IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES.

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT OR OTHERWISE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON, MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: This Offering Circular is being sent at your request and by accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to the Issuer and Morgan Stanley & Co. International plc, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Mizuho Securities Asia Limited, Standard Chartered Bank and UBS AG Hong Kong Branch, as the joint lead managers (the "**Joint Lead Managers**") that (1) you and any customers you represent are not, and the electronic mail address that you gave to the Issuer and to which this e-mail has been delivered is not located in the United States and, to the extent you purchase the securities described in the Offering Circular, you will be doing so pursuant to Regulation S under the Securities Act and (2) you consent to delivery of such Offering Circular and any amendments and supplements thereto by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer, the Joint Lead Managers or any agent of the foregoing of the securities or the Joint Lead Managers to subscribe for or purchase any of the securities described herein, and access has been limited so that it shall not constitute directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or its affiliates on behalf of the Issuer in such jurisdiction.

IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED DOCUMENT OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES, INVESTORS MUST BE OUTSIDE THE UNITED STATES AND COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED DOCUMENT ON THE BASIS THAT YOU HAVE CONFIRMED TO THE JOINT LEAD MANAGERS THAT YOU AND ANY CUSTOMER YOU REPRESENT ARE OUTSIDE THE UNITED STATES AND THAT, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED DOCUMENT, YOU WILL BE DOING SO IN AN OFFSHORE TRANSACTION, AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT, IN COMPLIANCE WITH REGULATION S.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of PCGI Intermediate Limited, PCGI Limited, the Joint Lead Managers or any person who controls PCGI Intermediate Limited, PCGI Limited, the Joint Lead Managers, or any director, officer, employee or agent of PCGI Intermediate Limited, PCGI Limited or the Joint Lead Managers, nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic mail is at your own risk, and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

PCGI Intermediate Limited

(incorporated with limited liability under the laws of the Cayman Islands)

U.S.$250,000,000 4.75 per cent. Guaranteed Notes due 2024

Guaranteed by

PCGI Limited

(incorporated with limited liability under the laws of the Cayman Islands)

Issue Price: 100.00 per cent.

The U.S.$250,000,000 4.75 per cent. Guaranteed Notes due 2024 (the "**Notes**") will be issued by PCGI Intermediate Limited (the "**Issuer**") and the due and punctual payment of all sums payable by the Issuer in respect of the Notes will be unconditionally and irrevocably guaranteed (the "**Guarantee**") by PCGI Limited (the "**Guarantor**"). The Notes will constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 (*Negative Pledge*) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer ranking *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Interest on the Notes is payable semi-annually in arrear on 28 April and 28 October in each year, commencing on 28 April 2020. Payments on the Notes will be made without deduction for or on account of taxes of the Cayman Islands to the extent described under "*Terms and Conditions of the Notes—Taxation*".

The Notes mature on 28 October 2024 at their principal amount but may be redeemed before then at the option of the Issuer, in whole but not in part, at any time at their Make Whole Redemption Price (as defined in the Terms and Conditions of the Notes), together with interest accrued but unpaid to the date fixed for redemption. See "*Terms and Conditions of the Notes—Redemption and Purchase— Redemption at the option of the Issuer*". The Notes are subject to redemption, in whole but not in part, at their principal amount, together with interest accrued to the date fixed for redemption, at the option of the Issuer at any time in the event of certain changes affecting taxes of the Cayman Islands. See "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption for tax reasons*". The Notes may be redeemed at the option of the holders of the Notes at 101 per cent. of their principal amount together with interest accrued to the date fixed for redemption following the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes). See "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption for Change of Control*". The Notes may also be redeemed at the option of the Issuer in whole, but not in part, at 101 per cent. of the outstanding principal amount of the Notes if an Initial Public Offering (both as defined in the Terms and Conditions of the Notes) has occurred. See "*Terms and Conditions of the Notes—Redemption and Purchase— Redemption upon an initial public offering*".

Application has been made to The Stock Exchange of Hong Kong Limited (the "**SEHK**") for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. **This document is for distribution to Professional Investors only. Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Notes, the Issuer, the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 15 for a description of certain factors to be considered in connection with an investment in the Notes.

The Notes and the Guarantee have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered in offshore transactions outside the United States by the Joint Lead Managers (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*".

The Notes will be represented by beneficial interests in a global note certificate (the "**Global Note Certificate**") in registered form, without interest coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about 28 October 2019 (the "**Closing Date**") with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Note Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for interests in the Global Note Certificate.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

Morgan Stanley	**HSBC**	**J.P. Morgan**	**Mizuho Securities**	**Standard Chartered Bank**	**UBS**

This Offering Circular is dated 23 October 2019

IMPORTANT NOTICE

The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and their respective subsidiaries (collectively, the "**Group**"), and the Notes, that is material in the context of the issue and offering of the Notes and the Guarantee (including all information which, according to the particular nature of the Issuer, the Guarantor and the Group, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Guarantor and the Group and of the rights attaching to the Notes and the Guarantee); (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor, the Group, their affiliates and the Notes are in all material respects true and accurate and not misleading; (iii) the opinions and intentions relating to the Issuer, the Guarantor and the Group expressed in this Offering Circular are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other material facts relating to the Issuer, the Guarantor, the Group, their affiliates the Notes and the Guarantee, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular, in light of the circumstances under which it was made, misleading; and (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Notes described in this Offering Circular. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons who are in possession of this Offering Circular are required by each of the Issuer, the Guarantor and Morgan Stanley & Co. International plc, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Mizuho Securities Asia Limited, Standard Chartered Bank and UBS AG Hong Kong Branch (together, the "**Joint Lead Managers**"), and the Agents (as defined in "*Terms and Conditions of the Notes*") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the possession or distribution of this Offering Circular or any offering or publicity material relating to the Notes in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. By purchasing the Notes, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

No person has been or is authorised in connection with the issue, offer or sale of the Notes to give any information or to make any representation concerning the Issuer, the Guarantor, the Group and the Notes other than as contained herein, and if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Group, the Joint Lead Managers or the Agents or any of their respective affiliates. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably and likely to involve a change in the affairs of the Issuer, the Guarantor or the Group, or any of them since the date hereof, or create any implication that the information contained herein is correct as at any date subsequent to the date of such information. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers or the Agents or any of their respective affiliates to subscribe for or purchase any of the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular is being furnished by the Issuer in connection with the offering of the Notes solely for the purpose of enabling a prospective investor to consider purchasing the Notes. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer and other sources identified in this Offering Circular. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Notes offered by this Offering Circular is prohibited. Each offeree of the Notes, by accepting delivery of this Offering Circular, agrees to the foregoing.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers or the Agents or any of their respective affiliates, directors or advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Notes, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Agents or any of their respective affiliates. The Joint Lead Managers, the Agents and their respective affiliates have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Agents or any of their respective affiliates, directors or advisers accepts any responsibility for the contents of this Offering Circular or any statement made or purported to be made by any such person or on its behalf in connection with the Issuer, the Group or the issue and offering of the Notes. Each of the Joint Lead Managers, the Agents and their respective affiliates, directors or advisers accordingly disclaims all and any liability whether arising in tort or contract or otherwise that it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Agents or any of their respective affiliates, directors or advisers undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Joint Lead Managers, the Agents or their respective affiliates.

This Offering Circular is not intended to provide the basis of any credit or other evaluation, nor should it be considered as a recommendation by the Issuer, the Guarantor, the Joint Lead Managers or the Agents that any recipient of this Offering Circular should purchase the Notes. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular, and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

Any of the Joint Lead Managers and their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separated from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Group.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer, the Guarantor and the Group. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular. Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Group and the Terms and Conditions, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers or any person affiliated with the Joint Lead Managers in connection with its investigation of the accuracy of such information or its investment decision.

Investors are advised to read and understand the contents of this Offering Circular before investing. If in doubt, an investor should consult his or her adviser.

Under the Cayman Islands Data Protection Law, 2017 and, in respect of EU data subjects, the EU General Data Protection Regulation (together, the "Data Protection Legislation"), individual data subjects have rights and the Issuer as data controller has obligations with respect to the processing of personal data by the Issuer and its affiliates and delegates. Breach of the Data Protection Legislation by the Issuer could lead to enforcement action.

Prospective investors should note that personal data may in certain circumstances be required to be supplied to the Issuer in order for an investment in the Notes to continue or to enable the Notes to be redeemed. If the required personal data is not provided, a prospective investor will not be able to continue to invest in the Notes or to redeem the Notes.

The Issuer has published a privacy notice (the "**Data Privacy Notice**"), which provides prospective investors with information on the Issuer's use of their personal data in accordance with the Data Protection Legislation. The location and means of accessing the Data Privacy Notice is specified in the "General Information" Section of this Offering Circular.

IN CONNECTION WITH THE ISSUE OF THE NOTES, THE JOINT LEAD MANAGER APPOINTED AND ACTING IN ITS CAPACITY AS STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE JOINT LEAD MANAGER) (THE "STABILISATION MANAGER") MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER STABILISATION MAY NOT OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Listing of the Notes on the SEHK is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor and the Group and the terms of the offering of the Notes, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes. The Issuer, the Guarantor, the Group, the Joint Lead Managers and the Agents and their respective affiliates are not making any representation to any purchaser of the Notes regarding the legality of any investment in the Notes by such purchaser under any legal investment or similar laws or regulations.

The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Agents or any of their respective affiliates in connection with its investigation of the accuracy of such information or its investment decision.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Issuer and the Guarantor believe this information to be reliable, it has not been independently verified by the Issuer, the Guarantor, the Joint Lead Managers, the Agents or their respective directors, advisers and affiliates, and none of the Issuer, the Guarantor, the Joint Lead Managers, the Agents or their respective directors, advisers, affiliates or employees makes any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants, and such information may not have been independently verified. This Offering Circular summarises certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents.

The contents of this Offering Circular have not been reviewed by any regulatory authority in any jurisdiction. Investors are advised to exercise caution in relation to the offering of the Notes. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018).

FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Description of the Group*" and elsewhere in this Offering Circular constitute "forward-looking statements". Words such as "believe", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward-looking statements. However, these words are not the exclusive means of identifying forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position and results of operations, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward-looking statements speak only as of the date of this Offering Circular. Each of the Issuer and the Guarantor expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results, performances or achievements of the Group to differ materially from the Group's expectations. All subsequent written and forward-looking statements attributable to the Group or persons acting on behalf of the Group are expressly qualified in their entirety by such cautionary statements.

CERTAIN TERMS AND CONVENTIONS

Except as otherwise indicated or required by context, all references in this Offering Circular to the “Group” are to the Issuer, the Guarantor and their respective subsidiaries taken as a whole. References to “FWD Limited” are to FWD Limited and its subsidiaries taken as a whole, unless the context requires otherwise and relates solely to FWD Limited.

Unless otherwise specified or the context otherwise requires, references to “Hong Kong” are to the Hong Kong Special Administrative Region of the PRC, “Macau” are to the Macau Special Administrative Region of the PRC, “PRC” are to the People’s Republic of China (excluding, for the purposes of this Offering Circular only, Hong Kong, Macau and Taiwan), “U.S.” or “United States” are to the United States of America, “Hong Kong dollars”, “HK dollars” or “HK$” are to the lawful currency of Hong Kong, “Macau pataca” or “MOP” are to the lawful currency of Macau, “Malaysian Ringgit” or “RM” are to the lawful currency of Malaysia, “Renminbi” or “RMB” are to the lawful currency of the PRC, “U.S. dollars” or “U.S.$” are to the lawful currency of the United States and “Vietnam dong” or “VND” is to the lawful currency of Vietnam.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items, and actual numbers may differ from those contained herein due to rounding.

PRESENTATION OF FINANCIAL INFORMATION

The Issuer was incorporated on 26 April 2019 and does not have any financial statements as at the date of this Offering Circular.

The Guarantor's audited financial statements as at and for the years ended 31 December 2017 and 31 December 2018 (the "**Guarantor's Audited Annual Financial Statements**") have been prepared in accordance with International Financial Reporting Standards ("IFRS") except that the Guarantor has not prepared consolidated financial statements of the Guarantor and its subsidiaries which are required by IFRS 10 "Consolidated Financial Statements" because, in the opinion of the directors of the Guarantor, compliance with this requirement would involve expenses and delay and be out of proportion to the value to the shareholder of the Guarantor. As a consequence, the financial statements do not give all the information required about the economic activities of the Group of which the Guarantor is the parent.

As the Guarantor's assets principally consist of its holding of shares in FWD Limited, the Issuer and the Guarantor have also included FWD Limited's audited consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2018, and FWD Limited's unaudited unreviewed consolidated financial statements as at and for the periods ended 30 June 2018 and 30 June 2019. FWD Limited's audited consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2018, and the unaudited unreviewed consolidated financial statements for the periods ended 30 June 2018 and 30 June 2019, have been prepared in accordance with IFRS. However, prospective investors should note that the Guarantor holds approximately 75.4 per cent. of the issued share capital in FWD Limited and financial information in relation to FWD Limited contained herein should be construed accordingly.

FWD Limited's unaudited unreviewed financial statements as at and for the periods ended 30 June 2018 and 30 June 2019 have been included by the Issuer and the Guarantor in this Offering Circular to provide potential investors with the same information as will be available to certain other investors in FWD Limited. They have not been audited or reviewed by the auditor of FWD Limited and have not been prepared by FWD Limited for an audit or review. No procedures have been conducted on these financial statements by any independent auditor or other party and the financial statements should therefore be treated as the information solely of FWD Limited and for which FWD Limited takes sole responsibility. Consequently, the financial information should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate FWD Limited's financial condition, results of operations and results. No representation as to the sufficiency and accuracy of such financial statements is or has been made.

FWD Limited is not providing a guarantee or any credit support for the issue of the Notes by the Issuer.

The International Accounting Standards Board ("**IASB**") issued IFRS 17 in May 2017, which will significantly change the presentation and measurement of insurance contracts, including the calculation of reserves and the impact of reinsurance. The effective date of the standard is 1 January 2021, but the IASB has tentatively decided to defer the effective date to 1 January 2022.

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the meaning when used in this Summary. Prospective investors should therefore read this Offering Circular in its entirety.

OVERVIEW

The Issuer was incorporated as an exempted company on 26 April 2019 in the Cayman Islands, with its registered office at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands. The Issuer was established by the Guarantor specifically for the purpose of issuing notes (including the Notes). The Issuer is wholly owned by the Guarantor.

The Guarantor was incorporated as an exempted company on 3 January 2012 in the Cayman Islands. The registered office of the Company is located at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands. The principal activity of the Company is investment holding and its assets consist of its holdings of shares in FWD Limited. As at the date of this Offering Circular, the Guarantor holds 75.4% of the issued share capital of FWD Limited.

The Guarantor is wholly-owned by the Shareholder.

FWD Limited comprises life insurance, general insurance, family takaful insurance, employee benefits and financial planning businesses in Hong Kong, Macau and Malaysia, including the tenth largest life insurance company in Hong Kong on an APE basis as of 30 June 2019 (according to IA statistics) and the eighth largest life insurance company in Macau on a GWP basis as of 30 June 2019 (according to AMCM statistics). The businesses within FWD Limited have operated for 35 years in Hong Kong, for 20 years in Macau and for 13 years in Malaysia. FWD Limited believes it has a strong reputation in each market for delivering innovative products and superior customer service. FWD Limited also benefits from the experience of its two beneficial shareholders, Richard Li and Swiss Re.

On 22 March 2019, its Hong Kong affiliate, FWD Life Insurance Company (Bermuda) Limited, acquired a 49 per cent. interest in HSBC Amanah Takaful (Malaysia) Bhd. in Malaysia ("**FWD Malaysia**") for a total consideration of U.S.$25 million. As part of the agreement, FWD Malaysia also entered into a five-year distribution partnership with HSBC Amanah Malaysia Bhd.

On 28 June 2019, FWD Limited announced that it had agreed to acquire 100 per cent. of MetLife Limited and 100 per cent. of Metropolitan Life Insurance Company of Hong Kong Limited (together the "MetLife Transaction"). The transaction is subject to regulatory approvals and FWD Limited plans to merge the businesses with its existing business in Hong Kong after the transaction is approved and completed. The acquisition, once completed, is expected to solidify FWD Limited's position as a top ten life insurer in Hong Kong, with an increase of over 900 agents and 110,000 customers.

For the years ended 31 December 2016, 2017 and 2018, MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited recorded total gross premiums[1] of approximately HK$3,129 million, HK$4,254 million and HK$3,879 million, respectively, and a net income of HK$103 million and HK$1,244 million for the years ended 31 December 2016 and 2018, respectively. For the year ended 31 December 2017, MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited recorded a net loss of

[1] Financial information relating to MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited included in this Offering Circular includes MetLife's operations in Vietnam, which will be carved out prior to completion of the MetLife Transaction.

HK$713 million. Such financial information has been provided by MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited for the purposes of evaluating the MetLife Transaction and has not been independently verified by the Issuer, the Guarantor, FWD Limited or the Joint Lead Managers. MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited's financial information was prepared in accordance with Hong Kong financial reporting standards and thus may not be directly comparable with FWD Limited's financial information presented elsewhere in this Offering Circular.

For more information on the risks related to the MetLife Transaction, see "*Risk Factors – There may be delays in completing the MetLife Transaction.*", "*Risk Factors – FWD Limited may not realise the expected benefits of the MetLife Transaction.*" And "*Risk Factors – FWD Limited's historical consolidated financial statements do not reflect the effect of the MetLife Transaction and there is limited financial and other information relating to MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited in this Offering Circular.*".

As of 30 June 2019, FWD Limited had total assets of U.S.$16,908.5 million and total equity of U.S.$2,703.7 million. For FY2018 and HY2019, FWD Limited had a profit after income tax expenses from continuing operations of U.S.$6.7 million and a loss after income tax expenses from continuing operations of U.S.$18.1 million, respectively.

Life insurance is FWD Limited's largest business line. FWD Limited's life insurance subsidiaries, FWD Life Hong Kong and FWD Life Macau, produced profit after income tax expenses of U.S.$67.9 million and U.S.$19.6 million, respectively, for the year ended 31 December 2018 and the six months ended 30 June 2019. For the year ended 31 December 2018 and the six months ended 30 June 2019, the VNB of FWD Life Hong Kong was U.S.$142.8 million and U.S.$89.5 million, respectively, representing VNB margins of 39.5 per cent. and 37.9 per cent., respectively. For the year ended 31 December 2018 and the six months ended 30 June 2019, the VNB of FWD Life Macau was U.S.$3.8 million and U.S.$1.9 million, respectively, representing VNB margins of 72.8 per cent. and 71.9 per cent., respectively. For the period from acquisition (22 March 2019) to 30 June 2019, FWD Malaysia produced a loss after income tax expense of U.S.$3.0 million and produced VNB of U.S.$0.1 million, representing a VNB margin of 6.8 per cent.

FWD Limited also places strategic importance on its general insurance business to generate profit and to acquire new customers. FWD Limited's general insurance subsidiary, FWD General Insurance, produced profit after income tax expenses of U.S.$2.7 million and U.S.$2.4 million for the year ended 31 December 2018 and the six months ended 30 June 2019, respectively.

FWD Limited's focus on value creation is evidenced by the strong growth in VNB in recent periods, as over the three years ended 30 June 2019, the compound annual growth rate ("CAGR") of the Life Businesses' VNB was 16.8 per cent. FWD Limited strives to maintain a well-balanced distribution platform, including agency, bancassurance, brokerage and other channels. For the six months ended 30 June 2019, the agency, bancassurance, brokerage and other channels represented 37.4 per cent., 29.4 per cent., 26.7 per cent. and 6.5 per cent., respectively, of the Life Businesses' APE.

For the half year ended 30 June 2019, approximately 34 per cent. of FWD Life Hong Kong's sales were to PRC customers, and PRC customers have accounted for a significant amount of the new business premiums paid by individuals in the Hong Kong insurance market in the past few years. In particular, FWD Limited recorded a 45 per cent. year on year growth in percentage of new business issued to customers based in PRC for the year ended 31 December 2018 (as opposed to a 9 per cent. increment across the market) and a 42 per cent. year on year growth in percentage of new business issued to customers based in PRC (as opposed to a 23 per cent. increment across the market) for the six months ended 30 June 2019.

On 30 June 2016, FWD Limited acquired a 100 per cent. interest in Great Eastern (Life) Co. Ltd (Vietnam) in Vietnam ("Great Eastern") for a total consideration of U.S.$35.9 million. Following the acquisition, the company has become a wholly-owned subsidiary of FWD Life Hong Kong and was rebranded as FWD Vietnam

Life Insurance Company Limited ("FWD Vietnam"). FWD Vietnam is currently accounted for as 'Held for Sale' in FWD Limited's unaudited unreviewed consolidated financial statements for HY2019. Subject to regulatory approval, FWD Limited intends to transfer FWD Vietnam in the near future to FWD Group Financial Services Pte. Ltd. as part of a corporate restructuring exercise. The transfer amount paid to FWD Life Hong Kong will be equivalent to the total amount invested in FWD Vietnam at the time of the transfer, resulting in no gain or loss for FWD Life Hong Kong.

On 3 August 2016, FWD Limited entered into an agreement to sell its MPF and ORSO business, including the pension trustee company, FWD Pension Trust, to Sun Life Hong Kong Limited ("Sun Life"). FWD Limited and Sun Life have also entered into a 15-year strategic distribution agreement allowing FWD Life Hong Kong to distribute Sun Life's MPF products in the Hong Kong market as Sun Life's principal intermediary. The transfer of the shares of FWD Pension Trust and the MPF business (excluding policies relating to MPF products classified under Class G of Long Term Business under the Hong Kong Insurance Ordinance) ("Class G Policies") was completed on 3 October 2017. The transfer of the ORSO business and the Class G Policies to Sun Life is expected to be completed in 2020, subject to regulatory approvals.

FWD LIMITED'S COMPETITIVE STRENGTHS

FWD Limited believes that it benefits from the following key competitive strengths:

- Balanced multi-channel distribution;
- Diversified product portfolio to meet customer needs;
- Strong relationships with customers;
- Established track-record with solid market positioning;
- Stable and prudent financial profile; and
- Experienced management team.

THE GROUP'S STRATEGY

The Group seeks to implement the following key business strategies to capitalise on future growth opportunities:

- Focus on value creation;
- Expand multi-channel distribution;
- Create a differentiated brand through "customer-centricity"; and
- Maintain financial discipline.

SUMMARY FINANCIAL AND OTHER INFORMATION OF THE GUARANTOR

The summary financial information of the Guarantor set forth below has been extracted from the Guarantor's audited financial statements as at and for the years ended 31 December 2017 and 31 December 2018, which are included elsewhere in this Offering Circular. These results should be read in conjunction with such audited financial statements and the notes thereto.

The Guarantor's audited financial statements for the years ended 31 December 2017 ("FY2017") and 31 December 2018 ("FY2018") have been prepared in accordance with International Financial Reporting Standards ("IFRS") except that the Guarantor has not prepared consolidated financial statements of the Guarantor and its subsidiaries which are required by IFRS 10 "Consolidated Financial Statements" because, in the opinion of the directors of the Guarantor, compliance with this requirement would involve expenses and delay and be out of proportion to the value to the shareholder of the Guarantor. As a consequence, the financial statements do not give all the information required about the economic activities of the Group of which the Guarantor is the parent.

As the Guarantor's assets principally consist of its holding of shares in FWD Limited, the Issuer and the Guarantor have also included FWD Limited's audited consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2018, and FWD Limited's unaudited unreviewed consolidated financial statements as at and for the periods ended 30 June 2018 and 30 June 2019. FWD Limited's audited consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2018, and the unaudited unreviewed consolidated financial statements for the periods ended 30 June 2018 and 30 June 2019, have been prepared in accordance with IFRS.

However, prospective investors should note that the Guarantor holds approximately 75.4 per cent. of the issued share capital in FWD Limited and financial information in relation to FWD Limited contained herein should be construed accordingly.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December 2017	**For the year ended 31 December 2018**
	(U.S.$ thousands)	
REVENUE	-	-
Administrative and other expenses	(1,893.2)	(13.2)
LOSS BEFORE TAX	(1,893.2)	(13.2)
Income tax	-	-
LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR	(1,893.2)	(13.2)

STATEMENT OF FINANCIAL POSITION

	As of 31 December 2017	As of 31 December 2018
	(U.S.$ thousands)	
NON-CURRENT ASSET		
Investment in a subsidiary	1,846,830.0	1,847,201.1
Total non-current asset	1,846,830.0	1,847,201.1
CURRENT LIABILITIES		
Due to a related company	60.4	73.4
Other payables	7.3	378.5
Total current liabilities	67.7	451.9
NET CURRENT LIABILITIES	67.7	451.9
Net assets	1,846,762.3	1,846,749.1
EQUITY		
Issued capital	18,486.6	18,486.6
Share premium	1,830,218.4	1,830,218.4
Accumulated losses	(1,942.7)	(1,955.9)
Total equity	1,846,762.3	1,846,749.1

SUMMARY FINANCIAL AND OTHER INFORMATION OF FWD LIMITED

The summary financial information for FWD Limited set forth below has been extracted from FWD Limited's audited consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2018, and FWD Limited's unaudited unreviewed consolidated financial statements as at and for the periods ended 30 June 2018 and 30 June 2019, which are included elsewhere in this Offering Circular. These results should be read in conjunction with such audited consolidated financial statements and unaudited unreviewed consolidated financial statements and the notes thereto.

FWD Limited's unaudited unreviewed financial statements as at and for the periods ended 30 June 2018 and 30 June 2019 have been included by the Issuer in this Offering Circular to provide potential investors with the same information as will be available to certain other investors in FWD Limited. They have not been audited or reviewed by the auditor of FWD Limited and have not been prepared by FWD Limited for an audit or review. No procedures have been conducted on these financial statements by any independent auditor or other party and the financial statements should therefore be treated as the information solely of FWD Limited and for which FWD Limited takes sole responsibility. Consequently, the financial information should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate FWD Limited's financial condition, results of operations and results. No representation as to the sufficiency and accuracy of such financial statements is or has been made.

As the Guarantor's assets principally consist of its holding of shares in FWD Limited, the Issuer and the Guarantor have also included FWD Limited's audited consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2018, and FWD Limited's unaudited unreviewed consolidated financial statements as at and for the periods ended 30 June 2018 and 30 June 2019. FWD Limited's audited consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2018, and the unaudited unreviewed consolidated financial statements for the periods ended 30 June 2018 and 30 June 2019, have been prepared in accordance with IFRS. However, prospective investors should note that the Guarantor holds approximately 75.4 per cent. of the issued share capital in FWD Limited and financial information in relation to FWD Limited contained herein should be construed accordingly.

FWD Limited is not providing a guarantee or any credit support for the issue of the Notes by the Issuer.

There is no pro-forma financial data in this Offering Circular that takes into consideration the potential impact of the MetLife Transaction. Further, as the completion of the MetLife Transaction remains subject to uncertainty around completion of the conditions precedent, only limited historical financial data relating to the MetLife Transaction has been included in this Offering Circular. Such data and statistics have not been prepared or independently verified by the Issuer, the Guarantor, FWD Limited, the Joint Lead Managers or any of their respective affiliates or advisers (including legal advisers), or other participants in this offering, and therefore, the Issuer, the Guarantor and FWD Limited makes no representation as to the accuracy of such data and statistics.

In addition, FWD Limited's historical financial data presented in this Offering Circular is not indicative of what its financial results would have been had such historical financial data included the impacts of the MetLife Transaction. Accordingly, the historical financial data presented in this Offering Circular is not necessarily indicative of FWD Limited's future results of operations, financial condition and cash flows.

The International Accounting Standards Board ("IASB") issued IFRS 17 in May 2017, which will significantly change the presentation and measurement of insurance contracts, including the calculation of reserves and the impact of reinsurance. The effective date of the standard is 1 January 2021, but the IASB has tentatively decided to defer the effective date to 1 January 2022.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December 2017	For the year ended 31 December 2018	For the period from 1 January to 30 June 2018	For the period from 1 January to 30 June 2019
		(U.S.$ thousands)		
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
REVENUE				
Gross premiums	1,663,087	1,814,163	802,119	906,309
Reinsurers' share of gross premiums	(254,328)	(464,645)	(143,993)	(164,857)
Change in unearned premiums	1,819	568	(1,338)	(2,177)
Net premiums	1,410,578	1,350,086	656,788	739,275
Fees and commission income	167,955	174,827	89,593	79,319
Net deferred commission income movement	(10,805)	(15,868)	(9,775)	4,087
Investment return	476,952	296,512	166,018	282,929
Other operating revenue	38,535	6,769	44	4,944
TOTAL REVENUE	2,083,215	1,812,326	902,668	1,110,554
BENEFITS, CLAIMS AND EXPENSES				
Net benefits and claims	(1,739,132)	(1,412,414)	(724,004)	(891,564)
Amortisation of intangible assets	(34,077)	(32,182)	(12,832)	(6,946)
Net Deferred Acquisition Cost ("**DAC**") movement	128,326	178,934	86,856	128,462
Finance costs	(21,091)	(18,485)	(10,003)	(9,632)
Commission and commission related expenses	(223,558)	(308,040)	(132,868)	(210,651)
Other operating and administrative expenses	(143,860)	(223,366)	(88,735)	(136,244)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(2,033,392)	(1,815,553)	(881,586)	(1,126,575)
SHARE OF GAINS IN ASSOCIATE AND JOINT VENTURE	3,824	16,265	3,818	3,724
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	53,647	13,038	24,900	(12,297)
Income tax expense	(15,616)	(6,382)	(7,804)	(5,849)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	38,031	6,656	17,096	(18,146)
Profit/(loss) for the period from discontinued operations	(16,700)	(17,105)	(7,431)	(7,415)
PROFIT/(LOSS) FOR THE PERIOD	21,331	(10,449)	9,665	(25,561)

	For the year ended 31 December 2017	For the year ended 31 December 2018	For the period from 1 January to 30 June 2018	For the period from 1 January to 30 June 2019
		(U.S.$ thousands)		
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
OTHER COMPREHENSIVE INCOME				
Exchange difference on translation of foreign operations	(1,805)	(2,617)	(2,158)	700
Change in fair value of available-for-sale financial assets	284,356	(275,451)	(296,007)	496,827
Reclassification adjustments for (gains)/losses included in profit or loss of available-for-sale financial assets	(11,841)	(4,379)	(329)	(9,655)
Share of other comprehensive income from associates and joint venture	7,707	(4,325)	(4,627)	1,519
Transfer from equity to statement of profit or loss of cash flow hedges	(52)	(1,040)	(884)	1,381
Income tax impact	(39,014)	45,319	47,644	(76,133)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	239,351	(242,493)	(256,361)	414,639
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	260,682	(252,942)	(246,696)	389,078

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of 31 December 2017	As of 31 December 2018	As of 30 June 2018	As of 30 June 2019
		(U.S.$ thousands)		
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
ASSETS				
Goodwill	901,545	901,398	901,259	902,312
Intangible assets	646,384	614,863	633,386	612,018
Deferred acquisition cost	756,533	935,383	843,261	1,063,922
Property, plant and equipment	21,666	19,290	19,020	24,306
Right-of-use assets	-	-	-	47,320
Financial assets:				
Available-for-sale financial assets	7,905,502	8,363,775	8,037,443	9,202,672
Financial assets at fair value through profit or loss	1,108,506	1,125,266	1,101,471	1,501,887

	As of 31 December 2017	As of 31 December 2018	As of 30 June 2018	As of 30 June 2019
	(U.S.$ thousands)			
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
Loans and receivables	146,083	141,804	138,521	151,007
Derivative financial instruments	3,447	1,976	3,703	823
Reinsurance assets	1,321,815	1,608,093	1,377,827	1,691,104
Investment in associate and joint venture	249,431	252,222	246,199	252,875
Prepayments, deposits and other assets	105,582	141,813	120,179	150,152
Deferred tax assets	-	-	37	-
Insurance receivables	73,857	83,716	64,417	150,250
Due from related parties	2,607	10,524	3,403	13,619
Cash, cash equivalents and fixed deposits	729,694	831,101	744,752	618,543
	13,972,652	15,031,224	14,234,878	16,382,810
Asset of disposal group classified as held for sale	457,100	469,832	470,060	525,726
TOTAL ASSETS	14,429,752	15,501,056	14,704,938	16,908,536
LIABILITIES				
Insurance contract liabilities	10,194,933	11,225,822	10,626,795	12,137,392
Investment contract liabilities	359,827	316,456	331,752	321,939
Due to related parties	82,365	142,079	123,720	191,595
Deferred commission income	261,964	277,811	271,724	273,736
Borrowings	420,999	322,566	322,385	322,750
Derivative financial instruments	12,520	8,667	11,808	20,072
Deferred tax liabilities	156,115	112,918	114,505	194,292
Leas liabilities	-	-	-	50,373
Insurance and other liabilities	155,314	365,536	175,979	233,013
	11,644,037	12,771,855	11,978,668	13,745,162
Liabilities directly associated with the assets of disposal group classified as held for sale	412,064	410,839	399,404	438,180
TOTAL LIABILITIES	12,056,101	13,182,694	12,378,072	14,183,342
EQUITY				
Issued capital	286	297	297	303
Share premium	1,853,487	1,866,286	1,866,286	1,881,336
Direct capital instrument	248,354	446,511	446,511	446,511
Capital redemption reserve	18,302	18,302	18,302	18,302
Share-based payment reserve	28,894	36,705	25,651	29,141
Legal reserve	1,550	1,546	1,543	3,292

	As of 31 December 2017	As of 31 December 2018	As of 30 June 2018	As of 30 June 2019
	(U.S.$ thousands)			
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
Cash flow hedge reserve	(1,212)	(2,053)	(1,938)	(888)
Available-for-sale financial assets revaluation reserve	170,412	(63,685)	(78,455)	347,581
Foreign currency translation reserve	(2,196)	(3,983)	(3,857)	(2,504)
Reserves for disposal groups held for sale reserve	928	(511)	455	(733)
Share of other comprehensive income of joint venture	7,707	3,382	3,080	4,901
Retained earnings	47,139	15,565	48,991	(23,549)
TOTAL SHAREHOLDERS' EQUITY	2,373,651	2,318,362	2,326,866	2,703,693
Non-controlling interests	-	-	-	21,501
TOTAL LIABILITIES AND EQUITY	14,429,752	15,501,056	14,704,938	16,908,536

KEY OPERATING DATA

	As of and for the year ended 31 December		As of and for the six-months ended 30 June	
	2017	**2018**	**2018**	**2019**
	U.S.$ million	**U.S.$ million**	**U.S.$ million**	**U.S.$ million**
Life Businesses' APE[(1)]	286.5	366.9	161.9	238.8
Life Businesses' VNB margin[(2)]	37.9%	40.0%	37.1%	38.3%
Group GWP[(3)]	1,663.1	1,814.2	802.1	906.3
FWD General Insurance combined ratio[(4)]	95.2%	98.9%	96.1%	91.9%
Solvency ratio[(5)]:				
FWD Life Hong Kong (per cent.)	269%	267%	273%	275%
FWD General Insurance (per cent.)	549%	491%	556%	589%
FWD Malaysia (per cent.)	n.a.	n.a.	n.a.	277%

Notes:

(1) Represents the aggregate APE of FWD Life Hong Kong and FWD Life Macau.

(2) Represents the aggregate VNB margin of FWD Life Hong Kong and FWD Life Macau.

(3) Represents the aggregate GWP of the Life Businesses, FWD General Insurance and FWD Malaysia calculated based on guidelines promulgated by the IA, the AMCM or BNM, as appropriate.

(4) Calculated as the sum of incurred claims plus expenses divided by earned premiums, where expenses include commissions, underwriting expenses and administrative expenses, with all items determined using the regulatory reporting basis.

(5) Calculated as the ratio of local available capital to minimum local required capital.

SUMMARY OF THE OFFERING

The following is a brief summary of the terms of the offering of the Notes. For a more complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Circular. Terms used but not defined herein have the meanings set forth in "Terms and Conditions of the Notes".

Issuer	PCGI Intermediate Limited
Guarantor	PCGI Limited
Notes Offered	U.S.$250,000,000 4.75 per cent. Guaranteed Notes due 2024.
Guarantee	The Guarantor will, in the Guarantee, unconditionally and irrevocably guarantee the due and punctual payment of all sums payable by the Issuer in respect of the Notes.
Issue Price	100 per cent. of the principal amount.
Issue Date	28 October 2019.
Maturity Date	28 October 2024.
Interest Payment Dates	28 April and 28 October in each year, commencing on 28 April 2020.
Interest	The Notes will bear interest from, and including, the Issue Date at the rate of 4.75 per cent. per annum, until the Maturity Date, payable semi-annually in arrear on 28 April and 28 October in each year.
Status of the Notes	The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer that will at all times rank *pari passu* without any preference or priority among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Status of the Guarantee	The Guarantee will constitute a direct, general, unsecured, unconditional and unsubordinated obligation of the Guarantor which will rank at least pari passu with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 3 of the Terms and Conditions of the Notes.
Events of Default	Upon the occurrence of certain events as described in Condition 8 (*Events of Default*) of the Terms and Conditions of the Notes, upon notice in writing addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office (as defined in the Agency Agreement referred to in the Terms and Conditions of the Notes) of the Fiscal Agent, any

	Noteholder may declare its Notes immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.
Offering	The Notes are being offered only outside the United States in reliance on Regulation S. The Notes have not been registered and will not be registered under the Securities Act and, subject to certain exemptions, may not be offered or sold in the United States.
Cross-Acceleration	The Notes will contain a cross acceleration provision as further described in Condition 8(d) (*Cross-acceleration of Issuer, Guarantor or Subsidiary*) of the Terms and Conditions of the Notes.
Transfer Restrictions	The Notes and the Guarantee will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and sale. See "*Subscription and Sale*".
Final Redemption	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 28 October 2024.
Redemption for Tax Reasons	The Issuer may redeem the Notes in whole but not in part, at their principal amount, together with interest accrued to, but excluding the date fixed for, redemption, in the event of certain changes in the Cayman Islands taxation, as further described in Condition 5(b) (*Redemption for tax reasons*) of the Terms and Conditions of the Notes.
Redemption at the Option of the Issuer	The Issuer may redeem the Notes at any time, in whole but not in part, at their Make Whole Redemption Price (as defined in the Terms and Conditions of the Notes), together with interest accrued to the date fixed for redemption, as further described in Condition 5(d) of the Terms and Conditions of the Notes.
Redemption upon Change of Control	A Noteholder shall have the right, at such Noteholder's option, to require the Issuer to redeem all but not some only of such Noteholder's Notes at 101 per cent. of their principal amount together with interest accrued to, but excluding the date fixed for, redemption, following the occurrence of a Change of Control, as further described in Condition 5(c) (*Redemption for Change of Control*) of the Terms and Conditions of the Notes.
Redemption upon an initial public offering	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), the Registrar and the Fiscal Agent, at 101 per cent. of the outstanding principal amount of the Notes if an Initial Public Offering has occurred, as further described in Condition 5(e) (*Redemption upon an initial public offering*).

Further Issues	The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.
Governing Law	The Notes, the Guarantee and all non-contractual obligations arising out of or in connection with them are governed by, and construed in accordance with, English law.
Form and Denomination	The Notes will be issued in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Clearing Systems	The Notes will be represented by beneficial interests in the Global Note Certificate in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about the Closing Date with, a common depositary for Euroclear and Clearstream. Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Notes will not be issued in exchange for interests in the Global Note Certificate.
ISIN	XS2072773398.
Common Code	207277339.
Legal Entity Identifier	213800EJDB8HZKBQIY85.
Listing	Application has been made to the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only, and such permission is expected to become effective on 29 October 2019.
Fiscal Agent	The Hongkong and Shanghai Banking Corporation Limited.
Paying and Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited.
Registrar	The Hongkong and Shanghai Banking Corporation Limited.
Use of Proceeds	The Issuer and the Guarantor intend to retain a portion of the net proceeds to fund interest payments on the Notes and to use the remainder for i) repayment of the Guarantor's indebtedness, ii) equity investments in and/or loans or other financing to be extended to FWD Limited for FWD Limited's general corporate purposes (including but not limited to potential transactions and servicing and/or repayment of indebtedness) and iii) buying back convertible preference shares in FWD Limited.

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including but not limited to the risks and uncertainties described below. The Group's business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. Additional risks and uncertainties not presently known to the Group or which the Group currently deems immaterial may arise or become material in the future and may have a material adverse effect on the Group, including on the ability of the Issuer and the Guarantor to fulfil their obligations under the Notes.

The Group believes that the following factors may affect its ability to fulfil its obligations under the Notes. In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below. These factors are contingencies that may or may not occur, and the Group is not in a position to express a view on the likelihood of any such contingency occurring. The information below is given as of the date of this Offering Circular and will not be updated after the date hereof, and is subject to the reservations in the section headed "Forward-Looking Statements" in this Offering Circular.

As the Guarantor's assets principally consist of its holding of shares in FWD Limited, references to the Group's business below are to FWD Limited's business, unless otherwise specified. As such, save for the section entitled "Risks relating to the Guarantor", most risks as described below relate to FWD Limited.

RISKS RELATING TO THE ISSUER AND THE GUARANTOR

The Issuer's and the Guarantor's ability to fulfil their obligations under the Notes and the Guarantee is dependent on the Guarantor's sole shareholder or the Issuer's or the Guarantor's ability to raise further financing.

The Issuer and the Guarantor are holding companies with no significant business operations. In addition, FWD Limited has no history of paying and does not intend to pay any dividends or distributions to the Guarantor and the Noteholders have no recourse to FWD Limited as FWD Limited is not providing a guarantee or credit support for the Notes. Whilst the Issuer and the Guarantor understand that the Guarantor's sole shareholder intends on making available capital in the form of equity injections to service the payment obligations under the Notes, the Issuer's ability to meet its debt obligations is dependent upon its ability to raise future financing, including any such equity injections from the Guarantor's sole shareholder.

The Guarantor recorded net current liabilities for the years ended 31 December 2017 and 2018, and it may not generate sufficient cash flows in the future to satisfy its current liabilities.

As at 31 December 2017 and 2018, the Guarantor recorded net current liabilities of U.S.$67,685 and U.S.$451,929. Notwithstanding the net current liabilities of the Guarantor as at 31 December 2017 and 2018, the Guarantor's financial statements have been prepared on a going concern basis as a related company has agreed to provide sufficient funds to enable the Guarantor to meet its liabilities as and when they fall due. If the Guarantor is unable to generate sufficient cash flow for its operations or otherwise obtain sufficient funds to finance its operations or satisfy its current liabilities in a timely manner, or at all, the Group's business, results of operation, financial condition, prospects and liquidity may be materially and adversely affected.

The Shareholder wholly owns the Guarantor and is able to exercise significant influence over the Guarantor.

As at the date of this Offering Circular, the Shareholder wholly owns the Guarantor. The Shareholder is able to appoint or remove any member of the Board of Directors of the Guarantor, and is not a member of the Board of Directors of the Guarantor. The Board of Directors operates and manages the businesses within the Group independently, subject to the powers granted under the memorandum and articles of association of the Guarantor.

Obligations of the Guarantor under the Guarantee are structurally subordinated to the liabilities and obligations of the Guarantor's subsidiaries.

As an investment holding company that operates through FWD Limited, (i) the Guarantor's obligations under the Guarantee will be effectively subordinated to all existing and future obligations of its existing or future operating subsidiaries and (ii) all claims of creditors of its existing or future operating subsidiaries, including trade creditors, lenders and all other creditors, and rights of holders of preferred shares of such entities (if any) of the operating subsidiaries will have priority as to the assets of such entities over the Guarantor's claims and those of its creditors, including the holders of Notes. In particular, the Guarantor's subsidiary, FWD Limited, has conducted debt capital raisings, most recently through the issuance of an aggregate principal amount of U.S.$200,000,000 5.50 per cent. Subordinated Perpetual Capital Securities in February 2018 and may continue to increase the amount of its debt funding, whether by way of subordinated notes or otherwise and the Notes do not include any limitations on the indebtedness of the Issuer, the Guarantor or their respective subsidiaries.

FWD Limited is not providing a guarantee or any credit support for the issue of the Notes.

As the Guarantor's assets principally consist of its holding of shares in FWD Limited, the Issuer and the Guarantor have also included FWD Limited's audited consolidated financial statements as at and for the years ended 31 December 2017 and 31 December 2018, and FWD Limited's unaudited unreviewed consolidated financial statements as at and for the periods ended 30 June 2018 and 30 June 2019. However, even though the financial information of FWD Limited is included in this Offering Circular, FWD Limited is not providing a guarantee or any credit support for the issue of the Notes by the Issuer.

The Guarantor faces the risk of continued losses.

The Guarantor recorded losses after income tax expenses of approximately U.S.$1.89 million and U.S.$13,165 for the years ended 31 December 2017 and 31 December 2018, respectively. The Guarantor's assets principally consist of its holding of shares in FWD Limited and it does not have any ongoing business operations. For further details, please refer to note 4 of the Guarantor's financial statements for the year ended 31 December 2018 (which are included elsewhere in this Offering Circular).

The Guarantor's Audited Annual Financial Statements contain a qualified opinion from its auditor.

The Guarantor's Audited Annual Financial Statements have been prepared in accordance with IFRS except that the Guarantor has not prepared consolidated financial statements of the Guarantor and its subsidiaries which are required by IFRS 10 "Consolidated Financial Statements" because, in the opinion of the directors of the Guarantor, compliance with this requirement would involve expenses and delay and be out of proportion to the value to the shareholder of the Guarantor. As such, the Guarantor's Audited Annual Financial Statements contain a qualified opinion from its auditor to that effect. For further details, please refer to the section entitled "Basis for Qualified Opinion" and note 2.1 of the Guarantor's financial statements for the year ended 31 December 2018 (which are included elsewhere in this Offering Circular).

RISKS RELATING TO FWD LIMITED'S BUSINESS

Political instability, market fluctuations and general economic conditions impact FWD Limited's business.

FWD Limited's business is inherently subject to political instability, market fluctuations and general economic conditions. Difficult macroeconomic conditions could reduce demand for FWD Limited's products and services, reduce the returns from, or give rise to defaults or losses in, FWD Limited's investment portfolio, and otherwise have a material adverse effect on FWD Limited's business, financial condition and results of operations.

Global financial markets have experienced, and continue to experience, uncertainty brought on by various political events such as Brexit and changes to monetary policies in some of the world's major economies, which may prompt a new round of volatility in capital flows. For example, the U.S. lowered its federal funds rate during its July 2019 meeting and as a result there is uncertainty as to the pace of future interest rate cuts, which would have a material impact on global borrowing costs. There are also ongoing concerns over European sovereign debt, economic growth and investor confidence in the Eurozone, the United States and Asia Pacific, the possible consequences of quantitative easing programmes by central banks, regional and geopolitical instability in the Middle East, Eastern Europe, Asia Pacific and other parts of the world, as well as concerns about a general slowing of global demand reflecting an increasing lack of confidence among consumers, companies and governments. In addition, there are fears of global trade wars as a result of the announcement of tariffs and other protectionist policies by a number of key economies, including those imposed by the United States on China. Upheaval in the financial markets may affect general levels of economic activity, employment and customer behaviour. For example, insurers may experience an elevated incidence of claims, lapses or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. Any sustained volatility in the global financial markets is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on FWD Limited's business, financial condition and results of operations. Moreover, any economic instability or downturn in the global economy may have a negative impact on the insurance sector and in turn a material adverse effect on FWD Limited's business, financial condition and results of operations.

FWD Limited's operations are based in Hong Kong, Macau and Malaysia, with a large majority of FWD Limited's revenue and profit being derived from operations conducted in Hong Kong. Political unrest such as protests or demonstrations could disrupt economic activities and adversely affect FWD Limited's business. The recent unrest in Hong Kong has led to a decrease in inbound tourism to Hong Kong, decreased consumer spending and an overall negative impact on the domestic economy. There can be no assurance that these protests and other economic, social or political unrest in the future will not have a material adverse effect on FWD Limited's financial conditions and results of operations.

Changes in interest rates may materially and adversely affect FWD Limited's profitability and its regulatory solvency ratios.

FWD Limited's profitability is affected by changes in interest rates and market fluctuations. Hong Kong and the United States, the two jurisdictions to which FWD Limited has the most exposure through its fixed income investments and, in the case of Hong Kong, its insurance products, continue to experience a period of low interest rates. If interest rates increase in the future, surrenders and withdrawals of insurance policies and contracts may increase as policyholders seek other investments with higher perceived returns. This process may result in cash outflows and may require FWD Limited to sell investment assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which may result in realised capital losses. Conversely, if interest rates remain at low levels or decline, the income that FWD Limited realises from its investments may decline, affecting FWD Limited's profitability. In addition, as instruments in the investment portfolio mature, FWD Limited may have to reinvest the funds it receives in investments bearing lower interest rates.

For some of its long-term life insurance policies, FWD Limited is obligated to pay a minimum interest or crediting rate to its policyholders, which is established when the product is priced. These products expose FWD Limited to the risk that changes in interest rates may reduce FWD Limited's spread, or the difference between the rates FWD Limited is required to pay under the policies and the rate of return FWD Limited is able to earn on its investments supporting its insurance obligations. If the rates of return on its investments fall below the minimum rates FWD Limited guarantees under those insurance products, FWD Limited's business, financial condition and results of operations could be materially and adversely affected.

In addition, in order to reduce its exposure to changes in interest rates, FWD Limited seeks to match the duration of its assets and related liabilities. However, the availability of assets of suitable duration or alternatives in the form of derivative instruments may be restricted by applicable insurance laws, rules and regulations or other market factors. If FWD Limited is unable to closely match the duration of its assets and liabilities, FWD Limited will be exposed to interest rate changes, which may materially and adversely affect its business, financial condition and results of operations.

For regulatory reporting and solvency purposes, FWD Life Insurance Company (Bermuda) Limited ("FWD Life Hong Kong") measures its assets and reserves based on guidelines promulgated by the Insurance Authority (the "IA"). Under present IA regulations, the carrying values of a life insurance company's assets are required to be marked-to-market each year using current market interest rates. The discount rate used to calculate a life insurance company's reserves, however, is a blend of the existing portfolio yield, the average market interest rate for the last three years and the current market interest rate. As a result, the regulatory solvency ratio of FWD Life Hong Kong is susceptible to changes in interest rates, which may in turn affect the ability of FWD Life Hong Kong to pay dividends to FWD Limited, and in turn, to the Guarantor. See "*—Risks Relating to the Issuer and the Guarantor— The Issuer's and the Guarantor's ability to fulfil their obligations under the Notes and the Guarantee is dependent on the Guarantor's sole shareholder or the Issuer's or the Guarantor's ability to raise further financing.*". In addition, FWD Limited prepares its consolidated financial statements in accordance with IFRS, and the consolidated financial statements do not reflect the regulatory solvency ratios of any of the businesses within FWD Limited.

FWD Limited's business operations are concentrated in Hong Kong.

FWD Limited's operations are based in Hong Kong, Macau and Malaysia, with a large majority of FWD Limited's revenue and profit being derived from operations conducted in Hong Kong. While the level of new business has grown in the Hong Kong insurance market in recent years and FWD Limited believes that the insurance penetration rate could increase, there is no assurance that such growth will continue at the same rate or at all or that the level of new business will not decrease. Furthermore, the impact on the Hong Kong insurance industry of certain trends and events, such as the pace of economic growth, is unclear. Consequently, the growth and development of the Hong Kong insurance market is subject to a number of uncertainties that are beyond FWD Limited's control. Any reduction in growth or any decrease in new business in Hong Kong could have a material adverse effect on FWD Limited's business, financial condition and results of operations.

FWD Limited is exposed to illiquidity risk for certain of its investments.

There may not be a liquid trading market for certain of FWD Limited's investments, such as structured securities and private equity investments. The liquidity of trading markets and investments is affected by numerous factors, including the existence of suitable buyers and market makers, market sentiment and volatility, the availability and cost of credit and general economic, political and social conditions.

If FWD Limited were required to dispose of potentially illiquid assets on short notice, it could be forced to sell such assets at prices significantly lower than the prices recorded in FWD Limited's financial statements.

New business activities and significant acquisitions present risks to FWD Limited's business.

As part of its overall strategy, FWD Limited may acquire certain businesses, assets and technologies, as well as develop new products, new geographic markets and distribution channels that are complementary to its business. FWD Limited may experience difficulties integrating any investments, acquisitions, distribution arrangements and/or partnerships into its existing business and operations or identifying successful initiatives in the future.

The introduction and development of such new areas of business and/or new products or services and/or new geographical markets may not be completed in accordance with the expected timetables, and the pricing and profitability targets may not prove accurate or feasible. There can be no assurance that new products or channels will be as successful as intended, or at all. Furthermore, expansion into any new areas of business, any new distribution channel and/or new geographic markets could have a material adverse effect on the effectiveness of FWD Limited's internal control system to the extent FWD Limited fails to effectively adapt its internal controls to such new businesses or distribution channels. Any such difficulty could have a material adverse effect on FWD Limited's business, financial condition and results of operations.

Entry into new markets may also bring FWD Limited into competition with multinational firms against which FWD Limited has limited experience.

FWD Limited's acquisitions, divestments and other corporate transactions may not complete, divert management attention and other resources or otherwise impact FWD Limited's business.

From time to time, FWD Limited may seek to acquire or divest its businesses according to its business needs. On 28 June 2019, FWD Limited announced the MetLife Transaction. The transaction is subject to regulatory approvals and FWD Limited plans to merge the businesses with its existing business in Hong Kong after the transaction is approved and completed. Further, FWD Limited may need to obtain additional debt or equity financing to implement these acquisition opportunities. Additional debt financing may increase FWD Limited's interest expense, leverage and gearing, as well as potentially require FWD Limited to dedicate a substantial portion of its cash flow from operations to debt payments. Any inability to secure such additional debt or equity financing may in turn adversely affect FWD Limited's business, financial position or regulatory solvency ratios. Growth by acquisition involves risks that could adversely affect FWD Limited's operating results, including the substantial amount of management time and other resources that may be diverted from operations to pursue and complete acquisitions, risks of undisclosed liabilities and integration or separation issues. In addition, FWD Limited may take advantage of commercial or strategic opportunities to divest or dispose of its various businesses on commercially attractive terms, or be required by regulatory changes or rulings to divest or dispose of its business in a certain jurisdiction, whether as a condition to a potential acquisition of a competitor by FWD Limited in the same jurisdiction or otherwise. FWD Limited may not be able to complete such divestments or disposals readily or at all and a divestment or disposal resulting from a regulatory change or ruling may materially impact FWD Limited's business. Any planned acquisition or divestment may also fail to complete for a number of reasons, including failure to obtain shareholder approvals, issues uncovered as part of due diligence and/or objections raised by regulators.

