minimum liquid capital requirements for the Company to carry on regulated activities of asset management (type 9) under the SFO. The SFO requires the Company to maintain an excess of liquid assets over the required minimum liquid capital. The amount required under the SFO is 100 per cent of the required minimum liquid capital.

The capital position of the Company at 31 December 2018 and 31 December 2017 according to the minimum liquid capital requirement under the SFO are as follows:

Company

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Liquid capital as at 31 December | 839,195 | 1,116,136 |
| Required minimum liquid capital | 443,395 | 352,252 |

The Company defines liquid capital as the amount of liquid assets in excess of ranking liabilities measured in accordance with the SFO and "required minimum liquid capital" as the minimum required liquid capital calculated in accordance with the SFO.

37. EVENTS AFTER REPORTING PERIOD

The Company has agreed to acquire a 49% interest in HSBC Amanah Takaful (Malaysia) Berhad in Malaysia for a consideration of approximately US$25,000,000. Regulatory approval has been obtained from Bank Negara Malaysia in 2018, and the Company has also received no objection letters for the acquisition from the Insurance Authority in Hong Kong and the Bermuda Monetary Authority in January 2019. The acquisition is expected to be closed after all cutover procedures are completed in March 2019. On 18 March 2019, US$25,000,000 was injected by the immediate holding company, FWD Management Holdings Limited, by way of subscription of 25 million ordinary shares of the Company at an issue price of US$1 each.

On 13 March 2019, the Company issued 37,100 non-voting preference shares of US$1,000 each to its intermediate holding company, FWD Limited, with a total consideration of US$37,100,000.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements was approved and authorised for issue by the board of directors on 29 March 2019.