Moreover, the integration of any future acquisition may not be successful or in line with FWD Limited's expectations and any acquired business may fail to achieve, in the near or long term, the financial results projected or the strategic objectives of the relevant acquisition, and once acquired, may continue to divert further management attention and resources or necessitate changes in the group's strategy. The inability to realise expected benefits from such transactions, and any unforeseen costs of integration may have a material adverse effect on FWD Limited's business, financial condition and results of operations.

There may be delays in completing the MetLife Transaction.

Although many of the key conditions precedent to completion of the MetLife Transaction have been satisfied, the MetLife Transaction remains subject to certain conditions, including regulatory approvals, and there can be no assurance that FWD Limited will be able to successfully complete the MetLife Transaction within the anticipated time frame, or in a worst case scenario, at all.

Any delay in completing the MetLife Transaction may cause FWD Limited to experience a setback in its strategy and intentions to grow and develop its business and operations by expanding its market share in Hong Kong and have a material impact on its future growth prospects. In addition, FWD Limited would have incurred significant financial and other costs that may adversely affect its cash reserves and cash flow position, including, among other things, the diversion of management resources, for which it would have received little or no benefit if the completion of the MetLife Transaction is delayed, or fails to occur. For details of the MetLife Transaction, see "Business—Overview".

FWD Limited may not realise the expected benefits of the MetLife Transaction.

FWD Limited is committed to long term investment in life insurance in the Hong Kong market, and the MetLife Transaction is part of its focus on expanding its market share and solidifying its position as a top ten life insurer in Hong Kong.

However, if the anticipated benefits of the MetLife Transaction are not realised, FWD Limited's business, financial condition, results of operations, performance and prospects may be adversely affected. Any failure to realise anticipated benefits may also result in contingent liabilities or amortisation expenses, or write-offs of goodwill, any of which could have a negative impact on FWD Limited's financial condition or results of operations.

In addition, the announcement and current status of the MetLife Transaction could cause disruptions in and create uncertainty surrounding FWD Limited's business and affect its relationships with its existing and future customers, employees and partners in Hong Kong.

FWD Limited's historical consolidated financial statements do not reflect the effect of the MetLife Transaction and there is limited financial and other information relating to MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited in this Offering Circular.

FWD Limited's historical consolidated financial statements do not reflect the effect of the MetLife Transaction and after the MetLife Transaction is completed, MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited will be wholly-owned subsidiaries of FWD Limited and accordingly, FWD Limited's consolidated financial statements could be significantly different as compared to its historical consolidated financial statements. In addition, limited financial information relating to MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited have been included in this Offering Circular. Such data and statistics have not been prepared or independently verified by the Issuer, the Guarantor, FWD Limited, the Joint Lead Managers or any of their respective affiliates or advisers (including legal advisers), or other participants in this offering, and therefore, the Issuer, the Guarantor and FWD Limited makes no representation as to the accuracy of such data and statistics.

FWD Limited's risk management and internal control systems may be inadequate or ineffective in identifying or mitigating the various risks to which it is exposed.

FWD Limited has established risk management and internal control systems consisting of organisational frameworks, policies, procedures and risk management methods that FWD Limited believes are appropriate for its business operations, and FWD Limited seeks to continue to improve these systems. However, due to the inherent limitations in the design and implementation of risk management and internal control systems, including identification and evaluation of risks, internal control variables and the communication of information, there is no assurance that such systems will be able to identify, mitigate and manage all exposures to risks.

FWD Limited's risk management methods have inherent limitations, as they are generally based on statistical analysis of historical data as well as the assumption that future risks will share similar characteristics with past risks. There is no assurance that such assumptions are an accurate prediction of future events. As FWD Limited's business has experienced a rapid expansion in recent periods, its information technology system may not be adequate for the collection, analysis and processing of data or may not have enough capacity to handle the corresponding expansion in information. Moreover, FWD Limited's historical data and experience may not adequately reflect risks that may emerge from time to time in the future. As a result, FWD Limited's risk management methods and techniques may not be effective in alerting FWD Limited to take timely and appropriate measures to manage its risks.

FWD Limited's risk management and internal controls also depend on the proficiency of and implementation by FWD Limited's employees. There is no assurance that such implementation will not involve any human error or mistakes, which may materially and adversely affect FWD Limited's business, financial condition and results of operations.

FWD Limited is subject to the credit risk of its counterparties, including the issuers or borrowers whose securities or loans it holds.

FWD Limited has monetary and securities claims under numerous transactions against reinsurers, brokers, other debtors and third parties. These parties include the issuers whose securities are held by FWD Limited, borrowers under loans made, customers, trading counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. Such third-party debtors may not pay or perform under their obligations. Defaults on the obligations in which FWD Limited has invested or governmental action involving these obligations may have a material adverse effect on FWD Limited's business, financial condition and results of operations.

A reduction or perceived reduction in FWD Limited's reputation or financial strength could result in a loss of business and adversely affect FWD Limited's results of operations.

Policyholders' and other counterparties' confidence in the financial strength of an insurance company, as well as in the financial services industry generally, is an important factor affecting FWD Limited's business. Any actual or perceived reduction in FWD Limited's financial strength, whether due to a credit rating downgrade of FWD Limited or of FWD Life Hong Kong, a significant reduction in the solvency ratio of its operating businesses or some other factor, could have a material adverse effect on FWD Limited's business, financial condition and results of operations. These effects could include, among others, increased policy surrenders, an adverse impact on new sales, increased pricing pressure on FWD Limited's products and services, increased borrowing costs and loss of support from distributors and counterparties such as reinsurers, which could all materially and adversely affect FWD Limited's business, financial condition and results of operations.

FWD Limited's senior debt is currently assigned a rating of "BBB" with a rating watch evolving outlook from Fitch and "Baa3" with a negative outlook from Moody's. These ratings are subject to review and may be downgraded or revoked at the sole discretion of the agencies. In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in general economic conditions or FWD Limited's financial condition and results of operations. There is no assurance that FWD Limited will not experience any reductions in its reputation or financial strength, actual or perceived, in the future.

Demand for insurance and investment products may change as a result of shifts in customer preferences and changes in regulation, and FWD Limited may not respond appropriately or in time to sustain FWD Limited's business or its market share.

The insurance and investment product markets are constantly evolving in response to shifts in the preferences of customers and changes in regulation, and FWD Limited must respond to these changes to remain competitive, grow FWD Limited's businesses and maintain market share. FWD Limited also faces certain risks when introducing new products, and FWD Limited's new products may fail to achieve market acceptance, which could have a material adverse impact on FWD Limited's business, financial condition and results of operations.

FWD Limited's future success will depend on its ability to adapt to changing customer preferences, regulations and industry standards and to respond with new product offerings and services. Any such change in customer preferences, regulations or industry standards may require FWD Limited to re-evaluate its business model and to adopt significant changes to its strategies and business plan. Inability to adapt to these changes could have a material adverse effect on FWD Limited's business, financial condition and results of operations.

Changes in taxation of FWD Limited's business may materially and adversely affect FWD Limited's business, financial condition and results of operations.

FWD Limited's businesses derive benefits from operating in the relatively favourable tax jurisdictions of Hong Kong, Macau and Malaysia. For business carried out in and from Hong Kong, FWD Limited is subject to Hong Kong profits tax at the standard rate of 16.5 per cent. on the assessable amount of income from such business. Income generated and capital gains from investments offshore Hong Kong are currently exempted from Hong Kong profits tax.

Tax rules, including those relating to the insurance industry, and their interpretation, may change, possibly with retrospective effect. Significant tax disputes with tax authorities, and any change in the tax status of any member of FWD Limited or in taxation legislation or its scope or interpretation, for example, relating to the classification of income and capital gains as offshore Hong Kong for purposes of the exemptions from Hong Kong profits tax, could materially and adversely affect FWD Limited's business, financial condition and results of operations.

Inability to attract and retain talented professionals may adversely impact FWD Limited's business, financial condition and results of operations.

The success of FWD Limited's business is dependent on its ability to attract and retain key personnel who have in-depth knowledge and understanding of the insurance markets in which it operates. There is no assurance that FWD Limited will be able to attract and retain qualified personnel or that FWD Limited's senior management or other key personnel will not retire or otherwise leave FWD Limited at any time.

FWD Limited is also dependent on the sound underwriting, product development, risk control, business development and actuarial expertise of FWD Limited's senior management and other key employees. The competition for qualified technical, sales and managerial personnel in the insurance sector in Hong Kong, Macau and Malaysia is intense. FWD Limited's continuing success will depend on FWD Limited's ability to retain and hire suitably qualified and experienced management and key employees, and the loss of their service could have a material adverse effect on FWD Limited's business, financial condition and results of operations.

Actual experience may differ from assumptions used in establishing reserves and in product pricing, which may adversely impact FWD Limited's profitability.

FWD Limited establishes balance sheet liabilities and sets aside reserves to reflect future expected policyholder benefits and claims. FWD Limited establishes these reserves and prices its products based on many assumptions and estimates, including mortality and morbidity rates, policyholder behaviour, expected premiums, investment returns, policy persistency, benefits to be paid, expenses to be incurred, as well as macroeconomic factors such as interest rates and inflation.

Due to the nature of the underlying risks and uncertainty associated with the determination of the liabilities for unpaid benefits and claims, these amounts may vary from the estimated amounts. If significant deviations in actual experience from the assumptions occur, FWD Limited may be forced to incur additional expenses in the form of claims and payments, to the extent the actual amounts exceed the estimated amounts, or FWD Limited may be required to increase its reserves for future policy benefits, resulting in additional expenses in the period during which the reserves are established or re-estimated, which could materially and adversely affect FWD Limited's business, financial condition and results of operations.

FWD Limited periodically evaluates its reserves, net of deferred acquisition costs and value of business acquired ("VOBA"), based on updates to the assumptions and estimates used to establish these reserves as well as its actual policy benefits and claims experience. A liability adequacy test is performed at least annually. If the net reserves initially established for future policy benefits prove insufficient, FWD Limited must increase its net reserves, which may have a material adverse effect on FWD Limited's business, financial condition and results of operations.

FWD Limited is dependent on its continuing ability to recruit, motivate and retain suitable agents and distribution partners to distribute its products.

FWD Limited faces competition to attract and retain agency leaders and individual agents. FWD Limited competes with other companies for the services of agents on the basis of its reputation, product range, compensation and retirement benefits, training, support services and financial position. Further, access to the bancassurance and brokerage distribution channels is subject to similar competition. Any adverse movement in any of these factors could inhibit FWD Limited's ability to attract and retain adequate numbers of qualified agents and adversely impact its ability to maintain and develop relationships with other distribution partners.

Increasing competition for experienced individual insurance agents from insurance companies and other business institutions may also force FWD Limited to increase the compensation of its agents, which would increase operating costs and reduce FWD Limited's profitability. Furthermore, there is no assurance that FWD Limited will be able to maintain these relationships at an acceptable cost or at all. To the extent FWD Limited is not able to maintain its existing distribution relationships or secure new distribution relationships, FWD Limited may not be able to maintain or increase its new business premiums, which may materially and adversely affect FWD Limited's business, financial condition and results of operations.

Agent, employee and distribution partner misconduct could harm FWD Limited's reputation or lead to regulatory sanctions or litigation against FWD Limited.

Agent, employee or distribution partner misconduct could result in violations of law, regulatory sanctions, litigation or serious reputational or financial harm. Such misconduct could include misrepresenting the features or limits of FWD Limited's products, recommending products not suitable for particular consumers, misappropriation of client funds and other fraudulent behaviour.

The measures that FWD Limited has taken to detect and deter misconduct by FWD Limited's agents, employees and distribution partners may not be effective in all circumstances. There is no assurance that any such misconduct would not have a material adverse effect on its business, financial condition and results of operations.

The termination of, or any adverse changes to, FWD Limited's arrangements with its bancassurance partners may have a material adverse effect on FWD Limited's business, financial condition and results of operations.

In addition to its agency channel, FWD Limited relies on distribution arrangements with various banks in Hong Kong, Macau and Malaysia for sales of FWD Limited's bancassurance products through their respective networks. There is no assurance that these arrangements will be renewed on acceptable terms, or at all, upon their expiration. Regulatory changes with respect to the bancassurance business and distribution of bancassurance products may materially and adversely affect FWD Limited's relationships and arrangements with these banks or restrict FWD Limited's ability to expand further its bancassurance arrangements with such banks or limit and/or constrain the ability of the banks and FWD Limited to sell insurance products through bank branches.

The termination of, disruption to, or any other adverse change to, FWD Limited's relationships with the banks with which FWD Limited has distribution arrangements (including as a result of changes in ownership or strategy at such relationship banks), or the formation of any exclusive partnerships between these banks and any of FWD Limited's competitors could significantly reduce sales of FWD Limited's products and FWD

Limited's growth opportunities. Banks' demand for higher commissions or changes to bancassurance pricing could increase FWD Limited's costs in connection with the sale of FWD Limited's products and adversely affect the profitability of FWD Limited's products. Any of these developments could have a material adverse effect on FWD Limited's business, financial condition and results of operations.

Catastrophic events could materially and adversely affect FWD Limited's business, financial condition and results of operations.

The threat of epidemics, international tensions in many parts of the world, terrorism, ongoing and future military and other actions, heightened security measures in response to these threats, natural disasters, climate change or other catastrophes may cause disruptions to commerce, reduced economic activity and market volatility. FWD Limited's life, general, medical and takaful insurance businesses expose it to claims arising out of such events, in particular to the risk of catastrophic mortality or morbidity, such as epidemics or other events that cause a large number of claims and/or increase in reserves and capital requirements.

In accordance with IFRS, FWD Limited does not establish reserves for catastrophes in advance of their occurrence, and the loss or losses from a single catastrophe or multiple catastrophes could materially and adversely affect its business, financial condition and results of operations. Although FWD Limited carries reinsurance to reduce FWD Limited's catastrophe loss exposures, due to limitations in the relevant terms of its reinsurance contracts and the underwriting capacity limits in the reinsurance market, as well as difficulties in assessing FWD Limited's exposures to catastrophes, this reinsurance may not be sufficient to protect FWD Limited adequately against loss.

FWD Limited may need additional capital in the future.

To the extent FWD Limited's existing sources of capital are not sufficient to satisfy its needs, it may have to seek additional funding from external sources or its shareholders (including the Guarantor). FWD Limited's ability to obtain additional capital from external sources in the future is subject to a variety of uncertainties, including FWD Limited's future financial condition, results of operations and cash flows, regulatory considerations, general market conditions for capital raising activities and economic, political and other conditions in Hong Kong, Macau, Malaysia and elsewhere.

Future debt financing, if it can be obtained, could include terms that restrict FWD Limited's financial flexibility or restrict its ability to manage its business freely, which may adversely affect FWD Limited's business and results of operations.

FWD Limited faces the risk of litigation, regulatory investigations and other proceedings in relation to its business.

A substantial liability arising from a lawsuit judgment or a significant regulatory action against FWD Limited or a disruption in FWD Limited's business arising from adverse adjudications in proceedings against FWD Limited's directors, officers or employees could have a material adverse effect on FWD Limited's business, financial condition and results of operations. Moreover, even if FWD Limited ultimately prevails in the litigation, regulatory action or investigation, such proceedings could significantly harm its reputation, which could materially affect its business, financial condition and results of operations. See "*—A reduction or perceived reduction in FWD Limited's reputation or financial strength could result in a loss of business and adversely affect FWD Limited's results of operations*".

New business activities present risks to FWD Limited's business.

As part of its overall strategy, FWD Limited may acquire certain businesses, assets and technologies, as well as develop new products and distribution channels that are complementary to its business. FWD Limited may experience difficulties integrating any investments, acquisitions, distribution arrangements and/or partnerships into its existing business and operations or identifying successful initiatives in the future.

The introduction and development of such new areas of business and/or new products or services may not be completed in accordance with the expected timetables, and the pricing and profitability targets may not prove accurate or feasible. There can be no assurance that new products will be as successful as intended, or at all. Furthermore, expansion into any new areas of business and/or any new distribution channel could have a material adverse effect on the effectiveness of FWD Limited's internal control system to the extent FWD Limited fails to effectively adapt its internal controls to such new businesses or distribution channels. Any such difficulty could have a material adverse effect on FWD Limited's business, financial condition and results of operations.

FWD Limited's financial condition and results of operations could be adversely affected if FWD Limited is unable to successfully manage its growth.

FWD Limited's future growth may place significant demands on FWD Limited's managerial, operational and capital resources. The expansion of FWD Limited's business activities exposes FWD Limited to various challenges, including, but not limited to:

- continuing to expand, train and retain its agency force, while maintaining costs and productivity at optimal levels;
- continuing to expand FWD Limited's bancassurance and brokerage networks to meet expanding distribution needs;
- continuing to develop adequate underwriting and claims settlement capabilities and skills;
- recruiting, training and retaining management personnel with proper experience and knowledge; and
- strengthening and expanding FWD Limited's risk management and information technology systems to effectively manage the risks associated with existing and new lines of insurance products and services and increased marketing and sales activities.

There is no assurance that FWD Limited will manage its growth successfully. In particular, FWD Limited may not be able to recruit, train and retain a sufficient number of qualified personnel to keep pace with the growth of FWD Limited's business.

FWD Limited may be unable to utilise reinsurance successfully.

FWD Limited's ability to obtain external reinsurance on a timely basis and at a reasonable cost is subject to a number of factors, many of which are beyond its control. In particular, certain risks that FWD Limited is subject to, such as epidemics, are difficult to reinsure. Additionally, FWD Limited utilises certain reinsurance arrangements, particularly with China Life Reinsurance Co Ltd. and Tai Ping Reinsurance Co Ltd., to help manage the exchange rate risk and liquidity risk associated with its RMB product offerings. If FWD Limited is unable to renew any expiring external reinsurance coverage or to obtain acceptable new external reinsurance coverage, its net risk exposure could increase or, if FWD Limited is unwilling to bear an increase in net risk exposure, the amount of risk FWD Limited is able to underwrite and the breadth of its product offerings could decrease. To the extent that FWD Limited is unable to utilise external reinsurance successfully, its business, financial condition and results of operations may be materially and adversely affected.

FWD Limited is also exposed to credit risk with respect to reinsurers in all lines of its insurance business. In particular, since reinsurance does not discharge FWD Limited's primary liability to its policyholders, a default by one or more of FWD Limited's reinsurers under its reinsurance arrangements would increase the financial losses arising out of a risk FWD Limited has insured, which would reduce FWD Limited's profitability and may have a material adverse effect on FWD Limited's liquidity position. If FWD Limited's reinsurers fail to pay it on a timely basis, or at all, FWD Limited's business, financial condition and results of operations may be materially and adversely affected.

A failure in FWD Limited's information technology systems may materially and adversely affect its operations.

FWD Limited's business is reliant on the ability of its information technology systems to process a large number of transactions on a timely basis. Further, because of the long-term nature of much of FWD Limited's business, accurate records must be maintained for significant periods of time. The proper functioning of FWD Limited's financial controls, accounting, customer database, customer service and other data processing systems, including those relating to underwriting and claims processing functions, is critical to FWD Limited's operations and to FWD Limited's ability to compete effectively. Although FWD Limited maintains disaster recovery facilities designed to be activated in place of primary facilities in the event of failure, there is no assurance that FWD Limited's business activities would not be materially disrupted in the event of a partial or complete failure of any of these or other information technology systems. A failure of FWD Limited's information technology or communications systems could damage FWD Limited's reputation and have a material adverse effect on FWD Limited's business, financial condition and results of operations.

Cyber-attacks or other security breaches of FWD Limited's computer systems or computer systems maintained by others could damage FWD Limited's reputation, lead to regulatory sanctions and legal claims or a loss of customers and revenue.

FWD Limited maintains confidential and proprietary information on its computer systems and relies on sophisticated technologies to maintain the security of that information. FWD Limited's computer systems have been, and will likely continue to be, subject to computer viruses or other malicious codes, unauthorised access, cyber-attacks or other computer-related penetrations. While, to date, FWD Limited has not experienced a material breach of cyber security, administrative and technical controls and other preventative actions it takes to reduce the risk of cyber-incidents and protect FWD Limited's information technology may be insufficient to prevent physical and electronic break-ins, cyber-attacks or other security breaches to its computer systems. Any such breaches could cause significant interruptions in FWD Limited's operations, and the failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to its customers, could harm FWD Limited's reputation, subject FWD Limited to regulatory sanctions and legal claims, lead to a loss of customers and revenue and otherwise adversely affect FWD Limited's business, financial condition or results of operations.

In addition, FWD Limited's business could be harmed indirectly by cyber-attacks or security breaches to computer systems maintained by others. There can be no assurance that cyber-attacks or security breaches to computer systems maintained by others could not have a material adverse effect on FWD Limited's business, financial condition or results of operations.

FWD Limited's value of new business ("VNB") calculations are based on a number of assumptions and may vary significantly as those assumptions change.

FWD Limited has included in this Offering Circular estimates of VNB of FWD Life Hong Kong and FWD Life Insurance Company (Macau) Limited ("FWD Life Macau" and together with FWD Life Hong Kong, the "Life Businesses"), as well as for its takaful business in Malaysia (FWD Malaysia). The calculation of these values necessarily includes numerous assumptions with respect to, among other things, industry performance, general business and economic conditions, investment returns, reserving standards, regulatory requirements with regards to solvency ratios and policyholder bonuses, taxation, life expectancy and other matters, many of which are beyond FWD Limited's control. Specifically, FWD Limited makes certain assumptions regarding, among other things, risk discount rates, investment yields, mortality rates, morbidity rates, lapse rates, expense assumptions, commissions, policy dividends and tax rates. As these assumptions are forward-looking, actual future experience may differ materially from those assumed in the calculations.

FWD Limited's largest shareholder is able to exercise influence over FWD Limited.

As of the date of this Offering Circular, FWD Limited's two beneficial shareholders, Richard Li and Swiss Re Investments Company Limited ("Swiss Re"), owned approximately 75.4 per cent. and 13.4 per cent., respectively, of FWD Limited's issued share capital. The rights of Richard Li and Swiss Re as beneficial owners of FWD Limited are governed by an Investment and Shareholders' Agreement (Parallel Structure) dated 16 October 2013, as amended and restated from time to time (the "Shareholders' Agreement"). Richard Li is not a member of the Board of Directors of any of the businesses within FWD Limited or of the Guarantor. Pursuant to the Shareholders' Agreement, Richard Li has the right to appoint up to eight members of the Board of Directors of FWD Limited (including the Chairman of the Board), an observer of the Board of Directors of FWD Limited and the Chief Executive Officer of FWD Limited. Swiss Re may appoint up to two directors and one observer of the Board of Directors of FWD Limited, subject to the approval of Richard Li. The Board of Directors operates and manages the businesses within FWD Limited independently, subject to the provisions of the Shareholders' Agreement, pursuant to which certain matters require the consent of and/or notifications to the shareholders. Additionally, both Richard Li and Swiss Re, subject to certain exceptions, have pre-emption rights in respect of raising any future equity capital. See "*Description of FWD Limited—Shareholders*".

RISKS RELATING TO FWD LIMITED'S INDUSTRY

FWD Limited faces significant competition.

FWD Limited faces significant competition in Hong Kong, Macau and Malaysia. The Hong Kong life insurance market, in particular, is dominated by a relatively small number of large insurers, some of which have greater financial resources and/or economies of scale than FWD Limited. The market share of the five largest insurance companies operating in Hong Kong for linked and non-linked insurance business as at 31 December 2018 was over 72 per cent. by annual premium equivalent ("APE"), according to the IA's provisional statistics for long term business. Further concentration of the markets in which FWD Limited operates may adversely affect FWD Limited's business, financial condition and results of operations.

FWD Limited also faces competition from banks and other financial institutions that directly own insurance companies and from smaller insurance companies that may develop strong positions in various market segments in which FWD Limited operates. FWD Limited's ability to compete is driven by a number of factors, including premiums charged and other terms and conditions of coverage, product features, investment performance, services provided, distribution capabilities, scale, experience, commission structure, brand strength and name recognition, information technology and actual or perceived financial strength. Such competition could have a material adverse effect on FWD Limited's business, financial condition and results of operations.

Compliance with solvency ratio and capital requirements may force FWD Limited to raise additional capital, change its business strategy or reduce its growth, which could increase FWD Limited's financing costs.

Insurance companies are generally required by applicable law to maintain their solvency ratios at a level in excess of statutory minimum standards. FWD Limited's solvency ratio is affected primarily by the volumes and types of new insurance policies FWD Limited sells, by the composition of FWD Limited's in-force insurance policies and investments and by regulations on the determination of statutory reserves. FWD Limited's solvency ratio is also affected by a number of other factors, including the profit margin of its products, returns on its assets and investments, interest rates, underwriting and acquisition costs, and policyholder and shareholder dividends.

In order to comply with applicable solvency ratio and capital requirements from time to time, FWD Limited may need to raise or inject additional capital to meet its solvency ratio and capital requirements (in particular, Hong Kong has undertaken a study of an appropriate model for a risk-based capital framework for Hong Kong's regulated insurers). FWD Limited may also need to change its business strategy, including the types of products it sells and its capital management. Finally, compliance with solvency ratio and capital requirements may require FWD Limited to slow the growth of its business, which could have a material adverse effect on FWD Limited's business, financial condition and results of operations.

FWD Limited's businesses are highly regulated and changes to regulation of its businesses or failure to comply with such regulations may adversely affect its business, financial condition and results of operations.

FWD Limited is subject to laws, rules and regulations across all aspects of its business. Some of the laws, rules and regulations to which FWD Limited is subject are relatively new (including laws and regulations relating to data privacy), and their interpretation and application remain uncertain.

FWD Limited is subject to regulatory oversight in Hong Kong by the Insurance Authority ("IA"). Before 26 June 2017, the Office of the Commissioner of Insurance (the "OCI") regulated insurance companies and three self-regulatory organisations (the "SROs") supervised insurance intermediaries. On 26 June 2017, the IA took over the insurance regulatory functions from the OCI and on 23 September 2019 the IA took over the regulation of insurance intermediaries from the three SROs. In Macau, FWD Limited is subject to oversight by the Monetary Authority of Macau (the "AMCM") under the Macau Insurance Companies Ordinance (the "MICO"). In Malaysia, FWD Limited is subject to oversight by Bank Negara Malaysia ("BNM") under the Islamic Financial Services Act 2013. The regulations to which FWD Limited is subject relate to the authorisation to transact certain lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control and a variety of other financial and non-financial components of an insurance company's business. In Hong Kong, Macau and Malaysia, laws and regulations applicable to insurance companies contain provisions whereby policyholders are given priority over the claims of other creditors. This protection could adversely impact the claims of creditors of insurance companies other than policyholders.

In addition, the laws, rules and regulations under which FWD Limited operates, including any regulatory orders specific to FWD Limited, may change from time to time, which in some circumstances may be applied retrospectively and may adversely affect FWD Limited's product range, distribution channels, profitability, capital requirements and, consequently, reported results and financing requirements. There is no assurance that future legislative or regulatory changes, including deregulation or other reforms, will not have a material adverse effect on FWD Limited's business, financial condition and results of operations.

In Hong Kong, the Financial Institutions (Resolutions) Ordinance (the "FI(R)O") was passed by the Legislative Council on 22 June 2016 and the FI(R)O came into operation on 7 July 2017. The key provisions under the FI(R)O, including the establishment of a resolution regime which aims to promote and maintain the stability and effective working of the Hong Kong financial system, protect depositors and policyholders, minimise the need for recourse to public funds and contain costs of resolution, will apply to all financial institutions. The FI(R)O designates the IA as the resolution authority in relation to insurance sector entities in Hong Kong. It empowers the IA in this capacity to, amongst other things, designate which entities are to be covered by the FI(R)O, prescribe loss-absorbing capacity requirements, make rules for stabilisation, resolution and continued operation through resolution of an in-scope entity and compensation arrangements in connection with resolution of an in-scope entity. It also provides that certain of the resolution planning and resolution tools apply to holding companies of regulated entities, which could include the Guarantor. Whilst the FI(R)O sets out a framework of the resolution regime in Hong Kong, much of the detail is to be legislated through secondary legislation and supporting rules, and as such the impact of it on FWD Limited cannot currently be accurately assessed. In addition, the International Association of Insurance Supervisors (the "IAIS") carried out a consultation during 2016 to collate views on a new capital and supervisory framework for internationally active insurance groups, due to come into effect during 2019. The new regulations, which will introduce a solvency regime based on economic value, are expected to be significantly different from the current regulations. Additional requirements that may be proposed in the future, such as the Insurance Capital Standard, currently developed by the IAIS as part of its Common Framework for the Supervision of Internationally Active Insurance Groups, could result in significant changes to the current solvency margin regulations, and restrictions included in any such new regulations could result in new limitations on Group's business or investment activities. There is no certainty as to the specific outcomes of this consultation and how the proposals of the IAIS might be implemented in Hong Kong or any other jurisdiction.

Failure to comply with any applicable laws, rules and regulations and international prudential frameworks, including as a result of changes to rules and regulations or the changing interpretation thereof by relevant regulators, could result in fines, suspension of FWD Limited's business licences or, in extreme cases, business licence revocation, each of which would have a material adverse effect on FWD Limited's business, financial condition and results of operations.

Certain regulatory requirements of the IA or BNM may limit the flexibility of FWD Limited or affect the Issuer's and the Guarantor's ability to fulfil their obligations under the Notes.

Pursuant to undertakings provided to the Insurance Authority in connection with the approval of the Acquisition by the Insurance Authority, as well as separate letters issued to FWD Life Hong Kong and FWD General Insurance Company Limited ("FWD General Insurance") by the IA ("Section 35 Orders"), the entities within the Group are subject to certain requirements that may limit the Group's flexibility. These requirements include, among other things, that FWD Life Hong Kong and FWD General Insurance conduct transactions with specified persons related to FWD Limited on normal commercial terms and that they maintain minimum solvency ratio targets. In addition, dividends may not be declared or paid to the Guarantor without first obtaining written consent from the IA and 60 days' (or such shorter period as the IA may allow) prior written notice must be given to the IA of any intention to make borrowings. The IA may require FWD Life Hong Kong and FWD General Insurance to achieve certain regulatory solvency ratios before it approves payment of dividends, and these solvency ratios may be higher than the solvency ratios of these businesses from time to time. Any factor that prevents the payment of dividends to the Guarantor by any of the businesses within FWD Limited, including the imposition of additional requirements by the IA or a failure by FWD Limited to meet the requirements of the IA, may have an adverse effect on the Guarantor's ability to fulfil its obligations under the Notes and could have a material adverse effect on FWD Limited's business, financial condition and results of operations. See "*Description of FWD Limited—Supervision and Regulation—Regulatory orders specific to FWD Limited*" and "*—Risks Relating to the Issuer and the Guarantor— The Issuer's and the Guarantor's ability to fulfil their obligations under the Notes and the Guarantee is dependent on the Guarantor's sole shareholder or the Issuer's or the Guarantor's ability to raise further financing.*".

In addition, pursuant to undertakings provided to BNM in connection with the acquisition of a 49 per cent. interest in FWD Malaysia, FWD Limited has committed, for the period of 2019 to 2024, to invest in the Malaysian insurance industry by (i) providing capital injections commensurate to the growth of FWD Malaysia to support its operations; (ii) establishing a digital IT services and data center; (iii) establishing a takaful innovation hub for the long-term sustainable development of the industry; (iv) developing specialised takaful products focusing on the lower-income and disabled segments of the population; (v) promoting takaful awareness initiatives; and (vi) developing talent within the takaful industry. These undertakings may limit FWD Limited's flexibility in its conduct of business in Malaysia and impose additional financial commitments on FWD Limited.

The adoption of OECD's Common Reporting Standard could have an impact on FWD Limited's businesses, financial condition, results of operations and growth prospects.

The Organisation for Economic Co-operation and Development (the "OECD") has developed a draft common reporting standard ("CRS") and model competent authority agreement to enable the multilateral, automatic exchange of financial account information. The CRS does not include a potential withholding element. Under the CRS financial institutions (including certain specified insurance companies) will be required to identify and report the tax residence status of customers in 105 countries that have endorsed the plans, of which 100 (including European Union Member States) have committed to implement the CRS with first information exchanges expected in 2018. The remaining 5 countries have committed to implement the CRS on a slower timetable with first information exchanges for these countries expected in 2020.

Hong Kong and Macau have undertaken to send their first CRS reports in 2018, respectively. The increased due diligence of customer information and the reporting of information to the tax authorities may increase operational and compliance costs for FWD Limited, depending on its scope of application. At this time, it is not possible to quantify the full costs of complying with the new legislation as some aspects are still to be determined.

New solvency standards may affect FWD Limited's capital position.

The International Association of Insurance Supervisors, or the IAIS, which is the global standard-setter for the insurance industry, is in process of developing a risk-based capital ("RBC") framework which takes into account different risk factors when assessing the capital adequacy of an insurer. In 2011, the IAIS issued the new Insurance Core Principles which place more emphasis on risk-based supervision on both quantitative and qualitative aspects. All member supervisors around the world are obliged to observe the new Principles. Additional requirements that may be proposed in the future, such as the Insurance Capital Standard, or the ICS, currently developed by the IAIS as part of its Common Framework for the Supervision of Internationally Active Insurance Groups, could result in significant changes to the current solvency margin regulations, and restrictions included in any such new regulations could result in new limitations on FWD Limited's business or investment activities. On 31 July 2018, the IAIS issued the Risk-based Global Insurance Capital Standard Version 2.0 ("ICS 2.0"), a public consultation document to solicit feedback from stakeholders on the ICS ahead of the completion of ICS 2.0, scheduled for late-2019 and before the monitoring period begins on 1 January 2020.

To align with the international standards, Hong Kong plans to move to a RBC regime from the current rules based regime. The new framework will comprise three pillars (Pillar 1: quantitative requirements; Pillar 2: qualitative requirements; and Pillar 3: disclosure and transparency requirements) and will be introduced on a phased basis, with the next step being the development of detailed rules by the IA. Quantitative Impact Studies ("QIS") were conducted in 2017 and 2018, and a third QIS is currently being conducted. The new capital requirements are targeted to be implemented in 2022. Thus far no concrete proposals for quantitative capital requirements have been put forward. Also, in 2018, the IA released a draft Guideline on Enterprise Risk Management for consultation. After receiving comments, the Guideline was revised and re-released for a second consultation in January 2019. The final Guideline is expected to be published in 2019 with an effective date of 1 January 2020. The proposed Guideline is similar to those in other jurisdictions and FWD Limited does not expect it to have a significant impact on its business.

FWD Limited has not yet determined the impact of the new regulations, if any, on its business as a whole in the long term, although it is possible that it could affect the profitability of its products or amount of capital required. In order to comply with applicable capital requirements, or future changes to these requirements, FWD Limited may need to raise or inject additional capital to meet FWD Limited's capital requirements, which may impact the profit return of FWD Limited's shareholders. FWD Limited may also need to change FWD Limited's business strategy, including the types of products it sells and how FWD Limited manages its capital. Furthermore, compliance with capital requirements may require FWD Limited to slow the growth of its business. In addition, failure in making such adjustments to comply with capital requirements may affect FWD Limited's reputation or financial strength which could in turn could have a material adverse effect on FWD Limited's business, results of operations and financial condition.

Concentrated surrenders may materially and adversely affect FWD Limited's business, financial condition and results of operations.

Under normal circumstances, it is generally possible for insurance companies to estimate the overall amount of surrenders in a given period. However, the occurrence of emergency or macroeconomic events that have significant impact, such as sharp declines in customer income due to a severe deterioration in economic conditions, radical changes in relevant government policies, loss of customer confidence in the insurance industry due to the weakening of the financial strength of one or more insurance companies, or the severe weakening of FWD Limited's financial strength, may trigger massive surrenders of insurance policies. If this were to occur, FWD Limited would have to dispose of FWD Limited's investment assets, possibly at unfavourable prices, in order to make the significant amount of surrender payments. This could materially and adversely affect FWD Limited's business, financial condition and results of operations.

Hong Kong's relationship with the rest of the PRC and the PRC's governmental policies are unpredictable and could disrupt FWD Limited's business, financial condition and results of operations.

FWD Limited's operations are largely based in Hong Kong, and a majority of FWD Limited's revenue is derived from operations conducted in Hong Kong. As a result, FWD Limited's financial condition and results of operations may be influenced by the political situation in Hong Kong and by the general state of the Hong Kong economy and the economies of the surrounding region, particularly the PRC.

Hong Kong is a special administrative region of the PRC with its own local government. Hong Kong enjoys a high degree of autonomy from the PRC under the principle of "one country, two systems". However, there is no assurance that FWD Limited's business will not be adversely affected as a consequence of the exercise of PRC sovereignty over Hong Kong. Furthermore, FWD Life Hong Kong depends to an increasing extent on customers based in the PRC. For the half year ended 30 June 2019, approximately 34 per cent. of FWD Life Hong Kong's sales were to PRC customers, and PRC customers have accounted for a significant amount of the new business premiums paid by individuals in the Hong Kong insurance market in the past few years. See also "*Risk Factors - Political instability, market fluctuations and general economic conditions impact FWD Limited's business.*"

In October 2016, China UnionPay, the largest bank card scheme operator in the PRC, issued guidelines restricting the use of UnionPay cards for investment-related insurance products in Hong Kong. Any further changes in PRC government policy or changes in the rules or policies of market participants such as finance or payment system providers or intermediaries that, for example, make it more difficult or costly for PRC customers to purchase insurance products in the Hong Kong market or, conversely, encourage companies in the PRC insurance market to expand their businesses into Hong Kong, could materially and adversely affect FWD Limited's business, financial condition and results of operations.

RISKS RELATING TO THE NOTES AND THE GUARANTEE

The Notes may not be a suitable investment for all investors.

A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

An active trading market for the Notes may not develop.

The Notes are a new issue of securities for which there is currently no trading market. Application has been made to the SEHK for the Notes to be admitted for trading on the SEHK. No assurance can be given that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Notes or the price at which holders will be able to sell their Notes. Liquidity of the Notes will be adversely affected if the Notes are held or allocated to limited investors. None of the Joint Lead Managers is obliged to make a market in the Notes, and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act, and as a result, holders will only be able to resell their Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Issuer's revenue, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, changes in government regulations and changes in general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. There is no assurance that these developments will not occur in the future.

The value of the Notes may be adversely affected by movement in market interest rates.

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect their value.

The Issuer may be unable to redeem the Notes at the time or in the manner required.

On certain dates or upon the occurrence of certain early redemption events, the Issuer may be required to redeem some or all of the Notes. For example, under the conditions of the Notes, following the occurrence of a Change of Control (as defined in Condition 5(c) (*Redemption for Change of Control*) of the Terms and Conditions of the Notes), any Noteholder will have the right to require the Issuer to redeem all but not some of that Noteholder's Notes at 101 per cent. of the principal amount of the Notes plus accrued interest up to but excluding the redemption date. The Issuer will also be required to redeem all of the Notes at maturity of the Notes. The occurrence of an event requiring the Issuer to redeem some or all of the Notes could be outside of the control and/or knowledge of the Issuer, and if such an event were to occur, the Issuer may not have sufficient funds available and may not be able to arrange financing to redeem the Notes in time, on acceptable terms or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. Failure to redeem the Notes by the Issuer in such circumstances would constitute an event of default under the Notes, which may also constitute a default under the terms of other indebtedness of the Issuer, its subsidiaries, associated companies and jointly controlled entities.

The Notes and the Guarantee will be structurally subordinated to subsidiary debt.

The Notes and the Guarantee will be structurally subordinated to the claims of all holders of debt securities and other creditors, including trade creditors, of the Issuer's and the Guarantor's subsidiaries, and to all secured creditors of the Issuer and the Guarantor. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding up of the business of any subsidiary of the Issuer or the Guarantor, creditors of such subsidiary generally will have the right to be paid in full before any distribution is made to the Issuer or the Guarantor (as applicable).

The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Noteholders could be adversely affected by a change in English law or administrative practice.

The Terms and Conditions of the Notes are based on English law in effect as of the date of this Offering Circular. No assurance is given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular, and any such change could have a material adverse impact on the value of the Notes.

The Issuer or the Guarantor may issue or guarantee additional Notes or raise additional capital in the future.

The Issuer or the Guarantor may, from time to time, and without prior consultation of the Noteholders, create, issue and/or guarantee further Notes (see "*Terms and Conditions of the Notes – Condition 13 (Further Issues)*") or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Notes.

Noteholders may be exposed to movements in exchange rates that may adversely affect the value of their holding.

If an investor holds Notes that are not denominated in the investor's home currency, the investor will be exposed to movements in exchange rates adversely affecting the value of the investor's holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes. The Issuer (failing which, the Guarantor) will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to United States dollars would decrease (i) the Investor's Currency-equivalent yield on the

Notes, (ii) the Investor's Currency- equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

The insolvency laws of the Cayman Islands and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Notes are familiar.

The Issuer and the Guarantor are incorporated under the laws of the Cayman Islands, and any insolvency proceeding relating to the Issuer would likely involve Cayman insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of insolvency laws of jurisdictions with which the holders of the Notes are familiar.

If the Issuer and the Guarantor are unable to comply with the restrictions and covenants in its debt agreements, there could be a default under the terms of these agreements and/or Notes that could cause repayment of the debt to be accelerated.

If the Issuer or the Guarantor is unable to comply with its current or future debt obligations and other agreements, there could be a default under the terms of these agreements and/or the Notes. In the event of such default, the holders of the debt could terminate their commitments to lend to the Issuer and the Guarantor, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements and/or the Notes, as the case may be.

Furthermore, some of the Issuer's and the Guarantor's debt agreements contain, and/or may in the future contain, cross-acceleration or cross-default provisions. As a result, the Issuer's or the Guarantor's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under the Issuer's or the Guarantor's other debt agreements. If any of these events occurs, there is no assurance that the Issuer's or the Guarantor's assets and cash flows would be sufficient to repay in full all of its indebtedness, or that the Issuer or the Guarantor would be able to find alternative financing. Even if the Issuer or the Guarantor could obtain alternative financing, there is no assurance that it would be on terms that are favourable or acceptable to it.

The Notes will be represented by a Global Note Certificate, and holders of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing Systems.

The Notes will be represented by beneficial interests in a Global Note Certificate. Such Global Note Certificate will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream (the "Clearing Systems"). Except in the circumstances described in the Global Note Certificate, investors will not be entitled to receive individual note certificates. The Clearing Systems will maintain records of the beneficial interests in the Global Note Certificates. While the Notes are represented by the Global Note Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by the Global Note Certificate, the Issuer (failing which, the Guarantor) will discharge its payment obligations under the Notes by making payments to the relevant Clearing Systems for distribution to their account holders. A holder of a beneficial interest in a Global Note Certificate must rely on the procedures of the Clearing Systems to receive payments under the Notes. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

Holders of beneficial interests in the Global Note Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the Clearing Systems to appoint appropriate proxies.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

There is limited publicly available information about the Issuer and the Guarantor.

Each of the Issuer and the Guarantor is an exempted company incorporated under the laws of the Cayman Islands and its shares are not traded publicly. Therefore, there may be less publicly available information about the Issuer and the Guarantor than if they were a publicly listed company or incorporated in other jurisdictions.

There is limited publicly available information about FWD Limited.

FWD Limited is an exempted company incorporated under the laws of the Cayman Islands and its shares are not traded publicly. Therefore, there may be less publicly available information about FWD Limited than if it were a publicly listed company or incorporated in other jurisdictions.

TERMS AND CONDITIONS OF THE NOTES

The following other than the words in italics is the text of the terms and conditions of the Notes which will appear on the reverse of each of the definitive certificates evidencing the Notes.

The U.S.$250,000,000 4.75 per cent. guaranteed notes due 2024 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further issues*) and forming a single series therewith) of PCGI Intermediate Limited (the "**Issuer**") are constituted by a deed of covenant dated 28 October 2019 (as amended or supplemented from time to time, the "**Deed of Covenant**") entered into by the Issuer and are the subject of (a) a deed of guarantee dated 28 October 2019 (as amended or supplemented from time to time, the "**Deed of Guarantee**") entered into by PCGI Limited (the "**Guarantor**") and (b) a fiscal agency agreement dated 28 October 2019 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Hongkong and Shanghai Banking Corporation Limited as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Hongkong and Shanghai Banking Corporation Limited as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the transfer agent named therein (the "**Transfer Agent**", which expression includes any successor or additional transfer agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrar, the Fiscal Agent, the Transfer Agent and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these terms and conditions (the "**Terms and Conditions**") are summaries of the Agency Agreement, the Deed of Guarantee and the Deed of Covenant and subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement, the Deed of Guarantee and the Deed of Covenant applicable to them. Copies of the Agency Agreement, the Deed of Guarantee and the Deed of Covenant are available for inspection by Noteholders with prior written notice during normal business hours at the principal office for the time being of the Fiscal Agent, being at the date hereof 30th Floor, HSBC Building, 1 Queen's Road Central, Hong Kong and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1 Form, Denomination, Status and Guarantee

(a) *Form and denomination*: The Notes are in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

(b) *Status of the Notes*: The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* without any preference or priority among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(c) *Guarantee of the Notes:* The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

2 Register, Title and Transfers

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes outside the United Kingdom in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

Upon issue, the Notes will be represented by a Global Note Certificate registered in the name of, and deposited with, a nominee of a common depositary for Euroclear and Clearstream. The Terms and Conditions are modified by certain provisions contained in the Global Note Certificate. See "The Global Note Certificate".

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed and signed by the Noteholder or his attorney duly authorised in writing, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor. No transfer of title to a Note will be valid unless and until entered on the Register.

Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

Except in the limited circumstances described herein (see "The Global Note Certificate"), owners of interests in the Notes will not be entitled to receive physical delivery of Note Certificates.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar (or as the case may be) such

Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers of a Note to be registered:

(i) during the period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes;

(ii) during the period of 15 calendar days ending on any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 5(b) (*Redemption for tax reasons*), Condition 5(d) (*Redemption at the option of the Issuer*) or Condition 5(e) (*Redemption upon an initial public offering*); and

(iii) after a Put Exercise Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 5(c) (*Redemption for Change of Control Trigger Event*).

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Fiscal Agent and the Registrar. A copy of the current regulations will be mailed (free of charge to the Holder and at the Issuer's expense) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3 Undertakings

(a) *Negative Pledge*: So long as any Note remains outstanding (as defined in the Agency Agreement), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their Principal Subsidiaries will, create or permit to subsist any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future undertakings, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

In these Conditions:

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Permitted Security Interest**" means (i) any Security Interest over any assets (or related documents of title) purchased by the Issuer, the Guarantor or any Principal Subsidiary as security for all or part of the purchase price of such assets and any substitute Security Interest created on those assets in connection with the refinancing (together with interest, fees and other charges attributable to such refinancing) of the indebtedness secured on those assets; and (ii) any Security Interest over any assets (or related documents of title) purchased by the Issuer, the Guarantor or any Principal Subsidiary subject to such Security Interest and any substitute Security Interest created on those assets in connection with the refinancing (together with interest, fees and other charges attributable to such refinancing) of the indebtedness secured on those assets, provided, however, that (A) any such Security shall be confined to the property or assets purchased, (B) the principal amount of the debt encumbered by such Security Interest shall not exceed the cost of the purchase or development of such assets or any improvements thereto (including any construction, repair or alteration) or thereon; and (C) any such Security Interest shall be created concurrently with or within six months following the purchase of such assets;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Subsidiary**" means:

(i) FWD Limited; or

(ii) any Subsidiary of the Guarantor or FWD Limited (each, a "**Parent**"), which satisfies one or more of the following conditions:

(A) its net profit or (in the case of a Subsidiary which has Subsidiaries) consolidated or non-consolidated contributed share of net profit attributable to the Parent (in each case before taxation and exceptional items) is at least 5 per cent. of the consolidated net profit of the Parent and its Subsidiaries (before taxation and exceptional items), but in each case after deducting minority interests in Subsidiaries; or

(B) its net assets or (in the case of a Subsidiary which has Subsidiaries) consolidated or non-consolidated contributed share of net assets attributable to the Parent (in each case after deducting minority interests in Subsidiaries) are at least 5 per cent. of the consolidated or non-consolidated contributed share of net assets (after deducting minority interests in Subsidiaries) of the Parent and its Subsidiaries; or

(C) its gross revenue or (in the case of a Subsidiary which has Subsidiaries) consolidated or non-consolidated contributed share of gross revenue attributable to the Parent is at least 5 per cent. of the consolidated gross revenue of the Parent and its Subsidiaries,

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the relevant Subsidiary and the then latest audited financial statements of the Parent, as applicable, provided that: (A) in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited accounts relate, the reference to the then latest audited accounts for the purposes of the calculation above shall, until audited accounts for the financial period in which the acquisition is made are published, be deemed to be a reference to the accounts adjusted to consolidate the latest audited accounts of the Subsidiary in the accounts; (B) if, in the case of a Subsidiary which itself has one or more Subsidiaries, no consolidated accounts are prepared and audited, its consolidated net assets, consolidated net profits and consolidated revenue shall be determined on the basis of *pro forma* consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared for this purpose by the Parent, as applicable; (C) if the accounts of a Subsidiary (not being a Subsidiary referred to in (A) above) are not consolidated with those of the Parent then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Parent requires, be based on a *pro forma* consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts of the Parent and its Subsidiaries; or

(iii) to which is transferred all or substantially all of the assets of a Subsidiary of the Parent which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (a) above) and the Subsidiary of the Parent to which the assets are so transferred shall become a Principal Subsidiary,

and where a certificate of the auditors of the relevant Parent as to whether or not a Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

"**Relevant Indebtedness**" means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body, the power to cast the majority of votes at a meeting of the governing body of the second Person or otherwise; or

(ii) whose financial statements are or should be, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person,

provided that, for the purposes of these Conditions, FWD Limited shall always be considered a Subsidiary of the Guarantor.

(b) *Information Undertaking:* So long as any Note remains outstanding, the Issuer shall upload to its public website and provide to the Fiscal Agent to make available to the Noteholders:

(i) the Guarantor's audited annual financial statements within forty five (45) days of the date on which the board of directors of the Guarantor approves the financial statements for the end of the fiscal year to which they relate;

(ii) FWD Limited's audited annual consolidated financial statements within forty five (45) days of the date on which the board of directors of FWD Limited approves the financial statements for the end of the fiscal year to which they relate; and

(iii) FWD Limited's unaudited semi-annual consolidated financial statements within forty five (45) days of the date on which the board of directors of FWD Limited approves the unaudited semi-annual consolidated financial statements from the end of the fiscal period to which they relate.

4 Interest

The Notes bear interest from 28 October 2019 (the "**Issue Date**") at the rate of 4.75 per cent, per annum, (the "**Rate of Interest**") payable semi-annually in arrears in equal instalments on 28 April and 28 October in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment to the relevant Noteholder under these Conditions).

The amount of interest payable on each Interest Payment Date shall be U.S.$4,750 in respect of each Note of U.S.$200,000 denomination and U.S.$23.75 in respect of each Note of U.S.$1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means U.S.$1,000; and

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1) + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30".

5 Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled in accordance with the Conditions, the Notes will be redeemed at their principal amount on 28 October 2024 (the "**Maturity Date**"), subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), the Registrar and the Fiscal Agent at their principal amount, together with interest accrued to the date fixed for redemption, if:

(i) (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 23 October 2019; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or 23 October 2019; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer or (as the case may be) the Guarantor shall deliver or procure that there is delivered to the Fiscal Agent:

(i) a certificate signed by two directors of the Issuer stating that the circumstances referred to in (i)(A) and (i)(B) prevail and setting out the details of such circumstances or (as the case may be) a certificate signed by two directors of the Guarantor stating that the circumstances referred to in (ii)(A) and (ii)(B) above prevail and setting out the details of such circumstances (a "**Certificate**"); and

(ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts or (as the case may be) the Guarantor has or will become obliged to make such withholding or deduction as a result of such change or amendment, provided that the Fiscal Agent may accept such certificate or opinion without further investigation or enquiry.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b).

(c) *Redemption for Change of Control*: Following the occurrence of a Change of Control, the Issuer shall give notice to Holders and the Fiscal Agent in accordance with Condition 14 (*Notices*) by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 5(c) (*Redemption for Change of Control*), and the Holder of any Note will have the right at any time following the occurrence of a Change of Control, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Notes on the Change of

Control Put Date at 101 per cent., of its principal amount, together with accrued interest up to, but excluding the Change of Control Put Date. To exercise such right, the Holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 14 (*Notices*). The "**Change of Control Put Date**" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Put Exercise Notices delivered as aforesaid.

In this Condition on 5(c) (*Redemption for Change of Control*):

"**Affiliate**" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person;

A "**Change of Control**" occurs when:

(i) Mr Richard Li or any Affiliate ceases to own 100 per cent. of the issued share capital of the Guarantor;

(ii) Mr. Richard Li or any Affiliate ceases to Control FWD Limited;

(iii) any Person or Persons, other than Mr. Richard Li or any Affiliate, acting together acquires Control of the Guarantor or FWD Limited;

(iv) the Guarantor or FWD Limited consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Guarantor or, as the case may be, FWD Limited or the successor entity; or

(v) the Guarantor ceases to Control FWD Limited; and

"**Control**" means the acquisition or control of more than 50 per cent, of the voting rights of the issued share capital of the Issuer (or relevant person) or the right to appoint and/or remove all or the majority of the members of the Issuer's (or relevant person's) board of directors or other governing body, whether held or obtained directly or indirectly, and whether held or obtained by ownership of share capital, the possession of voting rights, contract or otherwise and the terms "**Controlling**" and "**Controlled**" shall have meanings correlative to the foregoing.

(d) *Redemption at the option of the Issuer*: The Issuer may, at any time, on giving not less than 15 days' nor more than 30 days' notice to the Holders, the Registrar and the Fiscal Agent (which shall be irrevocable), redeem the Notes in whole, but not in part, at their Make Whole Redemption Price, together with interest accrued but unpaid to the date fixed for redemption.

For the purpose of this Condition 5(d) (*Redemption at the option of the Issuer*):

"**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in Hong Kong and New York City;

"**Comparable Treasury Issue**" means the United States Treasury selected by the Determination Agent as having a maturity comparable to the remaining term of the Notes from the relevant date fixed for redemption to the Maturity Date, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the Maturity Date;

"**Comparable Treasury Price**" means, with respect to any redemption date, the average of three, or such lesser number as is obtained by the Determination Agent, Reference Treasury Dealer Quotations for the relevant date fixed for redemption of the Notes;

"**Determination Agent**" means an independent investment bank of international repute, appointed by the Issuer (and notice thereof is given to Holders of the Notes and the Fiscal Agent by the Issuer in accordance with Condition 14 (*Notices*)) for the purposes of performing any of the functions expressed to be performed by it under these Conditions;

"**Interest Period**" means each period from, and including, the Issue Date or an Interest Payment Date to, but excluding, the immediately following Interest Payment Date or, as the case may be, the Maturity Date;

"**Make Whole Redemption Price**" means in respect of each Note, (a) the principal amount of such Note or, if this is higher (b) the amount equal to the sum of the present value of the principal amount of such Note, together with the present values of the interest payable for the relevant Interest Periods from the relevant date fixed for redemption to the Maturity Date, in each case, discounted to such redemption date on a semi-annual compounded basis at the adjusted US Treasury Rate plus 0.50 per cent., all as determined by the Determination Agent;

"**Reference Treasury Dealer**" means each of the three nationally recognised investment banking firms selected by the Determination Agent that are primary US Government securities dealers;

"**Reference Treasury Dealer Quotations**" means with respect to each Reference Treasury Dealer and any date fixed for redemption of the Notes, the average, as determined by the Determination Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Determination Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time on the third business day immediately preceding such due date for redemption; and

"**U.S. Treasury Rate**" means either (a) the rate per annum equal to the yield, that represents the average for the week immediately preceding that in which the third business day prior to the relevant date fixed for redemption falls, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities" for the maturity corresponding to the Comparable Treasury Issue provided that (a) if no maturity appears that is within three months before or after the Maturity Date, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the US Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, and (b) if such release (or any successor release) is not published during the week preceding that in which the third business day prior to the relevant date falls or such release (or successor release) does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the relevant date fixed for redemption, in each case calculated on the third business day immediately preceding the relevant date fixed for redemption.

Any reference in these Conditions to principal and/or interest shall be deemed to include any Make Whole Redemption Price which may be payable under this Condition 5(d) (*Redemption at the option of the Issuer*).

(e) *Redemption upon an initial public offering*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), the Registrar and the Fiscal Agent, at 101 per cent. of the outstanding principal amount of the Notes if an Initial Public Offering has occurred.

For the purpose of this Condition 5(e):

"**Initial Public Offering**" means the first offering and listing of shares of the Guarantor or FWD Limited or a holding company of the Guarantor or FWD Limited, that complies with the rules of the relevant Stock Exchange, provided that such offer of shares is for subscription or sale exclusively for cash, accompanied (or preceded) by the grant of listing of, and permission to deal, in such shares by the Stock Exchange; and

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited or any other internationally recognised stock exchange.

(f) *Notice of Redemption*: All Notes in respect of which any notice of redemption is given under this Condition 5 (*Redemption and Purchase*) shall be redeemed on the date specified in such notice in accordance with this Condition 5 (*Redemption and Purchase*). If there is more than one notice of redemption given in respect of any Note (which shall include any notice given by the Issuer pursuant to Condition 5(b) (*Redemption for tax reasons*), 5(d) (*Redemption at the option of the Issuer*) or 5(e) (*Redemption upon an initial public offering*) or any Put Exercise Notice given by a Noteholder pursuant to Condition 5(c) (*Redemption for Change of Control Trigger Event*)) the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given.

(g) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (e) (*Redemption upon an initial public offering*) above.

(h) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(i) *Cancellation*: All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries shall be cancelled and may not be reissued or resold.

6 Payments

(a) *Principal*: Payments of principal shall be made in U.S. dollars by on, or, upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made in U.S. dollars on, or upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Holders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the Noteholder otherwise than by ordinary mail, at the expense of such Noteholder) to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

So long as the Notes are represented by the Global Note Certificate, each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date of payment, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

7 Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Government of the Cayman Islands or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is as required by law. In that event the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(i) held by a Noteholder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note; or

(ii) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Noteholder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under Condition 7 (*Taxation*).

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the Cayman Islands, references in these Conditions to the Cayman Islands shall be construed as references to such other jurisdiction.

The Agents shall not be responsible for paying any tax, duty, charges, withholding or other payment referred to in Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Noteholder or any third party (i) to pay such tax, duty, charges, withholding or other payment in any jurisdiction or (ii) to provide any notice or information to the Agents that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8 Events of Default

If any of the following events occurs and is continuing:

(a) *Non-payment of principal*: the Issuer fails to pay principal of any Note within five business days after the due date for such payment; or

(b) *Non-payment of interest*: the Issuer fails to pay interest on any Note within 30 days after the due date for such payment; or

(c) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant or the Guarantee of the Notes and such default remains unremedied for 60 days after written notice thereof, addressed to the Issuer and the Guarantor by any Noteholder, has been delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent; or

(d) *Cross-acceleration of Issuer, Guarantor or FWD Limited*:

(i) any Indebtedness of the Issuer, the Guarantor or FWD Limited is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or FWD Limited (as the case may be) or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Issuer, the Guarantor or FWD Limited fails to pay when due any amount payable by it under any Guarantee of any Indebtedness,

provided that the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds U.S.$10,000,000 (or its equivalent in any other currency or currencies); or

(e) *Unsatisfied judgment*: one or more judgment(s) or order(s) from which no further appeal or judicial review is permissible or sought under applicable law for the payment of any amount is rendered against the Issuer, the Guarantor or any Principal Subsidiary and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment; or

(f) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Principal Subsidiary and is not discharged within 60 days; or

(g) *Insolvency, etc.*: (i) the Issuer, the Guarantor or any Principal Subsidiary becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the Guarantor or any Principal Subsidiary or the whole or any substantial part of the undertaking, assets or revenues of the Issuer, the Guarantor or any Principal Subsidiary is appointed (or application for any such appointment is made), (iii) the Issuer, the Guarantor or any Principal Subsidiary takes any action for a readjustment or deferment of any of its material obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any material part of its indebtedness or any Guarantee of any indebtedness given by it (other than, in the case of a Principal Subsidiary of the Issuer or the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent or as a result of a disposal on arm's length terms or as approved by an Extraordinary Resolution of the Noteholders), or (iv) the Issuer, the Guarantor or any Principal Subsidiary ceases or threatens to cease to carry on all or any material part of its business; or

(h) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any Principal Subsidiary (other than, in the case of a Principal Subsidiary of the Issuer or the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring while solvent or as a result of a disposal on arm's length terms or as approved by an Extraordinary Resolution of the Noteholders); or

(i) *Analogous event*: any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above;

(j) *Unlawfulness*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes, the Deed of Covenant or the Deed of Guarantee; or

(k) *Guarantee not in force*: the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect,

then any Noteholder may, by written notice addressed to the Issuer and the Guarantor and delivered to the Issuer, the Guarantor or to the Specified Office of the Fiscal Agent, declare its Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

The Agents need not do anything to ascertain whether any Event of Default has occurred and will not be responsible to Noteholders or any other person for any loss arising from any failure to do so, and, unless and until the Agents otherwise have notice in writing to the contrary, the Agents may assume that (i) no such event has occurred and (ii) that the Issuer is performing all of its obligations under the Agency Agreement and the Conditions.

9 Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years in the case of principal and five years in the case of interest of the appropriate Relevant Date.

10 Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11 Agents

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

None of the Agents shall be responsible for the performance by the Issuer and the Guarantor and any other person appointed by the Issuer or the Guarantor in relation to the Notes of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer to the contrary, each Agent shall assume that the same are being duly performed.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or fiscal agent and additional or successor paying agents and transfer agents; provided, however, that the Issuer and the Guarantor shall at all times maintain a fiscal agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12 Meetings of Noteholders; Modification

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, (i) a resolution in writing signed by or on behalf of Noteholders of not less than 90 per cent. of the aggregate principal amount of Notes for the time being outstanding will take effect as if it were an Extraordinary Resolution, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more the Noteholders and (ii) a resolution passed by way of electronic consents through the clearing systems by or on behalf of Noteholders of not less than 75 per cent. in aggregate principal amount of Notes for the time being outstanding with the effect as if it were an Extraordinary Resolution, in each case whether or not relating to a Reserved Matter.

(b) *Modification*: The Notes, these Conditions, the Deed of Covenant, the Deed of Guarantee and the Agency Agreement may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision of the Agency Agreement or the Conditions, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

13 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

14 Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of Euroclear or Clearstream or an alternative clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the alternative clearing system, for communication by it to entitled account holders in substitution for notification as required by these Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

15 Governing Law and Jurisdiction

(a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

(c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 15(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 15 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall appoint another/person to act as its agent. This Condition applies to Proceedings in England and/to Proceedings elsewhere.

THE GLOBAL CERTIFICATE

The Global Note Certificate contains the following provisions that apply to the Notes in respect of which it is issued while they are represented by the Global Note Certificate, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes have the same meaning in the paragraphs herein.

The Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been issued and delivered by 5:00 p.m. (local time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or

(b) any of the Notes evidenced by the Global Note Certificate have become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Holder of the Global Note Certificate on the due date for payment in accordance with the terms of the Global Note Certificate,

then, at 5:00 p.m. (local time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (local time) on such due date (in the case of (b) above) the Registrar shall in respect of each person shown in the records of Euroclear and/or Clearstream (or any other relevant clearing system) as being entitled to interest in the Notes (each an "Accountholder"), enter in the Register the name of such Accountholder as the holder of direct rights under the deed of covenant dated 28 October 2019 (the "Deed of Covenant") in respect of the Notes in an aggregate principal amount equal to the principal amount shown in the records of Euroclear and/or Clearstream (or any other relevant clearing system) of such Accountholder's interest in the Notes. To the extent that the Registrar makes such entries in the Register, the holder will have no further rights under the Global Note Certificate, but without prejudice to the rights that the holder or Accountholders may have under the Deed of Covenant. Under the Deed of Covenant, Accountholders will acquire directly against the Issuer, subject to their rights being entered in the Register as described above and subject as provided in the Deed of Covenant, all those rights to which they would have been entitled if, immediately before the date on which the Registrar is required to enter in the Register the rights of the Accountholders, they had been the registered holders of Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear, Clearstream or any other relevant clearing system (as the case may be).

In addition, the Global Note Certificate will contain provisions that modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Payments on business days: In the case of all payments made in respect of the Global Note Certificate, "business day" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong.

Payment Record Date: Each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "Record Date"), where "Clearing System Business Day" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Notices: Notwithstanding Condition 14 (*Notices*), so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "Alternative Clearing System"), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

USE OF PROCEEDS

The net proceeds from the offering of the Notes, after deducting underwriting commission and expenses, are estimated to be approximately U.S.$248,740,000. The Issuer and the Guarantor intend to retain a portion of the net proceeds to fund interest payments on the Notes and to use the remainder for i) repayment of the Guarantor's indebtedness, ii) equity investments in and/or loans or other financing to be extended to FWD Limited for FWD Limited's general corporate purposes (including but not limited to potential transactions and servicing and/or repayment of indebtedness) and iii) buying back convertible preference shares in FWD Limited.

CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets forth the Guarantor's unconsolidated capitalisation and indebtedness as of 31 December 2018 on an actual basis and as adjusted to give effect to the issue of the Notes before deducting the underwriting fees and commissions and other estimated expenses payable in connection with this offering. This table should be read in conjunction with the Guarantor's Audited Annual Financial Statements and the notes thereto appearing elsewhere in this Offering Circular.

	As of 31 December 2018	
	Actual	Adjusted
	(U.S.$ thousands)	
Borrowings[1]:		
New borrowings	-	250,000[2]
Total debt	-	250,000
Equity:		
Issued share capital	18,487	18,487
Share premium	1,830,218	1,830,218
Accumulated losses	(1,956)	(1,956)
Total equity	1,846,749	1,846,749
Total capitalisation[3]	1,846,749	2,096,749

Notes:

(1) In August 2019, the Guarantor obtained a loan of U.S.$150 million from the Shareholder.

(2) The adjustment takes into account the issuance of the Notes, illustrated on the basis as though the Guarantor's financial statements are consolidated with the Issuer.

(3) Total capitalisation represents the sum of total debt and total equity.

Save as indicated above, there has been no other material change in the capitalisation and indebtedness of the Guarantor since 31 December 2018.

Capitalisation and Indebtedness of the Issuer

As at the date of this Offering Circular, the Issuer has a share capital of U.S.$50,000 divided into 50,000 shares of a nominal or par value of U.S.$1.00, and ten shares is held by the Guarantor representing the entire issued capital of the Issuer. As at the date of this Offering Circular, the Issuer does not have any debt outstanding.

CAPITALISATION AND INDEBTEDNESS OF FWD LIMITED

The following table sets forth FWD Limited's unaudited consolidated capitalisation and indebtedness as of 30 June 2019 on an actual basis. This table should be read in conjunction with FWD Limited's audited consolidated financial statements for the years ended 31 December 2017 and 31 December 2018 and the notes thereto and FWD Limited's unaudited unreviewed consolidated financial statements for the periods ended 30 June 2018 and 30 June 2019 and the notes thereto appearing elsewhere in this Offering Circular.

	As of 30 June 2019
	Actual
	(U.S.$ thousands)
Borrowings[1]:	
Notes outstanding	322,750
Notes issued	-
Total debt	322,750
Equity:	
Issued capital	303
Share premium	1,881,336
Direct capital instrument	446,511
Capital redemption reserve	18,302
Share-based payment reserve	29,141
Legal reserve	3,292
Cash flow hedge reserve	(888)
Available-for-sale financial assets revaluation reserve	347,581
Foreign currency translation reserve	(2,504)
Share of other comprehensive income of joint venture	4,901
Retained earnings	(23,549)
Total equity	2,703,693
Total capitalisation[2]	3,026,443

Note:

(1) In August 2019, FWD Limited obtained a loan of U.S.$150 million from its shareholder, PCGI Limited.

(2) Total capitalisation represents the sum of total debt and total equity.

Save as indicated above, there has been no other material change in the capitalisation and indebtedness of FWD Limited since 30 June 2019.

DESCRIPTION OF THE ISSUER

OVERVIEW

The Issuer was incorporated as an exempted company on 26 April 2019 in the Cayman Islands, with its registered office at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands. The Issuer was established by the Guarantor specifically for the purpose of issuing notes (including the Notes). The Issuer is wholly owned by the Guarantor.

SHARE CAPITAL

As at the date of this Offering Circular, the Issuer has a capital of U.S.$50,000 divided into 50,000 shares of a nominal or par value of U.S.$1.00 each, of which the total issued share capital is U.S.$10. None of the shares of the Issuer was listed or dealt in on any stock exchange and no listing or permission to deal in such shares was being or was proposed to be sought as at the date of this Offering Circular.

DIRECTORS

The directors of the Issuer as at the date of this Offering Circular are Lim Beng Jin and Naomi Tofukuji.

DESCRIPTION OF THE GUARANTOR

OVERVIEW

The Guarantor was incorporated as an exempted company on 3 January 2012 in the Cayman Islands. The registered office of the Company is located at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands. The principal activity of the Company is investment holding and its assets consist of its holding of shares in FWD Limited. As at the date of this Offering Circular, the Guarantor holds 75.4% of the issued share capital of FWD Limited.

The Guarantor is wholly-owned by the Shareholder.

SHARE CAPITAL

As at the date of this Offering Circular, the Guarantor has a capital of U.S.$25,000,000, divided into 25,000,000 shares of a nominal or par value of U.S.$1.00 each, of which the total issued share capital is U.S.$18,486,640. None of the shares of the Guarantor was listed or dealt in on any stock exchange and no listing or permission to deal in such shares was being or was proposed to be sought as at the date of this Offering Circular.

INVESTMENT IN FWD LIMITED

Over the years, the Guarantor has made various equity investments into FWD Limited. In February 2013, the Guarantor acquired 18,486,630 ordinary shares in FWD Limited for a consideration of U.S.$1,848,663,000. In December 2013, 18,301,773.6 ordinary shares were surrendered and cancelled, with the remaining shares sub-divided to 18,486,640 ordinary shares of U.S.$0.01 each in FWD Limited. In August 2015, FWD Limited issued 4,198,895 additional preferences shares at U.S.$0.01 each to the Guarantor. In September 2017, the Guarantor transferred 18,750 ordinary shares of FWD Limited to a third party. In December 2018, the Guarantor purchased 2,300 ordinary shares of FWD Limited from a third party. In March 2019, FWD Limited issued 189,701 convertible preference shares at U.S. $0.01 each to the Guarantor.

As at the date of this Offering Circular, the Guarantor holds 18,470,190 ordinary shares and 4,388,596 preference shares (including convertible preference shares) in FWD Limited, amounting to 75.4 per cent. of the issued share capital of FWD Limited.

DIRECTORS

The directors of the Guarantor as at the date of this Offering Circular are Naomi Tofukuji, Peter Anthony Allen and Martina Kit Hung Chung. See "*Management*" for further details.

DESCRIPTION OF FWD LIMITED

OVERVIEW

FWD Limited and its subsidiaries comprise life insurance, general insurance, family takaful insurance, employee benefits and financial planning businesses in Hong Kong, Macau and Malaysia, including the tenth largest life insurance company in Hong Kong on an APE basis as of 30 June 2019 (according to IA statistics) and the eighth largest life insurance company in Macau on an GWP basis as of 30 June 2019 (according to AMCM statistics). The businesses within FWD Limited have operated for 35 years in Hong Kong, for 20 years in Macau and for 13 years in Malaysia. FWD Limited believes it has a strong reputation in each market for delivering innovative products and superior customer service and also benefits from the experience of its two beneficial shareholders, Richard Li and Swiss Re.

On 22 March 2019, its Hong Kong affiliate, FWD Life Insurance Company (Bermuda) Limited, acquired a 49 per cent. interest in HSBC Amanah Takaful (Malaysia) Bhd. in Malaysia ("**FWD Malaysia**") for a total consideration of U.S.$25 million. As part of the agreement, FWD Malaysia also entered into a five-year distribution partnership with HSBC Amanah Malaysia Bhd.

On 28 June 2019, FWD Limited announced that it had agreed to acquire 100 per cent. of MetLife Limited and 100 per cent. of Metropolitan Life Insurance Company of Hong Kong Limited (together the "MetLife Transaction"). The transaction is subject to regulatory approvals and FWD Limited plans to merge the businesses with its existing business in Hong Kong after the transaction is approved and completed. The acquisition, once completed, is expected to solidify FWD Limited's position as a top ten life insurer in Hong Kong, with an increase of over 900 agents and 110,000 customers.

For the years ended 31 December 2016, 2017 and 2018, MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited recorded total gross premiums[2] of approximately HK$3,129 million, HK$4,254 million and HK$3,879 million respectively, and a net income of HK$103 million and HK$1,244 million for the years ended 31 December 2016 and 2018 respectively. For the year ended 31 December 2017, MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited recorded a net loss of HK$713 million. Such financial information has been provided by MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited for the purposes of evaluating the MetLife Transaction and has not been independently verified by the Issuer, the Guarantor, FWD Limited or the Joint Lead Managers. MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited's financial information was prepared in accordance with Hong Kong financial reporting standards and thus may not be directly comparable with FWD Limited's financial information presented elsewhere in this Offering Circular.

For more information on the risks related to the MetLife Transaction, see "*Risk Factors – There may be delays in completing the MetLife Transaction.*", "*Risk Factors – FWD Limited may not realise the expected benefits of the MetLife Transaction.*" And "*Risk Factors – FWD Limited's historical consolidated financial statements do not reflect the effect of the MetLife Transaction and there is limited financial and other information relating to MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited in this Offering Circular.*".

As of 30 June 2019, FWD Limited had total assets of U.S.$16,908.5 million and total equity of U.S.$2,703.7 million. For FY2018 and HY2019, FWD Limited had a profit after income tax expenses from continuing operations of U.S.$6.7 million and a loss after income tax expenses from continuing operations of U.S.$18.1 million, respectively.

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[2] Financial information relating to MetLife Limited and Metropolitan Life Insurance Company of Hong Kong Limited included in this Offering Circular includes MetLife's operations in Vietnam, which will be carved out prior to completion of the MetLife Transaction.

Life insurance is FWD Limited's largest business line. FWD Limited's life insurance subsidiaries, FWD Life Hong Kong and FWD Life Macau, produced profit after income tax expenses of U.S.$67.9 million and U.S.$19.6 million, respectively, for the year ended 31 December 2018 and the six months ended 30 June 2019. For the year ended 31 December 2018 and the six months ended 30 June 2019, the VNB of FWD Life Hong Kong was U.S.$142.8 million and U.S.$89.5 million, respectively, representing VNB margins of 39.5 per cent. and 37.9 per cent., respectively. For the year ended 31 December 2018 and the six months ended 30 June 2019, the VNB of FWD Life Macau was U.S.$3.8 million and U.S.$1.9 million, respectively, representing VNB margins of 72.8 per cent. and 71.9 per cent., respectively. For the period from acquisition (22 March 2019) to 30 June 2019, FWD Malaysia produced a loss after income tax expense of U.S.$3.0 million and produced VNB of U.S.$0.1 million, representing a VNB margin of 6.8 per cent.

FWD Limited also places strategic importance on its general insurance business to generate profit and to acquire new customers. FWD Limited's general insurance subsidiary, FWD General Insurance, produced profit after income tax expenses of U.S.$2.7 million and U.S.$2.4 million for the year ended 31 December 2018 and the six months ended 30 June 2019, respectively.

FWD Limited's focus on value creation is evidenced by the strong growth in VNB in recent periods, as over the three years ended 30 June 2019, the compound annual growth rate ("CAGR") of the Life Businesses' VNB was 16.8 per cent. FWD Limited strives to maintain a well-balanced distribution platform, including agency, bancassurance, brokerage and other channels. For the six months ended 30 June 2019, the agency, bancassurance, brokerage and other channels represented 37.4 per cent., 29.4 per cent., 26.7 per cent. and 6.5 per cent., respectively, of the Life Businesses' APE.

For the half year ended 30 June 2019, approximately 34 per cent. of FWD Life Hong Kong's sales were to PRC customers, and PRC customers have accounted for a significant amount of the new business premiums paid by individuals in the Hong Kong insurance market in the past few years. In particular, FWD Limited recorded a 45 per cent. year on year growth in percentage of new business issued to customers based in PRC for the year ended 31 December 2018 (as opposed to a 9 per cent. increment across the market) and a 42 per cent. year on year growth in percentage of new business issued to customers based in PRC (as opposed to a 23 per cent. increment across the market) for the six months ended 30 June 2019.

On 30 June 2016, FWD Limited acquired a 100 per cent. interest in Great Eastern (Life) Co. Ltd (Vietnam) in Vietnam ("Great Eastern") for a total consideration of U.S.$35.9 million. Following the acquisition, the company has become a wholly-owned subsidiary of FWD Life Hong Kong and was rebranded as FWD Vietnam Life Insurance Company Limited ("FWD Vietnam"). FWD Vietnam is currently accounted for as 'Held for Sale' in FWD Limited's unaudited unreviewed consolidated financial statements for HY2019. Subject to regulatory approval, FWD Limited intends to transfer FWD Vietnam in the near future to FWD Limited Financial Services Pte. Ltd. as part of a corporate restructuring exercise. The transfer amount paid to FWD Life Hong Kong will be equivalent to the total amount invested in FWD Vietnam at the time of the transfer, resulting in no gain or loss for FWD Life Hong Kong.

On 3 August 2016, FWD Limited entered into an agreement to sell its MPF and ORSO business, including the pension trustee company, FWD Pension Trust, to Sun Life Hong Kong Limited ("Sun Life"). FWD Limited and Sun Life also entered into a 15-year strategic distribution agreement allowing FWD Life Hong Kong to distribute Sun Life's MPF products in the Hong Kong market as Sun Life's principal intermediary. The transfer of the shares of FWD Pension Trust and the MPF business (excluding policies relating to MPF products classified under Class G of Long-Term Business under the Hong Kong Insurance Ordinance) ("Class G Policies") was completed on 3 October 2017. The transfer of the ORSO business and the Class G Policies to Sun Life is expected to be completed in 2020, subject to regulatory approvals.

FORMATION OF FWD LIMITED

History

FWD Limited's businesses have a long history in Hong Kong. Its Hong Kong life insurance business, the oldest member of FWD Limited, was originally incorporated in 1977 in Bermuda by Aetna Inc. ("Aetna") as Rauco Insurance Company Limited and, following a change of name in 1984 to East Asia Aetna Insurance Company (Bermuda) Limited, was registered as a Part XI company in Hong Kong on 31 August 1984. In the same year, a branch of Nationale-Nederlanden Internationale Schadeverzekering N.V., which would eventually become FWD Limited's general insurance business, was also registered as a Part XI company in Hong Kong, first trading as N.V. The Netherlands Insurance Company Est. 1845 and then, starting in March 2001, as ING General Insurance International. FWD Limited's financial planning business was originally incorporated in 1997 in Hong Kong by ING as ING Insurance Consultants (Hong Kong) Limited. Two years later, in 1999, FWD Limited's Hong Kong employee benefits and Macau life insurance operations were established through the incorporation by Aetna of Winsley Company Limited in Hong Kong and East Asia Aetna Insurance Company (Macau) Limited in Macau, respectively. Following an internal reorganisation by Aetna in 2000, ING acquired from Aetna 100 per cent. of the Hong Kong and Macau life insurance and Hong Kong employee benefits businesses, and in 2005 ING incorporated in Hong Kong the ING General Insurance Company Limited into which ING General Insurance International's portfolio was transferred, finally bringing together these five operating companies under ING ownership.

Acquisition by Richard Li and Swiss Re

FWD Limited was incorporated by Richard Li on 13 December 2012 for the purpose of acquiring a 100 per cent. interest in the Hong Kong and Macau life insurance businesses and Hong Kong general insurance, employee benefits and financial planning businesses of ING. On 28 February 2013, FWD Limited completed the Acquisition. Subsequent to the Acquisition, Swiss Re has made two investments in FWD Limited and currently has a 13.4 per cent. shareholding in FWD Limited. In connection with approval of the Acquisition by the IA, certain undertakings were provided to the IA and the separate Section 35 Orders were issued to FWD Life Hong Kong and FWD General Insurance as more fully described below in "—Supervision and Regulation—Regulatory orders specific to FWD Limited".

Creation of the FWD brand

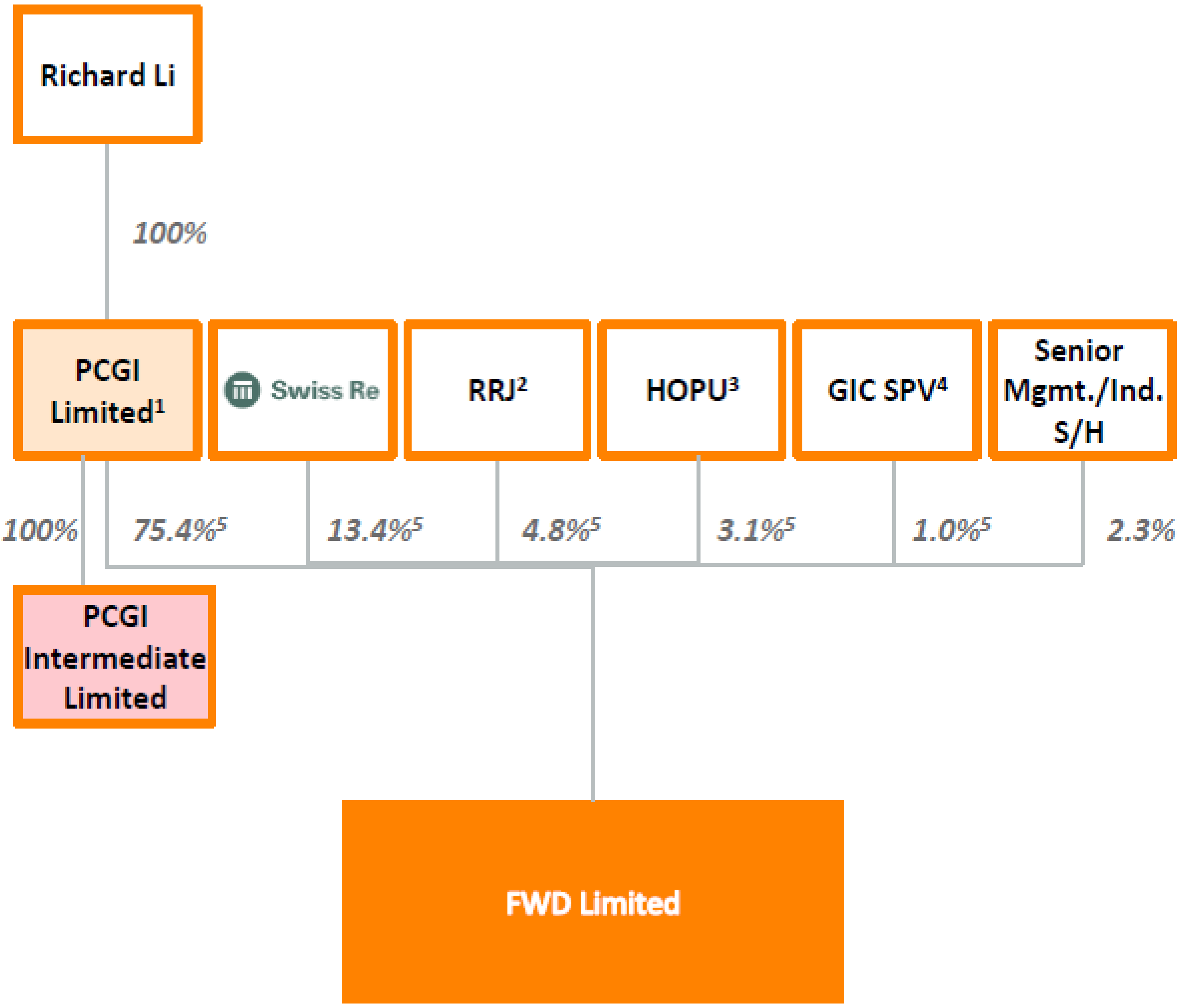
In 2013, FWD Limited launched the FWD brand, including the change of the corporate name of (i) the Hong Kong life insurance business from ING Life Insurance Company (Bermuda) Limited to FWD Life Insurance Company (Bermuda) Limited, (ii) the Hong Kong general insurance business from ING General Insurance Company Limited to FWD General Insurance Company Limited, (iii) the Macau life insurance business from ING Life Insurance Company (Macau) Limited to FWD Life Insurance Company (Macau) Limited, (iv) the Hong Kong employee benefits business from ING Pension Trust Limited to FWD Pension Trust Limited ("FWD Pension Trust") and (v) the Hong Kong financial planning business from ING Financial Planning Limited to FWD Financial Planning Limited ("FWD Financial Planning"). In December 2013, FWD Limited changed its name from PCG International Holdings Limited.

FWD Limited has undertaken a number of initiatives to establish the FWD corporate brand, including print and outdoor advertisements (for example, in Hong Kong the LED signage at the Excelsior Hotel, advertisements on tram shelters and buses and in MTR stations, and a series of printed advertisements and press releases in newspaper and magazines), advertisements on television and through online media (for example, FWD Limited's ongoing television advertising campaign in Hong Kong starting in October 2013) and face-to-face interactions with FWD Limited's customers (for example, the large scale client update campaign to provide review services for all customers in the last quarter of 2013). FWD Limited has also undertaken internal measures to increase staff and agent engagement with the new brand.

FWD Limited believes that its branding efforts have been successful, with a recent Clusters Brand Tracking Report showing that FWD Life Hong Kong outperforms other insurers in Hong Kong across selected brand categories including "different", "innovative", "attuned with current times" and "refreshing".

FWD Limited Structure

FWD Limited is incorporated in the Cayman Islands and has a place of business in Hong Kong. FWD Limited is the holding company of companies including the following five operating subsidiaries: FWD Life Hong Kong, FWD Life Macau, FWD General Insurance, FWD Financial Planning and FWD Malaysia. The following chart is a simplified presentation of the structure of FWD Limited as of the date of this Offering Circular:



Notes:

(1) The Guarantor obtained a loan of U.S.$150 million from its sole shareholder. For further details, please refer to the sections entitled "*Capitalisation and Indebtedness of the Guarantor*" and "*Capitalisation and Indebtedness of FWD Limited*".

(2) Held under RRJ Capital Master Fund III, non-voting perpetual convertible preference securities.

(3) Held via Future Financial Investment Company Ltd, non-voting perpetual convertible preference securities.

(4) Held via Crimson White Investment Pte Ltd, non-voting perpetual convertible preference securities.

(5) Ownership may vary depending on the valuation at the time of FWD Limited's future equity capital raising.

The following table shows certain financial data for the primary businesses within FWD Limited for the period indicated:

	As of and for the six months ended 30 June 2019					
	Total Revenue		**Total Assets**		**Total Equity**	
	(U.S.$ million)	*(% of FWD Limited)*	*(U.S.$ million)*	*(% of FWD Limited)*	*(U.S.$ million)*	*(% of FWD Limited)*
FWD Limited	1,110.6	100%	16,908.5	100%	2,703.7	100%
FWD Life Hong Kong(1)	1,052.3	95%	15,703.2	93%	2,747.0	102%
FWD General Insurance(1)	24.7	2%	159.1	1%	55.7	2%
FWD Life Macau(1)	26.1	2%	455.6	3%	150.3	6%
FWD Financial Planning(1)	0.7	0%	2.0	0%	1.6	0%
FWD Malaysia	13.4	1%	345.9	2%	36.4	1%

Note:

(1) Before intercompany eliminations, with the exception of goodwill, which has been allocated between the total assets and total equity of FWD Life Hong Kong and FWD Life Macau on the basis of their respective VOBA balances at the Acquisition date.

SHAREHOLDERS

Richard Li

FWD Limited benefits from the support of its primary beneficial owner, Richard Li, who indirectly holds a 75.4 per cent. interest in FWD Limited through the Guarantor. Commencing in 1993, Richard Li has built a portfolio of interests in property, financial services and other investments in the Asia Pacific region. The three main pillars of Richard Li's portfolio of companies are telecommunications, media and internet solutions (through his interests in PCCW Limited, a company listed on the SEHK), property development (through his interests in Pacific Century Premium Developments Limited, a company listed on the SEHK) and financial services (through his interests in PineBridge Investments Limited ("PineBridge") and FWD Limited).

Swiss Re

The Swiss Re Group is a leading wholesale provider of reinsurance, insurance and other insurance-based forms of risk transfer. Founded in Zurich, Switzerland in 1863, the Swiss Re Group serves clients through a network of over 80 offices globally and is rated "AA-" by Standard & Poor's Ratings Group ("Standard & Poor's"), "Aa3" by Moody's and "A+" by A.M. Best. Swiss Re has a 13.4 per cent. shareholding in FWD Limited. FWD Limited plans to leverage the Swiss Re Group's global insights and broad industry expertise, including enhancement of its health and protection platform.

Shareholders' Agreement

The rights of Richard Li and Swiss Re as beneficial owners of FWD Limited are governed by the Shareholders' Agreement. Richard Li is not a member of the Board of Directors of any of the businesses within FWD Limited or of FWD Limited. Pursuant to the Shareholders' Agreement, Richard Li has the right to appoint up to eight members of the Board of Directors of FWD Limited (including the Chairman of the Board), an observer of the

Board of Directors of FWD Limited and the Chief Executive Officer of FWD Limited. Swiss Re may appoint up to two directors and one observer of the Board of Directors of FWD Limited, subject to the approval of Richard Li. The Board of Directors operates and manages FWD Limited's businesses independently, subject to the provisions of the Shareholders' Agreement, pursuant to which certain matters require the consent of and/or notifications to the shareholders.

Subject to certain exceptions, both Richard Li and Swiss Re have pre-emption rights in respect of any future equity capital raising by FWD Limited. In addition, the consent of Swiss Re is required before the Board of Directors may take actions in respect of certain reserved matters, including approvals of or material amendments to business plans and budgets, changes to FWD Limited's business scope, changes to FWD Limited's risk management framework, incurrence of financial indebtedness in excess of certain thresholds, voluntary repayment or prepayment of debt in excess of certain thresholds and other matters.

Additional Shareholders

FWD Limited has three additional shareholders owning perpetual convertible preference securities raised from private transactions. These shareholders have no voting rights but do have observer rights to attend meetings of the Board of Directors of FWD Limited, and subject to certain exceptions, have pre-emption rights in respect of any future equity capital raising by FWD Limited.

FWD LIMITED'S COMPETITIVE STRENGTHS

FWD Limited believes that it benefits from the following key competitive strengths:

Balanced multi-channel distribution

The Life Businesses distribute their products through agency, bancassurance, brokerage and direct channels to reduce dependency on any single distribution channel. By contrast, the Life Businesses believe that many of their competitors in Hong Kong and Macau rely on only one or two distribution channels. The agency, bancassurance, brokerage and other channels contributed 37.4 per cent., 29.4 per cent., 26.7 per cent. and 6.5 per cent., respectively, of APE of the Life Businesses for the six months ended 30 June 2019. Due to the integrated nature of the Life Businesses, FWD Life Hong Kong's tied agents are also able to offer FWD General Insurance and FWD Pension Trust products (offering of pension trust products will continue following the sale of FWD Pension Trust to Sun Life due to the strategic distribution agreement signed with Sun Life), enabling its agents to offer comprehensive, one-stop insurance solutions. The Life Businesses believe that the quality of their agency force is evidenced by the fact that 14.4 per cent. of their agents were members of the internationally recognised Million Dollar Round Table ("MDRT") as of 31 December 2018. The Life Businesses also have a wide bancassurance network with distribution arrangements in place with several banks in Hong Kong and Macau, including key bank partnerships with Bank of Communications Co., Ltd. Hong Kong Branch ("BoComm"), China Construction Bank (Asia) Corporation Limited ("CCBA"), Industrial and Commercial Bank of China (Asia) Limited ("ICBC") and E.Sun Commercial Bank, Ltd. Hong Kong Branch. Additionally, the Life Businesses have a network of professional brokers, numbering more than 260 as of 30 June 2019, and provides key brokers with dedicated relationship managers to further strengthen those relationships. Finally, FWD Life Hong Kong started its online, direct to customer channel, iFWD, in 2015, which offers both life and general insurance products.

In Malaysia, FWD Malaysia currently has an exclusive bancassurance distribution agreement in place with HSBC Amanah Berhad and launched a tied agency channel in July 2019; the business also plans to launch a direct to customer channel in the near future.

Diversified product portfolio to meet customer needs

FWD Limited maintains a diversified product portfolio that enables it to address the needs of a broad segment of customers in different life stages. The portfolio includes accident, health, protection, savings, and investment plans through the Life Businesses; travel, home, property and commercial insurance products through FWD General Insurance; employee benefit products offered through the Life Businesses and FWD General Insurance; and family Takaful products (protection, savings and investment plans) through FWD Malaysia. FWD Limited believes its diversified product mix allows FWD Limited to create more business value and rapidly address changing market needs. This product diversification also supports FWD Limited's development of balance in its distribution channels, with the agency channel focused on accident, health, protection and long-term savings products, the bancassurance channel focused on wealth management and short-term endowment products, the brokerage channel focused on high net worth savings, investment and health products, and iFWD focused on simple life and general insurance products designed to appeal to the e-generation.

Strong relationships with customers

FWD Limited believes it has a loyal and growing customer base. As of 30 June 2019, FWD Limited had approximately 510,000 customers, approximately 270,000 of whom were customers of FWD Life Hong Kong. Among FWD Life Hong Kong's customers, approximately 37.9 per cent. have held policies for more than 10 years as of 30 June 2019, and approximately 25.3 per cent. have been with FWD Life Hong Kong for 16 years or more. A large portion of FWD Life Hong Kong's customers (approximately 50.7 per cent. as of 30 June 2019) is between 30 and 49 years of age, which FWD Limited considers to be prime insurance buying years. FWD Limited has also benefitted from increasing numbers of customers based in the PRC purchasing insurance products in Hong Kong.

Established track-record with solid market positioning

FWD Life Hong Kong has held a top ten market position in life insurance by APE since 2010 and ranks tenth by APE as of 30 June 2019 (according to IA statistics). Similarly, FWD Life Macau holds the eighth position in Macau in market share by GWP as of 30 June 2019 (according to AMCM statistics). The businesses within FWD Limited have experienced steady growth over the three years ended 30 June 2019, as evidenced by a CAGR of 23.5 per cent. in APE in its Hong Kong life insurance business. FWD Limited believes that it is well-positioned to continue to strengthen the market positions of its businesses and create more value from its operations.

Stable and prudent financial profile

Through its investment and asset and liability management strategies, FWD Limited has maintained a stable financial profile and has limited its risk exposure. FWD Limited seeks to maintain an investment portfolio with a focus on investment grade fixed income investments. As of 30 June 2019, FWD Limited's investment portfolio (excluding investments supporting investment linked contracts, mandatory provident fund schemes ("MPF") and occupational retirement schemes ("ORSO") under which policyholders assume the investment risk) comprised U.S.$10,309.0 million in investment assets, with over 80 per cent. of its assets comprising fixed income securities. FWD Limited has strong credit experience, with no credit defaults in its fixed income portfolio since 2009, and as of 30 June 2019, less than 1.2 per cent. of these securities were rated below investment grade. FWD Life Hong Kong's asset and liability management strategy has enabled it to manage its duration gap within a moderate range, which was 2.8 years as of 30 June 2019, as compared to 0.6 years as of 31 December 2018 and 0.2 years as of 31 December 2017, and has helped FWD Life Hong Kong to reduce volatility in solvency ratio during interest rates, credit and equity market fluctuations. Since 2015, FWD Life Hong Kong has maintained its financial year-end solvency ratio between 216% and 275%.

Experienced management team

FWD Limited's executive management team has extensive experience, with an average of more than 25 years of management experience in the insurance and financial services industries. Moreover, FWD Limited's Board of Directors includes several members who have served in leadership positions across the global insurance industry, including Asia. FWD Limited is able to draw on this combination of varied and broad experience to drive growth and react quickly to shifts in the industry. Additionally, FWD Limited believes that it benefits from the local and regional relationships of the members of its executive management team and its Board of Directors in attracting talent, growing its business and capitalising on business opportunities. Finally, many members of the senior management team within FWD Limited's operating companies have successfully grown the businesses within FWD Limited, having held various management positions within those businesses prior to the Acquisition.

FWD LIMITED'S STRATEGY

FWD Limited seeks to implement the following key business strategies to capitalise on future growth opportunities:

Focus on value creation

FWD Limited maintains a focus on the overall value of its businesses while seeking to achieve profitable growth. FWD Limited is enhancing its product portfolio, with a focus on health and protection products, which FWD Limited believes will further strengthen its VNB margins. In the agency channel, FWD Limited plans to introduce innovative protection products to address the increasing market needs for medical, critical illness and long-term protection products. In its bancassurance and brokerage channels, FWD Limited is introducing simplified health and protection products to improve margins. Finally, FWD Limited will leverage its customer analytic capabilities to develop competitive and high value products for its different customer segments.

Expand multi-channel distribution

While FWD Limited considers its agency distribution network a key competitive strength, its long-term objective is to achieve a balanced distribution between its agency, bancassurance, brokerage and direct channels. In the agency channel, the Life Businesses continue to expand their capacity by recruiting a younger generation of agents and by leveraging their comprehensive product lines (across life insurance, general insurance and employee benefits) to help their agents acquire more customers. The Life Businesses focus development efforts on their core agents (those who are consistently productive) and promote MDRT membership as a benchmark for performance. In bancassurance, FWD Limited seeks to increase the distribution of its health and protection products. FWD Limited continues to leverage its key bank partnerships with CCBA, BoComm, ICBC, E Sun and HSBC Amanah, while also exploring new partnership opportunities in its markets. In the brokerage channel, the Life Businesses are implementing a comprehensive sales support platform to enable their brokerage partners to present a strong value proposition to potential customers. In the direct channel, FWD Limited seeks to offer simple, innovative solutions and to create partnerships to bring additional value-added benefits to FWD Limited's customers.

Create a differentiated brand through "customer-centricity"

FWD Limited positions itself as a "customer-centric" insurer and will continue to invest in its customer service platform to create an enhanced customer experience, including service (i) at the time the customer wants, (ii) at the place most convenient for the customer and (iii) in the way the customer prefers. FWD Life Hong Kong has established omni channel touch points over the past 4 years, including a 24/7 customer service hotline, has set up seven customer centres in different districts of Hong Kong to provide convenient access for its customers and developed a mobile servicing platform to enable online claims processing as an added convenience for its customers. FWD Life Hong Kong has also established the FWD MAX Experiential Platform, an engagement platform designed to enhance ongoing customer relationships, acquire new prospects and customer insights, identify and capitalise on sales opportunities and change the way people feel about insurance. FWD Life Hong Kong has trained claim ambassadors to support its agent, bancassurance and brokerage distribution partners at the time of claim payment to make the claims experience as easy as possible for both its customers and its distributors. FWD Limited is also transforming its product development process from the traditional insurance approach of product-led or distribution-led to customer-led to ensure that its products meet the needs of its customers. FWD Limited believes its focus on customer-centricity can convert increased brand awareness into brand consideration, eventually establishing a differentiated and trusted brand in the region.

Maintain financial discipline

While pursuing these key commercial objectives, FWD Limited plans to maintain its focus on financial discipline. FWD Limited plans to fund its future business growth through efficient use of capital, by focusing on less interest rate sensitive products, effectively managing the duration gap between its assets and liabilities and disciplined expense management. FWD Limited also aims to maintain its prudent balance sheet and solid credit ratings for FWD Life Hong Kong to help ensure that it is able to access the most competitive terms in its business arrangements.

FWD LIMITED'S PRODUCTS

FWD Limited offers a broad range of life insurance, general insurance, employee benefits and financial planning products through its three operating companies in Hong Kong and, in the case of life insurance, its operating company in Macau.

For the half year ended 30 June 2019, approximately 34 per cent. of FWD Life Hong Kong's sales were to PRC customers, and PRC customers have accounted for a significant amount of the new business premiums paid by individuals in the Hong Kong insurance market in the past few years. In particular, FWD Limited recorded a 45 per cent. year on year growth in percentage of new business issued to customers based in PRC for the year ended 31 December 2018 (as opposed to a 9 per cent. increment across the market) and a 42 per cent. year on year growth in percentage of new business issued to customers based in PRC (as opposed to a 23 per cent. increment across the market) for the six months ended 30 June 2019. The product mix from sales to PRC customers have improved, with a shift towards regular premium participating and protection products.

FWD Limited's key products are described below:

Life Insurance Products

The Life Businesses provide a balanced product mix. The following table shows the Life Businesses' product mix on an APE basis for the dates indicated:

	Percentage of total APE			
	For the year ended 31 December 2017	**For the year ended 31 December 2018**	**For the six months ended 30 June 2018**	**For the six months ended 30 June 2019**
	(per cent.)			
Traditional non-participating life insurance products	0.5	0.5	0.6	0.4
Traditional participating life insurance products	41.1	51.3	51.9	55.8

	Percentage of total APE			
	For the year ended 31 December 2017	**For the year ended 31 December 2018**	**For the six months ended 30 June 2018**	**For the six months ended 30 June 2019**
	(per cent.)			
Health insurance products	12.3	15.6	14.0	15.8
Investment-linked products	2.3	2.8	3.0	0.8
Universal life insurance products	32.5	21.2	23.7	8.6
Short-term endowment products	11.3	8.6	6.8	18.6

The following table shows the VNB margins and growth rates on an APE basis of the Life Businesses' products for the twelve-month period ended 30 June 2017:

	VNB margin for the twelve months ended 30 June 2019	**APE growth for the twelve months ended 30 June 2019**
	(per cent.)	
Traditional non-participating life insurance products	132	17
Traditional participating life insurance products	36	64
Health insurance products	92	75
Investment-linked products	13	-13
Universal life insurance products	34	-25
Short-term endowment products	2	106

The Life Businesses' higher margin products (save for traditional non-participating life insurance products) had solid growth rates in terms of APE for the twelve months ended 30 June 2019 as the Life Businesses continue to focus on improving their product margins.

As part of the Life Businesses' strategy to maintain their portfolio at low risk levels, the Life Businesses limit the volume of long-term products with guaranteed returns, instead offering predominately non-guaranteed returns through terminal dividends, maturity bonuses and declared rates on account balances that can be adjusted at the Life Businesses' discretion. The Life Businesses' key life insurance products are described below.

- ***Traditional Non-Participating Life Insurance***. Traditional non-participating life insurance products are contracts of insurance whereby the policyholder has only a right to the guaranteed benefit, which is not at the contractual discretion of the insurer.

- ***Traditional Participating Life Insurance***. Traditional participating life insurance products are contracts of insurance whereby the policyholders have a contractual right to receive additional benefits based on investment returns and/or other factors, normally at the discretion of the insurer, as a supplement to any guaranteed benefits.

- ***Health Insurance***. Health insurance products provide morbidity or sickness benefits and include medical, critical illness and accident and disability coverage. The Life Businesses offer health insurance products both as standalone policies and as riders that can be attached to their individual life insurance products.
- ***Investment-linked***. Investment-linked products are insurance products that link the customer's account value to the value of underlying investments, such as mutual funds. In general, the investment risk associated with the account value of these products is borne by the policyholder.
- ***Universal Life***. Universal life insurance products allow customers to pay flexible premiums that are accumulated in an account, reduced by cost of insurance and administrative charges, and credited with investment returns. The customer may vary the death benefit and the contract may permit the customer to withdraw the account balance, typically subject to a surrender charge. In keeping with the Life Businesses' risk management strategy, the Life Businesses seek to limit the portion of the universal life portfolio that offers guaranteed returns, with the majority of the portfolio crediting investment returns that can be adjusted at the Life Businesses' discretion.

Family Takaful Products

FWD Limited provides a range of Family Takaful products through FWD Malaysia tailored to meet the needs of individuals that are compliant with Islamic Law. These products include credit protection, traditional non-participating savings products, investment-linked products and health insurance products.

General Insurance Products

FWD Limited provides a range of general insurance products in Hong Kong tailored to meet the needs of individuals and commercial institutions, including health and medical care insurance, motor insurance, property insurance and marine insurance.

FWD Limited places strategic importance on its general insurance business to generate profit and to acquire new customers. Specifically, FWD General Insurance's commercial product offerings such as marine, liability and fire coverage create profit for FWD Limited while its personal insurance products such as travel, motor and home insurance are designed to bring new customers to FWD Limited and to provide cross-selling opportunities for its agents.

Employee Benefits

FWD Limited offers group life insurance products in Hong Kong underwritten by FWD Life Hong Kong, group medical insurance underwritten by FWD General Insurance and ORSO schemes underwritten by FWD Life Hong Kong. The sale of FWD Pension Trust to Sun Life (including the MPF business but excluding policies relating to MPF products classified under Class G of Long Term Business under the Hong Kong Insurance Ordinance) ("Class G Policies") was completed on 3 October 2017. The transfer of the ORSO business and the Class G Policies to Sun Life is expected to be completed in 2020, subject to regulatory approval.

Financial Planning

FWD Limited's financial planning advisers offer a number of different wealth management products, including life insurance, general insurance and MPF products, mutual funds, portfolio bonds and investment-linked products.

DISTRIBUTION

FWD Limited distributes its products through four distribution channels—agency, bancassurance, brokerage and others. FWD Limited believes that strong and balanced production from its distribution channels is important to meet customer needs and to achieve greater diversification in its business. In recent periods, FWD Limited has been successful in exploiting the growth the insurance industry has experienced in Hong Kong and Macau in the bancassurance and brokerage channels, while continuing to grow its agency channel. The direct to customer business is a relatively new channel for FWD Limited as well as for other competitors, but FWD Limited believes that this will be an important channel going forward.

Agency

FWD Life Hong Kong's agency distribution channel ranked seventh in market share by APE as of 30 June 2019 (according to IA statistics) and is focused primarily on health, protection and long-term savings products. The Life Businesses place a strong emphasis on their agency training programs and have developed an activity-based agency model to enhance the professionalism of its agents. The Life Businesses believe that their focus on agent quality is evidenced by the ratio of MDRT members among the sales force, which was 14.4 per cent. at 31 December 2018.

The Life Businesses have a high retention rate among their agency sales force. As of 30 June 2019, the Life Businesses' agents have an average service period of 4.8 years, and approximately 26 per cent. of agents had more than five years of service. The total number of active agent months increased by 23.1 per cent. year on year. The Life Businesses currently have 486 accumulated recruits from their Industry Recruit Programs. Going forward, the Life Businesses plan to continue to grow their agency headcount by focusing on recruitment of both early retirees with an existing skill set and significant experience, as well as recent college graduates, and continuing to emphasise MDRT membership. In addition, the Life Businesses have defined certain target customer segments (for example, high net worth, pre/post-retirement and "E generation") and have established task forces to provide sales support and recruitment initiatives to equip their agents to excel in these key segments.

The following table shows certain operating data for the Life Businesses' agency sales force as of and for the dates indicated:

	As of and for the year ended 31 December 2017	As of and for the year ended 31 December 2018	As of and for the six months ended 30 June 2018	As of and for the six months ended 30 June 2019
	(U.S. millions, except as indicated)			
Number of MDRT agents	220	406	81	142
Total number of sales agents	2,256	2,822	2,293	3,103
Active agent ratio (per cent.)[(1)]	48.5 %	45.0 %	44.6 %	41.6%
Annual premium equivalent	101.7	134.0	56.8	89.4
Value of new business	55.2	88.4	31.8	54.0

Note:

(1) Calculated by dividing the number of agents with sales of the Life Businesses' products during a period by the total number of agents.

During the three years ended 30 June 2019, APE and VNB from the agency channel grew at CAGRs of 14.7 per cent. and 13.6 per cent., respectively.

Bancassurance

Under ING ownership, the Hong Kong life insurance business entered into two strategic bancassurance relationships that remain in place, first with BoComm in 2002 and then with CCBA in 2007. FWD Life Hong Kong recently collaborated with BoComm on a number of product bundling opportunities and on a co-branded credit card. FWD Life Hong Kong's partnership with CCBA produced an APE increase of approximately nine times from 2008 to 2011. FWD Life Hong Kong also started partnership agreement with ICBC in January 2018. In recognition of the successful development of bank partnerships with CCBA and BoComm, FWD Life Hong Kong entered into a further 10-year and 5-year strategic collaboration in May 2011 and June 2019, respectively. Collectively, the Life Businesses' bancassurance partners provide access to more than 150 branches throughout Hong Kong and Macau.

The Life Businesses are undertaking a number of initiatives to strengthen the bancassurance channel, including deepening customer penetration, increasing bank branch productivity and strengthening existing partnerships while exploring new cooperation opportunities. The Life Businesses plan to leverage the private banking arms of their existing bancassurance partners in Hong Kong and Macau in order to expand sales to high net worth individuals. The Life Businesses are also increasing their offerings through retail channels by bundling simple insurance products with their partners' retail banking offerings. FWD Life Hong Kong's bancassurance distribution channel ranked tenth in market share by APE as of 30 June 2019 (according to IA statistics).

The following table shows certain operating data for the Life Businesses' bancassurance channel as of and for the dates indicated:

	As of and for the year ended 31 December 2017	As of and for the year ended 31 December 2018	As of and for the six months ended 30 June 2018	As of and for the six months ended 30 June 2019
	(U.S. millions, except as indicated)			
Number of active bank branches (average of period)	64	80	73	91
Annual premium equivalent	57.8	72.8	31.8	70.0
Value of new business	22.1	27.1	13.5	16.5

Life Businesses are introducing new products, including simplified health and protection products, with the aim of regaining sales momentum and increasing VNB margin in the bancassurance channel. The Life Businesses have experienced success in increasing VNB in the bancassurance channel, which grew at a CAGR of 9.9 per cent. for the three year period ended 30 June 2019.

Brokerage

As of 30 June 2019, the Life Businesses had more than 260 brokerage partners, and have increased the number of core brokers (those who have contributed more than HK$5,000,000 APE in the last 12 months on a rolling basis) from 7 to 29. The Life Businesses continue to collaborate with brokers with a strong PRC background. The Life Businesses' top five brokerage partners accounted for approximately 56 per cent. of APE through the brokerage channel for the year ended 31 December 2018. The average case size (in terms of internal APE) increased to HK$132,000. FWD Life Hong Kong's brokerage distribution channel ranked ninth in market share by APE as of 30 June 2019 (according to IA statistics).

The Life Businesses consider the brokerage channel to be a key channel for growth going forward and have undertaken a number of initiatives to support their brokerage partners, including the establishment of dedicated relationship management teams that hold regular meetings with management of key brokerage firms. The Life Businesses are also engaging more key brokers through strategic partnerships, including dedicated sales and underwriting support, and customised products to help the brokers succeed in their target markets.

FWD Limited operates separate brokerage networks for its life and general insurance businesses. The following table shows certain operating data for the Life Businesses as of and for the dates indicated:

	As of and for the year ended 31 December 2017	As of and for the year ended 31 December 2018	As of and for the six months ended 30 June 2018	As of and for the six months ended 30 June 2019
		(U.S. millions, except as indicated)		
Number of brokers	283	261	289	264
Annual premium equivalent.......................	70.8	107.1	48.9	63.8
Value of new business	27.4	27.7	13.2	20.2

The following table shows certain operating data for FWD General Insurance as of and for the dates indicated:

	As of and for the year ended 31 December 2017	As of and for the year ended 31 December 2018	As of and for the six months ended 30 June 2018	As of and for the six months ended 30 June 2019
		(U.S. millions, except as indicated)		
Number of brokers	285	309	293	314
Gross written premiums.............................	23.5	23.2	11.0	13.4

The brokerage channel has experienced rapid growth during the three-year period ended 30 June 2019, with an APE CAGR of 27.8 per cent. and a VNB CAGR of 43.7 per cent.

Direct to Customer (iFWD)

The Life Businesses started the iFWD direct to customer channel in 2015. This channel offers travel insurance, motor insurance and simple life and health insurance products. While the channel is still small relative to the other distribution channels, FWD Limited considers that the direct channel will be an important channel for growth going forward.

The following table shows certain operating data for the iFWD channel as of and for the dates indicated:

	For the year ended 31 December 2017	For the year ended 31 December 2018	For the six months ended 30 June 2018	For the six months ended 30 June 2019
		(U.S. millions, except as indicated)		
Annual premium equivalent	54.7	51.6	24.0	14.9
Value of new business	3.2	2.6	1.3	0.3

FWD LIMITED'S OPERATING COMPANIES

FWD Limited is the holding company of the Life Businesses, the general insurance business and financial planning business in Hong Kong and Macau, and the Family Takaful business in Malaysia. FWD Limited operates these businesses through five separate operating companies, as described below.

FWD Life Hong Kong

FWD Limited operates its life insurance business in Hong Kong through FWD Life Hong Kong.

The following table shows certain financial and operating data for FWD Life Hong Kong for the periods indicated:

	Year ended 31 December 2017	**Year ended 31 December 2018**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**
		(U.S. millions, except as indicated)		
Annual premium equivalent	281.3	361.6	159.7	236.2
Gross written premiums	1,558.4	1,709.0	748.5	839.0
Value of new business	105.4	142.8	58.5	89.5
VNB margin (per cent.)	37.5%	39.5%	36.6%	37.9%
Profit for the period[1]	67.6	67.8	35.9	20.7

Notes:

(1) Before intercompany eliminations

FWD General Insurance

FWD Limited operates its general insurance business through FWD General Insurance.

The following table shows certain financial and operating data for FWD General Insurance for the periods indicated:

	Year ended 31 December 2017	**Year ended 31 December 2018**	**Six months ended 30 June 2018**	**Six months ended 30 June 2019**
		(U.S. millions, except as indicated)		
Gross written premiums	62.9	65.4	35.1	41.6
Combined ratio[1]	95.2%	98.9%	96.1%	91.9%
Profit for the period[2]	4.2	2.7	1.6	2.4

Notes:

(1) Calculated as the sum of incurred claims plus expenses divided by earned premiums, where expenses include commissions, underwriting expenses and administrative expenses, with all items determined using the regulatory reporting basis.

(2) Before intercompany eliminations.

FWD Life Macau

FWD Limited operates its life insurance business in Macau through FWD Life Macau.

The following table shows certain financial and operating data for FWD Life Macau for the periods indicated:

	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	(U.S. millions, except as indicated)			
Annual premium equivalent	5.2	5.3	2.2	2.6
Gross written premiums	43.0	42.9	19.7	21.0
Value of new business	3.2	3.8	1.6	1.9
VNB margin (per cent.)	61.6%	72.8%	71.1%	71.9%
Profit/(Loss) for the period[(1)]	(0.7)	0.1	0.4	(1.1)

Notes:

(1) Before intercompany eliminations.

FWD Financial Planning

FWD Limited operates its financial planning business through FWD Financial Planning, an independent financial advisory business offering professional advice to high net worth individuals. FWD Financial Planning had losses of U.S.$0.6 million and U.S.$0.7 million for the year ended 31 December 2018 and six months ended 30 June 2019, respectively, before intercompany eliminations.

FWD Malaysia

The following table shows certain financial and operating data for FWD Malaysia for the periods indicated:

	Year ended 31 December 2017	Year ended 31 December 2018	Six months ended 30 June 2018	Six months ended 30 June 2019
	(U.S. millions, except as indicated)			
Annual premium equivalent	n.a.	n.a.	n.a.	1.4
Gross written premiums	n.a.	n.a.	n.a.	9.1
Value of new business	n.a.	n.a.	n.a.	0.1
VNB margin (per cent.)	n.a.	n.a.	n.a.	6.8%
Loss for the period[(1)]	n.a.	n.a.	n.a.	(3.0)

Notes:

(1) Before intercompany eliminations.

The following table shows certain historical financial information for HSBC Amanah Takaful (Malaysia) Bhd. for the periods indicated. This information is based on Malaysian Accounting Standards and is not on a consistent basis with FWD Limited's IFRS accounting basis.

	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
		(RM millions, except as indicated)		
Annual premium equivalent	206	141	190	161
Gross premiums	24	19	24	23
Shareholders' equity	118	119	126	132
Return on average equity	11%	1%	6%	4%

PRICING

The premium rates that FWD Limited charges for its life insurance and family takaful products are determined by a number of factors, including product design, profit targets and competition. FWD Limited bases its calculations on assumptions with respect to expected mortality and morbidity rates, persistency rates, investment returns, commissions and allowances, administrative expenses and inflation. These assumptions are derived primarily from FWD Limited's own experience, as well as broader industry experience and information supplied to it by reinsurers, where appropriate.

FWD Limited's non-life premium rates are based on assumptions with respect to loss frequency and severity, investment returns, commissions and allowances, administrative expenses and inflation and information supplied by its reinsurers.

INVESTMENTS

Overview

FWD Limited invests the premiums and other income generated from its insurance businesses in accordance with its key investment objectives as defined by FWD Limited's Risk Committee ("RC"). The Group's investment philosophy is to maintain a balanced asset portfolio that generates a stable investment return in accordance with its stated investment objectives and strategy. FWD Limited's investment process is subject to robust management oversight by the RC and the Board of Directors.

FWD Limited seeks to optimise its investment portfolio with a focus on investment grade fixed income securities, along with public and private equity investments to support its traditional participating life insurance products. FWD Limited believes that this approach enables it to maintain a good level of liquidity and financial flexibility. As of 30 June 2019, FWD Limited's investment portfolio (excluding investments supporting investment linked contracts, MPF schemes and ORSO schemes under which policyholders assume the investment risk) comprised U.S.$10,309.0 million in investment assets, with over 80 per cent. of its assets comprising fixed income securities. Within FWD Limited's fixed income portfolio, less than 1.2 per cent. of the securities were rated below investment grade. For FY2017, FY2018, HY2018 and HY2019, FWD Limited had investment income of U.S.$294.6 million, U.S.$343.5 million, U.S.$157.2 million and U.S.$184.4 million, respectively.

On 19 June 2017, FWD Life Hong Kong acquired a 50 per cent. interest in One George Street LLP ("OGS LLP") in Singapore for a total consideration of U.S.$232 million. OGS LLP holds property located at One

George Street Singapore and is jointly owned by FWD Life Hong Kong and the trustee of CapitaLand Commercial Trust ("CCT"). OGS LLP is accounted for as 'Investment in joint venture' in the unaudited unreviewed consolidated financial statements for HY2019.

Investment Management and Objectives

The RC has primary responsibility for overseeing the investment of all the assets (other than operating assets) within the risk guidelines set by the Board of Directors. See "*—Risk Management*". Pursuant to FWD Limited's investment philosophy, the RC has formulated four key investment objectives: (i) maintain adequate solvency ratios and liquidity levels; (ii) maintain stable and consistent earnings on an IFRS basis; (iii) create long-term value without exceeding FWD Limited's risk capital limits; and (iv) ensure that suitable earnings protections are in place in the event that the HK dollar and U.S. dollar are un-pegged.

The RC is supported by the Investment Committee ("IC") and the Asset Liability Management Committee ("ALMCO"), which are management committees established to provide oversight of FWD Limited's investments and asset and liability management. To meet FWD Limited's investment objectives, the RC reviews and approves FWD Limited's investment strategy, asset allocation, investment mandates and guidelines and advises the investment management unit. In doing so, the RC employs strategic asset allocation ("SAA") and tactical asset allocation ("TAA") frameworks.

The SAA framework serves as an indicative benchmark for asset allocation, which the RC believes will best enable FWD Limited to achieve its four key investment objectives. The SAA prescribes a high allocation to corporate bonds in order to optimise portfolio returns with stable income; a moderate allocation to longer maturity government bonds in order to mitigate interest rate risks associated with long term insurance liabilities and maintain liquidity even in stressed scenarios; and a low allocation to equity investments to further support long-term portfolio returns while ensuring easy divestment to support local solvency under stressed scenarios. The SAA allows limited flexibility to pursue other investment initiatives for asset-liability management purposes, yield enhancement or to provide ready liquidity in the form of cash or cash equivalents.

The TAA framework sets indicative ranges for asset allocation to provide investment managers with additional flexibility to tactically adjust exposure to certain asset classes in light of current market trends. The RC believes this framework provides FWD Limited's investment managers the ability both to capture upside as well as to mitigate downside risks in line with movements in the market.

As of the date of this Offering Circular, there has been no material change to the investment mandate or guidelines followed by the businesses within FWD Limited since 31 December 2010. The Life Businesses outsource their fixed income portfolio to PineBridge and outsource the private equity portfolio to third party investment managers with expertise in that asset class; other assets are managed internally.

Asset and Liability Management

The Life Businesses employ prudent asset and liability management strategies to manage the duration gap (the difference between liability duration and asset duration in the outstanding product and investment portfolios). As of 31 December 2018, the asset duration and liability duration in the outstanding product and investment portfolios of the Life Businesses' was 6.4 years and 7.0 years, respectively, with a duration gap of 0.6 years. The decline of interest rates in the first six months of 2019 has increased the duration gap to approximately 2.8 years as of 30 June 2019, with asset duration and liability duration of 7.1 years and 9.9 years, respectively. The duration gap is quite sensitive to the absolute level of interest rates and would widen if interest rates fall further, and narrow if interest rates increase.

Investment Portfolio

In keeping with the SAA and TAA frameworks, FWD Limited's investment portfolio is composed predominantly of corporate bonds, which represented 70.1 per cent. of FWD Limited's investment portfolio (excluding investments supporting investment linked contracts, MPF schemes and ORSO schemes under which policyholders assume the investment risk) as of 30 June 2019, followed by government bonds, private equities and other asset classes. As of 30 June 2019, less than 1.2 per cent. of FWD Limited's fixed income portfolio was rated below investment grade. The following table sets forth FWD Limited's total investment portfolio by asset class as of the dates indicated:

	As of 31 December 2017		**As of 31 December 2018**		**As of 30 June 2018**		**As of 30 June 2019**	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*	*(U.S.$ millions)*	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
Corporate bonds...........	6,281.5	73.9%	6,519.9	71.8%	6,273.6	72.6%	7,221.6	70.1%
Government bonds	953.8	11.2%	1,092.5	12.0%	952.8	11.0%	1,072.7	10.4%
Public equities and mutual funds	413.7	4.9%	188.0	2.1%	420.3	4.9%	425.6	4.1%
Private equities	442.7	5.2%	875.6	9.6%	597.6	6.9%	1,054.1	10.2%
Policy loans and other loans	78.9	0.9%	71.1	0.8%	69.6	0.8%	71.9	0.7%
Investment properties(1)	241.2	2.8%	244.8	2.7%	238.3	2.8%	245.6	2.4%
Other assets.................	88.1	1.0%	92.1	1.0%	91.8	1.1%	217.5	2.1%
Total investments(2)	8,499.9	100.0%	9,084.0	100.0%	8,644.0	100.0%	10,309.0	100.0%

Notes:

(1) Including investment property and investment property funds held directly or indirectly by FWD Limited.

(2) Excluding investments supporting investment linked contracts, MPF schemes and ORSO schemes under which policyholders assume the investment risk.

Fixed Income Investments

As of 30 June 2019, 80.5 per cent. of FWD Limited's investment portfolio (excluding investments supporting investment linked contracts, MPF schemes and ORSO schemes under which policyholders assume the investment risk) was composed of fixed income investments, including asset- and mortgage-backed securities.

The following table sets forth the breakdown of FWD Limited's fixed income investments by investment ratings as of the dates indicated:

	As of 31 December 2017		**As of 31 December 2018**		**As of 30 June 2018**		**As of 30 June 2019**	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*	*(U.S.$ millions)*	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
AAA	877.1	12.1%	1,005.3	13.2%	860.4	11.9%	999.2	12.1%
AA	439.9	6.1%	493.1	6.4%	435.8	6.0%	513.7	6.2%
A	3,125.9	43.2%	3,218.6	42.3%	3,199.9	44.3%	3,651.5	44.0%
BBB	2,759.1	38.1%	2,820.5	37.1%	2,700.1	37.4%	3,038.5	36.6%
Below BBB	33.3	0.5%	74.9	1.0%	30.2	0.4%	91.3	1.1%

	As of 31 December 2017		As of 31 December 2018		As of 30 June 2018		As of 30 June 2019	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*	*(U.S.$ millions)*	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
Total fixed income investments	7,235.3	100.0%	7,612.4	100.0%	7,226.4	100.0%	8,294.2	100.0%

As of 30 June 2019, FWD Limited's fixed income investments were concentrated in the financial sector, which represented over 35 per cent. of FWD Limited's total fixed income investment portfolio, followed by government, energy, utilities and other sectors.

RISK MANAGEMENT

The core of FWD Limited's business is accepting, pooling and managing risk for the benefit of its policyholders. FWD Limited believes that the risks it has undertaken are backed by appropriate levels of capital to support the ongoing business and protect policyholders. While FWD Limited aims to achieve the most efficient capital structure, it seeks to do so within acceptable levels of risk without compromising either financial strength or FWD Limited's requirement for appropriate returns.

FWD Limited manages its risk profile through the RC, which is supported by the IC and ALMCO, as well as additional working committees, including the product development committee; underwriting and claims committees for life and non-life insurance products and other departmental committees charged with reporting exceptions and with escalating key issues to the management committees of its life and non-life insurance businesses.

Risk Appetite Framework

FWD Limited's risk appetite reflects the amount of total risk exposure that FWD Limited is willing to accept or retain on the basis of risk-reward trade-offs in qualitative and quantitative terms that can be monitored. The risk appetite is reflective of FWD Limited's strategy, risk capacity and its shareholders' expectations. The Board of Directors establishes FWD Limited's risk appetite through the promulgation of qualitative risk appetite statements. These statements communicate the principals that guide FWD Limited's selection of types of risks and establish a clear link between FWD Limited's overall business strategy and its risk tolerances. The qualitative risk appetite statements are further broken down into more granular specific risk tolerances for FWD Limited's key risk categories. These risk tolerances are monitored using quantitative metrics set by senior management in collaboration with the RC and are reported to the Board of Directors on a quarterly basis.

Risk Appetite Statements

FWD Limited's current risk appetite statements are as follows:

- FWD Limited's long-term sustainability depends upon the protection of its franchise and its relationship with customers, regulators and professional and licensed distributors.
- FWD Limited seeks to improve the value of the business and the balance between risk and return while being adequately compensated for the risks that cannot be hedged or diversified.
- FWD Limited will effectively manage capital and liquidity to remain able to meet its liabilities under adverse scenarios.
- FWD Limited does not accept risks that could materially impair the reputation of FWD Limited and requires that customers are treated with integrity.

Key Risks

FWD Limited has identified the following key risks as part of its risk appetite framework. For each key risk, it establishes a number of risk monitoring metrics, each with a predetermined tolerance level and clearly defined risk ranges dictated by the movements in such metrics, to facilitate detailed monitoring of its risk profile.

Reputational Risk

Reputational risks are risks of loss of franchise value due to damage to FWD Limited's brand or reputation with customers, distributors, investors and regulators. FWD Limited's consideration of reputational risk is a key element in its operational risk management.

Liquidity Risk

Liquidity risk refers to the risk that FWD Limited will have insufficient cash available to meet its payment obligations to counterparties as they fall due. FWD Limited is subject to liquidity risk on insurance products that permit surrender, withdrawal or other forms of early termination for a cash surrender value. Liquidity risk is managed through insurance product design and by matching near-term expected asset and liability cash flows.

Investment Risks

Investment risks comprise interest rate risk and equity price risk. Interest rate risk predominantly arises from any difference between the tenor of assets and liabilities, or any difference between the return on investments and the return required to meet FWD Limited's commitments, primarily its insurance liabilities. This risk increases for products with inherent interest rate options or guarantees. FWD Limited seeks to manage interest rate risk by ensuring appropriate insurance 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 liabilities. For in-force policies, FWD Limited is able to adjust policyholder dividends and crediting rates applicable to policyholder account balances, with consideration given to, amongst other things, the earned yields on investments and policyholders' reasonable expectations.

Equity price risk arises from changes in the market value of equity securities and equity funds. FWD Limited believes that investment in equity assets on a long-term basis will provide diversification benefits and return enhancements, which can improve the investment portfolio's risk adjusted returns. Equity price risk is managed by diversifying and limiting concentrations in its equity investments.

Insurance Risk

Insurance risk includes the risks inherent in the design of insurance products, including lapse risk and claims risk. Lapse risk refers to the possibility of actual lapse experience that diverges from the anticipated experience assumed in product pricing. It includes the potential financial loss incurred due to early termination of policies or contracts in circumstances where the acquisition costs incurred are no longer recoverable from future revenue. FWD Limited carries out regular reviews of persistency experience, and the results are reflected in new product pricing and in-force product management. In addition, many of FWD Limited's products include surrender charges that entitle FWD Limited to additional fees upon early termination by policyholders, which reduces exposure to lapse risk.

Claims risk refers to the possibility that the frequency or severity of claims arising from insurance products exceeds the levels assumed when the products were priced. FWD Limited seeks to mitigate claims risk by conducting regular reviews of mortality and morbidity experience, and reflecting this experience in new product pricing. FWD Limited also manages claims risk by adhering to its underwriting and claims management policies and procedures. Finally, FWD Limited uses reinsurance solutions to help reduce concentration and volatility risk, especially with large policies or new risks, and as a protection against catastrophes. In particular, FWD General Insurance is exposed to a higher level of volatility through its commercial lines business; therefore, with the assistance of reinsurers and international reinsurance brokers, FWD Limited reviews FWD General Insurance reviews its reinsurance arrangement annually to optimise the reinsurance protection for its business.

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, personnel and systems or from external events. FWD Limited's business depends on the accurate and efficient processing and reporting of a high volume of complex transactions across numerous and diverse products and services. Any weakness in these internal processes, systems or security could have an adverse effect on FWD Limited's results and on its ability to deliver appropriate service to customers during the affected period. FWD Limited has established robust processes and procedures to control operational risk by identifying, assessing, monitoring and developing strategies to mitigate the risks.

Hedging

FWD Limited follows a clearly defined hedging strategy in respect of its foreign exchange exposures. All foreign exchange related asset and liability mismatches are reviewed at RC meetings, and appropriate foreign exchange hedges are put into place in order to ensure local statutory solvency is maintained at acceptable levels.

FWD Limited issues policies and invests in assets denominated in U.S. dollars, HK dollars, Renminbi, Macau pataca and Malaysian ringgit, and uses forward currency contracts to hedge the currency mismatch between its liabilities to policyholders and its assets. The following table sets forth the currency mismatch both before and after currency hedges (a positive number indicates more assets than liabilities in the currency, and a negative number indicates more liabilities than assets in the currency):

	As of 31 December 2017	As of 31 December 2018	As of 30 June 2018	As of 30 June 2019
		(U.S.$ millions)		
HK dollar mismatch before hedging	(2,641)	(2,754)	(2,580)	(2,975)
HK dollar mismatch after hedging[(1)]	(1)	(155)	29	(70)
RMB mismatch before hedging	21	24	23	27
RMB mismatch after hedging	21	24	23	27

Note:

(1) There is generally a one-month lag in the execution of foreign exchange hedges because month-end positions are only available in the subsequent month.

Reserves

For all of its product lines, FWD Limited establishes, and carries as liabilities, actuarially determined amounts to meet its future obligations under its insurance policies. In accordance with IFRS, FWD Limited's reserves for financial reporting purposes are based on actuarially recognised methods for estimating future policy benefits and claims. FWD Limited expects these reserve amounts, along with future payments on policies and contracts, and investment earnings on these amounts, to be sufficient to meet its insurance and investment policy and contract obligations. The amount of FWD Limited's consolidated insurance and investment contract liabilities as of 30 June 2019 was U.S.$12,459.3 million.

FWD Limited establishes the liabilities for obligations for future policy benefits and claims based on assumptions that are uncertain when made. These assumptions include mortality, morbidity, policyholder persistency, administrative expenses, investment returns and inflation. Actual experience may be different from its assumptions, and as a result, it cannot determine precisely the amounts that it will ultimately pay to settle these liabilities or the timing of these payments. These amounts may vary from the estimated amounts, particularly when these payments do not occur until well into the future. See "*Risk Factors—Risks Relating to the Group's Business—Actual experience may differ from assumptions used in establishing reserves and in product pricing, which may adversely impact FWD Limited's profitability*". FWD Limited evaluates its liabilities periodically, based on changes in the assumptions used to establish the liabilities, as well as its actual policy benefits and claims experience.

Solvency ratio

FWD Limited maintains assets in excess of liabilities to meet the solvency ratio requirements under the Insurance Companies (Margin of Solvency) Regulations in Hong Kong, Macau Insurance Companies Ordinance (Margin of Solvency) in Macau and Requirements on Margin of Solvency (Consolidated) in Malaysia to support future growth. See "*—Supervision and Regulation*". FWD Life Hong Kong targets a solvency ratio between 200 per cent. and 250 per cent., well above the Hong Kong regulatory requirement of 150 per cent., while FWD General Insurance targets a solvency ratio between 300 per cent. and 500 per cent., at or above the regulatory requirement of 300 per cent., FWD Life Macau targets a solvency ratio between 150 per cent. and 230 per cent., at or above the regulatory requirement of 100 per cent and FWD Malaysia targets a solvency ratio between 195 per cent. and 235 per cent., at or above the regulatory requirement of 130 per cent.

The following table sets forth the solvency ratio for each of the Life Businesses, FWD General Insurance and FWD Malaysia for the periods indicated:

	As of 31 December 2017	As of 31 December 2018	As of 30 June 2018	As of 30 June 2019
	(U.S. million, except as indicated)			
FWD Life Hong Kong:				
Local available capital	821.1	874.3	838.3	993.1
Minimum local required capital..........	304.8	328.1	307.5	361.7
Actual local solvency ratio (per cent.)[1]	269%	267%	273%	275%
FWD Life Macau:				
Local available capital	25.6	28.1	26.5	27.7
Minimum local required capital..........	12.7	12.9	12.6	14.0
Actual local solvency ratio (per cent.)[1]	202%	218%	210%	198%
FWD General Insurance:				
Local available capital	34.9	31.6	34.9	37.3
Minimum local required capital	6.3	6.4	6.3	6.3
Actual local solvency ratio (per cent.)[1]	549%	491%	556%	589%
FWD Malaysia:				
Local available capital	n.a.	n.a.	n.a.	28.8
Minimum local required capital	n.a.	n.a.	n.a.	10.4
Actual local solvency ratio (per cent.)[1]	n.a.	n.a.	n.a.	277%

Note:

(1) Calculated as the ratio of local available capital to minimum local required capital.

Sensitivity analysis

FWD Limited regularly performs sensitivity analyses to measure the potential effect of certain market developments on its local solvency ratio. The following table sets forth the estimated local solvency ratio of FWD Life Hong Kong and FWD General Insurance under four hypothetical scenarios:

	Solvency Ratio[(1)(2)]	
	FWD Life Hong Kong	**FWD General Insurance**
Actual local solvency ratio as of 30 June 2019	275%	589%
50 basis point increase in HK dollar and U.S. dollar market interest rates	294%	562%
50 basis point decrease in HK dollar and U.S. dollar market interest rates	170%	616%
10 per cent. increase in equity markets	297%	592%
10 per cent. decrease in equity markets	239%	586%

Notes:

(1) Calculated as the ratio of local available capital to minimum local required capital

(2) Sensitivity analyses do not take into consideration any mitigating management actions.

SUPERVISION AND REGULATION

The primary source of regulation of the insurance industry in Hong Kong is the HKICO. In addition to enumerating the regulatory requirements and reporting obligations of insurers and insurance intermediaries in Hong Kong, the HKICO charges the IA with regulatory authority for the enforcement of its provisions. As a consequence, FWD Limited's Hong Kong operations are subject to oversight by the IA as well as to the specific requirements of the HKICO.

The OCI was the regulatory body that administered the HKICO until it was replaced by the IA on 26 June 2017. The principal functions of the IA are to ensure that the interests of policyholders or potential policyholders are protected and to promote the general stability of the insurance industry. The IA has the following major duties and powers: (a) authorisation of insurers to carry on insurance business in Hong Kong; (b) regulation of insurers' financial condition, primarily through the examination of the annual audited financial statements and business returns submitted by the insurers; and (c) development of legislation and guidelines on insurance supervision.

The IA is empowered by the HKICO to take actions if in its judgment a controller or director of an authorised insurer is not fit and proper for that role. Fit and proper standards include the sufficiency of a holding company's financial resources; the viability of a holding company's business plan for its insurance subsidiaries which are regulated by the IA; the clarity of a group's legal, managerial and operational structures; the identities of any other holding companies or major regulated subsidiaries; whether the holding company, its directors or controllers are subject to receivership, administration, liquidation or other similar proceedings or failed to satisfy any judgment debt under a court order or are the subject of any criminal convictions or are in breach of any statutory or regulatory requirements; the soundness of a group's corporate governance; the soundness of a group's risk management framework; the receipt of information from a holding company's insurance subsidiaries which are regulated by the IA to ensure that they are managed in compliance with applicable laws, rules and regulation; and a holding company's role in overseeing and managing the operations of its insurance subsidiaries that are regulated by the IA.

Aside from the HKICO, the insurance industry in Hong Kong currently has a high degree of industry regulation, which complements the regulatory framework established by the HKICO. The Hong Kong Confederation of Insurance Brokers (the "HKCIB") and the HKFI are self-regulatory bodies of which FWD Life Hong Kong is an active member. The HKFI actively promotes a self-regulatory regime with respect to areas such as conduct of insurers and insurance intermediaries, cooling off initiatives, policy replacement and initiatives on needs analysis. The Insurance Agents Registration Board of the HKFI is responsible for administering the registration and approval of insurance intermediaries of insurance agents, their responsible officers and technical representatives and handling complaints against them and providing enquiry services to, and handling complaints from, the public relating to insurance agents. The New HKICO provides for a new licensing regime for insurance intermediaries. When the relevant provisions under the HKICO come into force, insurance intermediaries will be regulated by the IA. These and other industry bodies perform certain further regulatory and licensing functions in Hong Kong.

In addition to oversight of FWD Limited's insurance operations in Hong Kong by the IA and industry bodies, FWD Limited's operations are also subject to supervision by other relevant government regulators, including the Securities and Futures Commission and Mandatory Provident Fund Schemes Authority in Hong Kong, the AMCM, the Bermuda Monetary Authority and Bank Negara Malaysia. In addition, from November 2018, FWD Limited has been subject to group supervision by the IA. The various regulators overseeing FWD Limited actively monitor its local solvency ratios, and all of FWD Limited companies submit annual filings to their respective regulators of their solvency ratios based on their annual audited accounts. FWD Limited is in compliance with the solvency ratio and capital adequacy requirements applied by its regulators.

Regulatory orders specific to FWD Limited

In connection with its approval of the Acquisition, the IA imposed certain additional regulatory requirements or restrictions on FWD Limited. As of the date of this Offering Circular, the requirements and restrictions summarised below may be considered material to FWD Limited:

The IA has issued Section 35 Orders to each of FWD Life Hong Kong and FWD General Insurance requiring, among other requirements, that each of FWD Life Hong Kong and FWD General Insurance:

- ensure that all insurance business and all transactions with any "specified person" are on normal commercial terms;
- not place any deposit with or transfer assets (except for normal insurance transactions) or provide financial assistance to any "specified person" without first obtaining written consent from the IA;
- not declare or pay any dividend without first obtaining written consent from the IA; and
- inform the IA as soon as practicable of any circumstances that may put the interest of policyholders or potential policyholders at risk.

For the purpose of the Section 35 Orders, "specified person" includes but is not limited to an insurer's directors, controlling persons, shareholders and associates or group companies.

In addition, further undertakings have been given to the IA that, among other requirements:

- require FWD Life Hong Kong to maintain at all times a solvency ratio target of 150 per cent. to 200 per cent.;
- require FWD General Insurance to maintain at all times a solvency ratio target of 300 per cent. to 500 per cent.;
- require 60 days' (or such shorter period as the IA may allow) prior written notice be given to the IA of an intention to make any further borrowings; and
- restrict the ability of FWD Limited and the intermediate holding companies of FWD Life Hong Kong and FWD General Insurance to declare or pay dividends without first obtaining written consent from the IA.

In addition, pursuant to FWD Limited's undertakings provided to BNM in connection with the acquisition of a 49 per cent. interest in FWD Malaysia, FWD Limited has committed, for the period of 2019 to 2024, to invest in the Malaysian insurance industry by:

- providing capital injections commensurate to the growth of FWD Malaysia to support its operations and growth;
- establishing a digital IT services and data center;
- establishing a takaful innovation hub for the long-term sustainable development of the industry;
- developing specialised takaful products focusing on the lower-income and disabled segments of the population;
- promoting takaful awareness initiatives; and
- developing talent within the takaful industry.

INFORMATION TECHNOLOGY

All core business processes of FWD Limited are supported by standard and robust information technology systems and infrastructure. FWD Limited's distributors are supported by a point-of–sales tool that covers customer financial needs analysis, premium quotations, electronic submission of applications, automated underwriting, e-signature and straight through processing, and is based on advanced mobile technology. All after sale customer service, including claims and contract amendments, is supported by web-based portals, online chat and mobile services.

COMPETITION

FWD Life Hong Kong is ranked tenth in market share by APE out of 65 life insurers authorised by the IA as of 30 June 2019 (according to IA statistics). FWD Life Macau is ranked eighth in market share by GWP as of 30 June 2019 (according to AMCM statistics).

Although the Hong Kong insurance market is a relatively liberalised market with few barriers to entry, the market is concentrated. According to statistics released by IA, as of 31 December 2018, approximately 72 per cent. of market share by APE was held by the top five life insurance companies. FWD Life Hong Kong's competitors can broadly be categorised as follows:

- regional and multinational insurance companies with an individual market share by APE in excess of 5.0 per cent. (including AIA Group Limited, the China Life Insurance (Group) Company and Prudential Hong Kong Limited);

- banks and other financial institutions that directly own an insurance company subsidiary (including The Hongkong and Shanghai Banking Corporation, Bank of China (Hong Kong) Limited, Hang Seng Bank Limited and The Bank of East Asia Limited);
- regional and multinational insurance companies with an individual market share by APE in excess of 2.0 per cent. but less than 5.0 per cent. (including Manulife (International) Limited, AXA Hong Kong and China Taiping Life Insurance (Hong Kong) Company Limited); and
- regional and multinational insurance companies with an individual market share by APE of less than 2.0 per cent. (including BEA Life Limited, Sun Life Hong Kong Limited and FTLife Insurance Company Limited).

FWD Limited believes that insurers compete on a number of factors, including service, product features, price, financial strength ratings and other indices of financial health, marketing methods and name recognition. Given the wide array of relevant factors, insurance companies compete in different ways, with a competitive advantage in one individual area potentially resulting in a competitive disadvantage in another. Some of FWD Limited's competitors may offer a broader range of insurance products, may have more competitive pricing or have higher financial strength ratings or better name recognition. Some may also have greater financial resources. Nonetheless, on an aggregate level, FWD Limited's differentiated strengths and strategies enable it to maintain leading positions in Hong Kong and Macau. FWD Limited also competes for sales representatives and independent sales agents with other life insurance companies operating in Hong Kong, Macau and Malaysia.

LEGAL AND REGULATORY PROCEEDINGS

From time to time, businesses within FWD Limited are involved in litigation in the ordinary course of their business activities, such as disputes in relation to contested insurance claims.

Although FWD Limited cannot predict the outcome or impact of any pending or future arbitration, litigation or regulatory proceedings, it does not believe that it is currently, nor has it been during the 12 months preceding the date of this Offering Circular, involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which FWD Limited is aware) that may have, or have had, a significant effect on its business, results of operations or financial position.

CREDIT RATINGS

FWD Life Hong Kong has insurer financial strength ratings of "A" with a rating watch evolving on acquisition outlook from Fitch and "A3" with a negative outlook from Moody's.

FWD General Insurance has an insurer financial strength rating of "A" with a rating watch evolving on acquisition outlook from Fitch.

FWD Limited's senior debt is rated "BBB" with a rating watch evolving outlook from Fitch and "Baa3" with a negative outlook from Moody's.

EMPLOYEES

As of 30 June 2019, FWD Limited had 1,396 employees.

MANAGEMENT

Overall management of FWD Limited is conducted by the Board of Directors of FWD Limited. The Board of Directors formulates the overall strategy of FWD Limited, monitors FWD Limited's financial performance and maintains corporate governance frameworks in each subsidiary. Daily operations and administration are delegated to the management of each of FWD Limited's subsidiaries.

The members of the Board of Directors of FWD Limited as at the date of this Offering Circular are as follows:

Name	Age	Position
The Honourable Ronald Arculli	80	Chairman and Director
Damis ("Dennis") Jacobus Ziengs	70	Vice Chairman and Director
Peter A. Allen	64	Director
John Baird	50	Director
Martina Chung	61	Director
Guido Fürer	56	Director
Kyoko Hattori	44	Director
Dirk ("Dick") Sluimers	66	Director
Huynh Thanh Phong	53	Director and Chief Executive Officer
Professor Frederick Ma Si-Hang	67	Independent Non-Executive Director

SENIOR MANAGEMENT

FWD Limited's senior management is responsible for the day-to-day management and operation of FWD Limited's businesses. The members of senior management of FWD Limited as at the date of this Offering Circular are as follows:

Name	Age	Position
Huynh Thanh Phong	53	Chief Executive Officer
Robert Schimek	54	Chief Operating Officer
Craig Alan Merdian[3]	59	Chief Financial Officer
Alvin Chooi	47	Chief Strategy Officer
Maree Higgins	52	Chief Human Resources Officer
Binayak Dutta	46	Chief Distribution Officer and Managing Director, Emerging Markets
Amy Hoe	57	Chief Technology & Operations Officer
Tim Oliver	55	Chief Customer and Marketing Officer
Boon-Kee Tan	47	Chief Business Officer
Julian McQueen Lipman	51	Chief of Staff

3 As at the date of this Offering Circular, FWD Limited has appointed a new Chief Financial Officer, Jon Paul Nielsen, which will take effect subject to regulatory approval from the IA.

Name	Age	Position
Lee King Chi Arthur	59	EVP, New Markets & Corporate Governance, South East Asia Chairman

BOARD COMMITTEES

Risk Committee

FWD Limited's Risk Committee advises the Board of Directors on FWD Limited's risk appetite and risk management framework, reviews and approves risk policies and related contingency plans and oversees FWD Limited's overall compliance with such plans. The RC also reviews and approves FWD Limited's SAA, monitors implementation of the SAA and TAA and monitors significant risk issues. The RC is supported by the IC and the ALMCO, which are FWD Limited's management committees established to provide oversight of FWD Limited's investments and asset and liability management. The current members of RC are Guido Fürer (Chairman), the Honourable Ronald Arculli, Peter A. Allen, John Baird and Martina Chung.

Compensation Committee

FWD Limited's Compensation Committee is responsible for reviewing and making recommendations to the Board of Directors concerning FWD Limited's remuneration policy, establishing procedures for implementing the remuneration policy across FWD Limited, evaluating the implementation thereof and reviewing and approving certain specific remuneration packages, including those of the Directors and Senior Executives. In doing so, the Compensation Committee consults with the Chairman of the Board of Directors and FWD Limited CEO and coordinates with the RC to ensure compensation packages to not encourage Senior Executives to take excessive risks. The current members of the Compensation Committee are the Honourable Ronald Arculli (Chairman), Guido Fürer, Kyoko Hattori, Professor Frederick Ma Si-Hang and Martina Chung.

Audit Committee

FWD Limited's Audit Committee oversees FWD Limited's external independent auditors (presently Ernst & Young) as well as FWD Limited's internal audit function, and reviews and approves the annual audit work-plans for both the independent auditors and internal audit. The Audit Committee provides independent assurance on the design and effectiveness of FWD Limited's overall system of internal control and monitors the integrity of FWD Limited's accounts, financial systems and reports. The Audit Committee provides regular reports to the Board of Directors on audit results and findings. The current members of the Audit Committee are Professor Frederick Ma Si-Hang (Chairman), Dennis J. Ziengs, Peter A. Allen, John Baird and Dirk Sluimers.

COMPENSATION OF DIRECTORS

For FY2017 and FY2018, the total remuneration of all Directors was approximately U.S.$2.38 million and U.S.$2.64 million, respectively. For HY2018 and HY2019, the total remuneration of all Directors was approximately U.S.$1.28 million and U.S.$1.58 million, respectively.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretation thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that neither the Issuer nor any other persons involved in the offering of the Notes accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

CAYMAN ISLANDS

Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands, and no withholding will be required on the payment of interest and principal to any holder of the Notes nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands. Stamp duty will be payable on any documents executed by the Issuer if any such documents are executed in or brought into the Cayman Islands or produced before the Cayman Islands courts.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, has applied for and can expect to obtain an undertaking from the Government of the Cayman Islands:

1. that no law that is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Issuer or its operations; and

2. in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

   (a) on or in respect of the shares, debentures or other obligations of the Issuer; or

   (b) by way of the withholding in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (2018 Revision).

THE PROPOSED FINANCIAL TRANSACTIONS TAX (THE "FTT")

On 14 February 2013, the European Commission published a proposal (the "Commission's proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a Subscription Agreement dated 23 October 2019 among the Issuer and the Joint Lead Managers, agreed severally and not jointly with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at the Issue Price (100 per cent. of their principal amount). Any subsequent offering of the Notes to investors may be at a price different from the Issue Price. The Issuer has agreed to pay the Joint Lead Managers certain fees and an underwriting commission, to reimburse the Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the Notes and to indemnify the Joint Lead Managers against certain liabilities in connection with the offering and sale of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Lead Managers or any affiliate of theirs is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by them or such affiliate on behalf of the Issuer in such jurisdiction.

The Joint Lead Managers and certain of their affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution. The Joint Lead Managers and their respective affiliates may also purchase the Notes for their own accounts. In the ordinary course of their various business activities, the Joint Lead Managers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity as investment advisers) a broad array of investments and actively traded debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve the Notes or other securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, may be entered into at the same time in the secondary market and may be carried out with counterparties that are also purchasers, holders or sellers of the Notes.

Certain private banks will be paid a commission in connection with the distribution of the Notes to their clients, which will be based on the principal amount of the Notes so distributed.

OTHER RELATIONSHIPS

The Joint Lead Managers and their affiliates are full service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Joint Lead Managers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies from time to time.

UNITED STATES

The Notes and the Guarantee have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States. Each Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold, and will not offer or sell, any Notes or the Guarantee constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither it nor any of its affiliates (including any person acting on behalf of such Manager or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes or the Guarantee. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes and the Guarantee within the United States by any dealer (whether or not participating in the offering of the Notes and the Guarantee) may violate the registration requirements of the Securities Act.

UNITED KINGDOM

Each of the Joint Lead Managers has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS

Each of the Joint Lead Managers has represented, warranted and undertaken that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or

(b) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

HONG KONG

Each of the Joint Lead Managers has represented, warranted and undertaken that:

it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "Professional Investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "Professional Investors" as defined in the SFO and any rules made under the SFO.

SINGAPORE

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Managers has represented, warranted and undertaken that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "Financial Instruments and Exchange Act"), and accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

THE CAYMAN ISLANDS

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Notes and no such limitation is made hereby. Each Joint Lead manager has represented, warranted and undertaken that the public of the Cayman Islands will not be invited to subscribe for the Notes.

GENERAL INFORMATION

1. **Clearing Systems:** The Notes have been accepted for clearance through Euroclear and Clearstream. The securities codes for the Notes are as follows:

   Common Code: 207277339

   ISIN: XS2072773398

   The Legal Entity Identifier of the Issuer is 213800EJDB8HZKBQIY85.

2. **Authorisations:** The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Notes and the giving of the Guarantee. The issue of the Notes was authorised by written resolutions of the board of directors of the Issuer dated 21 October 2019 and the giving of the Guarantee was authorised by written resolutions of the board of directors of the Guarantor dated 21 October 2019.

3. **Listing of the Notes:** Application has been made to the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only, and such permission is expected to become effective on or about 29 October 2019.

4. **No Material Adverse Change:** There has been no material adverse change in the financial or trading position or prospects of (i) the Issuer since the date of its incorporation and (ii) the Guarantor, FWD Limited and the Group since 31 December 2018.

5. **Litigation:** None of the Issuer, the Guarantor, FWD Limited or any other subsidiaries of the Issuer or the Guarantor is involved in any governmental, legal or arbitration proceeding that is material in the context of the issue of the Notes or the giving of the Guarantee, and the Issuer and the Guarantor are not aware that any such proceedings are pending or threatened.

6. **Available Documents:** Copies of the most recently published audited annual financial statements of the Guarantor (for the years ended 31 December 2017 and 2018) and the most recently published audited annual consolidated financial statements (for the years ended 31 December 2017 and 2018) and unaudited unreviewed semi-annual consolidated financial statements (for the six months ended 30 June 2019) of FWD Limited may be obtained free of charge, and copies of the Deed of Guarantee, Agency Agreement (which includes the form of the Global Note Certificate), the Deed of Covenant and the Issuer's Data Privacy Notice will be available for inspection at the specified office of the Fiscal Agent at Level 30, HSBC Main Building, 1 Queen's Road Central, Hong Kong, Issuer Services during normal business hours, so long as any of the Notes is outstanding.

7. **Auditor:** The (i) audited unconsolidated financial statements of the Guarantor for the years ended 31 December 2017 and 31 December 2018 and (ii) audited consolidated financial statements of FWD Limited for the years ended 31 December 2017 and 31 December 2018 have been audited by Ernst & Young, Certified Public Accountants. The consolidated financial statements of FWD Limited for the six months ended 30 June 2018 and 30 June 2019 have not been audited or reviewed by Ernst & Young, Certified Public Accountants.

GLOSSARY

Acquisition	The acquisition of a 100 per cent. interest in the Hong Kong and Macau life insurance businesses and Hong Kong general insurance, employee benefits and financial planning businesses of ING completed by FWD Limited on 28 February 2013.
Aetna	Aetna Inc., the original parent company of FWD Life Hong Kong.
AMCM	The Monetary Authority of Macau, the primary regulator of the insurance industry in Macau.
Annual Premium Equivalent (APE)	APE is a common measure of new business sales in the life insurance industry, calculated as annualised new recurring premiums plus 10 per cent. of single premiums, giving a broadly comparable measure to allow for differences between regular and single-premium business.
Asset and Liability Management Committee (ALMCO)	The ALMCO is a management committee established to support the RC and to provide oversight of FWD Limited's asset and liability management.
Bancassurance	The distribution of insurance products through banks or other financial institutions.
BNM	Bank Negara Malaysia
BoComm	Bank of Communications Co., Ltd. Hong Kong Branch, one of the Life Businesses' key bancassurance partners.
CAGR	Compound annual growth rate.
CCBA	China Construction Bank (Asia) Corporation Limited, one of the Life Businesses' key bancassurance partners.
Claims risk	The possibility that the frequency or severity of claims arising from insurance products exceeds the levels assumed when the products were priced.
Clearing systems	Euroclear and Clearstream, Luxembourg.
Clearstream, Luxembourg	Clearstream Banking, S.A.
Commission's Proposal	A proposal published by the European Commission on 14 February 2013 for a Directive for a common financial transactions tax in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.
Credit risk	The risk that third parties fail to meet their obligations to the Group when they fall due.
Deferred acquisition costs (DAC)	DAC are expenses of an insurer incurred in connection with the acquisition of new insurance contracts or the renewal of existing insurance contracts. They include commissions and other variable sales inducements and the direct costs of issuing

	the policy, such as underwriting and other policy issue expenses. These costs are deferred and expensed through the consolidated income statement on a systematic basis over the life of the policy. The carrying value of DAC is tested for recoverability at least annually, and any impairment is charged to the consolidated income statement.
Euroclear	Euroclear Bank SA/NV.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
FATCA	The U.S. Foreign Account Tax Compliance Act of 2010.
Financial Instruments and Exchange Act	The Financial Instruments and Exchange Act of Japan.
Fitch	Fitch Ratings Limited.
FSMA	The Financial Services and Markets Act 2000 of the United Kingdom.
FTT	A common financial transactions tax proposed by the European Commission on 14 February 2013.
FWD Financial Planning	FWD Financial Planning Limited.
FWD General Insurance	FWD General Insurance Company Limited.
FWD Life Hong Kong	FWD Life Insurance Company (Bermuda) Limited.
FWD Malaysia	FWD Takaful Berhad
FWD Life Macau	FWD Life Insurance Company (Macau) Limited.
FWD Pension Trust	FWD Pension Trust Limited.
FWD Vietnam	FWD Vietnam Life Insurance Company Limited.
Global Certificate	A global certificate in registered form, beneficial interests in which represent the Securities.
Group	The Issuer, the Guarantor, and their respective subsidiaries taken as a whole.
GWP	Gross written premiums calculated based on guidelines promulgated by the OCI, the AMCM or BNM, as appropriate.
HKICO	The Insurance Ordinance (Laws of Hong Kong, Chapter 41).
Hong Kong	The Hong Kong Special Administrative Region of the PRC.
Hong Kong dollars, HK dollars or HK	The lawful currency of Hong Kong.
HKCIB	The Hong Kong Confederation of Insurance Brokers, a self-regulatory body of which the Group is an active member with oversight of the insurance industry in Hong Kong.
HKFI	The Hong Kong Federation of Insurers, a self-regulatory body of which the Group is an active member with oversight of the insurance industry in Hong Kong.

IFRS	Standards and interpretations adopted by the International Accounting Standards Board (IASB) comprising (i) International Financial Reporting Standards; (ii) International Accounting Standards; and (iii) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).
IA	Insurance Authority of Hong Kong.
IFSA	Islamic Financial Services Act 2013
ILAS	Investment-linked assurance schemes.
ING	ING Groep N.V.
Insurance contract	A contract under which the insurer accepts significant Insurance risk from the policyholder by agreeing to compensate the policyholder if specified uncertain future events adversely affect the policyholder.
Insurance risk	The potential loss resulting from inappropriate underwriting, mispricing, adverse expense, lapse, mortality and morbidity experiences. Under IFRS, Insurance risk means risk, other than financial risk, transferred from the holder of a contract to the issuer.
Investment Committee (IC)	The IC is a management committee established to support the RC and to provide oversight of FWD Limited's investments.
Investment contract	An investment contract is an insurance policy that, whilst structured and regulated as a contract of insurance, does not meet the accounting definition of an insurance contract because it does not transfer significant insurance risk.
Investment income	Interest income, dividends and rental income.
Investment return(s)	Investment income plus investment experience.
Issuer	PCGI Intermediate Limited, incorporated in the Cayman Islands on 26 April 2019.
Joint Lead Managers and Joint Bookrunners	Morgan Stanley & Co. International plc, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, Mizuho Securities Asia Limited, Standard Chartered Bank and UBS AG Hong Kong Branch.
Lapse risk	The risk that, having purchased an insurance policy from FWD Limited, customers either surrender the policy or cease paying premiums on it and so the expected stream of future premiums does not materialise.
Life Businesses	FWD Life Macau together with FWD Life Hong Kong.
Liquidity risk	The risk of having insufficient cash available to meet payment obligations to counterparties when they fall due.
Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Local available capital	The amount of assets in excess of liabilities measured in accordance with the HKICO, MICO or IFSA as appropriate.
Macau	The Macau Special Administrative Region of the PRC.
Macau pataca or MOP	The lawful currency of Macau.
Malaysian Ringgit or RM	The lawful currency of Malaysia.
Mandatory Provident Fund scheme (MPF)	MPF is a compulsory saving scheme or pension fund for the residents of Hong Kong.
MICO	The Macau Insurance Companies Ordinance.
Million Dollar Round Table (MDRT)	MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.
Minimum local required capital	The minimum required margin of solvency calculated in accordance with the HKICO, MICO or IFSA, as appropriate.
Moody's	Moody's Investors Service Limited.
Non-participating life insurance	Contracts of insurance with no discretionary participation features.
Occupational Retirement Schemes (ORSO)	Voluntarily established occupational retirement schemes.
OCI	Hong Kong Office of the Commissioner of Insurance.
Other comprehensive income	Items of income and expense that form part of total comprehensive income but, as required or permitted by IFRS, do not form part of profit or loss for the period, such as fair value gains and losses on available for sale financial assets.
Participating Member States	For purposes of the Commission's Proposal, Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia.
Persistency ratio	The percentage of insurance policies remaining in place 13 months after the issuance of the policies, as measured by premiums.
PineBridge	PineBridge Investments Limited, which the Life Businesses have appointed as the investment manager for the credit fixed income portfolio.
Policyholder dividend	Policyholder dividends are the means by which participating policyholders receive the non-guaranteed elements of their discretionary benefits, including their participation in the investment returns of a reference portfolio or pool of assets.
PRC	People's Republic of China (excluding, for the purposes of this Offering Circular only, Hong Kong, Macau and Taiwan).
Richard Li or Shareholder	The Guarantor's sole owner and the primary beneficial owner of FWD Limited.
Regulation S	Regulation S under the Securities Act.
Renminbi or RMB	The lawful currency of the PRC.

Rider	A supplemental plan that can be attached to a basic insurance policy, typically with payment of additional premium.
Risk Appetite	Risk appetite is the amount of risk that companies are willing to take in order to achieve their business targets.
Risk-Based Capital	Risk-Based Capital represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments.
Risk Committee (RC)	The RC has primary responsibility for overseeing the investment of all of FWD Limited's assets (other than operating assets) within the risk guidelines set by the Board of Directors.
Securities Act	U.S. Securities Act of 1933, as amended.
Section 35 Orders	Letters issued by the Insurance Authority to each of FWD Life Hong Kong and FWD General Insurance under Section 35(1) of the HKICO pursuant to which FWD Life Hong Kong and FWD General Insurance are required to adhere to certain requirements.
SEHK	The Stock Exchange of Hong Kong Limited.
SFA	The Securities and Futures Act, Chapter 289 of Singapore
SFC	The Hong Kong Securities and Futures Commission.
SFO	The Securities and Futures Ordinance (Cap. 571) of Hong Kong.
Shareholders' Agreement	The Investment and Shareholders' Agreement (Parallel Structure) dated 16 October 2013, as amended and restated from time to time, which governs the rights of Richard Li and Swiss Re as beneficial owners of FWD Limited.
Solvency	The ability of an insurance company to satisfy its policyholder benefits and claims obligations.
Solvency ratio	Calculated as the ratio of local available capital to minimum local required capital.
Specified person	For the purpose of the Section 35 Orders, "specified person" includes but is not limited to an insurer's directors, controlling persons, shareholders and associates or group companies.
Stabilising Manager	Any of the Joint Lead Managers acting in its capacity as a stabilising manager.
Strategic Asset Allocation (SAA)	SAA is the setting of strategic asset allocation targets, based on long-term capital market assumptions, to meet long-term requirements of the insurance business and shareholders.
Swiss Re	Swiss Re Investments Company Limited.
Tactical Asset Allocation (TAA)	TAA is a mechanism for investment managers to tactically adjust asset class allocations to capture the upside and mitigate the downside. It is typically a defined range above/below the SAA targets.

Total Investment Portfolio	Investment portfolio composed of cash and cash equivalents, investment property and financial investments but excluding receivables (consisting of amounts due from insurance and investment contract holders, amounts due from agents, brokers and intermediaries, receivables from sales of investments and other receivables).
Underwriting	The process of examining, accepting or rejecting insurance risks, and classifying those accepted, in order to charge an appropriate premium for each accepted risk.
United States or U.S	United States of America.
Universal Life	A type of insurance product where the customer pays flexible premiums, subject to specified limits, which are accumulated in an account and credited with interest at a rate either set by the insurer or reflecting returns on a pool of matching assets. The customer may vary the death benefit and the contract may permit the policyholder to withdraw the account balance, typically subject to a surrender charge.
U.S. dollars or U.S.$	The lawful currency of the United States.
Value of business acquired (VOBA)	VOBA in respect of a portfolio of long-term insurance and investment contracts acquired is recognised as an asset, calculated by discounting all future cash flows expected to be realised from the portfolio. VOBA is amortised over the estimated life of the contracts in the acquired portfolio on a systematic basis. The carrying value of VOBA is reviewed at least annually for impairment and any impairment is charged to the consolidated income statement.
Value of New Business (VNB)	VNB is the present value, measured at point of sale, of projected after-tax statutory profits emerging in the future from new business sold in the period less the cost of holding required capital in excess of regulatory reserves to support this business.
VNB Margin	VNB Margin is equal to VNB expressed as a percentage of APE.
Withholding tax	When a payment is made to a party in another country, the laws of the payer’s country may require withholding tax to be applied to the payment. International withholding tax may be required for payments of dividends or interest. A double tax treaty may reduce the amount of withholding tax required, depending upon the jurisdiction in which the recipient is tax resident.

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References to page numbers in the following financial statements refer to the original page numbers of the audited financial statements or the unaudited unreviewed financial statements, as the case may be, and cross-references to page numbers are to such original page numbering.

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Audited Financial Statements

PCGI LIMITED

(An exempted company incorporated in the Cayman Islands with limited liability)

31 December 2017

EY 安永

Building a better working world

PCGI LIMITED

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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 shareholder of PCGI Limited
(An exempted company incorporated in the Cayman Islands with limited liability)

Qualified opinion

We have audited the financial statements of PCGI Limited (the "Company") set out on pages 3 to 16, which comprise the statement of financial position as at 31 December 2017, 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, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

Basis for qualified opinion

As further explained in note 2.1 to the financial statements, the Company has not prepared consolidated financial statements of the Company and its subsidiaries (together, the "Group") which are required by IFRS 10 *Consolidated Financial Statements*. As a consequence, the financial statements do not give all the information required about the economic activities of the Group of which the Company is the parent. It is not practicable to quantify the effects of the departure from this requirement.

We conducted our audit in accordance with International Standards on Auditing ("ISA") issued by the International Auditing and Assurance Standards Board ("IAASB"). 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 Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the International Ethics Standards Board for Accountants ("IESBA"), 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 qualified opinion.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS issued by the IASB, 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

EY 安永

Independent auditor's report (continued)
To the shareholder of PCGI Limited
(An exempted company incorporated in the Cayman Islands 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, 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 ISA 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.

As part of an audit in accordance with ISA, 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.

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.

Ernst & Young

29 June 2018

PCGI LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 US$	2016 US$
REVENUE		-	-
Administrative and other expenses		(1,893,235)	(11,715)
LOSS BEFORE TAX	4	(1,893,235)	(11,715)
Income tax	5	-	-
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,893,235)	(11,715)

PCGI LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 US$	2016 US$
NON-CURRENT ASSET			
Investment in a subsidiary	6	1,846,829,999	1,848,704,999
Total non-current asset		1,846,829,999	1,848,704,999
CURRENT LIABILITIES			
Due to a related company	9(b)	60,385	42,150
Other payables	7	7,300	7,300
Total current liabilities		67,685	49,450
NET CURRENT LIABILITIES		67,685	49,450
Net assets		1,846,762,314	1,848,655,549
EQUITY			
Issued capital	8	18,486,640	18,486,640
Share premium	8	1,830,218,359	1,830,218,359
Accumulated losses		(1,942,685)	(49,450)
Total equity		1,846,762,314	1,848,655,549

xPA

Director

xNT

Director

PCGI LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2017

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xPA

xNT

Director

Director

PCGI LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Issued capital US$	Share premium US$	Accumulated losses US$	Total equity US$
At 1 January 2016	18,486,640	1,830,218,359	(37,735)	1,848,667,264
Loss and total comprehensive income for the year	-	-	(11,715)	(11,715)
At 31 December 2016	18,486,640	1,830,218,359	(49,450)	1,848,655,549
Loss and total comprehensive income for the year	-	-	(1,893,235)	(1,893,235)
At 31 December 2017	18,486,640	1,830,218,359	(1,942,685)	1,846,762,314

PCGI LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	2017 US$	2016 US$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(1,893,235)	(11,715)
Adjustments for:		
Loss on transfer of shares in a subsidiary	1,875,000	-
	(18,235)	(11,715)
Increase in an amount due to a related company	18,235	11,935
Decrease in other payables	-	(220)
Net cash flows from operating activities	-	-
NET MOVEMENT IN CASH AND CASH EQUIVALENTS	-	-
Cash and cash equivalents at beginning of year	-	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	-	-
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows	-	-

1. CORPORATE INFORMATION

PCGI Limited (the "Company") was incorporated on 3 January 2012 in the Cayman Islands. The registered office of the Company is located at Vistra (Cayman) Limited, P. O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands. The principal activity of the Company is investment holding.

The Company is wholly-owned by Mr. Richard Li Tzar Kai.

The financial statements were approved and authorized for issuance by board of directors on 29 June 2018.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), except that the consolidated financial statements of the Company and its subsidiaries have not been prepared in accordance with IFRS 10 *Consolidated Financial Statements* because, in the opinion of the directors, compliance with this requirement would involve expenses and delay and be out of proportion to the value to the shareholder of the Company.

These financial statements have been prepared under the historical cost and are presented in United States dollars ("US$"), which is the Company's functional and presentation currency.

2.2 FUNDAMENTAL ACCOUNTING CONCEPT

These financial statements have been prepared on the going concern basis notwithstanding that the Company had net current liabilities as at 31 December 2017 as a related company has agreed to provide sufficient funds to enable the Company to meet its liabilities as and when they fall due.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IAS 7 Amendments	*Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative*
IAS 12 Amendments	*Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*

The adoption of those revised standards has had no significant financial effect on the financial statements.

2.4 STANDARDS ISSUED BUT NOT YET ADOPTED

The Company has not early applied any of the new and revised IFRS that have been issued but are not yet effective for the accounting year ended 31 December 2017, in these financial statements. Among the new and revised IFRS, the following are expected to be relevant to the Company's financial statements upon becoming effective:

IFRS 9	*Financial Instruments*[1]
IFRS 10 and IAS 28 Amendments	*Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] No mandatory effective date yet determined but available for adoption

Further information regarding IFRS expected to be applicable to the Company is as follow:

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 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.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9.

IFRS 10 and IAS 28 Amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Company will apply these amendments when they become effective.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries
A subsidiary is an entity (including a structured entities), 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 Company's investment in a subsidiary is stated at cost less any impairment losses.

Fair value measurement
The Company measures its financial assets 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 categorized 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 recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (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 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 recognized 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 year/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 recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized 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/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the year/period in which it arises (only if there are revalued assets in the financial statements), 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.

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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Company's financial liabilities include an amount due to a related company and other payables.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized 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 recognized in profit or loss when the liabilities are de-recognized as well as through the effective interest rate amortization process.

Amortized 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 amortization is included in investment income in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

De-recognition of financial liabilities
Financial liabilities are de-recognized when the obligation under the liability is discharged, cancelled, or expires.

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

Foreign currency
These financial statements are presented in United States dollars, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement of translation of monetary items are recognized 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 item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

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

(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 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.

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 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.

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 recognized in the financial statements:

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 discussed below.

Impairment of investment in a subsidiary
The Company assesses whether there are any indicators of impairment for investment in a subsidiary at the end of each reporting period. If such an indication exists, the Company makes an estimate of the recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. 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. Further details regarding investment in a subsidiary are provided in note 6 to the financial statements.

4. LOSS BEFORE TAX

The Company's loss before tax is arrived at after charging:

	2017 US$	2016 US$
Auditor's remuneration	7,530	7,530
Loss on transfer of shares in a subsidiary	1,875,000	-

5. INCOME TAX

The Company is an exempted company domiciled in the Cayman Islands. Under the Cayman Islands law, there is no income tax, corporation tax, capital gains tax or any other types of tax on profits or gains or tax in the nature of estate duty or inheritance tax currently in effect.

6. INVESTMENT IN A SUBSIDIARY

	2017 US$	2016 US$
Unlisted shares, at cost	1,846,829,999	1,848,704,999

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Percentage of equity attributable to the Company		Principal activities
		Direct	Indirect	
FWD Limited [(a)/note]	Cayman Islands	79.3	-	Investment holding
FWD Financial Services Pte. Ltd. [(b)]	Singapore	-	79.3	Investment holding
FWD Management Holdings Limited [(b)]	Hong Kong	-	79.3	Investment holding
FWD Life Insurance Company (Bermuda) Limited [(b)]	Bermuda/ Hong Kong	-	79.3	Life insurance
FWD Life Insurance Company (Macau) Limited [(b)]	Macau	-	79.3	Life insurance
FWD General Insurance Company Limited [(b)]	Hong Kong	-	79.3	General insurance
FWD Financial Planning Limited [(b)]	Hong Kong	-	79.3	Investment advisory
FWD Vietnam Life Insurance Company Limited [(b)]	Vietnam	-	79.3	Life insurance

(a) Held by the Company
(b) Held by the subsidiaries of the Company

Note:

On 27 February 2013, the Company acquired 18,486,630 shares in FWD Limited with consideration of US$1,848,663,000.

On 10 December 2013, 18,301,773.6 shares were surrendered and cancelled, and the remaining shares were sub-divided to 18,486,640 shares of US$0.01 each in FWD Limited. Another company injected capital of US$26,016.34 in form of subscription of preference shares on the same day. On 17 August 2015, FWD Limited has issued additional of 4,198,895 preference shares at US$0.01 each to the Company. FWD Limited issued an additional 84,565 and 119,420 ordinary shares to one of its executives in 2016 and 2017, respectively. During 2017, FWD Limited issued 1,580,830 convertible preference shares, of par value of US$0.01 each, to two investors. On 27 September 2017, the Company transferred 18,750 ordinary shares of FWD Limited to an individual.

As a result, the Company reduced its shareholding in FWD Limited to 79.3% as at 31 December 2017. (2016: 84.4%)

7. OTHER PAYABLES

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

8. SHARE CAPITAL

	Notes	2017 US$	2016 US$
Authorized:			
25,000,000 ordinary shares of US$1 each (2016: 25,000,000 ordinary shares of US$1 each)	(a)	25,000,000	25,000,000
Issued and fully paid:			
18,486,640 ordinary shares of US$1 each (2016: 18,486,640 ordinary shares of US$1 each)	(b)	18,486,640	18,486,640
Share premium	(b)	1,830,218,359	1,830,218,359
		1,848,704,999	1,848,704,999

Notes:

(a) The authorized share capital of the Company was increased to US$25,000,000 divided into 25,000,000 shares of US$1 each on 27 February 2013.

There was no change in authorized share capital during the year.

(b) On 27 February 2013, the Company issued 18,486,630 ordinary shares of US$1 each with a total consideration of US$1,848,663,000. On 17 August 2015, the Company's sole shareholder provided capital contribution to the Company as share premium in the amount equivalent to the Company's subscription of the additional 4,198,895 preference shares of US$0.01 each with a total consideration of US$41,989 in FWD Limited.

There was no change in issued capital during the year.

9. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Company had the following material transactions with related parties.

	2017 US$	2016 US$
Expenses paid by a related company on behalf of the Company	18,235	11,935

(b) As disclosed in the statement of financial position, the Company had an outstanding balance with a related company as at the end of the reporting period. The balance with a related company is unsecured, interest-free and repayable on demand. The carrying amount approximates to its fair value.

(c) During the year, no remuneration was paid by the Company to its related parties and key management personnel (2016: Nil).

10. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Company as at the end of the reporting period are as follows:

31 December 2017

Financial liabilities

	At amortized cost US$
Due to a related company	60,385
Other payables	7,300
	67,685

31 December 2016

Financial liabilities

	At amortized cost US$
Due to a related company	42,150
Other payables	7,300
	49,450

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair value of an amount due to a related company, and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

12. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Company's principal financial instruments comprise intercompany balances and other payables. It is, and had been, throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

During the year, the Company's principal activity is investment holding, and therefore, the directors considered that the Company is not subject to significant amounts of financial risk. As a result, no sensitivity analysis is provided.

Capital management

The Company's capital management objective is focused on maintaining an adequate capital base to safeguard the Company's ability to continue as a going concern, to support the development of the business and maximize shareholders' value.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid, return capital to ordinary shareholders or issue new shares.

Audited Financial Statements

PCGI LIMITED

(An exempted company incorporated in the Cayman Islands with limited liability)

31 December 2018

EY 安永
Building a better working world

PCGI LIMITED

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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 shareholder of PCGI Limited
(An exempted company incorporated in the Cayman Islands with limited liability)

Qualified Opinion

We have audited the financial statements of PCGI Limited (the "Company") set out on pages 3 to 17 which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, 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 for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Basis for Qualified Opinion

As further explained in note 2.1 to the financial statements, the Company has not prepared consolidated financial statements of the Company and its subsidiaries (together, the "Group") which are required by IFRS 10 "Consolidated Financial Statements". As a consequence, the financial statements do not give all the information required about the economic activities of the Group of which the Company is the parent. It is not practicable to quantify the effects of the departure from this requirement.

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). 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 ethical requirements that are relevant to our audit of the financial statements in International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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 IFRSs issued by the IASB, 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.

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Independent auditor's report (continued)
To the shareholder of PCGI Limited
(An exempted company incorporated in the Cayman Islands 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, 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 ISAs 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.

As part of an audit in accordance with ISAs, 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.

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.

The engagement partner on the audit resulting in this independent auditor's report is Pak Suet Shum Angela.

Ernst & Young

Hong Kong
28 June 2019

PCGI LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 US$	2017 US$
REVENUE		-	-
Administrative and other expenses		(13,165)	(1,893,235)
LOSS BEFORE TAX	4	(13,165)	(1,893,235)
Income tax	5	-	-
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(13,165)	(1,893,235)

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PCGI LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 US$	2017 US$
NON-CURRENT ASSET			
Investment in a subsidiary	6	1,847,201,078	1,846,829,999
Total non-current asset		1,847,201,078	1,846,829,999
CURRENT LIABILITIES			
Due to a related company	9(b)	73,400	60,385
Other payables	7	378,529	7,300
Total current liabilities		451,929	67,685
NET CURRENT LIABILITIES		451,929	67,685
Net assets		1,846,749,149	1,846,762,314
EQUITY			
Issued capital	8	18,486,640	18,486,640
Share premium	8	1,830,218,359	1,830,218,359
Accumulated losses		(1,955,850)	(1,942,685)
Total equity		1,846,749,149	1,846,762,314

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Director

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....

Director

PCGI LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 US$	2017 US$
NON-CURRENT ASSET			
Investment in a subsidiary	6	1,847,201,078	1,846,829,999
Total non-current asset		1,847,201,078	1,846,829,999
CURRENT LIABILITIES			
Due to a related company	9(b)	73,400	60,385
Other payables	7	378,529	7,300
Total current liabilities		451,929	67,685
NET CURRENT LIABILITIES		451,929	67,685
Net assets		1,846,749,149	1,846,762,314
EQUITY			
Issued capital	8	18,486,640	18,486,640
Share premium	8	1,830,218,359	1,830,218,359
Accumulated losses		(1,955,850)	(1,942,685)
Total equity		1,846,749,149	1,846,762,314

XIA

Director

XIV7

Director

PCGI LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Issued capital US$	Share premium US$	Accumulated losses US$	Total equity US$
At 1 January 2017	18,486,640	1,830,218,359	(49,450)	1,848,655,549
Loss and total comprehensive income for the year	-	-	(1,893,235)	(1,893,235)
At 31 December 2017 and 1 January 2018	18,486,640	1,830,218,359	(1,942,685)	1,846,762,314
Loss and total comprehensive income for the year	-	-	(13,165)	(13,165)
At 31 December 2018	18,486,640	1,830,218,359	(1,955,850)	(1,846,749,149)

1. CORPORATE INFORMATION

PCGI Limited (the "Company") was incorporated on 3 January 2012 in the Cayman Islands. The principal activity of the Company is investment holding. The registered office of the Company is located at Vistra (Cayman) Limited, P. O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.

The Company is wholly-owned by Mr. Richard Li Tzar Kai.

The financial statements were approved and authorized for issuance by board of directors on 28 June 2019.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), except that the consolidated financial statements of the Company and its subsidiaries have not been prepared in accordance with IFRS 10 *Consolidated Financial Statements* because, in the opinion of the directors, compliance with this requirement would involve expenses and delay and be out of proportion to the value to the shareholder of the Company.

These financial statements have been prepared under the historical cost and are presented in United States dollars ("US$"), which is the Company's functional and presentation currency.

A cash flow statement has not been prepared because the Company did not have any cash flows during the year, nor did it have any cash or cash equivalents at any point throughout the year. The cash flows which resulted from the operations of the Company, were all paid and received by its related company.

2.2 FUNDAMENTAL ACCOUNTING CONCEPT

These financial statements have been prepared on the going concern basis notwithstanding that the Company had net current liabilities as at 31 December 2018 as a related company has agreed to provide sufficient funds to enable the Company to meet its liabilities as and when they fall due.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*

The nature and the impact of the new and revised IFRSs are described below:

(a) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

(i) Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement			IFRS 9 measurement	
	Category	Amount	Reclassification	Amount	Category
		US$	US$	US$	
Financial liabilities					
Due to a related party	AC[1]	60,385	-	60,385	AC[1]
Other payables	AC[1]	7,300	-	7,300	AC[1]
Total liabilities		67,685	-	67,685	

[1] AC: Financial liabilities at amortized cost

(ii) Impairment

The Company has applied the simplified approach. It does not require the Company to track the changes in credit risk, but, instead, required the Company to recognize a loss allowance based on lifetime ECLs at each reporting date. Given the financial assets are due from related parties, the Company has determined that the opening expected credit loss ("ECL") allowances under IFRS 9 upon the initial adoption of the standard are immaterial.

(b) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized 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 IFRS 15 provide a more structured approach for measuring and recognizing 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. Given that the Company did not have revenue arising from contracts with customers, the Company has determined that the changes in the accounting policy with respect to revenue recognition are immaterial.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]

[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] No mandatory effective date yet determined but available for adoption

Further information regarding IFRS expected to be applicable to the Company is as follow:

Amendments to IFRS 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.

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 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 recognized 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 IFRS 10 and IAS 28 (2011) was removed by the IASB 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.

Amendments to IAS 1 and IAS 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entities), 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 Company's investment in a subsidiary is stated at cost less any impairment losses.

Fair value measurement

The Company measures its financial assets 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 categorized 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 recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (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 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 recognized 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 year/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 recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized 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/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the year/period in which it arises (only if there are revalued assets in the financial statements), 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.

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

The Company's financial liabilities include an amount due to a related company and other payables.

Subsequent measurement of loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized 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 recognized in profit or loss when the liabilities are de-recognized as well as through the effective interest rate amortization process.

Amortized 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 amortization is included in financial costs in profit or loss.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

De-recognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)
Financial liabilities are de-recognized when the obligation under the liability is discharged, cancelled, or expires.

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

Foreign currency
These financial statements are presented in United States dollars, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement of translation of monetary items are recognized 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 item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Company initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of the advance consideration.

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 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.

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 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.

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 recognized in the financial statements:

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 discussed below.

(a) Impairment of investment in a subsidiary
The Company assesses whether there are any indicators of impairment for investment in a subsidiary at the end of each reporting period. If such an indication exists, the Company makes an estimate of the recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. 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. Further details regarding investment in a subsidiary are provided in note 6 to the financial statements.

(b) Impairment of intercompany balances
The Company maintains an allowance for estimated loss arising from the inability of its group companies to make the required payments. The Company makes its estimates based on the aging of its intercompany balances, creditworthiness of group companies, and historical write-off experience. If the financial condition of its group companies were 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.

4. LOSS BEFORE TAX

The Company's loss before tax is arrived at after charging:

	2018 US$	2017 US$
Auditor's remuneration	7,450	7,530
Loss on transfer of shares in a subsidiary	-	1,875,000

5. INCOME TAX

The Company is an exempted company domiciled in the Cayman Islands. Under the Cayman Islands law, there is no income tax, corporation tax, capital gains tax or any other types of tax on profits or gains or tax in the nature of estate duty or inheritance tax currently in effect.

6. INVESTMENT IN A SUBSIDIARY

	2018 US$	2017 US$
Unlisted shares, at cost	1,847,201,078	1,846,829,999

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
FWD Limited [(a)/note]	Cayman Islands/ Hong Kong	83.5	-	Investment holding
FWD Financial Services Pte. Ltd. [(b)]	Singapore	-	83.5	Investment holding
FWD Management Holdings Limited [(b)]	Hong Kong	-	83.5	Investment holding
FWD Life Insurance Company (Bermuda) Limited [(b)]	Bermuda/ Hong Kong	-	83.5	Life insurance
FWD Life Insurance Company (Macau) Limited [(b)]	Macau	-	83.5	Life insurance
FWD General Insurance Company Limited [(b)]	Hong Kong	-	83.5	General insurance
FWD Financial Planning Limited [(b)]	Hong Kong	-	83.5	Investment advisory

6. INVESTMENT IN A SUBSIDIARY (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
FWD Vietnam Life Insurance Company Limited [(b)]	Vietnam	-	83.5	Life insurance

[(a)] Held by the Company
[(b)] Held by the subsidiaries of the Company

Note:

On 27 February 2013, the Company acquired 18,486,630 shares in FWD Limited with consideration of US$1,848,663,000.

On 10 December 2013, 18,301,773.6 shares were surrendered and cancelled, and the remaining shares were sub-divided to 18,486,640 shares of US$0.01 each in FWD Limited. Another company injected capital of US$26,016.34 in form of subscription of preference shares on the same day.

On 17 August 2015, FWD Limited has issued additional of 4,198,895 preference shares at US$0.01 each to the Company. FWD Limited issued an additional 84,565 and 119,420 ordinary shares to one of its executives in 2016 and 2017, respectively.

During 2017, FWD Limited issued 1,580,830 convertible preference shares, of par value of US$0.01 each, to two investors. On 27 September 2017, the Company transferred 18,750 ordinary shares of FWD Limited to an individual.

On 31 December 2018, the Company purchased 2,300 ordinary shares of FWD Limited from an individual. As a result, the Company increased its shareholding in FWD Limited to 83.5% as at 31 December 2018. (2017: 79.3%)

7. OTHER PAYABLES

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

8. SHARE CAPITAL

	Notes	2018 US$	2017 US$
Authorized: 25,000,000 ordinary shares of US$1 each (2017: 25,000,000 ordinary shares of US$1 each)	(a)	25,000,000	25,000,000
Issued and fully paid: 18,486,640 ordinary shares of US$1 each (2017: 18,486,640 ordinary shares of US$1 each)	(b)	18,486,640	18,486,640
Share premium	(b)	1,830,218,359	1,830,218,359
		1,848,704,999	1,848,704,999

Notes:

(a) The authorized share capital of the Company was increased to US$25,000,000 divided into 25,000,000 shares of US$1 each on 27 February 2013.

There was no change in authorized share capital during the year.

(b) On 27 February 2013, the Company issued 18,486,630 ordinary shares of US$1 each with a total consideration of US$1,848,663,000. On 17 August 2015, the Company's sole shareholder provided capital contribution to the Company as share premium in the amount equivalent to the Company's subscription of the additional 4,198,895 preference shares of US$0.01 each with a total consideration of US$41,989 in FWD Limited.

There was no change in issued capital during the year.

9. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Company had the following material transactions with related parties.

	2018 US$	2017 US$
Expenses paid by a related company on behalf of the Company	13,015	18,235

(b) As disclosed in the statement of financial position, the Company had an outstanding balance with a related company as at the end of the reporting period. The balance with a related company is unsecured, interest-free and repayable on demand. The carrying amount approximates to its fair value.

(c) During the year, no remuneration was paid by the Company to its related parties and key management personnel (2017: Nil).

10. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Company as at the end of the reporting period are as follows:

31 December 2018

Financial liabilities

	Financial liabilities at amortized cost US$	Total US$
Due to a related company	73,400	73,400
Other payables	378,529	378,529
	451,929	451,929

31 December 2017

Financial liabilities

	Financial liabilities at amortized cost US$	Total US$
Due to a related company	60,385	60,385
Other payables	7,300	7,300
	67,685	67,685

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair value of an amount due to a related company, and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

12. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Company's principal financial instruments comprise intercompany balances and other payables. It is, and had been, throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

During the year, the Company's principal activity is investment holding, and therefore, the directors considered that the Company is not subject to significant amounts of financial risk. As a result, no sensitivity analysis is provided.

Capital management
The Company's capital management objective is focused on maintaining an adequate capital base to safeguard the Company's ability to continue as a going concern, to support the development of the business and maximize shareholders' value.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid, return capital to ordinary shareholders or issue new shares.

Audited Financial Statements

FWD Limited

(Incorporated in the Cayman Islands with limited liability)

For the year ended 31 December 2017

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Building a better working world

FWD LIMITED

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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 shareholders of FWD Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of FWD Limited (the "Company") and its subsidiaries (the "Group") set out on pages 8 to 105, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the International Ethics Standards Board for Accountants ("IESBA"), 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment	
Under IFRSs, the Group is required to test the amount of goodwill for impairment at least annually. The annual impairment test is significant to our audit because the balance of US$901.5M as of 31 December 2017 is material to the financial statements and management's assessment process is highly judgemental. The assessment requires an estimation of the value in use of the cash-generating units (i.e. FWD Life Insurance Company (Bermuda) Limited and FWD Life Insurance Company (Macau) Limited) to which the goodwill is allocated. Estimating the value in use requires the Group to calculate the actuarial appraisal value based on (i) the embedded value with respect to the in-force business ("EV") together with (ii) the value of new business ("VNB"), and to choose a suitable discount rate in order to calculate the present value of those expected future profits. The key assumptions used for calculating the EV and annual VNB are expected future market conditions, particularly those relating to investment returns and risk discount rates. The VNB multiplier, which is determined based on projected future sales and risk discount rates, is a key assumption for estimating the value of future new business. The Company's disclosures about goodwill are included in Notes 3(c) and 14, which specifically explain that changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future.	Our audit procedures, performed with the assistance of our internal actuarial specialists, included among others, reviewing the methodology and assumptions used in the EV and VNB calculations, evaluating the results of the EV and VNB calculations, and assessing the VNB multiplier by comparing to the current market conditions and assumptions commonly applied by companies in the same industry. We reviewed management's goodwill impairment outputs and assessed the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the recoverable amount of goodwill.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Life insurance contract liabilities	
At 31 December 2017, the Group carried gross insurance contract liabilities of US$10,118M relating to life insurance contracts. At each reporting date, the Group evaluates the adequacy of life insurance contract liabilities, net of deferred acquisition cost ("DAC") and value of business acquired ("VOBA"), in the liability adequacy test. The Group recorded VOBA and DAC of US$646M and US$756M respectively, as at 31 December 2017. The measurement of life insurance contract liabilities is significant to our audit because the balance of life insurance contract liabilities is material to the financial statements. In addition, management's process for measuring life insurance contract liabilities and the liability adequacy test are complex and involve significant judgement relating to uncertain future outcomes of long-term insurance contracts. Economic assumptions, such as investment returns and discount rates, and non-economic assumptions, such as lapses, mortality, morbidity, persistency and expenses are key assumptions used to estimate the future outcomes of long-term insurance contracts and to measure the related liabilities. The Company's disclosures about insurance contract liabilities, DAC, and VOBA are included in Notes 3(d), 3(f), 3(g), 15(a), 16, 27(a), and 37 which explain the movements of insurance contract liabilities, DAC, and VOBA, and the key exposures impacting profit or loss for the year and shareholders' equity.	Our audit procedures on life insurance contract liabilities, performed with the assistance of our internal actuarial specialists, included obtaining an understanding of the features and risk coverage of insurance contracts, the validation of accuracy of underlying policy data, the verification of actuarial models, the review of methodologies and assumptions used in the measurement of liabilities by reference to the Company's historical data and applicable industry experience, with particular attention to changes in assumptions and components of life insurance contract liabilities with material fluctuations from the prior year. For a sample of contracts we recalculated the year-end liability. For new insurance products, reviewed product classification based on management's assessment of significant insurance risk. In assessing the adequacy of life insurance contract liabilities and recoverability of DAC and VOBA at year-end, we reviewed methodologies and assumptions used in performing the liability adequacy test by reference to the Company's historical data and applicable industry experience, and analysed the resulting calculations.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Share-based compensation	
The Group operates a share-based compensation plan for certain senior management members. The Group recognised a share-based payment expense of US$12.5M for the year ended 31 December 2017 and a share-based payment reserve of US$29M as at 31 December 2017. Eligible employees are entitled to receive shares awards, subject to the achievement of performance targets over a multi-year period. The estimation of share-based compensation is significant to our audit because the share-based payment expense and share-based payment reserve are material to the financial statements. In addition, the assessment of the performance conditions and the resulting number of shares expected to be issued, is inherently subjective and highly sensitive to the assumptions used. The Group assesses the performance conditions against expected appraisal value growth, as measured by the internal rate of return generated for the shareholders over the performance period ("IRR Achievement"), taking into account the terms and conditions upon which the awards were granted. The Company's disclosures about share-based compensation are included in Notes 3(l) and 35, which detail the movements in outstanding awards, valuation methodology and the compensation cost recognised during the year.	Our audit procedures included reviewing the methodology, calculation and assumptions used in estimating the number of shares to be issued, in particular those relating to the expected IRR Achievement. We evaluated the assessment of IRR Achievement based on the calculation of current and projected future EV and VNB numbers. In our evaluation, we considered the consistency between the inputs into the calculation, the approved business plan and actual performance to date.

Information other than the consolidated financial statements and auditor's report thereon
The consolidated financial statements do not include other information.

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group'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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Telders.

Ernst & Young

13 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

US$'000

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CONTINUING OPERATIONS			
REVENUE			
Gross premiums	6(a)	1,663,087	2,156,334
Reinsurers' share of gross premiums	6(b)	(254,328)	(212,210)
Change in unearned premiums	6(c)	1,819	(3,498)
Net premiums		1,410,578	1,940,626
Fees and commission income	7	167,955	294,456
Net deferred commission income movement	16	(10,805)	(149,963)
Investment return	8	476,952	257,289
Other operating revenue	13	38,535	210
TOTAL REVENUE		2,083,215	2,342,618
BENEFITS, CLAIMS AND EXPENSES			
Net benefits and claims	9	(1,739,132)	(2,086,842)
Amortization of intangible assets	15	(34,077)	(32,689)
Net deferred acquisition cost movement	16	128,326	215,270
Finance costs		(21,091)	(21,066)
Commission and commission related expenses	10	(223,558)	(259,004)
Other operating and administrative expenses	11	(143,860)	(155,124)
TOTAL BENEFITS, CLAIMS AND EXPENSES		(2,033,392)	(2,339,455)
Share of gains/(losses) in associate and joint venture	23	3,824	(654)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		53,647	2,509
Income tax expense	12(a)	(15,616)	(6,593)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		38,031	(4,084)
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	13	(16,700)	(4,707)
PROFIT/(LOSS) FOR THE YEAR		21,331	(8,791)

continued/...

FWD LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

US$'000

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
PROFIT/(LOSS) FOR THE YEAR		21,331	(8,791)
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	19.1	284,356	(26,466)
Reclassification adjustments for (gains)/losses included in profit or loss of			
- (gains)/losses on disposal	8, 13, 19.1	(13,444)	(22,109)
- impairment losses	8, 19.1	1,603	9,786
Income tax effect	12(b)	(39,048)	8,604
		233,467	(30,185)
Cash flow hedges:			
Effective portion of changes in fair value		(206)	-
Reclassification adjustments for (gains)/losses included in profit or loss		154	154
Income tax effect	12(b)	34	-
		(18)	154
Exchange differences on translation of foreign operations		(1,737)	(1,070)
		(1,737)	(1,070)
Share of other comprehensive income of associate and joint venture	23	7,639	-
		7,639	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		239,351	(31,101)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		239,351	(31,101)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		260,682	(39,892)

FWD LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$'000

	Notes	31 December 2017	31 December 2016
ASSETS			
Goodwill	14	901,545	902,060
Intangible assets	15	646,384	680,767
Deferred acquisition cost	16	756,533	628,469
Property, plant and equipment	17	21,666	13,821
Investment property	18	-	10,086
Financial assets			
Available-for-sale financial assets	19.1	7,905,502	7,073,624
Financial assets at fair value through profit or loss	19.2	1,108,506	886,225
Loans and receivables	19.3	146,083	145,098
Derivative financial instruments	19.4	3,447	1,408
Reinsurance assets	27	1,321,815	1,163,839
Investment in associate and joint venture	23	249,431	9,380
Prepayments, deposits and other assets	24	105,582	83,021
Deferred tax assets	12(b)	-	-
Insurance receivables	25	73,857	82,822
Due from related parties	34(b)	2,607	3,336
Cash and cash equivalents	26	729,694	359,210
		13,972,652	12,043,166
Assets of disposal group classified as held for sale	13	457,100	441,541
TOTAL ASSETS		14,429,752	12,484,707
LIABILITIES			
Insurance contract liabilities	27	10,194,933	8,904,325
Investment contract liabilities	28	359,827	345,292
Due to related parties	34(b)	82,365	51,250
Deferred commission income	16	261,964	251,197
Borrowings	29	420,999	420,461
Derivative financial instruments	19.4	12,520	11,873
Deferred tax liabilities	12(b)	156,115	102,870
Insurance and other liabilities	30	155,314	164,528
		11,644,037	10,251,796
Liabilities directly associated with the assets of disposal group classified as held for sale	13	412,064	372,989
TOTAL LIABILITIES		12,056,101	10,624,785
EQUITY			
Issued capital	31	286	269
Share premium	31	1,853,487	1,844,329
Direct capital instrument	31	248,354	-
Capital redemption reserve	31	18,302	18,302
Share-based payment reserve	31	28,894	25,563
Legal reserve	31	1,550	1,562
Cash flow hedge reserve	31	(1,212)	(1,194)
Available-for-sale financial assets revaluation reserve	31	170,412	(61,924)
Foreign currency translation reserve	31	(2,196)	(276)
Reserves of disposal groups held for sale	13	928	(330)
Share of other comprehensive income of joint venture	23	7,707	-
Retained earnings/(accumulated losses)		47,139	33,621
TOTAL EQUITY		2,373,651	1,859,922
TOTAL LIABILITIES AND EQUITY		14,429,752	12,484,707

Ronald Arculli

Director

Director

FWD LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$'000

	Notes	Issued capital	Share premium	Direct capital instrument	Capital redemption reserve	Share-based payment reserve	Legal reserve	Cash flow hedge reserve	Available-for-sale financial assets revaluation reserve	Foreign currency translation reserve	Reserve of disposal group held for sale	Share of other comprehensive income of associate and joint venture	Retained earnings/ (accumulated losses)	Total equity
1 January 2016		268	1,837,844	-	18,302	15,659	1,562	(1,348)	(31,380)	105	-	-	42,412	1,883,424
Issuance of shares	31	1	6,485	-	-	(6,486)	-	-	-	-	-	-	-	-
Change in share-based payment Reserve	35	-	-	-	-	16,390	-	-	-	-	-	-	-	16,390
Total comprehensive income for the year		-	-	-	-	-	-	154	(30,185)	(1,070)	-	-	(8,791)	(39,892)
Discontinued operations	13	-	-	-	-	-	-	-	(359)	689	(330)	-	-	-
31 December 2016	31	269	1,844,329	-	18,302	25,563	1,562	(1,194)	(61,924)	(276)	(330)	-	33,621	1,859,922
Issuance of shares	31	17	9,158	-	-	(9,159)	-	-	-	-	-	-	-	16
Issuance of direct capital instrument	31	-	-	248,354	-	-	-	-	-	-	-	-	-	248,354
Change in share-based payment reserve	35	-	-	-	-	12,490	-	-	-	-	-	-	-	12,490
Change in foreign currency translation reserve		-	-	-	-	-	(12)	-	-	12	-	-	-	-
Total comprehensive income for the year		-	-	-	-	-	-	(18)	233,467	(1,805)	-	7,707	21,331	260,682
Distribution paid	31	-	-	-	-	-	-	-	-	-	-	-	(7,813)	(7,813)
Discontinued operations	13	-	-	-	-	-	-	-	(1,131)	(127)	1,258	-	-	-
31 December 2017	31	286	1,853,487	248,354	18,302	28,894	1,550	(1,212)	170,412	(2,196)	928	7,707	47,139	2,373,651

FWD LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

US$'000

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		53,647	2,509
From discontinued operations	13	(16,325)	(4,387)
Adjustments for:			
Dividend income	8	(41,822)	(32,553)
Interest income	8, 13	(255,835)	(198,811)
Net realized (gain)/loss on disposal of financial assets	8, 13	(22,704)	(42,273)
Fair value (gain)/loss on financial assets	8	(160,192)	5,410
Depreciation of plant and equipment	13, 17	6,864	5,679
Loss on disposal of plant and equipment		18	15
Loss on disposal of intangible assets		82	-
Impairment on available-for-sale financial assets	8	1,603	9,786
Impairment/(Reversal of impairment) on secured loans	8	13	(122)
Deferred acquisition cost movement	13, 16	(132,993)	(215,270)
Deferred commission income movement	16	10,805	149,963
Finance cost		21,091	21,066
Share of (gain)/loss of associate		(3,824)	654
P&L impact of share-based payment	11	12,490	16,390
Amortization of intangible assets	13, 15	34,163	32,739
Gain on disposal of a disposal group	13	(4,799)	-
Foreign exchange (gain)/loss		(1,521)	(1,492)
		(499,239)	(250,697)
(Increase)/decrease in reinsurance assets		(158,104)	(780,036)
(Increase)/decrease in prepayments, deposits and other assets		(44,116)	(17,633)
(Increase)/decrease in insurance receivables		8,858	127
(Increase)/decrease in amounts due from related parties		675	431
(Decrease)/increase in insurance contract liabilities		1,301,513	2,544,235
(Decrease)/increase in investment contract liabilities		14,535	(358,293)
(Decrease)/increase in amounts due to related parties		30,849	49,327
(Decrease)/increase in insurance and other liabilities		(3,176)	22,218
Cash flows generated from operations		651,795	1,209,679
Dividend received from investments		65,448	50,933
Interest received		261,064	208,684
Investment expenses paid		(13,957)	(10,401)
Income tax paid		(956)	(336)
Net cash flows from operating activities		963,394	1,458,559
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries		-	(35,935)
Proceeds from disposal of a discontinued operation		35,489	-
Acquisition of associates		(230,896)	(10,000)
Purchases of intangible assets		(193)	(269)
Purchases of plant and equipment		(4,573)	(10,377)
Proceeds from sales of plant and equipment		-	3
Purchase of investment property		-	(10,086)
Purchases of financial assets		(2,819,260)	(2,680,646)
Proceeds from disposal and maturities of financial assets		2,248,011	1,270,405
Decrease/(Increase) in pledged deposits		(1,959)	(893)
Net cash flows used in investing activities		(773,381)	(1,477,798)

continued/...

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

US$'000

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of preference shares	31	16	-
Issue of direct capital instrument	31	248,354	-
Distribution paid on direct capital instrument	31	(7,813)	-
Finance costs paid on bank loan and bond borrowings	29	(20,553)	(20,400)
Net cash flows from financing activities		220,004	(20,400)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		410,017	(39,639)
Cash and cash equivalents at beginning of the year		363,055	385,240
Cash and cash equivalents acquired in a business combination		-	17,454
Cash and cash equivalents disposed in disposal of a discontinued operation		(29,080)	-
Effect of foreign exchange rate changes, net		-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	743,992	363,055
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		729,794	350,816
Non-pledged time deposits with original maturity of less than three months when acquired		14,198	12,239
Cash and cash equivalents as stated in the statement of cash flows	26	743,992	363,055

1. CORPORATE INFORMATION

FWD LIMITED (the "Company") was incorporated on 13 December 2012 in the Cayman Islands, with its registered office at Offshore Incorporations (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY-1205, Cayman Islands . The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are to provide products and services focusing on life insurance, general insurance, and investment services.

In the opinion of the directors, PCGI Limited, a company incorporated in the Cayman Islands, is the Company's immediate and ultimate holding company as at the end of the reporting period. PCGI Limited is wholly owned by Mr. Richard Li Tzar Kai. Swiss Re Investments Company Ltd is a 14.0% (2016:14.9%) shareholder of the Company.

The financial statements were approved and authorized for issuance by the board of directors on 13 March 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements have been prepared under the historical cost convention, except for investment properties, the re-measurement of available-for-sale financial assets, certain financial assets and liabilities designated at fair value through profit or loss and derivative financial instruments, all of which are carried at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.14. They are presented in United States dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies adopted are consistent with those of the previous financial year, except for the revised presentation of VOBA and related deferred taxes and the adoption of revised standards and interpretations effective as of 1 January 2017 as described below.

(a) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2017 and have no material impact for the Group:

IAS 12 Amendments	*Amendments to IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*
IAS 7 Amendments	*Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative*
IFRS 12 Amendments	*Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12 – Annual Improvements to IFRS Standards 2014 – 2016 Cycle*

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) The following relevant new standards, interpretations and amendments to standards have been issued but are not effective for the financial year ended 31 December 2017 and have not been early adopted (the financial years for which the adoption is required are stated). They are not expected to have a material impact on the financial position or results of operations of the Group but may require additional disclosures upon them becoming effective:

IFRS 1 Amendments	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Annual Improvements to IFRS Standards 2014 – 2016 Cycle*[1]
IFRS 2 Amendments	*Amendments to IFRS 2 Share-based Payment – the Classification and Measurement of Share-based Payment Transactions*[1]
IAS 28 Amendments	*Amendments to IAS 28 – Investments in Associates and Joint Ventures - Annual Improvements to IFRS Standards 2014 – 2016 Cycle*[1]
IAS 40 Amendments	Amendments to *IAS 40 – Transfers of Investment Property*[1]
IFRS 15	*Revenue from Contracts with Customers*[1]
IFRS 9 Amendments	*Amendments to IFRS 9 – Prepayment Features with Negative Compensation*[2]
IAS 28 Amendments	*Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures*[2]
IFRS 16	*Leases*[2]
IFRS 10 and IAS 28 Amendments	*Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective date deferred indefinitely

(c) The following relevant new standards have been issued but are not effective for the financial year ended 31 December 2017 and have not been early adopted (the financial year for which the adoption is required is stated).

IFRS 4 Amendments	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
IFRS 17	*Insurance Contracts*[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further information regarding IFRS expected to be applicable to the Group is as follow:

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group expects to apply IFRS 15 using the modified retrospective application. Given insurance contracts are scoped out of IFRS 15, the Group expects the main impact of the new standard to be on the accounting for income from administrative and investment management services. The Group does not expect the impact to be significant.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 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 2017, the Group performed a high-level impact assessment of all three aspects of IFRS 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 Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity, except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. The group meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments (see below).

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as FVPL; 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 IFRS 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 IAS 39 to these designated financial assets. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. During 2016, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015. During 2017, there has been no significant change in the activities of the Group that requires reassessment. The Group intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further information regarding IFRS expected to be applicable to the Group is as follow (continued):

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration contracts, which typically applies to certain non-life insurance contracts. The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognized in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income is based on the concept of services provided during the period
- Amounts that the policyholder will receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 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 Group plans to adopt the new standard on the required effective date together with IFRS 9 (see above). The Group started a project to implement IFRS 17 and is performing a high-level impact assessment of IFRS 17. The Group expects that the new standard will result in important changes to the accounting policies for insurance contract liabilities of the Group, and is likely to have a significant impact on profit, total equity, financial statement presentation and disclosure.

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further information regarding IFRS expected to be applicable to the Group is as follow (continued):
Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

A summary of the significant accounting policies adopted by the Group in the preparation of the Group's consolidated financial statements is set out below.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries
A subsidiary is an entity (including structured entities) directly or indirectly controlled by the Company. Control is achieved when the Group 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 Group the current ability to direct the relevant activities of the investee).

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it de-recognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Investments in associates and joint ventures
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures are included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group’s investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

When an investment in an associate is a venture capital organization, a mutual fund, unit trust or similar entity, including investment-linked insurance funds (i.e., an investment entity) and the investment entity associate applies fair value measurement to its subsidiaries, the Group retains the fair value measurement applied by the investment entity associate to its interests in subsidiaries when applying the equity method.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group’s previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. Any surplus of the Group’s interest in the acquiree’s net assets over the cost of acquisition is, after reassessment, credited to profit or loss as gain on bargain purchase.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Business combinations and goodwill (continued)
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs an annual impairment test of goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts

Product classification

The Group classifies its contracts written as either insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract, while investment contracts are those contracts without significant insurance risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. 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 prices 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.

Some insurance and investment contracts, referred to as participating contracts, have discretionary participation features, “DPF”, which may entitle the customer to receive, as a supplement to guaranteed benefits, significant additional non-guaranteed benefits, such as policyholder dividends or bonuses. These contracts are distinct from other insurance and investment contracts as the Group has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders.

In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Group to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. For investment contracts that do not contain DPF, IAS 39, *Financial Instruments: Measurement and Recognition*, and, if the contract includes an investment management element, IAS 18, *Revenue*, is applied. The Group applies the same accounting policies for the recognition and measurement of obligations and the deferral of acquisition costs arising from investment contracts with DPF as it does to insurance contracts.

The Group’s products may be divided into the following main categories:

Policy type	Description of benefits payable	Basis of accounting for:	
		Insurance contract liabilities	Investment contract liabilities
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. Most of the products pay annual cash dividends. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience.	Insurance contract liabilities make provision for the present value of guaranteed benefits and nonguaranteed participation less estimated future net premiums to be collected from policyholders. For participating products with definite sharing mechanism, insurance contract liabilities make provision for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. Undistributed participating policy earnings account (UPPEA) is set up retrospectively for undistributed dividends or bonuses. In addition, deferred profit liabilities for limited payment contracts are recognized.	Not applicable

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

Product classification (continued)

Policy type	Description of benefits payable	Basis of accounting for:	
		Insurance contract liabilities	Investment contract liabilities
Non-participating life assurance, annuities and other protection products	Benefits payable are not at the discretion of the insurer.	Insurance contract liabilities reflect the present value of future policy benefits to be paid and the future administration expenses that are directly related to the contract, less the present value of estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognized.	Investment contract liabilities without DPF are measured at amortized cost.
Universal life	Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer.	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment returns credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded.	All universal life contracts issued by the Group contain significant insurance risk.
Investment-linked	These may be primarily savings products or may combine savings with an element of protection.	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment returns credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded.	Investment contract liabilities are measured at fair value (determined with reference to the accumulation value).

The basis of accounting for life insurance and investment contracts is further discussed in notes 2.3.1 and 2.3.2 below.

2.3.1 Life insurance contracts and investment contracts with DPF

Premiums

For single premium business, premiums are recognized as revenue on the date when the policy becomes effective. Regular premiums from life insurance contracts, including participating policies, universal life and investment-linked contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. Benefits and expenses are provided in respect of such revenue so as to recognize profits over the estimated life of the policies. For limited pay contracts, premiums are recognized in profit or loss when due, with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

2.3.1 Life insurance contracts and investment contracts with DPF (continued)

Fees and commission income

Life insurance and investment contract policyholders are charged fees for policy administration services, investment management services and surrenders.

The fees and commission income are recognized 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 recognized in profit or loss as the service is provided over the term of the contract. Initial and other front end fees are also deferred and recognized over the term of the contract. Commission income is deferred and recognized in profit or loss based on expected reinsurance premium.

Other fees

Other fees are recognized when the services have been rendered.

Deferred Acquisition Costs ("DAC")

The costs of acquiring new insurance contracts, including commissions and distribution costs, underwriting and other policy issue expenses which vary with, and are primarily related to, the production of new business or renewal of existing business, are deferred as an asset.

DAC is evaluated for recoverability in the year of policy issue to ensure that these costs are recoverable out of the estimated future margins to be earned on the policy. DAC is evaluated for recoverability at least annually thereafter in the liability adequacy test together with the provision for life insurance liabilities and VOBA. Future investment income is also taken into account in assessing recoverability. To the extent that acquisition costs are not considered to be recoverable at inception or thereafter, these costs are expensed in profit or loss.

DAC for traditional life insurance and annuity policies is amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing (see below).

DAC for universal life and investment-linked contracts is amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realized over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly. For Universal life contracts, the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. For investment-linked contracts, the interest rate used is locked-in at policy inception. Deviations of actual results from estimated experience are reflected in earnings.

Deferred sales inducements

Deferred sales inducements, consisting of day one bonuses, persistency bonuses and enhanced crediting rates are deferred and amortized using the same methodology and assumptions used to amortize acquisition costs when the sales inducements:

- are recognized as part of insurance contract liabilities;
- are explicitly identified in the contract on inception;
- are incremental to amounts credited on similar contracts without sales inducements; and
- are higher than the expected ongoing crediting rates for periods after the inducement.

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 contract and are therefore not separated subsequently.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

2.3.1 Life insurance contracts and investment contracts with DPF (continued)

Benefits and claims

Life insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the year, reinsurance recoveries, as well as policyholder dividends accrued in anticipation of dividend declarations.

Accident and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for reinsurance recoveries, and any adjustments to claims outstanding from previous years. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims and policyholder bonuses. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

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

Life insurance contract liabilities (including liabilities in respect of investment contracts with DPF)

Insurance contract liabilities represent the estimated future policyholder benefit liability for life insurance policies. Future policy benefits for life insurance policies are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders.

The Group accounts for participating policies by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all performance were to be declared as a dividend based upon the Group's rules on profit distribution. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

For universal life contracts, life insurance contract liabilities reflect the accumulation value, which represents premiums received and investment returns credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded where applicable.

The unearned revenue liability arising from insurance contracts represents upfront fees and other non-level charges deferred and released to the consolidated statement of profit or loss and other comprehensive income over the estimated life of the business.

Liability adequacy testing

At the end of each reporting period, a liability adequacy test is performed, to ensure the adequacy of insurance liabilities.

The adequacy of liabilities is assessed by portfolio of contracts, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. For life insurance contracts, insurance contract liabilities reduced by deferred acquisition costs and value of business acquired on purchased insurance contracts, are compared to the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortized balances of deferred acquisition costs and value of business acquired on purchased insurance contracts are written down to the extent of the deficiency. If, after writing down the unamortized balances for the specific portfolio of contracts to zero, a deficiency still exists, the liability is increased by the amount of the remaining deficiency.

2.3 Insurance and investment contracts (continued)

2.3.1 Life insurance contracts and investment contracts with DPF (continued)
Liability adequacy testing (continued)
For investment contracts, deferred acquisition costs and value of business acquired on purchased contracts, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, the unamortized balances of deferred acquisition costs and value of business acquired are written down.

2.3.2 Investment contracts without DPF
Investment contract fee revenue
Customers are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's account balance. The fees are recognized as revenue in the period in which they are received unless they relate to services to be provided in future periods, in which case they are deferred and recognized as the service is provided.

Origination and other "upfront" fees (fees that are assessed against the account balance as consideration for origination of the contract) are charged on some non-participating investment and pension contracts. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are amortized and recognized as the services are provided.

Deferred origination costs
The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortized over the period that services are provided. Deferred origination costs are tested for recoverability at each reporting date.

Investment contract liabilities
Deposits collected and benefit 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.

The majority of the Group's contracts classified as investment contracts are investment-linked contracts, with measurement directly linked to the underlying investment assets, which are portfolios maintained to meet specific investment objectives of policyholders who generally bear the credit and market risks on those investments. The liabilities are carried at fair value determined with reference to the accumulation value (current unit value) and an unearned revenue liability and sales inducement liability where applicable. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against customers' account balances are included in revenue, and accounted for as described under "Investment contract fee revenue" above.

Non investment-linked investment contract liabilities are carried at amortized cost, being the fair value of consideration received at the date of initial recognition, less the net effect of principal payments such as transaction costs and front-end fees, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate equates the discounted cash payments to the initial amount.

The unearned revenue liability arising from investment contracts represents upfront fees and other non-level charges deferred and released to the consolidated statement of profit or loss and other comprehensive income over the estimated life of the business. Any adjustment is immediately recognized as income or expense in the consolidated statement of profit or loss and other comprehensive income. The amortized cost of the financial liability is never recorded at less than the amount payable on surrender, discounted for the time value of money where applicable, if the investment contract is subject to a surrender option.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

2.3.3 Insurance and investment contracts

Reinsurance

The Group cedes insurance risk in the normal course of business, with retentions varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for such policies. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position.

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance or investment contract liabilities or benefits paid and in accordance with the relevant reinsurance contract.

To the extent that reinsurance contracts principally transfer financial risk (as opposed to insurance risk) they are accounted for directly through the consolidated statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognized, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognizes that impairment loss in the consolidated profit or loss and other comprehensive income. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

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

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

Value of business acquired (VOBA)

VOBA is an asset that reflects the present value of estimated net cash flows before tax embedded in the insurance and investment contracts of an acquired company, which existed at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and the carrying value. In all cases, the VOBA is amortized over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortization reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated statement of profit or loss and other comprehensive income.

Other assessments and levies

The Group is potentially subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance or investment contract liabilities but are included under “Insurance and other liabilities” in the consolidated statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

2.3.4 General Insurance contracts

Premiums
General insurance premiums written are recognized at policy inception and earned on a pro rata basis over the term of the policy related coverage.

Deferred acquisition costs
For general insurance, DAC is amortized on a straight line basis over the life of the contracts and de-recognized when the related contracts are settled or disposed of.

Benefits and claims
General insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous years.

General insurance contract liabilities
These liabilities include the provisions for outstanding claims, unearned premiums and unexpired risks. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs, reduced by the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is determined at the end of the reporting period using case estimates, supplemented by a range of standard actuarial claim projection techniques based on empirical data on current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalization or catastrophic reserves is recognized. The liability is de-recognized when the obligation to pay a claim expires, is discharged or is cancelled.

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium, which includes premiums received for risks that have not yet expired. The change in the provision for unearned premium is taken to profit or loss such that revenue is recognized over the period of risk. The methods used are as follows:

Marine cargo business	25% method
Non-marine cargo business	365 days method

2.3.5 Insurance receivables
Insurance receivables are recognized 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 amortized 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 de-recognized when the de-recognition criteria for financial assets, as described in "De-recognition of financial instruments" below, have been met.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments

2.4.1 Fair value measurement

The Group measures its investment property, derivative financial instruments, debt instruments classified as available for sale or fair value through profit or loss, and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received in the sale of an asset or the price 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 Group. 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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 Financial Instruments

2.4.2 Initial recognition and measurement

Financial assets

Financial assets within the scope of IAS 39 are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial investments, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. Financial assets 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 under IAS 39 are satisfied. When financial assets are recognized initially, they are measured at fair value plus transaction costs, 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 recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, loans and receivables, insurance and other receivables, amounts due from related parties, quoted and unquoted financial instruments, and derivative financial instruments.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. 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 of IAS 39 are satisfied.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, include directly attributable transaction costs.

The Group's financial liabilities include amounts due to related parties, insurance and other liabilities, borrowings and derivative financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments (continued)

2.4.3 *Subsequent measurement*
Financial assets
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 IAS 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 IAS 39.

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

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

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 at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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 amortized cost using the effective interest rate method less any allowance for impairment. Amortized 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 amortization and the loss arising from impairment are included in investment income 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 Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized 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 amortization and the loss arising from impairment are included in investment income in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments (continued)

2.4.3 *Subsequent measurement (continued)*

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 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 unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is de-recognized, at which time the cumulative gain or loss is recognized in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss. For available-for-sale financial debt securities, the difference between their cost and par value is amortized using the effective interest rate method. Interest and dividends earned while holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognized in profit or loss as investment income in accordance with the policy set out for "Revenue" below.

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 Group 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 Group is unable to trade these financial assets due to inactive markets and management's intent to do so in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

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

Financial liabilities

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

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 selling in the near term. Financial liabilities designated upon initial recognition at fair value through profit or loss, are so designated only if the criteria of IAS 39 are satisfied. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 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 recognized in profit or loss.

The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

<u>2.4 Financial Instruments (continued)</u>

2.4.3 *Subsequent measurement (continued)*
Financial liabilities at amortized cost
Borrowings are stated at amortized cost, with any difference between net proceeds and redemption value recognized in the consolidated statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

Gains and losses are recognized in profit or loss when the liabilities are de-recognized as well as through the effective interest rate amortization process.

2.4.4 De-recognition of financial instruments
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group 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 Group could be required to repay.

Financial liabilities
Financial liabilities and insurance payables are de-recognized 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 de-recognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized as profit or loss.

2.4.5 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments (continued)

2.4.6 Impairment of financial assets

The Group 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. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has 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 reorganization and observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group 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, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not 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). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized 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 realized or has been transferred to the Group.

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

Available-for-sale financial assets

For available-for-sale financial investments, the Group 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 amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments (continued)

2.4.6 Impairment of financial assets (continued)
Available-for-sale financial assets (continued)
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 Group 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 Group 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 recognized in profit or loss, is removed from other comprehensive income and recognized 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 recognized 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 amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued 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 increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

2.4.7 Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments, such as forward currency contracts, to manage currency or other risks within the Group. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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 recognized in other comprehensive income.

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

- Where the Group 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 consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments (continued)

2.4.7 Derivative financial instruments and hedge accounting (continued)

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 the statement of 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 Group 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 the statement of profit or loss over the residual period to maturity.

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 the statement of 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 the statement of profit or loss in the same period or periods during which the asset acquired or liability assumed affects the statement of 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 the statement of profit or loss in the same period or periods during which the hedged forecast transaction affects the statement of 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 Group 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 the statement of profit or loss.

2.4.8 Cash and cash equivalents

For the purpose of the consolidated 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.

For the purpose of the consolidated 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currency translation

These financial statements are presented in United States dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group 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 at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized 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 determined. 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 items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized 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 these entities are translated into United States dollars at exchange rates prevailing at the end of the reporting period and profit or loss and cash flow items are translated into United States dollars at the weighted average exchange rates for the period. The resulting exchange differences are recognized in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

2.6 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 amortized over the useful economic life and assessed for impairment if there has been a significant change in the expected pattern of consumption of future economic benefits embodied in the intangible asset. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.7 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after items of plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the period in which they are incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized 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 Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment and depreciation (continued)

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

Motor vehicles	20%
Furniture and fixtures	20-33⅓%
Computer equipment	20-33⅓%
Leasehold improvements	Over the lease terms
Property held for own use	Shorter of the unexpired term of land lease or the estimated useful life

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is de-recognized is the difference between the net sales proceeds and the carrying amount of the relevant assets.

2.8 Investment property

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of profit or loss in the year of the retirement or disposal.

2.9 Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, 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 recognized 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.

2.9 Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss on an asset other than goodwill is reversed only if there has been a change in the estimate 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/amortization) had no impairment loss been recognized 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.

2.10 Income taxes

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

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

Deferred tax is provided, using the liability method, on 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 recognized 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 recognized for deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilized, 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 recognized 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 utilized.

2.10 Income taxes (continued)

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 utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized 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 realized 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.

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.

2.11 Revenue

Investment income
Interest income is recognized 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 amortization of any discount or premium. Investment income also includes dividends, which are included on the date the shares become quoted ex-dividend.

Realized gains and losses recorded in profit or loss
Realized 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 amortized cost and are recorded on occurrence of the sale transaction. The costs of partial sales of investments with multiple acquisition dates are determined by using the first in first out (“FIFO”) principle.

Fees and commission income
Fees and commission income consist primarily of administration service fees and surrender charges, fund management fees, income from any incidental non-insurance activities and commissions on reinsurance ceded. Reinsurance commissions are deferred in the same way as acquisition costs. All other fees and commission income are recognized as the services are provided.

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

2.12 Employee benefits

Paid leave carried forward
The Group 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 utilized 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-Defined Contribution Plans
The Group operates a defined contribution retirement benefits scheme 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 Group in an independently administered fund. When an employee leaves the scheme prior to his/her interest in the Group's employer contributions becoming fully vested, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

2.12 Employee benefits

The Group 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 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 MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

Long service payments

Certain employees of the Group are eligible for long service payments in the event of the termination of their employment according to certain local Employment Ordinances. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in those Employment Ordinances.

Share-based compensation

The Group offers share award plans for certain key employees as part of a compensation plan aligned with services provided in achieving shareholder value targets. The existing plan is an equity-settled plan and the compensation expense charged to the consolidated 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. It 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 Group assesses the number of shares 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 therefore the fair value of each tranche is recognized over the applicable vesting period.

The Group utilizes an appraisal value method (Embedded Value plus a multiple of Value of New Business) and an assessment of performance conditions (IRR achievement) to calculate the fair value of the share awards, taking into account the terms and conditions upon which the awards were granted.

2.13 Provisions and contingencies

A provision is recognized 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.

Where the Group expects a provision to be reimbursed, for example under an insurance contract held, the reimbursement is recognized as a separate asset only when the reimbursement is probable.

The Group recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

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

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognized in accordance with the general guidance for provisions above; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the guidance for revenue recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Non-current assets and disposal groups held for sale

Non-current assets and 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 Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and 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.

2.15 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 Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to profit or loss on a straight-line basis over the lease terms.

Where the Group is the lessee, rentals payment under operating leases net of any incentives received from the lessor are charged to the profit or loss on the straight-line basis over the lease terms.

2.16 Related parties

A party is considered to be related to the Group 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 Group;

(ii) has significant influence over the Group; or

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

or

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

(i) the entity and the Group 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 Group are joint ventures of the same third party;

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly. Key judgments, estimates and assumptions are described below.

(a) Income taxes
Significant management judgment on the future tax treatment of certain transactions is required in determining income tax provisions. The Group 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 developments in tax laws. Hong Kong and Macau 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 develop, these taxation positions may change in the future.

(b) Valuation of deferred tax assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits with future tax planning strategies. Further details are contained in note 12(b) to the financial statements.

(c) Impairment of goodwill
The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to calculate the actuarial appraisal value based on (i) embedded value with respect to the in-force business together with (ii) the value of future new business, and also to choose a suitable discount rate in order to calculate the present value of those expected future profits. Further details regarding goodwill are provided in note 14.

(d) Life insurance contract liabilities
The Group calculates insurance contract liabilities for traditional life insurance using a net level premium valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses best estimate assumptions at inception adjusted for a provision for the risk of adverse deviation (where appropriate) for mortality, morbidity, expected investment yields, surrenders and expenses set at the policy inception date (or acquisition date for acquired insurance contracts). These assumptions remain locked in thereafter, unless a deficiency arises on liability adequacy testing. Interest rate assumptions can vary by denominated currency, year of issuance and product. Mortality, morbidity, surrender and expense assumptions are based on the Group's experience. The Group exercises significant judgment in making appropriate assumptions. In addition, for participating products with definite sharing mechanism, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all performance were to be declared as a dividend based upon the Group's rules on profit distribution.

The judgments exercised in the valuation of insurance contract liabilities affect the amounts recognized in the consolidated financial statements as insurance contract benefits and insurance contract liabilities. Further details of the related accounting policies, key risks and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.3, 27 and 37.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(e) General insurance contract liabilities

For general insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the end of the reporting period. It can take a significant period of time before the ultimate claims cost can be established with certainty and, for some types of policies, IBNR claims form the majority of the claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims is the use of past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. General insurance claims provisions are not discounted for the time value of money.

Similar judgments are made in assessing the adequacy of the unearned premium provision, whereby assessments are made of the expected future claim costs arising from the unexpired portion of contracts in force at the end of the reporting period.

Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of general insurance contract liabilities are provided in notes 2.3.4, 27 and 37.

(f) Deferred acquisition costs

The judgments exercised in the deferral and amortization of acquisition costs affect amounts recognized in the consolidated financial statements as deferred acquisition costs and insurance and investment contract benefits.

As described in note 2.3, deferred acquisition costs for traditional life insurance and annuity policies are amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

As described in note 2.3, deferred acquisition costs for universal life and investment-linked contracts are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits to be realized over the life of the contract. Significant judgment is exercised in making appropriate estimates of gross profits. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favorable investment performance, previously expensed acquisition costs are reversed (but not in excess of the amount initially deferred).

Additional details of deferred acquisition costs are provided in notes 2.3 and 16.

(g) Value of business acquired

The judgments exercised in the valuation and amortization of the fair value of insurance contracts of the acquired company in business combinations/ affect amounts recognized in the consolidated financial statements as value of business acquired.

As described in note 2.3, value of business acquired is an asset that reflects the present value of estimated net cash flows before tax embedded in the insurance contracts of an acquired company which existed at the time of business combination. It represents the difference between the fair value of insurance liabilities and the carrying value. In all cases, the VOBA is amortized over the estimated life of contracts in the acquired portfolio on a systematic basis. The rate of amortization reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated statement of profit or loss and other comprehensive income.

Additional details of value of business acquired are provided in notes 2.3 and 15.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(h) Liability adequacy testing
The Group evaluates the adequacy of its insurance and investment contract liabilities with DPF at least annually. Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. Liability adequacy is assessed on a portfolio of contracts in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

The judgments exercised in liability adequacy testing affect amounts recognized in the consolidated financial statements such as commission and other acquisition expenses, deferred acquisition costs, insurance contract benefits and insurance and investment contract liabilities.

(i) Fair values of financial assets
The Group 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 and equity prices are provided in notes 2.4, 19 and 37.

(j) 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 Group 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 Group 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 reorganization;
- 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 2.4.6 and 19.

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(l) Share-based compensation

The Group has adopted share-based compensation plans to retain, motivate and align the interests of eligible officers of the Group. These share-based compensation plans are accounted for as equity-settled plans under which shares are awarded. The Group utilizes an appraisal value method (Embedded Value ("EV") plus a multiple of Value of New Business ("VNB")) and an assessment of performance conditions (IRR achievement) to calculate the fair value of the share awards, taking into account the terms and conditions upon which the awards were granted.

The Group determines appraisal value on the following basis:

- For life insurance businesses, the appraisal value equals EV plus a multiplier of VNB for the calendar year at the end of each performance period. The multiplier was agreed with the shareholders for the purpose of the IRR calculation. Certain adjustments were made to the reported EV to exclude the impact of certain items not within control of management or not anticipated in the original business plan.
- For non-life businesses, the appraisal value is calculated as the net asset value plus a multiplier of the net profits for the calendar year at the end of each performance period.
- For non-operating entities, the appraisal value is equal to the net asset value for the calendar year at the end of each performance period.

The Group takes into account all cash flow items on a monthly basis during the performance period when assessing the IRR achievement. Certain assumptions were made when constructing the monthly cash flows for the purpose of the IRR calculation.

The judgments exercised in the determination of appraisal value and the assessment of IRR achievement affect the amounts recognized in the consolidated financial statements as share-based payment expense and share-based payment reserve. Further details of the related accounting policies and movements in outstanding awards are provided in notes 2.12 and 35.

(m) Investment in joint venture

The Group has elected to retain the fair value measurement applied by its joint venture to investment properties when applying the equity method. Investment properties are stated at fair value based on valuations performed by an independent professional appraiser. In determining the fair value, the appraiser considers the estimated rental value of the property and applies the appropriate valuation methods, i.e., the capitalization method and discounted cashflow method. A valuation report with analysis of changes in fair value measurement is prepared at the end of each reporting date and is reviewed and approved by the senior management.

Further details of the investment in joint venture are provided in note 23.

4. EXCHANGE RATES

The Group's principal operations during the reporting years are Hong Kong and Macau. The results and cash flows of these operations have been translated into US Dollars at the following average rates:

	US dollar exchange rate	
	Year ended 31 December 2017	Year ended 31 December 2016
Hong Kong	7.792	7.763
Macau	7.997	7.995
Vietnam	22,712.200	22,350.386

Assets and liabilities have been translated at the following year end rates:

	US dollar exchange rate	
	31 December 2017	31 December 2016
Hong Kong	7.815	7.756
Macau	8.048	7.986
Vietnam	22,700.000	22,770.000

5. SEGMENT INFORMATION

The reportable segments of the Group correspond to its principal subsidiary legal entities representing the life insurance business and the general insurance business, as follows:

- The life insurance segment provides life insurance products and services to customers in Hong Kong and Macau. Life insurance is the Group's largest business line and comprises traditional participating life insurance products, traditional non-participating life insurance products, accident and health insurance non-participating products, investment-linked insurance products and universal life insurance products.

- The general insurance segment provides a range of general insurance products for individuals and commercial institutions in Hong Kong, including health and medical care insurance, motor insurance, property insurance and marine insurance.

The remaining operations of the Group, together with transactions of the holding and intermediate holding companies and consolidation adjustments, are included in Corporate and Others.

US$'000

	Year ended 31 December 2017			
	Life Insurance	General Insurance	Corporate and Others	Total
Net premiums	1,377,174	33,404	-	1,410,578
Fees and commission income	152,073	8,733	(3,656)	157,150
Investment return	472,333	3,037	1,582	476,952
Other operating revenue	38,535	-	-	38,535
TOTAL REVENUE FROM CONTINUING OPERATIONS	2,040,115	45,174	(2,074)	2,083,215
Net benefits and claims	(1,721,389)	(17,743)	-	(1,739,132)
Amortization of intangible assets	(34,077)	-	-	(34,077)
Net deferred acquisition cost movement	128,590	(264)	-	128,326
Finance costs	-	-	(21,091)	(21,091)
Commission and commission related expenses	(210,191)	(13,576)	209	(223,558)
Other operating and administrative expenses	(121,314)	(9,690)	(12,856)	(143,860)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(1,958,381)	(41,273)	(33,738)	(2,033,392)
Share of gains/(losses) in associate and joint venture	4,942	-	(1,118)	3,824
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPEATIONS	86,676	3,901	(36,930)	53,647
Income tax expense	(15,133)	(483)	-	(15,616)
PROFIT/(LOSS) FOR THE YEAR AFTER TAX FROM CONTINUING OPEATIONS	71,543	3,418	(36,930)	38,031
Loss for the year from discontinued operations	-	-	(16,700)	(16,700)
NET PROFIT/(LOSS)	71,543	3,418	(53,630)	21,331
OTHER COMPREHENSIVE INCOME, NET OF TAX	237,187	1,148	1,016	239,351
TOTAL COMPREHENSIVE INCOME	308,730	4,566	(52,614)	260,682

continued/...

5. SEGMENT INFORMATION (continued)

US$'000

	31 December 2017			
	Life Insurance	General Insurance	Corporate and Others	Total
TOTAL ASSETS	14,722,736	142,551	(435,535)	14,429,752
TOTAL LIABILITIES	11,448,315	88,814	518,972	12,056,101
TOTAL EQUITY	3,274,421	53,737	(954,507)	2,373,651

US$'000

	Year ended 31 December 2016			
	Life Insurance	General Insurance	Corporate and Others	Total
Net premiums	1,906,480	34,146	-	1,940,626
Fees and commission income	135,760	7,492	1,241	144,493
Investment return	254,402	2,585	302	257,289
Other operating revenue	210	-	-	210
TOTAL REVENUE FROM CONTINUING OPERATIONS	2,296,852	44,223	1,543	2,342,618
Net benefits and claims	(2,069,611)	(17,231)	-	(2,086,842)
Amortization of intangible assets	(32,689)	-	-	(32,689)
Net deferred acquisition cost movement	214,735	535	-	215,270
Finance costs	-	-	(21,066)	(21,066)
Commission and commission related expenses	(242,910)	(14,762)	(1,332)	(259,004)
Other operating and administrative expenses	(127,000)	(9,777)	(18,347)	(155,124)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(2,257,475)	(41,235)	(40,745)	(2,339,455)
Share of losses in associate	-	-	(654)	(654)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPEATIONS	39,377	2,988	(39,856)	2,509
Income tax expense	(6,203)	(390)	-	(6,593)
PROFIT/(LOSS) FOR THE YEAR AFTER TAX FROM CONTINUING OPEATIONS	33,174	2,598	(39,856)	(4,084)
Loss for the year from discontinued operations	-	-	(4,707)	(4,707)
NET PROFIT/(LOSS)	33,174	2,598	(44,563)	(8,791)
OTHER COMPREHENSIVE INCOME, NET OF TAX	(29,869)	(755)	(477)	(31,101)
TOTAL COMPREHENSIVE INCOME	3,305	1,843	(45,040)	(39,892)

	31 December 2016			
	Life Insurance	General Insurance	Corporate and Others	Total
TOTAL ASSETS	12,331,171	139,883	13,653	12,484,707
TOTAL LIABILITIES	10,092,049	85,520	447,216	10,624,785
TOTAL EQUITY	2,239,122	54,363	(433,563)	1,859,922

6. NET PREMIUMS

US$'000	Notes	Year ended 31 December 2017	Year ended 31 December 2016
(a) Gross premiums			
Life insurance contracts		1,578,997	2,067,624
Non-life insurance contracts		62,090	67,027
Investment contracts with DPF		22,000	21,683
Total gross premiums		1,663,087	2,156,334
(b) Reinsurers' share of gross premiums			
Life insurance contracts		(223,823)	(182,827)
Non-life insurance contracts	27	(30,505)	(29,383)
Investment contracts with DPF		-	-
Total reinsurers' share of gross premiums		(254,328)	(212,210)
(c) Change in unearned premiums			
Non-life insurance contracts		1,819	(3,498)
Net premiums		1,410,578	1,940,626

7. FEES AND COMMISSION INCOME

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
Policyholder administration service fees and surrender charges		
Insurance contracts	89,186	90,018
Investment contracts	-	2
Reinsurance commission income	66,337	194,930
Commission income	12,432	9,506
	167,955	294,456

8. INVESTMENT RETURN

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	252,822	197,520
Dividend income	41,822	32,553
Investment income	294,644	230,073
Realized gains on financial assets		
Available-for-sale financial assets (transfer from Equity)	29,881	25,327
Financial assets designated at fair value through profit or loss	18,357	1,800
Derivative financial instruments	-	26,431
Realized losses on financial assets		
Available-for-sale financial assets (transfer from Equity)	(16,722)	(3,218)
Financial assets designated at fair value through profit or loss	(230)	(5,481)
Derivative financial instruments	(8,867)	(2,588)
Net realized gains/(losses) on financial assets	22,419	42,271
Fair value gains/(losses) on derivative financial instruments	1,599	(16,946)
Fair value gains/(losses) on financial assets designated at fair value through profit or loss	158,593	11,536
Net fair value gains/(losses) on financial assets	160,192	(5,410)
(Impairment)/Reversal of impairment of available-for-sale financial assets	(1,603)	(9,786)
(Impairment)/Reversal of impairment on secured loans	(13)	122
Foreign exchange difference	1,313	19
Total investment return	476,952	257,289

The impairment or reversal of impairment of available-for-sale financial assets and secured loans are in the life insurance segment.

The investment return does not include the return from the joint venture investment in One George Street LLP, which is presented as share of gains/(losses) in associate and joint venture in the consolidated statement of profit or loss and other comprehensive income. Further details of the financial results from One George Street LLP are provided in note 23.

9. NET BENEFITS AND CLAIMS INCURRED

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
(a) Gross benefits and claims paid		
Life insurance contract benefits and claims paid		
With DPF	405,927	283,096
Without DPF	167,605	214,142
Total life insurance contract benefits and claims paid	573,532	497,238
Non-life insurance contract benefits and claims paid	32,527	29,782
Investment contracts with DPF benefits and claims paid	32,469	24,126
Total gross benefits and claims paid	638,528	551,146
(b) Initial consideration and subsequent changes to consideration of coinsurance with funds withheld arrangement	72,000	731,901
(c) Reinsurers' share of gross benefits and claims paid		
Reinsurers' share of life insurance contract benefits and claims paid		
With DPF	(12,759)	(9,063)
Without DPF	(5,371)	(3,122)
Total reinsurers' share of life insurance contract benefits and claims paid	(18,130)	(12,185)
Reinsurers' share of non-life insurance contract benefits and claims paid	(17,347)	(16,778)
Total reinsurers' share of benefits and claims paid	(35,477)	(28,963)
(d) Gross change in contract liabilities		
Change in life insurance contract liabilities		
With DPF	1,118,798	1,578,043
Without DPF	99,335	23,693
Total change in life insurance contract liabilities	1,218,133	1,601,736
Change in non-life insurance contracts liabilities	3,337	7,124
Change in investment contract liabilities with DPF	(230)	1,880
Total gross change in contract liabilities	1,221,240	1,610,740
(e) Reinsurers' share of gross change in contract liabilities		
Reinsurers' share of change in life insurance contract liabilities		
With DPF	(59,515)	(783,006)
Without DPF	(96,870)	7,921
Total reinsurers' share of change in life insurance contract liabilities	(156,385)	(775,085)
Reinsurers' share of change in non-life insurance contracts liabilities	(774)	(2,897)
Total reinsurers' share of gross change in contract liabilities	(157,159)	(777,982)
Total net benefits and claims	1,739,132	2,086,842

The total interest expense of the investment contract liabilities with DPF was US$5,617,000 (2016:US$5,702,000).

10. COMMISSION AND COMMISSION RELATED EXPENSES

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
Commission expenses	140,589	163,157
Commission related expenses	82,969	95,847
	223,558	259,004

11. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

US$'000	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Advertising and marketing expenses		27,532	21,349
Auditor's remuneration		860	899
Bank charges and other professional service fees		12,759	13,714
Depreciation of plant and equipment	17	6,240	5,644
Employee benefit expenses			
Salaries and allowances		50,081	59,388
Share-based payment expenses	35	12,490	16,390
Pension contribution		2,786	2,463
Other staff costs		3,767	3,344
Group management fee		3,903	4,163
Office related expenses		4,430	4,344
Operating leases rental		12,860	12,638
Others		12,207	7,280
Foreign exchange differences, net		(6,055)	3,508
Total		143,860	155,124

12. TAXATION

(a) 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. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

US$'000	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Current – Hong Kong			
Charge for the year		(582)	(392)
(Under-provision)/Over-provision in prior years		73	-
Current – Elsewhere		(857)	-
Deferred	12(b)	(14,250)	(6,201)
		(15,616)	(6,593)

A reconciliation of the tax credit/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 statutory tax rate to the effective tax rate, is as follows:

US$'000	Year ended 31 December 2017	%
Profit before tax	53,647	
Tax at the statutory tax rate	(8,759)	(16.3)
Income not subject to tax	5,568	10.4
Expenses not deductible for tax	(10,861)	(20.2)
Tax losses not recognized	(1,321)	(2.5)
Temporary difference not recognized	-	-
Adjustments in respect of current income tax of previous years	74	0.1
Others	(317)	(0.6)
	(15,616)	(29.1)

US$'000	Year ended 31 December 2016	%
Profit before tax	2,509	
Tax at the statutory tax rate	(338)	(13.5)
Income not subject to tax	4,989	198.8
Expenses not deductible for tax	(10,584)	(421.8)
Tax losses not recognized	(355)	(14.1)
Temporary difference not recognized	-	-
Others	(305)	(12.2)
	(6,593)	(262.8)

12. TAXATION (continued)

(b) Deferred Tax

The movement in deferred tax assets/(liabilities) during the year is as follows:

US$'000	Note	Insurance contract liabilities	Deferred acquisition cost	Value of business acquired	Revaluation of available-for-sale financial assets	Tax losses	Other temporary differences	Total
1 January 2017		54,166	(101,566)	(111,129)	(8,471)	33,092	31,038	(102,870)
Deferred tax credited/(charged) to profit or loss	12(a)	(13,858)	(20,748)	4,475	-	14,190	1,691	(14,250)
Deferred tax credited/(charged) to other comprehensive Income		-	-	-	(39,048)	-	34	(39,014)
Foreign exchange difference		(4)	23	1	7	-	(8)	19
31 December 2017		40,304	(122,291)	(106,653)	(47,512)	47,282	32,755	(156,115)

US$'000	Note	Insurance contract liabilities	Deferred acquisition cost	Value of business acquired	Revaluation of available-for-sale financial assets	Tax losses	Other temporary differences	Total
1 January 2016		22,873	(66,428)	(114,227)	(17,075)	60,446	9,139	(105,272)
Deferred tax credited/(charged) to profit or loss	12(a)	31,293	(35,138)	3,098	-	(27,354)	21,900	(6,201)
Deferred tax credited/(charged) to other comprehensive Income		-	-	-	8,604	-	-	8,604
Foreign exchange difference		-	-	-	-	-	(1)	(1)
31 December 2016		54,166	(101,566)	(111,129)	(8,471)	33,092	31,038	(102,870)

In 2017, the negative balance shown above of US$156,115,000 represents deferred tax liabilities of US$156,115,000 and nil for deferred tax assets. In 2016, the negative balance shown above of US$102,870,000 represents deferred tax liabilities of US$102,870,000 and nil for deferred tax assets, which relate to tax within the jurisdiction of the same tax authority.

Deferred tax assets are recognized to the extent that sufficient future taxable profits will be available for realization. The Group has tax losses arising in Hong Kong and Macau of US$19,675,000 (2016: US$17,502,000) that are available indefinitely for offsetting against taxable profits from one of its subsidiaries in which the losses arose. In 2017, deferred tax assets of US$14,190,000 have been recognized in respect of these losses as it is considered probable that taxable profits will be available against which these tax losses can be utilized in the foreseeable future.

As explained in more detail in note 15, the deferred tax liability relating to VOBA has been presented together with other deferred taxes in the current consolidated financial statements. Comparative amounts have been restated accordingly to ensure consistency between all financial periods presented.

13. DISCONTINUED OPERATIONS

The Pension Business

On 3 August 2016, the Group signed an Implementation Agreement ("IA") with Sun Life Hong Kong Limited ("Sun Life") and, announced the disposal of FWD's Mandatory Provident Fund ("MPF") and Occupational Retirement Schemes ("ORSO") business, including the disposal of the pension trustee entity, FWD Pension Trust Limited (collectively referred to as "the Pension Business"). The Group and Sun Life also entered into a 15-year strategic distribution agreement which allows FWD Life Insurance Company (Bermuda) Limited to distribute Sun Life's MPF products in the Hong Kong market as Sun Life's principal intermediary. As at 31 December 2016, the Pension Business was classified as a disposal group held for sale.

On 3 October 2017, the Group disposed of its 100% interest in FWD Pension Trust Limited and the MPF business (excluding policies relating to products classified as Class G of Long Term Business under the Hong Kong Insurance Ordinance ("Class G Policies")). The Group received a total consideration of US$38,404,000 for transferring its sponsorship of MPF, the employees and the business contracts of the Pension Business and for entering the strategic distribution agreement with Sun Life. These revenues are fully recognized as other operating revenue as presented in the consolidated statement of profit or loss and other comprehensive income.

The transfer of the assets of the ORSO business and the Class G Policies is expected to be completed in 2018, subject to regulatory approvals. Operating results of the Pension Business before the disposal are set out in note 13(a) of the financial statements.

FWD Vietnam

On 30 June 2016, the Group acquired a 100% interest in Great Eastern Life (Vietnam) Co. Ltd., which has been renamed FWD Vietnam Life Insurance Company Limited ("FWD Vietnam"). At the time of the acquisition, the Group had the intention to sell FWD Vietnam to a related party and initiated discussions with the regulator on the process required to obtain regulatory approval for the sale. As at 31 December 2016, FWD Vietnam was classified as a disposal group held for sale.

During 2017, the Group continued discussions with the regulator and developed a concrete action plan to obtain regulatory approval for the sale of FWD Vietnam, which is expected to be obtained in 2018. FWD Vietnam continues to be classified as a disposal group held for sale. The operating results and major classes of assets and liabilities of FWD Vietnam are set out in note 13(b) of the financial statements.

13. DISCONTINUED OPERATIONS (continued)

(a) The Pension Business

The operating results of the Pension Business are presented below:

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
Fee and commission income	4,692	5,282
Interest income	479	431
Realized gains on financial assets		
Available-for-sale financials assets (transfer from Equity)	285	2
Other operating revenue	-	8
	5,456	5,723
Depreciation of plant and equipment	(1)	(1)
Other operating expenses	(3,044)	(2,961)
	(3,045)	(2,962)
Profit from the discontinued operation	2,411	2,761
Gain/(loss) recognized on the re-measurement to the fair value	-	-
Profit before tax from the discontinued operation	2,411	2,761
Gain on disposal of FWD Pension Trust Limited	4,799	-
Tax benefit/(expense):		
Related to pre-tax profit	(308)	(320)
Profit for the year from the discontinued operation	6,902	2,441

The major classes of assets and liabilities of the Pension Business are as follows:

US$'000	31 December 2017	31 December 2016
Assets		
Plant and equipment	-	1
Financial assets		
Available-for-sale financial assets	-	25,190
Financial assets at fair value through profit or loss	387,246	363,152
Prepayments, deposits and other assets	-	573
Due from related parties	-	135
Cash and cash equivalents	-	3,690
TOTAL ASSETS	387,246	392,741
Liabilities		
Investment contract liabilities	387,246	363,152
Due to related parties	-	266
Other liabilities	-	868
TOTAL LIABILITIES	387,246	364,286
NET ASSETS DIRECTLY ASSOCIATED WITH THE DISPOSAL GROUP	-	28,455
Amounts included in accumulated other comprehensive income:		
Available-for-sale financial assets revaluation reserve	-	(123)
Foreign currency translation reserve	-	(18)
RESERVE OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE	-	(141)

13. DISCONTINUED OPERATIONS (continued)

(a) The Pension Business (continued)

The net cash flows from the Pension Business are as follows:

US$'000	31 December 2017	31 December 2016
Operating activities	1,301	1,187
Investing activities	24,089	(3,899)
Financing activities	-	-
Net cash inflow/(outflow)	25,390	(2,712)

(b) FWD Vietnam

The operating results of FWD Vietnam are presented below:

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
Net premium	12,293	919
Fee and commission income	70	335
Interest income	2,534	860
Total revenue	14,897	2,114
Net benefits and claims	(8,627)	(975)
Net deferred acquisition cost movement	4,667	-
Commission and commission related expenses	(16,192)	(1,409)
Amortization of intangible assets	(86)	(50)
Depreciation of plant and equipment	(623)	(34)
Loss on disposal of plant and equipment	(18)	-
Loss on disposal of intangible assets	(82)	-
Other operating and administrative expenses	(17,471)	(6,794)
Total expenses	(38,432)	(9,262)
Loss from the discontinued operation	(23,535)	(7,148)
Gain/(loss) recognized on the re-measurement to the fair value	-	-
Loss before tax from the discontinued operation	(23,535)	(7,148)
Tax benefit/(expense):		
Related to pre-tax profit	(67)	-
Related to re-measurement to fair value	-	-
Loss for the period from the discontinued operation	(23,602)	(7,148)

13. DISCONTINUED OPERATIONS (continued)

(b) FWD Vietnam (continued)

The major classes of assets and liabilities of FWD Vietnam classified as held for sale are as follows:

US$'000

	31 December 2017	31 December 2016
Assets		
Goodwill	713	711
Intangible assets	413	386
Deferred acquisition cost	4,670	-
Plant and equipment	2,575	2,653
Financial assets		
Available-for-sale financial assets	22,873	19,032
Loans and receivables	581	99
Prepayments, deposits and other assets	9,305	13,538
Insurance receivables	228	121
Cash and cash equivalents	28,496	12,394
TOTAL ASSETS	69,854	48,934
Liabilities		
Insurance contract liabilities	12,295	3,908
Insurance and other liabilities	12,456	4,795
Deferred tax liabilities	67	-
TOTAL LIABILITIES	24,818	8,703
NET ASSETS DIRECTLY ASSOCIATED WITH THE DISPOSAL GROUP	45,036	40,231
Amounts included in accumulated other comprehensive income:		
Available-for-sale financial assets revaluation reserve	1,490	482
Foreign currency translation reserve	(562)	(671)
RESERVE OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE	928	(189)

The net cash flows from FWD Vietnam are as follows:

US$'000

	31 December 2017	31 December 2016
Operating activities	(7,141)	(14,043)
Investing activities	(4,052)	(2,805)
Financing activities	27,295	11,790
Net cash inflow/(outflow)	16,102	(5,058)

14. GOODWILL

US$'000	31 December 2017	31 December 2016
At beginning of year		
Cost	902,057	902,057
Accumulated impairment	-	-
Foreign exchange difference	3	27
Net carrying amount	902,060	902,084
Movement during the year		
Impairment provided during the year	-	-
Foreign exchange difference	(515)	(24)
Net carrying amount	901,545	902,060
At end of year		
Cost	902,057	902,057
Accumulated impairment	-	-
Foreign exchange difference	(512)	3
Net carrying amount	901,545	902,060

Impairment of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating unit for impairment testing:

- FWD Life Insurance Company (Bermuda) Limited
- FWD Life Insurance Company (Macau) Limited

The recoverable amounts of FWD Life Insurance Company (Bermuda) Limited and FWD Life Insurance Company (Macau) Limited have been determined based on a value in use calculated as an actuarially determined appraisal value, based on (i) the Embedded Value ("EV") with respect to the in-force business together with (ii) the value of future new business. EV captures the market value of the assets in excess of those backing the policy reserves and other liabilities as well as the value of all in-force policies as at the reporting date attributable to the shareholders of the Company. The value of future new business is calculated by aggregating the present value of future expected profits on policies expected to be sold in the future (i.e., value of new business ("VNB")). Both EV and VNB are calculated in accordance with the Group's policies.

14. GOODWILL (continued)

The Group adopts an approach that tests goodwill impairment at three levels.

- Level I – review any recent similar market transactions. If the purchase price implied by a similar market transaction is greater than the net asset value (“NAV”) (inclusive of goodwill), the impairment test is passed.
- Level II –Impairment test is passed if the EV is greater than the NAV (inclusive of goodwill) prepared on the IFRS basis.
- Level III - The impairment test is passed if the EV plus the VNB for a reasonable number of future years is greater than the NAV (inclusive of goodwill) prepared on the IFRS basis.

If the recoverable amount is less than the NAV, the difference is recognized as an impairment loss in the Group’s profit or loss. No impairment loss has been recognized during the year as impairment test is passed at Level III for the FWD Life Insurance Company (Bermuda) and FWD Life Insurance Company (Macau) Limited.

The key assumptions used for the value in use impairment calculation of FWD Life Insurance Company (Bermuda) Limited and FWD Life Insurance Company (Macau) Limited are:

- Risk discount rate of 7.25% (2016: 7.5%) which is in line with industry average
- Investment return assumptions of 3.71% (2016: 3.28%) and 3.49% (2016: 2.89%) for in-force traditional life business and in-force universal life business, respectively, progressively increasing to 4.71% (2016:4.94%) and 5.13% (2016:5.06%) as the ultimate investment return assumption. For new business, investment return assumptions of 4.34% (2016: 4.94%) and 4.72% (2016: 5.06%) were used for traditional life and universal life business, respectively, progressively increasing to 4.71% (2016: 4.94%) and 5.13% (2016: 5.06%) as the ultimate investment return assumption. The investment return assumption for the separate account is 5.03% (2016: 5.03%).
- VNB multiplier of 15 (2016: 15) calculated using projected new sales over the next 15 years (2016: 15 years) at a discount rate of 7.25% (2016: 7.5%).

The Group has projected new sales over the next 15 years to estimate the value of future new business. The growth rates assumed in the first five years are the same as those used in the current five year business plan approved by the Group’s Board. The growth rates beyond five years progressively decrease from 5% to 3%. The use of a fifteen year period to estimate future new business value is in line with current industry practice.

Sensitivity to changes in assumptions
For the risk discount rate assumption, a 328bps (2016:250bps) increase would give a value in use equal to the carrying amount of the cash generating unit. A 100bps increase in the risk discount rate assumption would cause the value in use of the cash generating unit to exceed the carrying amount by US$1,090.0m (2016: US$417.3m).

For the investment return assumption, a 222bps (2016: 145bps) reduction would give a value in use equal to the carrying amount of the cash generating unit. A 50bps reduction in the investment return assumption would cause the value in use of the cash generating unit to exceed the carrying amount by US$1,214.3m (2016: US$460.2m).

For the VNB multiplier assumption, a reduction of the VNB multiplier by approximately 11.2 (2016: 7.4) would give a value in use equal to the carrying amount of the cash generating unit.

The Group recognizes the fact that an unfavorable change in any of these assumptions could materially affect the recoverability of goodwill.

15. INTANGIBLE ASSETS

US$'000	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Value of business acquired	15(a)	646,384	673,508
Other intangible assets	15(b)	-	7,259
		646,384	680,767

(a) Value of business acquired

US$'000	31 December 2017	31 December 2016
At beginning of year	673,508	692,284
Effecting of regrouping	-	-
Amortization during the year	(26,818)	(18,762)
Foreign exchange difference	(306)	(14)
At end of year	646,384	673,508

(b) Other intangible assets

US$'000	31 December 2017	31 December 2016
At beginning of year	7,259	21,187
Additions	-	-
Amortization during the year	(7,259)	(13,927)
Foreign exchange difference	-	(1)
At end of year	-	7,259

The other intangible assets represent retention fees paid to agents under a retention program launched in 2014.

In previously issued consolidated financial statements, VOBA was presented as an amount net of taxes. Taking into account common industry practice and considering it provides more relevant financial information, it was decided to present VOBA gross of income taxes in the current consolidated financial statements and to present the related deferred tax liability separately. Prior year comparatives have been restated for consistent presentation. As a result of this revised presentation, intangible assets and deferred tax liabilities both increase by US$106.7m (2016: US$111.1m), with no net impact on Equity. Amortization of intangible assets increases and income tax expense decreases by US$4.5m (2016: US$3.1m) each, with no net impact on profit or loss.

16. DEFERRED ACQUISITION COST AND DEFERRED COMMISSION INCOME

US$'000	31 December 2017		
	Deferred acquisition cost	Deferred commission income	Net
At beginning of year	628,469	(251,197)	377,272
Expenses/(Income) deferred	228,516	(50,343)	178,173
Amortization during the year	(100,190)	39,538	(60,652)
Foreign exchange difference	(262)	38	(224)
At end of year	756,533	(261,964)	494,569

US$'000	31 December 2016		
	Deferred acquisition cost	Deferred commission income	Net
At beginning of year	413,201	(101,293)	311,908
Expenses/(Income) deferred	277,143	(181,568)	95,575
Amortization during the year	(61,873)	31,605	(30,268)
Foreign exchange difference	(2)	59	57
At end of year	628,469	(251,197)	377,272

17. PROPERTY, PLANT AND EQUIPMENT

US$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Property held for own use	Total
31 December 2017						
31 December 2016:						
Cost	13,923	150	2,188	12,329	-	28,590
Accumulated depreciation	(7,436)	(62)	(1,001)	(6,270)	-	(14,769)
Net carrying amount	6,487	88	1,187	6,059	-	13,821
31 December 2016, net of accumulated depreciation	6,487	88	1,187	6,059	-	13,821
Additions	596	74	1,756	1,591	-	4,017
Transfer from investment property (note 18)	-	-	-	-	10,086	10,086
Disposals	-	-	-	-	-	-
Depreciation provided during the year	(2,416)	(41)	(451)	(3,324)	(8)	(6,240)
Assets included in discontinued operation	-	-	-	-	-	-
Foreign exchange difference	(8)	-	(1)	(4)	(5)	(18)
31 December 2017, net of accumulated depreciation	4,659	121	2,491	4,322	10,073	21,666
31 December 2017:						
Cost	14,507	224	3,942	13,910	10,081	42,664
Accumulated depreciation	(9,848)	(103)	(1,451)	(9,588)	(8)	(20,998)
Net carrying amount	4,659	121	2,491	4,322	10,073	21,666

US$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Property held for own use	Total
31 December 2016						
31 December 2015:						
Cost	11,333	150	1,761	8,273	-	21,517
Accumulated depreciation	(5,728)	(25)	(620)	(3,513)	-	(9,886)
Net carrying amount	5,605	125	1,141	4,760	-	11,631
31 December 2015, net of accumulated depreciation	5,605	125	1,141	4,760	-	11,631
Additions	3,276	-	486	4,076	-	7,838
Disposals	(8)	-	(3)	(8)	-	(19)
Depreciation provided during the year	(2,388)	(37)	(435)	(2,784)	-	(5,644)
Assets included in discontinued operation	-	-	1	-	-	1
Foreign exchange difference	2	-	(3)	15	-	14
31 December 2016, net of accumulated depreciation	6,487	88	1,187	6,059	-	13,821
31 December 2016:						
Cost	13,923	150	2,188	12,329	-	28,590
Accumulated depreciation	(7,436)	(62)	(1,001)	(6,270)	-	(14,769)
Net carrying amount	6,487	88	1,187	6,059	-	13,821

18. INVESTMENT PROPERTY

During 2017, subsequent to the end of the operating leases with third parties, the Group began to use the commercial signage acquired in 2016 to advertise the FWD brand. The Group engaged an independent, professionally qualified real estate appraiser to measure the fair value of the commercial signage as of 1 December 2017, and reclassified the commercial signage from investment property to property held for own use at that date. This asset is presented as property and equipment in the consolidated statement of financial position at 31 December 2017.

US$'000	31 December 2017	31 December 2016
Carrying amount at beginning of year	10,086	-
Additions	-	10,084
Transfer to property held for own use	(10,086)	-
Foreign exchange difference	-	2
Carrying amount at end of year	-	10,086

The future minimum operating lease rental income under non-cancellable operating leases that the Group expects to receive in future periods is as follows:

US$'000	31 December 2017	31 December 2016
Within one year	-	70
In the second to fifth years, inclusive	-	-
Over five years	-	-
	-	70

<u>Fair value hierarchy</u>

The following table illustrates the fair value measurement hierarchy of the Group's investment property:

31 December 2017

	Fair value measurement using			
US$'000	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investment property	-	-	-	-
	-	-	-	-

31 December 2016

	Fair value measurement using			
US$'000	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Investment property	-	10,086	-	10,086
	-	10,086	-	10,086

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.

19. FINANCIAL ASSETS

The following tables analyze the Group's financial investments by type and nature. The Group manages its financial investments in two distinct categories: Investment-linked Investments, and Policyholder and Shareholder Investments. The investment risk in respect of Investment-linked Investments is generally wholly borne by policyholders, and does not directly affect the profit or loss for the year. Furthermore, investment-linked policyholders are responsible for allocation of their policy values among investment funds offered by the Group. Policyholder and Shareholder Investments include all financial investments other than Investment-linked Investments. The investment risk in respect of Policyholder and Shareholder Investments is partially or wholly borne by the Group.

The Group has elected to apply the available for sale classification for the majority of debt securities and equities in the Policyholder and Shareholder Investments category. The investment risk from investments in this category directly impacts the Group's financial statements.

In the following tables, "FVTPL" indicates financial investments classified at fair value through profit or loss and "AFS" indicates financial investments classified as available-for-sale.

In compiling the tables, external ratings have been used where available. The following conventions have been adopted to conform the ratings of the various rating agencies.

Standard and Poor's	Moody's	Reported as
AAA	Aaa	AAA
AA+ to AA-	Aa1 to Aa3	AA
A+ to A-	A1 to A3	A
BBB+ to BBB-	Baa1 to Baa3	BBB
BB+ and below	Ba1 and below	Below investment grade

19. FINANCIAL ASSETS (continued)

19.1 Available-for-sale financial assets

Debt securities

US$'000
31 December 2017

		Policyholder and shareholder				Total
	Rating	Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Government bonds - issued in local currency						
United States	AAA	54,901	600,880	-	184,692	840,473
Sub-total		54,901	600,880	-	184,692	840,473
Government bonds - issued in foreign currency						
United States	AAA	-	-	-	599	599
South Korea	AA	8,870	-	-	212	9,082
Qatar	AA	2,899	17,247	-	2,243	22,389
United Arab Emirates	AA	-	-	-	394	394
China	A	1,390	5,505	-	198	7,093
Japan	A	-	-	-	297	297
Saudi Arabia	A	43,025	14,831	-	200	58,056
Indonesia	BBB	772	14,508	-	-	15,280
Sub-total		56,956	52,091	-	4,143	113,190
Government agency bonds[1]						
AAA		670	15,455	-	6,128	22,253
AA		21,812	33,215	-	20,305	75,332
A		11,873	10,150	-	2,470	24,493
Sub-total		34,355	58,820	-	28,903	122,078
Corporate bonds						
AAA		3,351	9,611	-	338	13,300
AA		85,076	159,432	540	47,834	292,882
A		1,538,975	1,310,143	-	139,889	2,989,007
BBB		1,789,622	900,762	-	50,637	2,741,021
Below investment grade		2,010	11,925	-	18,339	32,274
Not rated		-	-	-	1,065	1,065
Sub-total		3,419,034	2,391,873	540	258,102	6,069,549
Equity securities						
Equity shares - Listed		-	140,347	-	43,250	183,597
Equity shares - Unlisted		255,899	69,934	-	16,023	341,856
Interest in investment funds		175,866	26,226	-	11,744	213,836
Sub-total		431,765	236,507	-	71,017	739,289
Others						
Certificate of deposits		-	-	-	20,578	20,578
Others		-	179	-	166	345
Sub-total		-	179	-	20,744	20,923
Total Available-for-sale financial assets		3,997,011	3,340,350	540	567,601	7,905,502

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

19. FINANCIAL ASSETS (continued)

19.1 Available-for-sale financial assets (continued)

Debt securities

US$'000
31 December 2016

	Rating	Policyholder and shareholder				Total
		Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Government bonds - issued in local currency						
Hong Kong	AAA	-	22,041	263	10,492	32,796
United States	AA	419,529	613,422	-	334,514	1,367,465
Sub-total		419,529	635,463	263	345,006	1,400,261
Government bonds - issued in foreign currency						
South Korea	A	11,332	3,158	-	1,028	15,518
Qatar	AA	2,980	16,812	-	2,331	22,123
Netherlands	AA	7,212	4,086	-	1,385	12,683
China	AA	4,949	8,381	-	1,061	14,391
Cayman Islands	AA	6,416	4,055	-	2,433	12,904
Singapore	AAA	625	14,413	-	4,532	19,570
Saudi Arabia	A	13,898	6,572	-	192	20,662
Malaysia	A	4,829	-	-	-	4,829
Indonesia	BBB	733	13,560	-	-	14,293
Sub-total		52,974	71,037	-	12,962	136,973
Government agency bonds(1)						
AAA		-	-	-	1,449	1,449
AA		-	9,301	-	745	10,046
A		-	-	-	251	251
Sub-total		-	9,301	-	2,445	11,746
Corporate bonds						
AAA		17,075	23,442	554	7,673	48,744
AA		133,328	217,434	6,665	46,686	404,113
A		1,335,178	1,215,210	-	114,655	2,665,043
BBB		1,089,581	664,900	2,634	41,874	1,798,989
Below investment grade		48,223	17,356	-	15,502	81,081
Not rated		-	-	-	835	835
Sub-total		2,623,385	2,138,342	9,853	227,225	4,998,805
Equity securities						
Equity shares - Listed		-	86,087	-	75,571	161,658
Equity shares - Unlisted		80,866	60,600	-	8,839	150,305
Interest in investment funds		165,177	26,673	-	-	191,850
Sub-total		246,043	173,360	-	84,410	503,813
Others						
Certificate of deposits		-	-	-	21,680	21,680
Others		-	181	-	165	346
Sub-total		-	181	-	21,845	22,026
Total Available-for-sale financial assets		3,341,931	3,027,684	10,116	693,893	7,073,624

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

19. FINANCIAL ASSETS (continued)

19.1 Available-for-sale financial assets (continued)

During the year, the gross change in fair value in respect of the Group's available-for-sale financial assets recognized in other comprehensive income amounted to an increase of US$284,356,000 (2016: a decrease of US$26,466,000). Net realized gains of US$13,444,000 (2016: net realized gains of US$22,109,000) with impairment loss of US$1,603,000 (2016: impairment loss of US$9,786,000) were reclassified from other comprehensive income to profit or loss.

Bonds of US$164,662,000 and investment funds of US$11,745,000 (December 2016: bonds of US$149,259,000) were used to guarantee the insurance reserves at 31 December 2017 as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

19. FINANCIAL ASSETS (continued)

19.2 Financial assets at fair value through profit or loss

Debt securities

US$'000 31 December 2017		Policyholder and shareholder Deposit administration	Investment-Linked	Total
Government bonds				
- issued in foreign currency				
Qatar	AA	169	-	169
Sub-total		169	-	169
Government agency bonds[1]				
AAA		447	-	447
AA		7,142	-	7,142
A		406	-	406
Sub-total		7,995	-	7,995
Corporate bonds				
AA		32,462	-	32,462
A		46,564	-	46,564
BBB		2,840	-	2,840
Sub-total		81,866	-	81,866

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

Equity securities

US$'000 31 December 2017	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Equity shares - Listed	16,308	-	16,308
Equity shares - Unlisted	100,824	-	100,824
Interest in investment funds	-	901,344	901,344
Sub-total	117,132	901,344	1,018,476
Total financial assets at fair value through profit or loss	207,162	901,344	1,108,506

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

19. FINANCIAL ASSETS (continued)

19.2 Financial assets at fair value through profit or loss (continued)

Debt securities

US$'000 31 December 2016		Policyholder and shareholder Deposit administration	Investment-Linked	Total
Government bonds				
- issued in local currency				
Hong Kong	AAA	2,729	-	2,729
Sub-total		2,729	-	2,729
Government bonds				
- issued in foreign currency				
South Korea	A	423	-	423
Qatar	AA	140	-	140
China	AA	329	-	329
Cayman Islands	AA	239	-	239
Sub-total		1,131	-	1,131
Government agency bonds(1)				
AAA		376	-	376
AA		373	-	373
Sub-total		749	-	749
Corporate bonds				
AAA		2,822	-	2,822
AA		28,154	-	28,154
A		32,747	-	32,747
BBB		1,102	-	1,102
Sub-total		64,825	-	64,825

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

Equity securities

US$'000 31 December 2016	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Equity shares - Listed	12,112	-	12,112
Equity shares - Unlisted	49,720	-	49,720
Interest in investment funds	-	754,959	754,959
Sub-total	61,832	754,959	816,791
Total financial assets at fair value through profit or loss	131,266	754,959	886,225

All financial assets at fair value through profit or loss at 31 December 2016 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

19. FINANCIAL ASSETS (continued)

19.3 Loans and receivables

US$'000	31 December 2017	31 December 2016
Policy loans	64,347	65,422
Secured loans	15,014	16,267
Accreting deposits	67,205	63,879
Provision for impairment	(483)	(470)
At end of year	146,083	145,098

Policy loans are stated at amortized cost, are interest-bearing at market interest rates 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 policy loans bear interest at 9% (2016: 9%) per annum.

Secured loans are carried at amortized cost less repayment and any impairment losses.

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

US$'000	31 December 2017	31 December 2016
At beginning of year	(470)	(592)
(Impairment)/Reversal of impairment charged for the year	(13)	122
At end of year	(483)	(470)

The above provision for impairment of secured loans is a provision for individually impaired loans related to agents in default or delinquent in repayment. The gross amount of the loans was US$15,014,000 (2016: US$16,267,000) with a carrying amount of US$14,531,000 (2016: US$15,797,000).

Accreting deposits are carried at amortized cost less any impairment losses.

The carrying amounts of loans and receivables approximate their fair values.

19.4 Derivative financial investments

The Group had the following derivative financial instruments outstanding as at the end of the reporting year.

US$'000	Contract/notional Amount	Carrying Amount Assets	Carrying Amount Liabilities
31 December 2017	6,154,532	3,447	12,520
31 December 2016	2,369,726	1,408	11,873

Derivatives assets and derivative liabilities are recognized in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities, respectively. The carrying amounts of the derivative financial instruments are equal to their fair values and all derivatives are classified as current. The Group's derivative contracts are foreign exchange swaps and foreign exchange forwards, which provide an economic hedge for the Group's foreign exchange risk exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the table above reflect the aggregate of individual derivative positions on a gross basis to give an indication of the overall scale of derivative transactions. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

20. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2017

Financial assets

US$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	20,923	146,083	167,006
Debt securities	90,030	7,145,290	-	7,235,320
Equity securities	1,018,476	739,289	-	1,757,765
Derivative financial instruments	3,447	-	-	3,447
Deposits and other assets	-	-	93,510	93,510
Insurance receivables	-	-	73,857	73,857
Due from related parties	-	-	2,607	2,607
Cash and cash equivalents	-	-	729,694	729,694
	1,111,953	7,905,502	1,045,751	10,063,206

Financial liabilities

US$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Investment contract liabilities	359,827	-	359,827
Due to related parties	-	82,365	82,365
Borrowings	-	420,999	420,999
Derivative financial instruments	12,520	-	12,520
Insurance and other liabilities	-	155,314	155,314
	372,347	658,678	1,031,025

20. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2016

Financial assets

US$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	22,026	145,098	167,124
Debt securities	69,434	6,547,785	-	6,617,219
Equity securities	816,791	503,813	-	1,320,604
Derivative financial instruments	1,408	-	-	1,408
Deposits and other assets	-	-	72,832	72,832
Insurance receivables	-	-	82,822	82,822
Due from related parties	-	-	3,336	3,336
Cash and cash equivalents	-	-	359,210	359,210
	887,633	7,073,624	663,298	8,624,555

Financial liabilities

US$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Investment contract liabilities	345,292	-	345,292
Due to related parties	-	51,250	51,250
Borrowings	-	420,461	420,461
Derivative financial instruments	11,873	-	11,873
Insurance and other liabilities	-	164,528	164,528
	357,165	636,239	993,404

The carrying amounts of financial assets and financial liabilities at amortized cost approximate to their fair values, except for borrowings which have a fair value of US$443,667,000 (2016: US$435,036,000).

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of loans and receivables, deposits and other assets, insurance receivables, amounts due from related parties, cash and cash equivalents, amounts due to related parties, insurance and other liabilities 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 value.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair values of unlisted private equity funds are based on the reported NAV in their audited financial statements. Management has obtained the audited financial statements 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 Group from disposing the investments, the Group'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. At 31 December 2017 and 31 December 2016, no reported NAV is adjusted. The directors believe that the fair values resulting from the reported NAV, which are recorded in the consolidated 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.

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

22. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Assets measured at fair value:

31 December 2017

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	19.1	1,238,213	6,325,394	341,895	7,905,502
Financial assets at fair value through profit or loss	19.2	917,652	90,030	100,824	1,108,506
Derivative financial instruments	19.4	-	3,447	-	3,447
		2,155,865	6,418,871	442,719	9,017,455

31 December 2016

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	19.1	1,732,047	5,191,232	150,345	7,073,624
Financial assets at fair value through profit or loss	19.2	767,071	72,147	47,007	886,225
Derivative financial instruments	19.4	-	1,408	-	1,408
		2,499,118	5,264,787	197,352	7,961,257

22. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value:

31 December 2017

US$'000	Notes	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivative financial instruments	19.4	-	12,520	-	12,520
		-	12,520	-	12,520

31 December 2016

US$'000	Notes	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivative financial instruments	19.4	-	11,873	-	11,873
		-	11,873	-	11,873

Liabilities for which fair values are disclosed:

31 December 2017

US$'000	Notes	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Borrowings	20	342,384	101,283	-	443,667
		342,384	101,283	-	443,667

31 December 2016

US$'000	Notes	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Borrowings	20	335,816	99,220	-	435,036
		335,816	99,220	-	435,036

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

US$'000	31 December 2017	31 December 2016
Financial assets - unlisted		
At beginning of year	197,352	127,112
Impairment charged for the year	(1,291)	(79)
Fair value change recognized through profit or loss	(2,450)	(2,183)
Fair value change recognized in other comprehensive income	30,724	(8,143)
Purchases/(Disposals)	218,384	80,645
At end of year	442,719	197,352

During the year, there were no transfers of financial instruments between Level 1 and Level 2, and no transfers into or out of Level 3.

23. INVESTMENTS IN ASSOCIATE AND JOINT VENTURE

On 3 February 2016, the Group acquired a 44% interest in the ordinary share capital of AMG Financial Group Limited ("AMG Financial"). The purchase consideration for the investment was US$10,030,000. AMG Financial is a private entity that provides wealth management and financial advisory services focused in the Greater China Region. The Group's interest in AMG Financial, as an associate, is accounted for using the equity method in the consolidated financial statements.

On 28 April 2017, the Group acquired a 50% interest in the ordinary share capital of One George Street LLP ("OGS LLP"). The purchase consideration for the investment was US$230,896,000. OGS LLP is a private entity that owns and develops real estate properties in Singapore. Considering all facts and circumstances, the Group concluded it has joint control over OGS LLP. The Group's interest in OGS LLP, as a joint venture, is accounted for using the equity method in the consolidated financial statements.

The following table shows the Group's carrying amounts of investments in associate and joint venture:

US$'000	Notes	31 December 2017	31 December 2016
AMG Financial		8,194	9,380
OGS LLP	23(a)	241,237	-
		249,431	9,380
The Group's share of post-acquisition losses in AMG Financial		(1,118)	(654)
The Group's share of post-acquisition other comprehensive income in AMG Financial		(68)	-
		(1,186)	(654)
The Group's share of post-acquisition profits in OGS LLP	23(a)	4,942	-
The Group's share of post-acquisition other comprehensive income in OGS LLP	23(a)	7,707	-
		12,649	-
The Group's share of post-acquisition total comprehensive income		11,463	(654)

(a) OGS LLP

Summarized statement of financial position of OGS LLP:

	31 December 2017
Assets	858,894
Liabilities	(453,056)
Equity	405,838
Group's share in equity – 50%	202,919
Goodwill	38,318
Group's carry amount of the investment in OGS LLP	241,237

Summarized statement of financial position of OGS LLP:

	31 December 2017
Revenue	19,576
Expenses	(9,692)
Profit for the year	9,884
Other comprehensive income for the year	15,414
Total comprehensive income for the year	25,298
Group's share of total comprehensive income for the year – 50%	12,649

24. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

US$'000	31 December 2017	31 December 2016
Accounts receivable	3,027	1,933
Accrued investment income	71,512	60,638
Deposits	5,242	4,357
Investment receivable	11,262	5,134
Prepayments	12,072	10,189
Other assets	2,467	770
Total prepayments, deposits and other assets	105,582	83,021

25. INSURANCE RECEIVABLES

US$'000	31 December 2017	31 December 2016
Due from policyholders	63,182	51,250
Due from reinsurers	10,675	31,542
Premium deposit fund under reinsurance arrangement	-	30
Total insurance receivables	73,857	82,822
Current insurance receivables	73,857	82,822

The amounts due from policyholders represent premiums due for payment. No provision for impairment is necessary as the policy terminates and becomes void if and when the total indebtedness on the policy exceeds its cash surrender value.

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.

Premium deposit fund under reinsurance arrangement represents a 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 policy anniversary.

The carrying amounts of insurance receivables approximate their fair values.

26. CASH AND CASH EQUIVALENTS

US$'000	31 December 2017	31 December 2016
Time deposits	161,666	40,114
Savings accounts	344,724	239,029
Current accounts	223,298	80,060
Cash on hand	6	7
	729,694	359,210
Cash and cash equivalents attributable to discontinued operation	28,496	16,084
	758,190	375,294
Less: Pledged time deposits	(14,198)	(12,239)
Cash and cash equivalents	743,992	363,055

Time deposits of US$14,198,000 (2016: US$12,239,000) were used to guarantee the insurance reserve as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

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 six months depending on the immediate cash requirements of the Group, 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 37 to the financial statements.

27. INSURANCE CONTRACT LIABILITIES

US$'000		31 December 2017		
	Notes	Insurance contract liabilities	Reinsurance contract assets	Net
Life insurance contracts	(a)	10,118,037	(1,309,215)	8,808,822
Non-life insurance contracts	(b)	76,896	(12,600)	64,296
Total insurance contract liabilities		10,194,933	(1,321,815)	8,873,118

US$'000		31 December 2016		
	Notes	Insurance contract liabilities	Reinsurance contract assets	Net
Life insurance contracts	(a)	8,829,326	(1,152,874)	7,676,452
Non-life insurance contracts	(b)	74,999	(10,965)	64,034
Total insurance contract liabilities		8,904,325	(1,163,839)	7,740,486

(a) Life insurance contract liabilities

US$'000		31 December 2017		
	Notes	Insurance contract liabilities	Reinsurance contract assets	Net
Insurance contract liabilities other than coinsurance arrangements	(i)	9,314,136	(500,475)	8,813,661
Coinsurance arrangements	(ii)	803,901	(808,740)	(4,839)
Total life insurance contract liabilities		10,118,037	(1,309,215)	8,808,822

US$'000		31 December 2016		
	Notes	Insurance contract liabilities	Reinsurance contract assets	Net
Insurance contract liabilities other than coinsurance arrangements	(i)	8,097,425	(409,733)	7,687,692
Coinsurance arrangements	(ii)	731,901	(743,141)	(11,240)
Total life insurance contract liabilities		8,829,326	(1,152,874)	7,676,452

27. INSURANCE CONTRACT LIABILITIES (continued)

The movement of insurance contract liabilities and reinsurance contract assets under life insurance contracts is as follows:

(i) Insurance contract liabilities other than coinsurance arrangements:

US$'000	31 December 2017		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2017	8,097,425	(409,733)	7,687,692
Valuation premiums and deposits received	1,491,237	(84,290)	1,406,947
Expected investment return	130,903	(5,615)	125,288
Liabilities released for deaths, maturities, surrenders and other benefit payments	(648,543)	28,059	(620,484)
Fees deducted	(79,539)	163	(79,376)
Interest accrued and change in unit price	301,273	(9,711)	291,562
Foreign exchange movements	-	-	-
Other movement	21,380	(19,348)	2,032
At 31 December 2017	9,314,136	(500,475)	8,813,661

US$'000	31 December 2016		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2016	6,298,559	(360,435)	5,938,124
Valuation premiums and deposits received	2,006,177	(73,646)	1,932,531
Expected investment return	114,284	(5,525)	108,759
Liabilities released for deaths, maturities, surrenders and other benefit payments	(347,161)	16,061	(331,100)
Fees deducted	(77,893)	851	(77,042)
Interest accrued and change in unit price	121,240	(8,394)	112,846
Foreign exchange movements	-	(9)	(9)
Other movement	(17,781)	21,364	3,583
At 31 December 2016	8,097,425	(409,733)	7,687,692

27. INSURANCE CONTRACT LIABILITIES (continued)

(ii) Coinsurance arrangements

US$'000	31 December 2017		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2017	731,901	(743,141)	(11,240)
Reserves ceded for policies inforce on 1 January 2017	-	-	-
Premium received	-	(114,186)	(114,186)
Funds withheld	77,774	-	77,774
Expected investment return	-	(33,132)	(33,132)
Liabilities released for deaths, maturities, surrenders and other benefit payments	-	69,754	69,754
Other movement	(5,774)	11,965	6,191
At 31 December 2017	803,901	(808,740)	(4,839)

US$'000	31 December 2016		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2016	-	(17,344)	(17,344)
Reserves ceded for policies inforce on 1 January 2016	-	(669,822)	(669,822)
Premium received	-	(95,334)	(95,334)
Funds withheld	731,901	-	731,901
Expected investment return	-	(25,725)	(25,725)
Liabilities released for deaths, maturities, surrenders and other benefit payments	-	14,400	14,400
Other movement	-	50,684	50,684
At 31 December 2016	731,901	(743,141)	(11,240)

27. INSURANCE CONTRACT LIABILITIES (continued)

Business description

The table below summarizes the key variables underlying life insurance and investment contract cash flows.

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends, the timing or amount of which is at the discretion of the insurer taking into account factors such as investment experience.	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations.	· Investment performance · Expenses · Mortality · Lapses · Morbidity · Dividend / bonus rates
Traditional non-participating life	Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer.	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole.	· Mortality · Morbidity · Lapses · Expenses
Accident and health non-participating	These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover.	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole.	· Mortality · Morbidity · Lapses · Expenses
Investment-linked	Investment-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitized funds.	Benefits are based on the value of the unitized funds and death and living benefits.	· Investment performance · Lapses · Partial withdrawals · Premium holidays · Expenses · Mortality · Morbidity
Universal Life	Universal Life contracts combine savings with protection. Account balances are credited with interest at a rate set by the insurer.	Benefits are based on the account balance and death and living benefits.	· Investment performance · Crediting rates · Lapses · Partial withdrawals · Premium holidays · Expenses · Mortality · Morbidity

27. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions
The most significant items impacting profit or loss for the period and shareholders' equity are market, insurance and lapse risks, as shown in the table below. Indirect exposure indicates that there is a second-order impact. For example, while the profit or loss for the period attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders, there is a second-order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being "net neutral", this is because the exposure to market and credit risk is offset by a corresponding movement in insurance contract liabilities.

	Market and credit risk			
	Direct exposure			
Type of contract	Insurance and investment contract liabilities	Risks associated with related investment portfolio	Indirect exposure	Significant insurance and lapse risks
Traditional participating life assurance with DPF	· Net neutral except for the insurer's share of participating investment performance · Guarantees	· Net neutral except for the insurer's share of participating investment performance	· Investment performance	· Persistency · Mortality · Morbidity
Traditional non-participating life assurance	· Investment performance · Asset-liability mismatch risk	· Asset-liability mismatch risk · Credit Risk · Investment performance	· Not applicable	· Mortality · Morbidity · Persistency
Accident and health non-participating	· Loss ratio · Asset-liability mismatch risk	· Investment performance · Credit risk · Asset-liability mismatch risk	· Not applicable	· Morbidity · Persistency
Pension	· Net neutral except minimum crediting rate is zero · Asset-liability mismatch risk	· Net neutral except minimum crediting rate is zero · Asset-liability mismatch risk	· Performance related investment management fees	· Persistency
Investment-Linked	· Net neutral	· Net neutral	· Performance-related investment management fees	· Mortality · Persistency · Partial withdrawals · Premium holidays
Universal Life	· Guarantees · Asset-liability mismatch risk	· Investment performance · Credit risk · Asset-liability mismatch risk	· Spread between earned rate and crediting rate to policyholders	· Mortality · Persistency · Partial withdrawals · Premium holidays

The Group is also exposed to currency risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

27. INSURANCE CONTRACT LIABILITIES (continued)

(b) Non-life insurance contracts

The movement of non-life insurance liabilities is as follows:

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		30,933	(4,487)	26,446
Provision for claims incurred but not reported ("IBNR")		13,975	(2,533)	11,442
Total claims reported and IBNR	(i)	44,908	(7,020)	37,888
Provision for unearned premiums	(ii)	31,988	(5,580)	26,408
Total non-life insurance contract liabilities		76,896	(12,600)	64,296

US$'000	Notes	31 December 2016 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		29,456	(4,232)	25,224
Provision for claims incurred but not reported ("IBNR")		12,434	(2,063)	10,371
Total claims reported and IBNR	(i)	41,890	(6,295)	35,595
Provision for unearned premiums	(ii)	33,109	(4,670)	28,439
Total non-life insurance contract liabilities		74,999	(10,965)	64,034

(i) The provision for claims reported by policyholders and IBNR is as follows:

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2017		41,890	(6,295)	35,595
Claims incurred in the year		35,864	(18,121)	17,743
Claims recovered/(paid) during the year	9	(32,527)	17,347	(15,180)
Foreign exchange movements		(319)	49	(270)
31 December 2017		44,908	(7,020)	37,888

US$'000	Notes	31 December 2016 Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2016		34,783	(3,398)	31,385
Claims incurred in the year		36,905	(19,674)	17,231
Claims recovered/(paid) during the year	9	(29,782)	16,778	(13,004)
Foreign exchange movements		(16)	(1)	(17)
31 December 2016		41,890	(6,295)	35,595

27. INSURANCE CONTRACT LIABILITIES (continued)

(ii) The provision for unearned premiums is as follows:

US$'000		31 December 2017		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2017		33,109	(4,670)	28,439
Premiums written in the year	6	62,090	(30,505)	31,585
Premiums earned during the year		(62,952)	29,548	(33,404)
Foreign exchange difference		(259)	47	(212)
31 December 2017		31,988	(5,580)	26,408

US$'000		31 December 2016		
	Notes	Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2016		27,577	(2,622)	24,955
Premiums written in the year	6	67,027	(29,383)	37,644
Premiums earned during the year		(61,485)	27,338	(34,147)
Foreign exchange difference		(10)	(3)	(13)
31 December 2016		33,109	(4,670)	28,439

28. INVESTMENT CONTRACT LIABILITIES

US$'000	Notes	31 December 2017 Gross and net investment contract liabilities	31 December 2016 Gross and net investment contract liabilities
Investment contract liabilities with DPF	(a)	158,819	158,123
Investment contract liabilities without DPF	(b)	201,008	187,169
Total investment contract liabilities		359,827	345,292

The movement of investment contract liabilities is as follows:

(a) Investment contract liabilities with DPF

Gross and net investment contract liabilities	31 December 2017	31 December 2016
At beginning of year	158,123	404,839
Premium received	5,641	6,166
Surrenders and withdrawals	(12,889)	(9,557)
Interest accrued and change in unit price	5,617	5,702
Liabilities included in discontinued operations	-	(272,219)
Others	2,327	23,192
At end of year	158,819	158,123

(b) Investment contract liabilities without DPF

Gross and net investment contract liabilities	31 December 2017	31 December 2016
At beginning of year	187,169	298,746
Premium received	-	-
Surrenders and withdrawals	(17,011)	(21,338)
Net investment income	243	246
Expenses	-	-
Interest accrued and change in unit price	31,846	(2,895)
Liabilities included in discontinued operations	-	(87,320)
Others	(1,239)	(270)
At end of year	201,008	187,169

29. BORROWINGS

US$'000

	31 December 2017	31 December 2016
Medium Term Notes	420,999	420,461
Total borrowings	420,999	420,461

FWD Limited issued a 10-year senior unsecured note at nominal amount of US$325,000,000 in September 2014. The note, due 2024, bears interest at 5.00% per annum. The note is listed on The Stock Exchange of Hong Kong Limited.

FWD Limited further issued an 8-year senior unsecured note at nominal amount of US$100,000,000 in May 2015. The note, due 2023, bears interest at 4.15% per annum. The note is listed on the Irish Stock Exchange.

The fair value of borrowings has been estimated based on the market quoted prices or prices obtained from brokers.

Finance costs in 2017 were US$21,091,000 (2016: US$21,066,000).

The Group's total borrowings at 31 December 2017 were US$420,999,000 (2016: US$420,461,000). The net increase of US$538,000 in the carrying amount during 2017 consists of US$20,553,000 of interest payment, by cash and cash equivalents of the bank credit facilities, and US$21,091,000 of non-cash increase due to amortization using the effective interest rate method.

30. INSURANCE AND OTHER LIABILITIES

US$'000

	31 December 2017	31 December 2016
Accounts payable	70	69
Accrued commissions	66,575	66,270
Accrued expenses	22,919	31,390
Accrued agent expenses	32,852	27,636
Insurance payables	5,648	3,457
Investment creditors	7,559	12,591
Others	18,241	22,383
Tax payable	1,450	732
Total insurance and other liabilities	155,314	164,528

The carrying amounts of the insurance and other liabilities approximate to their fair values.

31. SHARE CAPITAL AND RESERVES

(1) Share capital

US$'000

	31 December 2017	31 December 2016
Authorized,		
2,000,000,000 ordinary shares of US$0.01 each	20,000	20,000
500,000,000 preference shares of US$0.01 each	5,000	5,000
	25,000	25,000
Issued and fully paid,		
18,790,625 (2016: 18,671,205) ordinary shares of US$0.01 each	188	187
9,783,055 (2016: 8,202,225) preference shares of US$0.01 each	98	82
	286	269

During the year, the movements in share capital and share premium were as follows:

	Issued capital	Share premium
(a) Ordinary shares issued and fully paid		
Issuance of 10 ordinary shares of US$1 each on 13 December 2012	-	-
Issuance of 18,486,630 ordinary shares of US$1 each on 27 February 2013	18,487	1,830,176
Surrender of 18,301,773.6 ordinary shares of US$1 each on 10 December 2013	(18,302)	-
Sub-division of 184,866.4 ordinary shares of US$1 each to 18,486,640 ordinary shares of US$0.01 each on 10 December 2013	-	-
Issuance of 100,000 ordinary shares of US$0.01 each on 5 June 2015	1	7,668
Issuance of 50,000 ordinary shares of US$0.01 each on 29 Jan 2016	1	3,834
Issuance of 34,565 ordinary shares of US$0.01 each on 29 July 2016	0	2,651
31 December 2016	187	1,844,329
Issuance of 50,000 ordinary shares of US$0.01 each on 28 July 2017	0	3,834
Issuance of 69,420 ordinary shares of US$0.01 each on 6 December 2017	1	5,324
31 December 2017	188	1,853,487
(b) Preference shares issued and fully paid		
13 December 2012	-	-
Issuance of 2,601,634 preference shares of US$0.01 each on 10 December 2013	26	-
Issuance of 5,600,591 preference shares of US$0.01 each on 19 August 2015	56	-
31 December 2016	82	-
Issuance of 1,264,672 preference shares of US$0.01 each on 23 February 2017	13	-
Issuance of 316,158 preference shares of US$0.01 each on 11 May 2017	3	-
31 December 2017	98	-
31 December 2017	286	1,853,487

31. SHARE CAPITAL AND RESERVES (continued)

(1) Share capital (continued)

Each preference share in the Company issued and outstanding is entitled to the same voting rights as each ordinary share in the Company.

In the event of an initial public offering of the Company, the preference shares shall be converted into ordinary shares in the Company at a ratio of 1:1.

The preference shares rank pari passu with all other shares in the Company on any payment of dividend or distribution or return of capital (other than on a liquidation event). If a liquidation event occurs, the assets of the Company available for distribution amongst the shareholders shall be applied to pay the preference shareholders (in priority to any payment to the holders of any other class of shares in the capital of the Company) with the amount equal to the subscription price paid minus the preferential distributions received by the preference shareholders.

(2) Direct capital instrument

FWD Limited issued a direct capital instrument (“DCI”) on 17 January 2017. The DCI is a subordinated perpetual capital security for a nominal amount of US$250,000,000. The DCI confers a right to receive distributions (the “Distributions”) semi-annually in arrears on 24 January and 24 July of each year (the “Distribution Payment Dates”). The DCI is listed on The Stock Exchange of Hong Kong Limited.

The Company may, at its sole option, defer the Distributions on the DCI by giving notice to the DCI holders not more than ten nor less than five business days prior to a Distribution Payment Date. Any Distributions deferred are cumulative and compounding and in the event of any Distribution deferral, the Group cannot declare or pay any dividend on its ordinary or preference share capital. The DCI has been treated as equity in its entirety in the consolidated statement of financial position.

The DCI has no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the principal amount on 24 January 2022, or at any Distribution Payment Date following 24 January 2022.

During the year, the Group paid US$7,813,000 (2016: nil) for Distributions on the DCI.

(3) Reserves

(a) Share-based payment reserve
The share-based payment reserve comprises the outstanding reserve for the share-based compensation plan.

(b) Legal reserve
The legal reserve has been established to fulfill the requirement of Article 60 of the Decree-Law No. 32/93/M of 30 July 1993 of Macau.

(c) Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative gain or loss on the hedging instrument from inception of the cash flow hedge.

(d) Available-for-sale financial assets revaluation reserve
The available-for-sale financial assets revaluation reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

(e) Capital redemption reserve
The capital redemption reserve represents the non-distributable reserve for paid up share capital.

(f) Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

32. SUBSIDIARIES

Particulars of the Group's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Percentage of equity attributable to the Company		Principal activities
		Direct	Indirect	
FWD Financial Services Pte. Limited.	Singapore	100	-	Investment holding
FWD Management Holdings Limited	Hong Kong	-	100	Investment holding
FWD Life Insurance Company (Bermuda) Limited	Bermuda/ Hong Kong	45	55	Life Insurance
FWD Life Insurance Company (Macau) Limited	Macau	-	100	Life Insurance
FWD General Insurance Company Limited	Hong Kong	-	100	General Insurance
FWD Financial Planning Limited	Hong Kong	-	100	Investment Advisory
FWD Vietnam Life Insurance Company Limited	Vietnam	-	100	Life Insurance

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included above.
The percentage of total direct and indirect equity attributable to the Group in each of the above subsidiaries was the same at both 31 December 2017 and 31 December 2016.

33. COMMITMENTS

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

US$'000	31 December 2017	
	Lowest	Highest
Within one year	34,550	36,445
In the second to fifth years, inclusive	111,379	119,384
Over five years	31,683	31,683
	177,612	187,512

US$'000	31 December 2016	
	Lowest	Highest
Within one year	33,231	33,231
In the second to fifth years, inclusive	119,864	114,750
Over five years	50,164	50,163
	203,259	198,144

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 market conditions.

34. RELATED PARTY TRANSACTIONS

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

Key management personnel of the Group are those that have the authority and responsibility for planning, directing and controlling the activities of the Group. Directors (both executive and non-executive) and senior management are considered key personnel. Accordingly, the summary of compensation of key management personnel is as follows.

US$'000	Year ended 31 December 2017	Year ended 31 December 2016
Short-term employee benefits	9,185	9,339
Post-employment benefits	204	180
Share-based payment	12,490	16,390
Other long-term benefits	799	4,870
Total compensation paid and payable to key management personnel	22,678	30,779

(b) Transactions with related parties:

The Group has transactions with certain related companies and these consolidated financial statements reflect the effect of these transactions which are conducted in accordance with terms mutually agreed between the parties.

(I) In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following related party transactions during the year.

(i) The Group charged US$4,406,000 (2016: US$2,897,000) to a related party for provision of IT, HR and other building-related services and incurred US$3,768,000 (2016: US$4,422,000) for administration, consultancy and management services provided by the related party.

(ii) Related companies charged US$13,344,000 (2016: US$12,322,000) for the provision of telecommunication and investment advisory services and US$1,391,000 (2016: US$849,000) for brand licensing fees to the Group.

(iii) The Group has underwritten various group insurance contracts with related companies. The total premium revenue from those contracts for the year was US$1,836,000 (2016: US$1,676,000).

(II) As disclosed in the consolidated statements of financial position, the Group had amounts due from related companies of US$2,607,000 (2016: US$3,336,000) as at the end of the reporting year. The amounts due are unsecured, interest-free and payable on demand.

(III) As disclosed in the consolidated statements of financial position, the Group had outstanding advances payable to related companies of US$82,365,000 (2016: US$51,250,000) as at the end of the reporting year. The advances are unsecured, interest-free and payable on demand.

35. SHARE-BASED COMPENSATION

Share-based compensation plans

The Group operates a share award plan that provides FWD Limited shares to participants upon vesting. Eligible employees 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 a conditional allocation of shares. These share awards have vesting periods of up to four 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. 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.

The following table shows the movement in outstanding awards under the Group's share-based compensation plans:

Number of shares	December 2017	December 2016
At beginning of year	750,000	850,000
Granted during the year	93,750	-
Vested during the year	(119,420)	(84,565)
Forfeited during the year	(30,580)	(15,435)
At end of year	693,750	750,000

The share award plan is subject to local regulatory approval.

Valuation methodology
To calculate the fair value of the share awards with performance conditions, the Group utilizes an appraisal value methodology (Embedded Value plus a multiple of Value of New Business) 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 total fair value of share awards granted during the year ended 31 December 2017 is US$7,783,000 (2016: nil).

Recognized compensation cost
The fair value of the employee services received in exchange for the grant of shares 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 consolidated financial statements related to share-based compensation awards granted under the share award plan by the Group for the year ended 31 December 2017 is US$12.5 million (2016: US$16.4 million).

36. GROUP CAPITAL STRUCTURE

Capital Management

The Group's capital management objective is focused on maintaining a strong capital base to safeguard the Group's ability to continue as a going concern, to support the development of the business, maximize shareholders' value and to ensure that the Group complies with regulatory capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

Regulatory Solvency

The Group complied with all regulatory capital requirements during the year. The primary insurance regulators for the Group's subsidiaries are:

Subsidiary	Primary insurance regulator	Solvency regulation
FWD Life Insurance Company (Bermuda) Limited	Independent Insurance Authority (IIA)	Hong Kong Insurance Ordinance (HKICO)
FWD General Insurance Company Limited	Independent Insurance Authority (IIA)	Hong Kong Insurance Ordinance (HKICO)
FWD Vietnam Life Insurance Company Limited	Insurance Supervisory Authority	Circular 125 issued by Vietnam Ministry of Finance (MoF)

The capital positions of the Group's principal operating companies at 31 December 2017 and 31 December 2016 are as follows:

31 December 2017 US$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	821,141	304,802	269%
FWD General Insurance Company Limited	34,852	6,348	549%
FWD Vietnam Life Insurance Company Limited	32,748	6,310	519%

31 December 2016 US$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	648,183	260,432	249%
FWD General Insurance Company Limited	37,401	6,385	586%
FWD Vietnam Life Insurance Company Limited	24,945	4,793	520%

The IIA (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Hong Kong. The IIA requires FWD Life Insurance Company (Bermuda) Limited and FWD General Insurance Company Limited to maintain an excess of assets over liabilities of not less than the required minimum solvency margin. The amount required under the HKICO is 100 per cent of the required minimum solvency margin.

The circular 50 issued by the Ministry of Finance of Vietnam (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Vietnam. It requires FWD Vietnam Life Insurance Company Limited to maintain a required minimum solvency margin of 100 per cent.

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

36. GROUP CAPITAL STRUCTURE (continued)

Capital and Regulatory Orders Specific to the Group

At 31 December 2017 and 31 December 2016, the requirements and restrictions summarized below may be considered material to the Group and remain in effect unless otherwise stated.

Independent Insurance Authority

Undertakings have been given to the IIA that:

(i) FWD Life Insurance Company (Bermuda) Limited will maintain and continue to maintain a solvency ratio target of 150 per cent to 200 per cent at all times and if the solvency ratio falls below the minimum target range, FWD Life Insurance Company (Bermuda) Limited will reinstate it within 90 days or a period of time as agreed with the IIA;

(ii) FWD General Insurance Company Limited will maintain and continue to maintain a solvency ratio target of 300% to 500% at all times and if the solvency ratio falls below the minimum target range, FWD General Insurance Company Limited will reinstate it within 90 days or a period of time as agreed with the IIA; and

(iii) Prior written consent from IIA will be obtained before declaring or paying dividends to shareholders.

37. RISK MANAGEMENT

Risk management framework

The Group's Risk Management Framework has been established for the identification, evaluation and management of the key risks faced by the organization within its stated Risk Appetite. The framework includes an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of financial and non-financial risks.

The Group issues contracts that transfer insurance risks, financial risks or both. The insurance risks and financial risks associated with the Group's operations and the Group's management of these risks are summarized below:

Insurance risks

(1) Life insurance contracts and investment contracts

Insurance risks comprise product design risk, underwriting and expense overrun risk, lapse risk and claims risk.

(a) Product design risk
Product design risk refers to potential defects in the development of a particular insurance product. The Group manages product design risk through its product approval process where products are reviewed against pricing, design and operational risk parameters. All new products and product enhancements are reviewed and approved by the Group Office.

The Group closely monitors the performance of new products and actively manages the product portfolio to minimize risks in the in-force book and new products. A portion of the Group's life insurance business is participating in nature. In the event of a volatile investment environment and/or unusual claims experience, the Group has the option of adjusting non-guaranteed bonuses and dividends payable to policyholders.

(b) Underwriting and expense overrun risk
Underwriting and expense overrun risk refers to the possibility of product-related income being inadequate to support future obligations arising from an insurance product. The Group manages underwriting risk by adhering to underwriting guidelines. Each operating unit maintains a team of professional underwriters who review and select risks that are consistent with the underwriting strategy of the Group. In certain circumstances where insufficient experience data is available, the Group makes use of reinsurers to obtain underwriting expertise. In pricing insurance products, the Group manages expense overrun risk by allowing for an appropriate level of expenses that reflects a realistic medium-to long-term view of the underlying cost structure. A disciplined expense budgeting and management process is followed to control expenses.

(c) Lapse risk
Lapse risk refers to the possibility that lapse experience diverges from that assumed when products were priced. It includes potential financial loss due to early termination of contracts where the acquisition costs incurred may not be recoverable from future revenue. The Group carries out regular reviews of persistency experience. In addition, many of the Group's products include surrender charges that entitle the Group to additional fees on early termination by the policyholder, thereby reducing exposure to lapse risk.

(d) Claims risk
Claims risk refers to the possibility that the frequency or severity of claims arising from insurance contracts exceeds the level assumed when the products were priced. The Group seeks to mitigate claims risk by conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs.

Reinsurance solutions are used to help reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophes. Although the Group 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.

37. RISK MANAGEMENT (continued)

Insurance risks

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

The Group's accounting policies lock in assumptions for traditional insurance contracts at policy inception and incorporate provisions for adverse deviation. As a result, the levels of movement illustrated in the table below do not result in loss recognition, and so there is no corresponding effect on liabilities. The table below shows the impact on profit before tax from changes in mortality, morbidity, investment return, expenses and lapse/discontinuance rates:

Impact on profit before tax US$'000	2017	2016
10% increase in mortality	(2,997)	(1,922)
10% increase in morbidity	(4,124)	(4,133)
1% decrease in investment return	(1,397)	(1,850)
10% increase in expenses	(11,912)	(12,041)
10% increase in lapse/discontinuance rates	(31,681)	(19,436)

(2) Non-life insurance contracts

The Group's non-life insurance business is diversified over seven classes of business. The Group has developed a robust underwriting framework to ensure that all risks accepted meet the guidelines and standards of the Group.

The Group's non-life insurance business is primarily derived from Hong Kong. Geographically, there is an inherent concentration of insurance risks in the Group's insurance portfolio. The Group has developed a reinsurance strategy to ensure that a prudent and appropriate reinsurance program is in place, which manages such concentration of insurance risks based on historical experience of loss frequency and severity of similar risks and in similar geographical zones. The primary objectives of the Group's reinsurance strategy include protection of shareholders' funds, reduction in volatility of the Group's underwriting result and diversified credit risk. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance strategy, ascertaining suitable allowance for impairment of reinsurance assets.

(i) Case estimates
For non-life insurance contracts, the case estimate for each reported claim is set up based on the best estimate of the ultimate claim settlement amount considering all the information available for the claim. The case estimate is revised from time to time according to the latest information available. When setting case estimates for larger claims, reference is made to the advice of independent consultants such as loss adjusters and solicitors where applicable.

(ii) Key assumptions
Generally accepted actuarial methodologies, such as chain-ladder and Bornhuetter-Ferguson methods, are used to project the ultimate claims by class of business. The Group's past experience and claim development patterns are important assumptions for such projections. Other assumptions include average claim costs, claims handling expenses and claims inflation. The projected ultimate claim amount may also be judgmentally adjusted by external factors such as prevailing trends in judicial decisions, the economic environment and relevant government legislation.

(iii) Sensitivities
Sensitivity analysis is performed to assess the effect of increasing the claim liabilities by 10% on the Group's net income and shareholders' equity.

In performing the sensitivity analysis, it is assumed that all reinsurance recoveries are recoverable.

37. RISK MANAGEMENT (continued)

Insurance risks (continued)

(2) Non-life insurance contracts (continued)

The table below shows the results of the sensitivity analysis:

US$'000	31 December 2017 Change in Assumptions %	Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
Insurance risks	+10%	3,577	1,770	(1,770)	(1,478)

US$'000	31 December 2016 Change in Assumptions %	Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
Insurance risks	+10%	3,689	1,725	(1,725)	(1,440)

* Impact on equity reflects adjustments for tax, when applicable.

37. RISK MANAGEMENT (continued)

Insurance risks (continued)

(2) Non-life insurance contracts (continued)

Loss development triangle

The tables below show the development of incurred claims, including both notified and IBNR claims, over time for each successive accident year following the reporting year. Cumulative claims payments as at the current reporting year are also shown.

31 December 2017

Gross claims development
US$'000

Accident Year	Note	2008 and prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Accident year		36,558	18,656	18,558	20,253	24,118	25,514	28,816	37,904	42,097	45,271	
One year later		34,785	15,663	16,795	18,786	21,496	23,268	27,081	33,428	34,878		
Two years later		34,609	15,992	17,324	19,966	23,062	25,299	27,174	33,770			
Three years later		33,571	15,753	17,769	20,120	23,118	24,848	25,888				
Four years later		32,737	15,532	18,310	20,108	22,370	23,929					
Five years later		32,510	15,456	18,145	20,326	22,224						
Six years later		32,327	15,457	18,089	20,127							
Seven years later		32,285	15,441	18,082								
Eight years later		32,282	15,436									
Nine years later		32,218										
Current estimate of Cumulative claims		32,218	15,436	18,082	20,127	22,224	23,929	25,888	33,770	34,878	45,271	271,823
Cumulative payment to date		(31,873)	(15,394)	(17,980)	(19,787)	(21,443)	(22,821)	(22,848)	(27,299)	(26,006)	(21,464)	(226,915)
Total gross non-life insurance claim liabilities as per the statement of financial position	27(b)	345	42	102	340	781	1,108	3,040	6,471	8,872	23,807	44,908

37. RISK MANAGEMENT (continued)

Insurance risks (continued)

(2) Non-life insurance contracts (continued)

Loss development triangle (continued)

31 December 2017

Net claims development
US$'000

Accident Year	Note	2008 and prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Accident year		32,360	16,711	17,299	19,015	22,261	24,391	27,690	22,341	24,346	25,907	
One year later		30,381	14,555	15,821	17,514	19,948	22,204	25,970	16,514	18,002		
Two years later		29,069	14,922	16,344	18,433	21,590	23,781	26,015	17,003			
Three years later		27,270	14,709	16,589	18,479	21,639	23,188	24,803				
Four years later		25,958	14,418	16,678	18,065	20,851	22,302					
Five years later		25,605	14,496	16,455	18,028	20,672						
Six years later		25,516	14,421	16,435	17,983							
Seven years later		25,442	14,414	16,428								
Eight years later		25,439	14,417									
Nine years later		25,408										
Current estimate of Cumulative claims		25,408	14,417	16,428	17,983	20,672	22,302	24,803	17,003	18,002	25,907	202,925
Cumulative payment to date		(25,265)	(14,389)	(16,351)	(17,761)	(20,009)	(21,395)	(22,088)	(10,923)	(10,059)	(6,797)	(165,037)
Total net non-life insurance claim liabilities as per the statement of financial position	27(b)	143	28	77	222	663	907	2,715	6,080	7,943	19,110	37,888

The estimated claim liabilities are subject to a significant degree of uncertainty, and could vary materially depending on the development of future claims experience. Differences resulting from reassessment of the ultimate liabilities will be recognized in subsequent financial statements.

37. RISK MANAGEMENT (continued)

Financial risks

The Group is exposed to a range of financial risks, including credit risk, market risk, and liquidity risk. The Group 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 summarizes the Group's key risk exposures and the primary policies and processes used by the Group to manage its exposures to these risks.

(a) 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 Group's investment portfolio, credit risk also arises in reinsurance, settlement and treasury activities.

The level of credit risk the Group accepts is managed and monitored by the Asset and Liability Management Committee, through establishment of an exposure limit 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 Group 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 Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder.

Management of the Group directs the Group'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 information. The Group also monitors the recoverability of its reinsurance assets on an ongoing basis.

37. RISK MANAGEMENT (continued)

Financial risks (continued)

The table below provides information regarding the credit risk exposure of the Group at the end of the reporting year.

(a) Credit risk (continued)

31 December 2017 US$'000	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets								
Available-for-sale	876,625	404,011	3,094,581	2,757,312	22,991	9,283	740,699	7,905,502
Fair value through profit or loss	447	39,773	46,970	2,840	-	-	1,018,476	1,108,506
Loans and receivables	-	-	67,205	-	-	-	78,878	146,083
Derivative financial instruments	-	-	3,447	-	-	-	-	3,447
Reinsurance assets	-	819,846	489,369	-	-	-	12,600	1,321,815
Prepayments, deposits and other assets	-	-	-	-	-	-	105,582	105,582
Insurance receivables	-	-	-	-	-	-	73,857	73,857
Due from related parties	-	-	-	-	-	-	2,607	2,607
Cash and cash equivalents	-	248,028	475,380	2,459	-	-	3,827	729,694
Assets of disposal group classified as held for sale	-	-	-	49,828	1,542	-	405,730	457,100
	877,072	1,511,658	4,176,952	2,812,439	24,533	9,283	2,442,256	11,854,193

37. RISK MANAGEMENT (continued)

Financial risks (continued)

(a) Credit risk (continued)

31 December 2016

US$'000	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets								
Available-for-sale	1,470,024	502,227	2,701,627	1,800,833	85,742	8,177	504,994	7,073,624
Fair value through profit or loss	6,159	30,817	34,026	1,145	-	-	814,078	886,225
Loans and receivables	-	-	63,879	-	-	-	81,219	145,098
Derivative financial instruments	-	-	1,408	-	-	-	-	1,408
Reinsurance assets	-	752,848	400,026	-	-	-	10,965	1,163,839
Prepayments, deposits and other assets	-	-	-	-	-	-	83,021	83,021
Insurance receivables	-	-	-	-	-	-	82,822	82,822
Due from related parties	-	-	-	-	-	-	3,336	3,336
Cash and cash equivalents	-	26,827	327,547	1,542	-	-	3,294	359,210
Assets of disposal group classified as held for sale	10,903	5,887	11,580	510	19,032	12,394	381,235	441,541
	1,487,086	1,318,606	3,540,093	1,804,030	104,774	20,571	1,964,964	10,240,124

The credit ratings are provided by reputable international credit rating agencies as explained in note 19. Assets identified as "not rated" mainly represented listed and unlisted equities, unit trust investments, policyholder loans and receivables which, by nature, do not have credit ratings.

37. RISK MANAGEMENT (continued)

Financial risks (continued)

(b) Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet payment obligations when they become due. The Group 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 Group 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 Group 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 Group performs regular monitoring of its liquidity position through cash flow projections.

The table below summarizes financial assets and liabilities of the Group into their relevant maturity groupings based on the remaining period at the end of the reporting year to their contractual maturities or expected repayment dates. Most of the Group's assets are used to support its insurance and investment contract liabilities, which are not shown in the table below. Refer to Notes 27 and 28 for additional information on the Group's insurance and investment contract liabilities, as well as to the Insurance Risks section within Note 37.

31 December 2017

US$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
Financial assets						
Available-for-sale	234,208	718,731	1,041,091	5,171,837	739,635	7,905,502
Fair value through profit or loss	8,965	25,231	31,025	24,809	1,018,476	1,108,506
Loans and receivables	4,688	1,858	2,978	72,695	63,864	146,083
Derivative financial instruments	39	2,964	444	-	-	3,447
Deposits and other assets	88,806	4,611	-	-	93	93,510
Insurance receivables	73,857	-	-	-	-	73,857
Due from related parties	2,607	-	-	-	-	2,607
Cash and cash equivalents	593,213	-	-	-	136,481	729,694
Assets of disposal group classified as held for sale	437,763	-	-	-	19,337	457,100
Total	1,444,146	753,395	1,075,538	5,269,341	1,977,886	10,520,306
Financial liabilities						
Borrowings	-	-	-	420,999	-	420,999
Derivative financial instruments	8,524	1,954	2,042	-	-	12,520
Insurance and other liabilities	150,081	-	-	-	5,233	155,314
Due to related parties	82,365	-	-	-	-	82,365
Liabilities directly associated with the assets - of disposal group classified as held for sale	398,835	-	-	-	13,229	412,064
Total	639,805	1,954	2,042	420,999	18,462	1,083,262

38. RISK MANAGEMENT (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

31 December 2016

US$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
Financial assets						
Available-for-sale	684,418	499,269	846,004	4,539,774	504,159	7,073,624
Fair value through profit or loss	9,722	15,479	22,113	24,833	814,078	886,225
Loans and receivables	1,291	5,506	1,215	72,134	64,952	145,098
Derivative financial instruments	92	1,316	-	-	-	1,408
Deposits and other assets	72,832	-	-	-	-	72,832
Insurance receivables	82,822	-	-	-	-	82,822
Due from related parties	3,336	-	-	-	-	3,336
Cash and cash equivalents	327,242	-	-	-	31,968	359,210
Assets of disposal group classified as held for sale	25,341	371,737	20,393	24,070	-	441,541
Total	1,207,096	893,307	889,725	4,660,811	1,415,157	9,066,096
Financial liabilities						
Borrowings	-	-	-	420,461	-	420,461
Derivative financial instruments	845	1,728	9,300	-	-	11,873
Insurance and other liabilities	164,528	-	-	-	-	164,528
Due to related parties	51,250	-	-	-	-	51,250
Liabilities directly associated with the assets - of disposal group classified as held for sale	5,928	363,152	-	-	3,909	372,989
Total	222,551	364,880	9,300	420,461	3,909	1,021,101

37. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) Market risk

(i) Currency risk

The level of currency risk the Group accepts is managed and monitored by the Asset and Liability Management Committee of the Group, through regular monitoring of currency positions of financial assets and insurance and investment contracts.

The Group'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 2017 and 31 December 2016.

At 31 December 2017, assets denominated in United States dollars and Hong Kong dollars accounted for 69% (2016: 68%) and 25% (2016: 27%) of the Group's total assets, respectively, and liabilities denominated in United States dollars and Hong Kong dollars accounted for 50% (2016: 47%) and 46% (2016: 48%) of the Group's total liabilities, respectively. The Group 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.

(ii) Interest rate risk

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

The Group 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 Group. 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 Group's accounting policies lock in interest rate assumptions for traditional insurance contracts at policy inception and incorporate a provision for adverse deviation. As a result, the level of interest rate movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

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

US$'000

	Change in	Impact on shareholders' equity	
Currency	variables	31 December 2017	31 December 2016
HKD	+25 basis points	(8,260)	(10,044)
HKD	-25 basis points	8,260	10,044
USD	+25 basis points	(127,116)	(110,813)
USD	-25 basis points	127,116	110,813

37. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) Market risk (continued)

(iii) Equity market risk

The Group's equity market 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 Group manages these risks by setting and monitoring investment limits in each country and sector.

The analysis below shows the impact on shareholders' equity to changes in equity prices, with all other variables held constant.

US$'000		Impact on shareholders' equity 31 December 2017	Impact on shareholders' equity 31 December 2016
Change in equity prices	-10%	(18,360)	(16,166)

38. COMPARATIVE AMOUNTS

The comparative statement of change in equity has been re-presented for consistency with current year financial information with respect to reserves of disposal groups held for sale. The comparative statement of financial position and statement of profit or loss has been re-presented for consistency with current year financial information with respect to VOBA and related deferred taxes.

39. EVENTS AFTER THE REPORTING PERIOD

On 1 February 2018, the Group issued US$200,000,000 notional amount of subordinated perpetual capital securities. This issuance has similar features to the DCI described in Note 31, except that any Distributions deferred by the Group are non-cumulative. The issuance will be treated as equity in its entirety in the consolidated statement of financial position.

Audited Financial Statements

FWD LIMITED
(Incorporated in the Cayman Islands with limited liability)

For the year ended 31 December 2018

FWD LIMITED

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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 shareholders of FWD Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion
We have audited the consolidated financial statements of FWD Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 111, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for *the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent auditor's report (continued)
To the shareholders of FWD Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters

Key audit matter #1	**How our audit addressed the key audit matter**
Goodwill impairment	
Under IFRS, the Group is required to test the amount of goodwill for impairment at least annually. The annual impairment test was significant to our audit because the balance of US$901M as of 31 December 2018 was material to the consolidated financial statements and the test requires that management applies significant judgement. The assessment requires an estimation of the value in use of the group of cash-generating units (i.e. FWD Life Insurance Company (Bermuda) Limited and FWD Life Insurance Company (Macau) Limited) to which the goodwill is allocated. Estimating the value in use requires the Group to calculate the actuarial appraisal value based on (i) the embedded value with respect to the in-force business ("EV") and (ii) the value of new business ("VNB"), and to choose a suitable discount rate in order to calculate the present value of those expected future profits. The key assumptions used for calculating the EV and the annual VNB are expected future market conditions, particularly those relating to investment returns and discount rates adjusted for risk. The VNB multiplier, which is determined based on projected future sales and discount rates adjusted for risk, is a key assumption for estimating the value of future new business. The Group's disclosures about goodwill are included in Notes 3(c) and 14, which specifically explain that changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future.	Our audit procedures, performed with the assistance of our internal actuarial specialists, included among others, reviewing the methodology and assumptions used in the EV and VNB calculations, evaluating the results of the EV and VNB calculations and comparing the underlying cash flows used in the calculations with management budgets, and assessing the VNB multiplier by comparing to the current market conditions and assumptions commonly applied by companies in the same industry. We reviewed management’s goodwill impairment outputs and assessed the Group’s disclosures about those assumptions to which the outcome of the impairment test was most sensitive, that was, those that had the most significant effect on the recoverable amount of goodwill.

Independent auditor's report (continued)
To the shareholders of FWD Limited
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Key audit matter #2	**How our audit addressed the key audit matter**
Life insurance contract liabilities	
At 31 December 2018, the Group carried gross insurance contract liabilities of US$11,144M relating to life insurance contracts. At each reporting date, the Group evaluates the adequacy of life insurance contract liabilities, net of deferred acquisition cost ("DAC") and value of business acquired ("VOBA"), in the liability adequacy test. The Group recorded VOBA and DAC of US$614M and US$935M respectively, as at 31 December 2018. The measurement of life insurance contract liabilities was significant to our audit because the balance of life insurance contract liabilities was material to the consolidated financial statements. In addition, management's process for measuring life insurance contract liabilities and the liability adequacy test were complex and involved significant judgement relating to uncertain future outcomes of long-term insurance contracts. Economic assumptions, such as investment returns and discount rates, and non-economic assumptions, such as lapses, mortality, morbidity, persistency and expenses were key assumptions used to estimate the future outcomes of long-term insurance contracts and to measure the related liabilities. The Group's disclosures about insurance contract liabilities, DAC, and VOBA are included in Notes 3(d), 3(f), 3(g), 15(a), 16 and 27(a) which explain the movements of insurance contract liabilities, DAC, and VOBA, and the key exposures impacting profit or loss for the year and shareholders' equity.	Our audit procedures on life insurance contract liabilities, performed with the assistance of our internal actuarial specialists, included obtaining an understanding of the features and risk coverage of insurance contracts, the validation of accuracy of underlying policy data, the verification of actuarial models, the review of methodologies and assumptions used in the measurement of liabilities by reference to the Company's historical data and applicable industry experience, with particular attention to changes in assumptions and components of life insurance contract liabilities with material fluctuations from the prior year. For a sample of contracts, we recalculated the year-end liability. For new insurance products, we reviewed product classification based on management's assessment of significant insurance risk. In assessing the adequacy of life insurance contract liabilities and recoverability of DAC and VOBA at year-end, we reviewed methodologies and assumptions, used in performing the liability adequacy test by reference to the Company's historical data and applicable industry experience, and analysed the resulting calculations.

Independent auditor's report (continued)
To the shareholders of FWD Limited
(Incorporated in the Cayman Islands with limited liability)

Information other than the consolidated financial statements and auditor's report thereon
The consolidated financial statements do not include other information.

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent auditor's report (continued)
To the shareholders of FWD Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Independent auditor's report (continued)
To the shareholders of FWD Limited
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Chi Keung.

Ernst & Young

Hong Kong
15 March 2019

FWD LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CONTINUING OPERATIONS			
REVENUE			
Gross premiums	6(a)	1,814,163	1,663,087
Reinsurers' share of gross premiums	6(b)	(464,645)	(254,328)
Change in unearned premiums	6(c)	568	1,819
Net premiums		1,350,086	1,410,578
Fees and commission income	7	174,827	167,955
Net deferred commission income movement	16	(15,868)	(10,805)
Investment return	8	296,512	476,952
Other operating revenue		6,769	38,535
TOTAL REVENUE		1,812,326	2,083,215
BENEFITS, CLAIMS AND EXPENSES			
Net benefits and claims	9	(1,412,414)	(1,739,132)
Amortization of intangible assets	15	(32,182)	(34,077)
Net deferred acquisition cost movement	16	178,934	128,326
Finance costs	29	(18,485)	(21,091)
Commission and commission related expenses	10	(308,040)	(223,558)
Other operating and administrative expenses	11	(223,366)	(143,860)
TOTAL BENEFITS, CLAIMS AND EXPENSES		(1,815,553)	(2,033,392)
Share of gains in associate and joint venture	23	16,265	3,824
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		13,038	53,647
Income tax expense	12(a)	(6,382)	(15,616)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		6,656	38,031
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	13	(17,105)	(16,700)
(LOSS)/PROFIT FOR THE YEAR		(10,449)	21,331

continued/...

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
(LOSS)/PROFIT FOR THE YEAR		(10,449)	21,331
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	19.1	(275,451)	284,356
Reclassification adjustments for (gains)/losses included in profit or loss of			
- (gains)/losses on disposal	8, 13, 19.1	(7,019)	(13,444)
- impairment losses	8, 19.1	2,640	1,603
Income tax effect	12(b)	45,120	(39,048)
		(234,710)	233,467
Cash flow hedges:			
Effective portion of changes in fair value		(1,194)	(206)
Reclassification adjustments for (gains)/losses included in profit or loss		154	154
Income tax effect	12(b)	199	34
		(841)	(18)
Exchange differences on translation of foreign operations		(2,617)	(1,805)
		(2,617)	(1,805)
Share of other comprehensive income of associate and joint venture	23	(4,325)	7,707
		(4,325)	7,707
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(242,493)	239,351
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(242,493)	239,351
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(252,942)	260,682

FWD LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
ASSETS			
Goodwill	14	901,398	901,545
Intangible assets	15	614,863	646,384
Deferred acquisition cost	16	935,383	756,533
Property, plant and equipment	17	19,290	21,666
Investment property	18	-	-
Financial assets			
Available-for-sale financial assets	19.1	8,363,775	7,905,502
Financial assets at fair value through profit or loss	19.2	1,125,266	1,108,506
Loans and receivables	19.3	141,804	146,083
Derivative financial instruments	19.4	1,976	3,447
Reinsurance assets	27	1,608,093	1,321,815
Investment in associate and joint venture	23	252,222	249,431
Prepayments, deposits and other assets	24	141,813	105,582
Insurance receivables	25	83,716	73,857
Due from related parties	34(b)	10,524	2,607
Cash and cash equivalents	26	831,101	729,694
		15,031,224	13,972,652
Assets of disposal group classified as held for sale	13	469,832	457,100
TOTAL ASSETS		15,501,056	14,429,752
LIABILITIES			
Insurance contract liabilities	27	11,225,822	10,194,933
Investment contract liabilities	28	316,456	359,827
Due to related parties	34(b)	142,079	82,365
Deferred commission income	16	277,811	261,964
Borrowings	29	322,566	420,999
Derivative financial instruments	19.4	8,667	12,520
Deferred tax liabilities	12(b)	112,918	156,115
Insurance and other liabilities	30	365,536	155,314
		12,771,855	11,644,037
Liabilities directly associated with the assets of disposal group classified as held for sale	13	410,839	412,064
TOTAL LIABILITIES		13,182,694	12,056,101
EQUITY			
Issued capital	31	297	286
Share premium	31	1,866,286	1,853,487
Direct capital instrument	31	446,511	248,354
Capital redemption reserve	31	18,302	18,302
Share-based payment reserve	31	36,705	28,894
Legal reserve	31	1,546	1,550
Cash flow hedge reserve	31	(2,053)	(1,212)
Available-for-sale financial assets revaluation reserve	31	(63,685)	170,412
Foreign currency translation reserve	31	(3,983)	(2,196)
Reserves of disposal groups held for sale	13	(511)	928
Share of other comprehensive income of joint venture	23	3,382	7,707
Retained earnings		15,565	47,139
TOTAL EQUITY		2,318,362	2,373,651
TOTAL LIABILITIES AND EQUITY		15,501,056	14,429,752

.... Director

.... Director

FWD LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
ASSETS			
Goodwill	14	901,398	901,545
Intangible assets	15	614,863	646,384
Deferred acquisition cost	16	935,383	756,533
Property, plant and equipment	17	19,290	21,666
Investment property	18	-	-
Financial assets			
Available-for-sale financial assets	19.1	8,363,775	7,905,502
Financial assets at fair value through profit or loss	19.2	1,125,266	1,108,506
Loans and receivables	19.3	141,804	146,083
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LIABILITIES			
Insurance contract liabilities	27	11,225,822	10,194,933
Investment contract liabilities	28	316,456	359,827
Due to related parties	34(b)	142,079	82,365
Deferred commission income	16	277,811	261,964
Borrowings	29	322,566	420,999
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Deferred tax liabilities	12(b)	112,918	156,115
Insurance and other liabilities	30	365,536	155,314
		12,771,855	11,644,037
Liabilities directly associated with the assets of disposal group classified as held for sale	13	410,839	412,064
TOTAL LIABILITIES		13,182,694	12,056,101
EQUITY			
Issued capital	31	297	286
Share premium	31	1,866,286	1,853,487
Direct capital instrument	31	446,511	248,354
Capital redemption reserve	31	18,302	18,302
Share-based payment reserve	31	36,705	28,894
Legal reserve	31	1,546	1,550
Cash flow hedge reserve	31	(2,053)	(1,212)
Available-for-sale financial assets revaluation reserve	31	(63,685)	170,412
Foreign currency translation reserve	31	(3,983)	(2,196)
Reserves of disposal groups held for sale	13	(511)	928
Share of other comprehensive income of joint venture	23	3,382	7,707
Retained earnings		15,565	47,139
TOTAL EQUITY		2,318,362	2,373,651
TOTAL LIABILITIES AND EQUITY		15,501,056	14,429,752

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Director

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Director

FWD LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$'000

	Notes	Issued capital	Share premium	Direct capital instrument	Capital redemption reserve	Share-based payment reserve	Legal reserve	Cash flow hedge reserve	Available-for-sale financial assets revaluation reserve	Foreign currency translation reserve	Reserve of disposal group held for sale	Share of other comprehensive income of associate and joint venture	Retained earnings/ (accumulated losses)	Total equity
1 January 2017		269	1,844,329	-	18,302	25,563	1,562	(1,194)	(61,924)	(276)	(330)	-	33,621	1,859,922
Issuance of shares	31	17	9,158	-	-	(9,159)	-	-	-	-	-	-	-	16
Issuance of direct capital instrument	31	-	-	248,354	-	-	-	-	-	-	-	-	-	248,354
Change in share-based payment reserve	35	-	-	-	-	12,490	-	-	-	-	-	-	-	12,490
Change in foreign currency translation reserve		-	-	-	-	-	(12)	-	-	12	-	-	-	-
Total comprehensive income for the year		-	-	-	-	-	-	(18)	233,467	(1,805)	-	7,707	21,331	260,682
Distribution paid	31	-	-	-	-	-	-	-	-	-	-	-	(7,813)	(7,813)
Discontinued operations	13	-	-	-	-	-	-	-	(1,131)	(127)	1,258	-	-	-
31 December 2017		286	1,853,487	248,354	18,302	28,894	1,550	(1,212)	170,412	(2,196)	928	7,707	47,139	2,373,651
Issuance of shares	31	11	12,799	-	-	(12,801)	-	-	-	-	-	-	-	9
Issuance of direct capital instrument	31	-	-	198,157	-	-	-	-	-	-	-	-	-	198,157
Change in share-based payment reserve	35	-	-	-	-	20,612	-	-	-	-	-	-	-	20,612
Change in foreign currency translation reserve		-	-	-	-	-	(4)	-	-	4	-	-	-	-
Total comprehensive income for the year		-	-	-	-	-	-	(841)	(234,710)	(2,617)	-	(4,325)	(10,449)	(252,942)
Distribution paid	31	-	-	-	-	-	-	-	-	-	-	-	(21,125)	(21,125)
Discontinued operations	13	-	-	-	-	-	-	-	613	826	(1,439)	-	-	-
31 December 2018		297	1,866,286	446,511	18,302	36,705	1,546	(2,053)	(63,685)	(3,983)	(511)	3,382	15,565	2,318,362

FWD LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		13,038	53,647
From discontinued operations	13	(13,478)	(16,325)
Adjustments for:			
Dividend income	8	(59,351)	(41,822)
Interest income	8, 13	(288,506)	(255,835)
Net realized (gain)/loss on disposal of financial assets	8	(53,866)	(22,704)
Net realized (gain)/loss on disposal of a financial liability	8	1,132	-
Fair value (gain)/loss on financial assets	8	97,449	(160,192)
Depreciation of plant and equipment	13, 17	6,503	6,864
Loss on disposal of plant and equipment		-	18
Loss on disposal of intangible assets		-	82
Impairment on available-for-sale financial assets	8	2,640	1,603
Impairment/(Reversal of impairment) on secured loans	8	38	13
Deferred acquisition cost movement	13, 16	(205,659)	(132,993)
Deferred commission income movement	16	15,868	10,805
Finance cost		18,485	21,091
Share of (gain)/loss of associate		(16,265)	(3,824)
P&L impact of share-based payment	11	20,612	12,490
Amortization of intangible assets	13, 15	32,655	34,163
Gain on disposal of a disposal group	13	-	(4,799)
Foreign exchange (gain)/loss		(2,439)	(1,521)
		(431,144)	(499,239)
(Increase)/decrease in reinsurance assets		(286,313)	(158,104)
(Increase)/decrease in prepayments, deposits and other assets		(39,432)	(44,116)
(Increase)/decrease in insurance receivables		(15,447)	8,858
(Increase)/decrease in amounts due from related parties		(7,917)	675
(Decrease)/increase in insurance contract liabilities		1,054,939	1,301,513
(Decrease)/increase in investment contract liabilities		(43,371)	14,535
(Decrease)/increase in amounts due to related parties		59,786	30,849
(Decrease)/increase in insurance and other liabilities		217,537	(3,176)
Cash flows generated from operations		508,638	651,795
Dividend received from investments		65,482	65,448
Interest received		283,629	261,064
Investment expenses paid		(13,595)	(13,957)
Income tax paid		(37)	(956)
Net cash flows from operating activities		844,117	963,394
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of a discontinued operation		-	35,489
Acquisition of associates		-	(230,896)
Dividend received from a joint venture		9,149	-
Purchases of intangible assets		(8,925)	(193)
Purchases of plant and equipment		(4,711)	(4,573)
Proceeds from sales of plant and equipment		405	-
Purchases of financial assets		(2,512,871)	(2,819,260)
Proceeds from disposal and maturities of financial assets		1,725,086	2,248,011
Decrease/(Increase) in pledged deposits		3,300	(1,959)
Net cash flows used in investing activities		(788,567)	(773,381)

continued/...

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

US$'000

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of convertible preference shares	31	9	16
Issue of direct capital instrument	31	198,157	248,354
Distribution paid on direct capital instrument	31	(21,125)	(7,813)
Redemption of medium term note	29	(100,000)	-
Finance costs paid on borrowings	29	(18,325)	(20,553)
Net cash flows from financing activities		58,716	220,004
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		114,266	410,017
Cash and cash equivalents at beginning of the year		743,992	363,055
(Decrease)/Increase of cash and cash equivalents from disposal of a discontinued operation		-	(29,080)
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	858,258	743,992
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		644,297	596,524
Non-pledged time deposits with original maturity of less than three months when acquired		213,961	147,468
Cash and cash equivalents as stated in the statement of cash flows	26	858,258	743,992

1. CORPORATE INFORMATION

FWD LIMITED (the "Company") was incorporated on 13 December 2012 in the Cayman Islands, with its registered office at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY-1205, Cayman Islands. The Company's principal place of business address in Hong Kong is Room 1902, 19/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. The principal activity of the Company is investment holding, whilst the principal activities of the Company and its subsidiaries (collectively referred to as the "Group"), are to provide products and services focusing on life insurance, general insurance, and investment services.

PCGI Limited, a company incorporated in the Cayman Islands, is the Company's immediate and ultimate holding company as at the end of the reporting period. PCGI Limited is wholly owned by Mr. Richard Li Tzar Kai. Swiss Re Investments Company Ltd is a 13.5% (2017:14.0%) shareholder of the Company.

The consolidated financial statements were approved and authorized for issuance by the board of directors on 15 March 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared under the historical cost convention, except for investment properties, the re-measurement of available-for-sale financial assets, certain financial assets and liabilities designated at fair value through profit or loss and derivative financial instruments, all of which are carried at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.14. They are presented in United States dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of revised standards and interpretations effective as of 1 January 2018 as described below.

(a) The following are amendments to standards which the Group elected to apply the temporary exemption option for the first time for the financial year beginning 1 January 2018. The Group 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.

IFRS 4 Amendments	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]

[1] Refer to page 15 and 16 for more details.

(b) The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2018 and have no material impact for the Group:

IFRS 9	Financial Instruments[1]
IFRS 15	*Revenue from Contracts with Customers*
IAS 40 Amendments	*Transfers of Investment Property*
IFRS 2 Amendments	*Classification and Measurement of Share-based Payment Transactions*
IAS 28 Amendments	*Investment in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*
IAS 1 Amendments	*First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions of first-time adopters*
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) The following relevant new standards, interpretations and amendments to standards have been issued but are not effective for the financial year ended 31 December 2018 and have not been early adopted (the financial years for which the adoption is required are stated). They are not expected to have a material impact on the financial position or results of operations of the Group but may require additional disclosures upon them becoming effective:

IFRS 9 Amendments	*Amendments to IFRS 9 – Prepayment Features with Negative Compensation*[1]
IAS 28 Amendments	*Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures*[2]
Annual Improvements 2015-2017 Cycle	*Amendments to IFRS 3 and IAS 12*[2]
IFRS 16	*Leases*[2, 5]
IFRS 3 Amendments	*Definition of a Business*[3]
IAS 1 and IAS 8 Amendments	*Definition of Material*[3]
IFRS 10 and IAS 28	*Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets* between an *Investor and its Associate of Joint Venture*[4]

[1] The Amendments are effective for annual periods beginning on or after 1 January 2019, however, if the Group continues to qualify for the IFRS 9 deferral, the effective date of application of IFRS 9 can be deferred until 2021

[2] Effective for annual periods beginning on or after 1 January 2019

[3] Effective for annual periods beginning on or after 1 January 2020

[4] Effective date deferred indefinitely

[5] Refer to page 18 for more details

(d) The following relevant new standards have been issued but are not effective for the financial year ended 31 December 2018 and have not been early adopted (the financial year for which the adoption is required is stated).

IFRS 17	*Insurance Contracts*[1]

[1] Effective for annual periods beginning on or after 1 January 2021 (IASB proposed one year delay in effective date to 1 January 2022)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Temporary exemption from IFRS 9:

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 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 Group performed a high-level impact assessment of all three aspects of IFRS 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 Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity, except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity except for those financial asset carried at fair value through OCI and will perform a detailed assessment in the future to determine the extent.

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 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 IFRS 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 IAS 39 to these designated financial assets. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. During 2016, the Group 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 Group 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 Group meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) to annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from IFRS 9. Therefore, the Group continues to apply IAS 39 to its financial assets and liabilities in these financial statements. The Group meets the eligibility criteria, as follows:

- The Group has not previously applied any versions of IFRS 9; and
- The Group's activities were 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 scope of IFRS 4 was greater than 90% (i.e., 94%) of the total carrying amount of all its liabilities.

After the date of eligibility assessment, there has been no change in the Group's activities that requires a reassessment of the eligibility assessment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Temporary exemption from IFRS 9 (continued):

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

For the following presentation, the Group'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 IFRS 9 and are not held for trading or managed on a fair value basis, which consist of loans and receivables, deposits and other assets, insurance receivables, due from related parties and cash and cash equivalents.
(ii) financial assets other than those specified in (i), which consist of derivative assets, debt securities and equity securities.

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

US$'000

	As at 31 December 2018 Fair value	For the year ended 31 December 2018 Change in fair value
Financial assets that meet SPPI criteria and are not held for trading or managed on a fair value basis	8,262,123	(275,759)
Others	2,397,864	(102,256)
Total	10,659,987	(378,015)

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

US$'000

	As at 31 December 2018
AAA	1,005,555
AA	725,840
A	3,722,683
BBB	2,538,812
BB	-
B	-
Not rated	269,233
Total	8,262,123

Note: As at 31 December 2018, the fair value of financial assets that do not have low credit risk was US$1,410,952,000.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further information regarding IFRS expected to be applicable to the Group is as follow:

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration contracts, which typically applies to certain non-life insurance contracts. The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognized in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income is based on the concept of services provided during the period
- Amounts that the policyholder will receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 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 Group plans to adopt the new standard on the required effective date together with IFRS 9 (see above). The Group is in process of implementing IFRS 17 and assessing the impact of IFRS 17. The Group expects that the new standard will result in important changes to the accounting policies for insurance contract liabilities of the Group, and is likely to have a significant impact on profit, total equity, financial statement presentation and disclosure.

In November 2018, the IASB proposed 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further information regarding IFRS expected to be applicable to the Group is as follow (continued):

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

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 as the present value of 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 Group 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 IFRS 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 Group.

The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group 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, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 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 IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of US$62,808,000 as disclosed in note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group 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 Group will also recognize depreciation expense and interest expense for those leases.

In addition, the Group currently considers refundable rental deposits paid of US$6,659,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, and 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.

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

A summary of the significant accounting policies adopted by the Group in the preparation of the Group's consolidated financial statements is set out below.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Subsidiaries
A subsidiary is an entity (including structured entities) directly or indirectly controlled by the Company. Control is achieved when the Group 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 Group the current ability to direct the relevant activities of the investee).

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it de-recognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures are included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

When an investment in an associate is a venture capital organization, a mutual fund, unit trust or similar entity, including investment-linked insurance funds (i.e., an investment entity) and the investment entity associate applies fair value measurement to its subsidiaries, the Group retains the fair value measurement applied by the investment entity associate to its interests in subsidiaries when applying the equity method.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. Any surplus of the Group's interest in the acquiree's net assets over the cost of acquisition is, after reassessment, credited to profit or loss as gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs an annual impairment test of goodwill. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts

Product classification
The Group classifies its contracts written as either insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract, while investment contracts are those contracts without significant insurance risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. 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 prices 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.

Some insurance and investment contracts, referred to as participating contracts, have discretionary participation features, "DPF", which may entitle the customer to receive, as a supplement to guaranteed benefits, significant additional non-guaranteed benefits, such as policyholder dividends or bonuses. These contracts are distinct from other insurance and investment contracts as the Group has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders.

In the event that a scenario (other than those lacking commercial substance) exists in which an insured event would require the Group to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract. For investment contracts that do not contain DPF, IAS 39, *Financial Instruments: Measurement and Recognition*, and, if the contract includes an investment management element, IFRS 15, *Revenue*, is applied. The Group applies the same accounting policies for the recognition and measurement of obligations and the deferral of acquisition costs arising from investment contracts with DPF as it does to insurance contracts.

The Group's products may be divided into the following main categories:

Policy type	Description of benefits payable	Basis of accounting for:	
		Insurance contract liabilities	Investment contract liabilities
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. Most of the products pay annual cash dividends. The basic sum assured, payable on death or maturity, may be enhanced by dividends or bonuses, the timing or amount of which are at the discretion of the insurer taking into account factors such as investment experience.	Insurance contract liabilities make provision for the present value of guaranteed benefits and nonguaranteed participation less estimated future net premiums to be collected from policyholders. For participating products with definite sharing mechanism, insurance contract liabilities make provision for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. Undistributed participating policy earnings account (UPPEA) is set up retrospectively for undistributed dividends or bonuses. In addition, deferred profit liabilities for limited payment contracts are recognized.	Not applicable

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

Product classification (continued)

Policy type	Description of benefits payable	Basis of accounting for:	
		Insurance contract liabilities	Investment contract liabilities
Non-participating life assurance, annuities and other protection products	Benefits payable are not at the discretion of the insurer.	Insurance contract liabilities reflect the present value of future policy benefits to be paid and the future administration expenses that are directly related to the contract, less the present value of estimated future net premiums to be collected from policyholders. In addition, deferred profit liabilities for limited payment contracts are recognized.	Investment contract liabilities without DPF are measured at amortized cost.
Universal life	Benefits are based on an account balance, credited with interest at a rate set by the insurer, and a death benefit, which may be varied by the customer.	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment returns credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded.	All universal life contracts issued by the Group contain significant insurance risk.
Investment-linked	These may be primarily savings products or may combine savings with an element of protection.	Insurance contract liabilities reflect the accumulation value, representing premiums received and investment returns credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded.	Investment contract liabilities are measured at fair value (determined with reference to the accumulation value).

The basis of accounting for life insurance and investment contracts is further discussed in notes 2.3.1 and 2.3.2 below.

2.3.1 Life insurance contracts and investment contracts with DPF

Premiums

For single premium business, premiums are recognized as revenue on the date when the policy becomes effective. Regular premiums from life insurance contracts, including participating policies, universal life and investment-linked contracts and annuity policies with life contingencies, are recognized as revenue when due from the policyholder. Benefits and expenses are provided in respect of such revenue so as to recognize profits over the estimated life of the policies. For limited pay contracts, premiums are recognized in profit or loss when due, with any excess profit deferred and recognized in income in a constant relationship to the insurance in-force or, for annuities, the amount of expected benefit payments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

2.3.1 Life insurance contracts and investment contracts with DPF (continued)

Fees and commission income

Life insurance and investment contract policyholders are charged fees for policy administration services, investment management services and surrenders.

The fees and commission income are recognized 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 recognized in profit or loss as the service is provided over the term of the contract. Initial and other front end fees are also deferred and recognized over the term of the contract. Commission income is deferred and recognized in profit or loss based on expected reinsurance premium.

Other fees

Other fees are recognized when the services have been rendered.

Deferred Acquisition Costs ("DAC")

The costs of acquiring new insurance contracts, including commissions and distribution costs, underwriting and other policy issue expenses which vary with, and are primarily related to, the production of new business or renewal of existing business, are deferred as an asset.

DAC is evaluated for recoverability in the year of policy issue to ensure that these costs are recoverable out of the estimated future margins to be earned on the policy. DAC is evaluated for recoverability at least annually thereafter in the liability adequacy test together with the provision for life insurance liabilities and Value of Business Acquired ("VOBA"). Future investment income is also taken into account in assessing recoverability. To the extent that acquisition costs are not considered to be recoverable at inception or thereafter, these costs are expensed in profit or loss.

DAC for traditional life insurance and annuity policies is amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are consistently applied throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing (see below).

DAC for universal life and investment-linked contracts is amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits expected to be realized over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrenders, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly. For Universal life contracts, the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. For investment-linked contracts, the interest rate used is locked-in at policy inception. Deviations of actual results from estimated experience are reflected in earnings.

Deferred sales inducements

Deferred sales inducements, consisting of day one bonuses, persistency bonuses and enhanced crediting rates are deferred and amortized using the same methodology and assumptions used to amortize acquisition costs when the sales inducements:

- are recognized as part of insurance contract liabilities;
- are explicitly identified in the contract on inception;
- are incremental to amounts credited on similar contracts without sales inducements; and
- are higher than the expected ongoing crediting rates for periods after the inducement.

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 contract and are therefore not separated subsequently.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

2.3.1 Life insurance contracts and investment contracts with DPF (continued)

Benefits and claims

Life insurance contract benefits reflect the cost of all maturities, surrenders, withdrawals and claims arising during the year, reinsurance recoveries, as well as policyholder dividends accrued in anticipation of dividend declarations.

Accident and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for reinsurance recoveries, and any adjustments to claims outstanding from previous years. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims and policyholder bonuses. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

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

Life insurance contract liabilities (including liabilities in respect of investment contracts with DPF)

Insurance contract liabilities represent the estimated future policyholder benefit liability for life insurance policies. Future policy benefits for life insurance policies are calculated using a net level premium valuation method which represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders.

The Group accounts for participating policies by establishing a liability for the present value of guaranteed benefits less estimated future net premiums to be collected from policyholders. In addition, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all performance were to be declared as a dividend based upon the Group's rules on profit distribution. The Group accounts for other participating business by establishing a liability for the present value of guaranteed benefits and non-guaranteed participation, less estimated future net premiums to be collected from policyholders.

For universal life contracts, life insurance contract liabilities reflect the accumulation value, which represents premiums received and investment returns credited, less deductions for front-end loads, mortality and morbidity costs and expense charges. In addition, liabilities for unearned revenue and additional insurance benefits are recorded where applicable.

The unearned revenue liability arising from insurance contracts represents upfront fees and other non-level charges deferred and released to the consolidated statement of profit or loss and other comprehensive income over the estimated life of the business.

Liability adequacy testing

At the end of each reporting period, a liability adequacy test is performed, to ensure the adequacy of insurance liabilities.

The adequacy of liabilities is assessed by portfolio of contracts, in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts. For life insurance contracts, insurance contract liabilities reduced by deferred acquisition costs and value of business acquired on purchased insurance contracts, are compared to the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortized balances of deferred acquisition costs and value of business acquired on purchased insurance contracts are written down to the extent of the deficiency. If, after writing down the unamortized balances for the specific portfolio of contracts to zero, a deficiency still exists, the liability is increased by the amount of the remaining deficiency.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

2.3.1 Life insurance contracts and investment contracts with DPF (continued)

Liability adequacy testing (continued)

For investment contracts, deferred acquisition costs and value of business acquired on purchased contracts, net of unearned revenue liabilities, are compared to estimated gross profits. If a deficiency exists, the unamortized balances of deferred acquisition costs and value of business acquired are written down.

2.3.2 Investment contracts without DPF

Investment contract fee revenue

Customers are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's account balance. The fees are recognized as revenue in the period in which they are received unless they relate to services to be provided in future periods, in which case they are deferred and recognized as the service is provided.

Origination and other "upfront" fees (fees that are assessed against the account balance as consideration for origination of the contract) are charged on some non-participating investment and pension contracts. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are amortized and recognized as the services are provided.

Deferred origination costs

The costs of acquiring investment contracts with investment management services, including commissions and other incremental expenses directly related to the issue of each new contract, are deferred and amortized over the period that services are provided. Deferred origination costs are tested for recoverability at each reporting date.

Investment contract liabilities

Deposits collected and benefit 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.

The majority of the Group's contracts classified as investment contracts are investment-linked contracts, with measurement directly linked to the underlying investment assets, which are portfolios maintained to meet specific investment objectives of policyholders who generally bear the credit and market risks on those investments. The liabilities are carried at fair value determined with reference to the accumulation value (current unit value) and an unearned revenue liability and sales inducement liability where applicable. The costs of policy administration, investment management, surrender charges and certain policyholder taxes assessed against customers' account balances are included in revenue, and accounted for as described under "Investment contract fee revenue" above.

Non investment-linked investment contract liabilities are carried at amortized cost, being the fair value of consideration received at the date of initial recognition, less the net effect of principal payments such as transaction costs and front-end fees, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate equates the discounted cash payments to the initial amount.

The unearned revenue liability arising from investment contracts represents upfront fees and other non-level charges deferred and released to the consolidated statement of profit or loss and other comprehensive income over the estimated life of the business. Any adjustment is immediately recognized as income or expense in the consolidated statement of profit or loss and other comprehensive income. The amortized cost of the financial liability is never recorded at less than the amount payable on surrender, discounted for the time value of money where applicable, if the investment contract is subject to a surrender option.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

2.3.3 Insurance and investment contracts

Reinsurance

The Group cedes insurance risk in the normal course of business, with retentions varying by line of business. The cost of reinsurance is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for such policies. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position.

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured insurance or investment contract liabilities or benefits paid and in accordance with the relevant reinsurance contract.

To the extent that reinsurance contracts principally transfer financial risk (as opposed to insurance risk) they are accounted for directly through the consolidated statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognized, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognizes that impairment loss in the consolidated profit or loss and other comprehensive income. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

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

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

Value of business acquired (VOBA)

VOBA is an asset that reflects the present value of estimated net cash flows before tax embedded in the insurance and investment contracts of an acquired company, which existed at the time the company was acquired. It represents the difference between the fair value of insurance liabilities and the carrying value. In all cases, the VOBA is amortized over the estimated life of the contracts in the acquired portfolio on a systematic basis. The rate of amortization reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated statement of profit or loss and other comprehensive income.

Other assessments and levies

The Group is potentially subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance or investment contract liabilities but are included under "Insurance and other liabilities" in the consolidated statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Insurance and investment contracts (continued)

2.3.4 General Insurance contracts

Premiums

General insurance premiums written are recognized at policy inception and earned on a pro rata basis over the term of the policy related coverage.

Deferred acquisition costs

For general insurance, DAC is amortized on a straight line basis over the life of the contracts and de-recognized when the related contracts are settled or disposed of.

Benefits and claims

General insurance claims incurred include all claim losses occurring during the period, whether reported or not, including the related handling costs and other recoveries and any adjustments to claims outstanding from previous years.

General insurance contract liabilities

These liabilities include the provisions for outstanding claims, unearned premiums and unexpired risks. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs, reduced by the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is determined at the end of the reporting period using case estimates, supplemented by a range of standard actuarial claim projection techniques based on empirical data on current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalization or catastrophic reserves is recognized. The liability is de-recognized when the obligation to pay a claim expires, is discharged or is cancelled.

The proportion of written premiums attributable to subsequent periods is deferred as unearned premium, which includes premiums received for risks that have not yet expired. The change in the provision for unearned premium is taken to profit or loss such that revenue is recognized over the period of risk. The methods used are as follows:

Marine cargo business	25% method
Non-marine cargo business	365 days method

2.3.5 Insurance receivables

Insurance receivables are recognized 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 amortized 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 de-recognized when the de-recognition criteria for financial assets, as described in "De-recognition of financial instruments" below, have been met.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments

2.4.1 Fair value measurement

The Group measures its investment property, derivative financial instruments, debt instruments classified as available for sale or fair value through profit or loss, and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received in the sale of an asset or the price 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 Group. 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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (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. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments

2.4.2 Initial recognition and measurement

Financial assets

Financial assets within the scope of IAS 39 are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial investments, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. Financial assets 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 under IAS 39 are satisfied. When financial assets are recognized initially, they are measured at fair value plus transaction costs, 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 recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, loans and receivables, insurance and other receivables, amounts due from related parties, quoted and unquoted financial instruments, and derivative financial instruments.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. 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 of IAS 39 are satisfied.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, include directly attributable transaction costs.

The Group's financial liabilities include amounts due to related parties, insurance and other liabilities, borrowings and derivative financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments (continued)

2.4.3 *Subsequent measurement*
Financial assets
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 IAS 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 IAS 39.

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

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

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 at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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 amortized cost using the effective interest rate method less any allowance for impairment. Amortized 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 amortization and the loss arising from impairment are included in investment income 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 Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized 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 amortization and the loss arising from impairment are included in investment income in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments (continued)

2.4.3 *Subsequent measurement (continued)*

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 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 unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is de-recognized, at which time the cumulative gain or loss is recognized in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss. For available-for-sale financial debt securities, the difference between their cost and par value is amortized using the effective interest rate method. Interest and dividends earned while holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognized in profit or loss as investment income in accordance with the policy set out for "Revenue" below.

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 Group 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 Group is unable to trade these financial assets due to inactive markets and management's intent to do so in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

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

Financial liabilities

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

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 selling in the near term. Financial liabilities designated upon initial recognition at fair value through profit or loss, are so designated only if the criteria of IAS 39 are satisfied. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 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 recognized in profit or loss.

The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

<u>2.4 Financial Instruments (continued)</u>

2.4.3 *Subsequent measurement (continued)*

Financial liabilities at amortized cost

Borrowings are stated at amortized cost, with any difference between net proceeds and redemption value recognized in the consolidated statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

Gains and losses are recognized in profit or loss when the liabilities are de-recognized as well as through the effective interest rate amortization process.

2.4.4 De-recognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group 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 Group could be required to repay.

Financial liabilities

Financial liabilities and insurance payables are de-recognized 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 de-recognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized as profit or loss.

2.4.5 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments (continued)

2.4.6 Impairment of financial assets
The Group 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. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has 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 reorganization and observable data indicating that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group 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, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not 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). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized 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 realized or has been transferred to the Group.

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

Available-for-sale financial assets
For available-for-sale financial investments, the Group 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 amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments (continued)

2.4.6 Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

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 Group 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 Group 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 recognized in profit or loss, is removed from other comprehensive income and recognized 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 recognized 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 amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued 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 increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

2.4.7 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts, to manage currency or other risks within the Group. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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 recognized in other comprehensive income.

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

- Where the Group 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 consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Financial Instruments (continued)

2.4.7 Derivative financial instruments and hedge accounting (continued)

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 the statement of 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 Group 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 the statement of profit or loss over the residual period to maturity.

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 the statement of 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 the statement of profit or loss in the same period or periods during which the asset acquired or liability assumed affects the statement of 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 the statement of profit or loss in the same period or periods during which the hedged forecast transaction affects the statement of 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 Group 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 the statement of profit or loss.

2.4.8 Cash and cash equivalents

For the purpose of the consolidated 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.

For the purpose of the consolidated 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Foreign currency translation

These financial statements are presented in United States dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group 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 at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized 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 determined. 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 items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized 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 these entities are translated into United States dollars at exchange rates prevailing at the end of the reporting period and profit or loss and cash flow items are translated into United States dollars at the weighted average exchange rates for the period. The resulting exchange differences are recognized in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

2.6 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 amortized over the useful economic life and assessed for impairment if there has been a significant change in the expected pattern of consumption of future economic benefits embodied in the intangible asset. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.7 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after items of plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the period in which they are incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized 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 Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property, plant and equipment and depreciation (continued)

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

Motor vehicles	20%
Furniture and fixtures	20-33⅓%
Computer equipment	20-33⅓%
Leasehold improvements	Over the lease terms
Property held for own use	Shorter of the unexpired term of land lease or the estimated useful life

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is de-recognized is the difference between the net sales proceeds and the carrying amount of the relevant assets.

2.8 Investment property

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of profit or loss in the year of the retirement or disposal.

2.9 Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, 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 recognized 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss on an asset other than goodwill is reversed only if there has been a change in the estimate 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/amortization) had no impairment loss been recognized 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.

2.10 Income taxes

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

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

Deferred tax is provided, using the liability method, on 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 recognized 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 recognized for deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilized, 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 recognized 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 utilized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Income taxes (continued)

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 utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized 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 realized 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.

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.

2.11 Revenue

Investment income
Interest income is recognized 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 amortization of any discount or premium. Investment income also includes dividends, which are included on the date the shares become quoted ex-dividend.

Realized gains and losses recorded in profit or loss
Realized 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 amortized cost and are recorded on occurrence of the sale transaction. The costs of partial sales of investments with multiple acquisition dates are determined by using the first in first out ("FIFO") principle.

Fees and commission income
Fees and commission income consist primarily of administration service fees and surrender charges, fund management fees, income from any incidental non-insurance activities and commissions on reinsurance ceded. Reinsurance commissions are deferred in the same way as acquisition costs. All other fees and commission income are recognized as the services are provided.

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

2.12 Employee benefits

Paid leave carried forward
The Group 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 utilized 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-Defined Contribution Plans
The Group operates a defined contribution retirement benefits scheme 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 Group in an independently administered fund. When an employee leaves the scheme prior to his/her interest in the Group's employer contributions becoming fully vested, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Employee benefits (continued)

The Group 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 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 MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

Long service payments
Certain employees of the Group are eligible for long service payments in the event of the termination of their employment according to certain local Employment Ordinances. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in those Employment Ordinances.

Share-based compensation
Together with a share-option award plan initiated by the Group in 2018, the Group offers a number of share-based compensation plans (share award plan and share-option award plan) for certain key employees as part of a compensation plan aligned with services provided in achieving shareholder value targets. These share-based compensation plans are equity-settled plans and the compensation expense charged to the consolidated 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 Group assesses the number of shares and 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.

For the share award plan, the Group utilizes an appraisal value method (Embedded Value plus a multiple of Value of New Business) and an assessment of performance conditions (IRR achievement) to calculate the fair value of the share awards, taking into account the terms and conditions upon which the awards were granted.

For the share-option award plan, the Group 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Provisions and contingencies

A provision is recognized 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.

Where the Group expects a provision to be reimbursed, for example under an insurance contract held, the reimbursement is recognized as a separate asset only when the reimbursement is probable.

The Group recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated.

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

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognized in accordance with the general guidance for provisions above; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the guidance for revenue recognition.

2.14 Non-current assets and disposal groups held for sale

Non-current assets and 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 Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and 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.

2.15 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 Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to profit or loss on a straight-line basis over the lease terms.

Where the Group is the lessee, rentals payment under operating leases net of any incentives received from the lessor are charged to the profit or loss on the straight-line basis over the lease terms.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Related parties

A party is considered to be related to the Group 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 Group;

(ii) has significant influence over the Group; or

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

or

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

(i) the entity and the Group 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 Group are joint ventures of the same third party;

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly. Key judgments, estimates and assumptions are described below.

(a) Income taxes
Significant management judgment on the future tax treatment of certain transactions is required in determining income tax provisions. The Group 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 developments in tax laws. Hong Kong and Macau 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 develop, these taxation positions may change in the future.

(b) Valuation of deferred tax assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits with future tax planning strategies. Further details are contained in note 12(b) to the financial statements.

(c) Impairment of goodwill
The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to calculate the actuarial appraisal value based on (i) embedded value with respect to the in-force business together with (ii) the value of future new business, and also to choose a suitable discount rate in order to calculate the present value of those expected future profits. Further details regarding goodwill are provided in note 14.

(d) Life insurance contract liabilities
The Group calculates insurance contract liabilities for traditional life insurance using a net level premium valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses best estimate assumptions at inception adjusted for a provision for the risk of adverse deviation (where appropriate) for mortality, morbidity, expected investment yields, surrenders and expenses set at the policy inception date (or acquisition date for acquired insurance contracts). These assumptions remain locked in thereafter, unless a deficiency arises on liability adequacy testing. Interest rate assumptions can vary by denominated currency, year of issuance and product. Mortality, morbidity, surrender and expense assumptions are based on the Group's experience. The Group exercises significant judgment in making appropriate assumptions. In addition, for participating products with definite sharing mechanism, an insurance liability is recorded for the proportion of the net assets of the participating fund that would be allocated to policyholders assuming all performance were to be declared as a dividend based upon the Group's rules on profit distribution.

The judgments exercised in the valuation of insurance contract liabilities affect the amounts recognized in the consolidated financial statements as insurance contract benefits and insurance contract liabilities. Further details of the related accounting policies, key risks and variables, and the sensitivities of assumptions to the key variables in respect of insurance contract liabilities are provided in notes 2.3, 27 and 37.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(e) General insurance contract liabilities

For general insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the end of the reporting period. It can take a significant period of time before the ultimate claims cost can be established with certainty and, for some types of policies, IBNR claims form the majority of the claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims is the use of past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. General insurance claims provisions are not discounted for the time value of money.

Similar judgments are made in assessing the adequacy of the unearned premium provision, whereby assessments are made of the expected future claim costs arising from the unexpired portion of contracts in force at the end of the reporting period.

Further details of the related accounting policy, key risk and variables, and the sensitivities of assumptions to the key variables in respect of general insurance contract liabilities are provided in notes 2.3.4, 27 and 37.

(f) Deferred acquisition costs

The judgments exercised in the deferral and amortization of acquisition costs affect amounts recognized in the consolidated financial statements as deferred acquisition costs and insurance and investment contract benefits.

As described in note 2.3, deferred acquisition costs for traditional life insurance and annuity policies are amortized over the expected life of the contracts as a constant percentage of expected premiums. Expected premiums are estimated at the date of policy issue and are applied consistently throughout the life of the contract unless a deficiency occurs when performing liability adequacy testing.

As described in note 2.3, deferred acquisition costs for universal life and investment-linked contracts are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits to be realized over the life of the contract. Significant judgment is exercised in making appropriate estimates of gross profits. The expensing of acquisition costs is accelerated following adverse investment performance. Likewise, in periods of favorable investment performance, previously expensed acquisition costs are reversed (but not in excess of the amount initially deferred).

Additional details of deferred acquisition costs are provided in notes 2.3 and 16.

(g) Value of business acquired

The judgments exercised in the valuation and amortization of the fair value of insurance contracts of the acquired company in business combinations/ affect amounts recognized in the consolidated financial statements as value of business acquired.

As described in note 2.3, value of business acquired is an asset that reflects the present value of estimated net cash flows before tax embedded in the insurance contracts of an acquired company which existed at the time of business combination. It represents the difference between the fair value of insurance liabilities and the carrying value. In all cases, the VOBA is amortized over the estimated life of contracts in the acquired portfolio on a systematic basis. The rate of amortization reflects the profile of the value of in-force business acquired. The carrying value of VOBA is reviewed annually for impairment and any reduction is charged to the consolidated statement of profit or loss and other comprehensive income.

Additional details of value of business acquired are provided in notes 2.3 and 15.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(h) Liability adequacy testing
The Group evaluates the adequacy of its insurance and investment contract liabilities with DPF at least annually. Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. Liability adequacy is assessed on a portfolio of contracts in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

The judgments exercised in liability adequacy testing affect amounts recognized in the consolidated financial statements such as commission and other acquisition expenses, deferred acquisition costs, insurance contract benefits and insurance and investment contract liabilities.

(i) Fair values of financial assets
The Group 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 and equity prices are provided in notes 2.4, 19 and 37.

(j) 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 Group 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 Group 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 reorganization;
- 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 2.4.6 and 19.

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(l) Share-based compensation

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

i. Share award plan

The Group utilizes an appraisal value method (Embedded Value ("EV") plus a multiple of Value of New Business ("VNB")) and an assessment of performance conditions (IRR achievement) to calculate the fair value of the share awards, taking into account the terms and conditions upon which the awards were granted.

The Group determines appraisal value on the following basis:

- For life insurance businesses, the appraisal value equals EV plus a multiplier of VNB for the calendar year at the end of each performance period. The multiplier was agreed with the shareholders for the purpose of the IRR calculation. Adjustments are made to the reported EV to exclude the impact of certain items not within control of management or not anticipated in the original business plan.
- For non-life businesses, the appraisal value is calculated as the net asset value plus a multiplier of the net profits for the calendar year at the end of each performance period.
- For non-operating entities, the appraisal value is equal to the net asset value for the calendar year at the end of each performance period.

The Group takes into account all cash flow items on a monthly basis during the performance period when assessing the IRR achievement. Certain assumptions were made when constructing the monthly cash flows for the purpose of the IRR calculation.

The judgments exercised in the determination of appraisal value and the assessment of IRR achievement affect the amounts recognized in the consolidated financial statements as share-based payment expense and share-based payment reserve. Further details of the related accounting policies and movements in outstanding awards are provided in notes 2.12 and 35.

ii. Share-option award plan

The Group 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 Group 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 consolidated financial statements as share-based payment expense and share-based payment reserve. Further details of the related accounting policies and movements in outstanding awards are provided in notes 2.12 and 35.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(m) Investment in joint venture

The Group has elected to retain the fair value measurement applied by its joint venture to investment properties when applying the equity method. Investment properties are stated at fair value based on valuations performed by an independent professional appraiser. In determining the fair value, the appraiser considers the estimated rental value of the property and applies the appropriate valuation methods, i.e., the capitalization method and discounted cashflow method. A valuation report with analysis of changes in fair value measurement is prepared at the end of each reporting date and is reviewed and approved by the senior management.

Further details of the investment in joint venture are provided in note 23.

4. EXCHANGE RATES

The Group's principal operations during the reporting years are Hong Kong and Macau. The results and cash flows of these operations have been translated into US Dollars at the following average rates:

	US dollar exchange rate	
	Year ended 31 December 2018	Year ended 31 December 2017
Hong Kong	7.837	7.792
Macau	8.038	7.997
Vietnam	23,021.804	22,712.200

Assets and liabilities have been translated at the following year end rates:

	US dollar exchange rate	
	31 December 2018	31 December 2017
Hong Kong	7.832	7.815
Macau	8.065	8.048
Vietnam	23,200.000	22,700.000

5. SEGMENT INFORMATION

The reportable segments of the Group correspond to its principal subsidiary legal entities representing the life insurance business and the general insurance business, as follows:

- The life insurance segment provides life insurance products and services to customers in Hong Kong and Macau. Life insurance is the Group's largest business line, representing 97% of gross premium of the Group, and comprises traditional participating life insurance products, traditional non-participating life insurance products, accident and health insurance non-participating products, investment-linked insurance products and universal life insurance products.

- The general insurance segment provides a range of general insurance products for individuals and commercial institutions in Hong Kong, including health and medical care insurance, motor insurance, property insurance and marine insurance.

5. SEGMENT INFORMATION (continued)

The remaining operations of the Group, which consist of discontinued operations and transactions of the holding and intermediate holding companies and consolidation adjustments, are included in Corporate and Others. Further details of the discontinued operations are provided in Note 13.

US$'000

	Year ended 31 December 2018			
	Life Insurance	General Insurance	Corporate and Others	Total
Net premiums	1,317,412	32,674	-	1,350,086
Fees and commission income	156,345	9,356	(6,742)	158,959
Investment return	312,409	2,538	(18,435)	296,512
Other operating revenue	6,933	-	(164)	6,769
TOTAL REVENUE FROM CONTINUING OPERATIONS	1,793,099	44,568	(25,341)	1,812,326
Net benefits and claims	(1,394,815)	(17,599)	-	(1,412,414)
Amortization of intangible assets	(32,152)	-	(30)	(32,182)
Net deferred acquisition cost movement	178,840	94	-	178,934
Finance costs	-	-	(18,485)	(18,485)
Commission and commission related expenses	(296,612)	(14,257)	2,829	(308,040)
Other operating and administrative expenses	(164,611)	(11,170)	(47,585)	(223,366)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(1,709,350)	(42,932)	(63,271)	(1,815,553)
Share of gains/(losses) in associate and joint venture	16,983	-	(718)	16,265
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	100,732	1,636	(89,330)	13,038
Income tax expense	(6,126)	(256)	-	(6,382)
PROFIT/(LOSS) FOR THE YEAR AFTER TAX FROM CONTINUING OPERATIONS	94,606	1,380	(89,330)	6,656
Loss for the year from discontinued operations	-	-	(17,105)	(17,105)
NET PROFIT/(LOSS)	94,606	1,380	(106,435)	(10,449)
OTHER COMPREHENSIVE INCOME, NET OF TAX	(238,861)	(1,136)	(2,496)	(242,493)
TOTAL COMPREHENSIVE INCOME	(144,255)	244	(108,931)	(252,942)
TOTAL ASSETS	15,731,971	149,096	(380,011)	15,501,056
TOTAL LIABILITIES	12,591,181	98,797	492,716	13,182,694
TOTAL EQUITY	3,140,790	50,299	(872,727)	2,318,362

5. SEGMENT INFORMATION (continued)

US$'000

	Year ended 31 December 2017			
	Life Insurance	General Insurance	Corporate and Others	Total
Net premiums	1,377,174	33,404	-	1,410,578
Fees and commission income	152,073	8,733	(3,656)	157,150
Investment return	472,333	3,037	1,582	476,952
Other operating revenue	38,535	-	-	38,535
TOTAL REVENUE FROM CONTINUING OPERATIONS	2,040,115	45,174	(2,074)	2,083,215
Net benefits and claims	(1,721,389)	(17,743)	-	(1,739,132)
Amortization of intangible assets	(34,077)	-	-	(34,077)
Net deferred acquisition cost movement	128,590	(264)	-	128,326
Finance costs	-	-	(21,091)	(21,091)
Commission and commission related expenses	(210,191)	(13,576)	209	(223,558)
Other operating and administrative expenses	(121,314)	(9,690)	(12,856)	(143,860)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(1,958,381)	(41,273)	(33,738)	(2,033,392)
Share of gains/(losses) in associate and joint venture	4,942	-	(1,118)	3,824
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	86,676	3,901	(36,930)	53,647
Income tax expense	(15,133)	(483)	-	(15,616)
PROFIT/(LOSS) FOR THE YEAR AFTER TAX FROM CONTINUING OPERATIONS	71,543	3,418	(36,930)	38,031
Loss for the year from discontinued operations	-	-	(16,700)	(16,700)
NET PROFIT/(LOSS)	71,543	3,418	(53,630)	21,331
OTHER COMPREHENSIVE INCOME, NET OF TAX	237,187	1,148	1,016	239,351
TOTAL COMPREHENSIVE INCOME	308,730	4,566	(52,614)	260,682
TOTAL ASSETS	14,722,736	142,551	(435,535)	14,429,752
TOTAL LIABILITIES	11,448,315	88,814	518,972	12,056,101
TOTAL EQUITY	3,274,421	53,737	(954,507)	2,373,651

6. NET PREMIUMS

US$'000	Notes	Year ended 31 December 2018	Year ended 31 December 2017
(a) Gross premiums			
Life insurance contracts		1,729,931	1,578,997
Non-life insurance contracts	27(b)(ii)	64,073	62,090
Investment contracts with DPF		20,159	22,000
Total gross premiums		1,814,163	1,663,087
(b) Reinsurers' share of gross premiums			
Life insurance contracts		(432,678)	(223,823)
Non-life insurance contracts	27(b)(ii)	(31,967)	(30,505)
Investment contracts with DPF		-	-
Total reinsurers' share of gross premiums		(464,645)	(254,328)
(c) Change in unearned premiums			
Non-life insurance contracts		568	1,819
Net premiums		1,350,086	1,410,578

7. FEES AND COMMISSION INCOME

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
Policyholder administration service fees and surrender charges		
Insurance contracts	85,459	89,186
Reinsurance commission income	77,925	66,337
Commission income	11,443	12,432
	174,827	167,955

8. INVESTMENT RETURN

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	284,191	252,822
Dividend income	59,351	41,822
Investment income	343,542	294,644
Realized gains on financial assets		
Available-for-sale financial assets (transfer from Equity)	30,961	29,881
Financial assets designated at fair value through profit or loss	27,052	18,357
Derivative financial instruments	37,922	-
Realized losses on financial assets		
Available-for-sale financial assets (transfer from Equity)	(23,942)	(16,722)
Financial assets designated at fair value through profit or loss	(508)	(230)
Derivative financial instruments	(17,619)	(8,867)
Net realized gains/(losses) on financial assets	53,866	22,419
Realized loss on financial liability	(1,132)	-
Fair value gains/(losses) on derivative financial instruments	3,579	1,599
Fair value gains/(losses) on financial assets designated at fair value through profit or loss	(101,028)	158,593
Net fair value gains/(losses) on financial assets	(97,449)	160,192
(Impairment)/Reversal of impairment of available-for-sale financial assets	(2,640)	(1,603)
(Impairment)/Reversal of impairment on secured loans	(38)	(13)
Foreign exchange difference	363	1,313
Total investment return	296,512	476,952

The impairment or reversal of impairment of available-for-sale financial assets and secured loans are in the life insurance segment.

The investment return does not include the return from the joint venture investment in One George Street LLP, which is presented as share of gains/(losses) in associate and joint venture in the consolidated statement of profit or loss and other comprehensive income. Further details of the financial results from One George Street LLP are provided in note 23.

9. NET BENEFITS AND CLAIMS INCURRED

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
(a) Gross benefits and claims paid		
Life insurance contract benefits and claims paid		
With DPF	627,572	405,927
Without DPF	133,864	167,605
Total life insurance contract benefits and claims paid	761,436	573,532
Non-life insurance contract benefits and claims paid	35,216	32,527
Investment contracts with DPF benefits and claims paid	91,204	32,469
Total gross benefits and claims paid	887,856	638,528
(b) Initial consideration and subsequent changes to consideration of coinsurance with funds withheld arrangement	71,382	72,000
(c) Reinsurers' share of gross benefits and claims paid		
Reinsurers' share of life insurance contract benefits and claims paid		
With DPF	(15,602)	(12,759)
Without DPF	(4,424)	(5,371)
Total reinsurers' share of life insurance contract benefits and claims paid	(20,026)	(18,130)
Reinsurers' share of non-life insurance contract benefits and claims paid	(18,698)	(17,347)
Total reinsurers' share of benefits and claims paid	(38,724)	(35,477)
(d) Gross change in contract liabilities		
Change in life insurance contract liabilities		
With DPF	909,253	1,118,798
Without DPF	(110,832)	99,335
Total change in life insurance contract liabilities	798,421	1,218,133
Change in non-life insurance contracts liabilities	4,827	3,337
Change in investment contract liabilities with DPF	(25,047)	(230)
Total gross change in contract liabilities	778,201	1,221,240
(e) Reinsurers' share of gross change in contract liabilities		
Reinsurers' share of change in life insurance contract liabilities		
With DPF	(171,688)	(59,515)
Without DPF	(110,868)	(96,870)
Total reinsurers' share of change in life insurance contract liabilities	(282,556)	(156,385)
Reinsurers' share of change in non-life insurance contracts liabilities	(3,745)	(774)
Total reinsurers' share of gross change in contract liabilities	(286,301)	(157,159)
Total net benefits and claims	1,412,414	1,739,132

The total interest expense of the investment contract liabilities with DPF was US$5,363,000 (2017: US$5,617,000).

10. COMMISSION AND COMMISSION RELATED EXPENSES

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
Commission expenses	166,367	140,589
Commission related expenses	141,673	82,969
	308,040	223,558

11. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

US$'000	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Advertising and marketing expenses		45,781	27,532
Auditor's remuneration		1,077	860
Bank charges and other professional service fees		16,426	12,759
Depreciation of plant and equipment	17	5,716	6,240
Employee benefit expenses			
Salaries and allowances		73,853	50,081
Share-based payment expenses	35	20,612	12,490
Pension contribution		2,990	2,786
Other staff costs		5,265	3,767
Group management fee		6,917	3,903
Office related expenses		6,622	4,430
Operating leases rental		15,374	12,860
Other underwriting expenses		827	843
Computer and IT expenses		8,721	3,261
Travel and entertainment expenses		1,187	831
Other operating expenses		13,683	7,272
Foreign exchange differences, net		(1,685)	(6,055)
Total		223,366	143,860

12. TAXATION

(a) 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. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

US$'000	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Current – Hong Kong			
Charge for the year		(273)	(582)
(Under-provision)/Over-provision in prior years		-	73
Current – Elsewhere		(3,744)	(857)
Deferred	12(b)	(2,365)	(14,250)
		(6,382)	(15,616)

A reconciliation of the tax credit/expense applicable to profit/(loss) before tax at the statutory rate to the tax position at the effective tax rate is shown below, along with a reconciliation of the statutory tax rate to the effective tax rate. The statutory tax rate and effective tax rate of Hong Kong are 16.5% and 4%, respectively.

US$'000	Year ended 31 December 2018	%
Profit before tax	13,038	
Tax at the statutory tax rate	(1,169)	(9.0)
Income not subject to tax	3,216	24.7
Expenses not deductible for tax	(4,504)	(34.5)
Tax losses not recognized	(4,014)	(30.8)
Adjustments in respect of current income tax of previous years	-	-
Others	89	0.7
	(6,382)	(48.9)

US$'000	Year ended 31 December 2017	%
Profit before tax	53,647	
Tax at the statutory tax rate	(8,759)	(16.3)
Income not subject to tax	5,568	10.4
Expenses not deductible for tax	(10,861)	(20.2)
Tax losses not recognized	(1,321)	(2.5)
Adjustments in respect of current income tax of previous years	74	0.1
Others	(317)	(0.6)
	(15,616)	(29.1)

12. TAXATION (continued)

(b) Deferred Tax

The movement in deferred tax assets/(liabilities) during the year is as follows:

US$'000	Note	Insurance contract liabilities	Deferred acquisition cost	Value of business acquired	Revaluation of available-for-sale financial assets	Tax losses	Other temporary differences	Total
1 January 2018		40,304	(122,291)	(106,653)	(47,512)	47,282	32,755	(156,115)
Deferred tax credited/(charged) to profit or loss	12(a)	65,627	(28,864)	5,124	-	(27,996)	(16,256)	(2,365)
Deferred tax credited/(charged) to other comprehensive income		-	-	-	45,332	-	199	45,531
Foreign exchange difference		6	4	14	14	-	(7)	31
31 December 2018		105,937	(151,151)	(101,515)	(2,166)	19,286	16,691	(112,918)

US$'000	Note	Insurance contract liabilities	Deferred acquisition cost	Value of business acquired	Revaluation of available-for-sale financial assets	Tax losses	Other temporary differences	Total
1 January 2017		54,166	(101,566)	(111,129)	(8,471)	33,092	31,038	(102,870)
Deferred tax credited/(charged) to profit or loss	12(a)	(13,858)	(20,748)	4,475	-	14,190	1,691	(14,250)
Deferred tax credited/(charged) to other comprehensive Income		-	-	-	(39,048)	-	34	(39,014)
Foreign exchange difference		(4)	23	1	7	-	(8)	19
31 December 2017		40,304	(122,291)	(106,653)	(47,512)	47,282	32,755	(156,115)

In 2018, the negative balance shown above of US$112,918,000 represents deferred tax liabilities of US$112,918,000 and nil for deferred tax assets. In 2017, the negative balance shown above of US$156,115,000 represents deferred tax liabilities of US$156,115,000 and nil for deferred tax assets, which relate to tax within the jurisdiction of the same tax authority.

Deferred tax assets are recognized to the extent that sufficient future taxable profits will be available for realization. The Group has tax losses arising in Hong Kong and China of US$32,909,000 (2017: US$19,675,000) that are available within the applicable time limits for offsetting against taxable profits from its subsidiaries in which the losses arose. In 2018, no additional deferred tax assets (2017: US$14,190,000) have been recognized in respect of these losses as it is not considered probable that sufficient taxable profits will be available against which these tax losses can be further utilized in the foreseeable future. The tax losses in Hong Kong can be carried forward indefinitely. The tax losses in China can be carried forward for five years.

13. DISCONTINUED OPERATIONS

The Pension Business

On 3 August 2016, the Group signed an Implementation Agreement ("IA") with Sun Life Hong Kong Limited ("Sun Life") and, announced the disposal of FWD's Mandatory Provident Fund ("MPF") and Occupational Retirement Schemes ("ORSO") business, including the disposal of the pension trustee entity, FWD Pension Trust Limited (collectively referred to as "the Pension Business"). The Group and Sun Life also entered into a 15-year strategic distribution agreement which allows FWD Life Insurance Company (Bermuda) Limited to distribute Sun Life's MPF products in the Hong Kong market as Sun Life's principal intermediary. As at 31 December 2016, the Pension Business was classified as a disposal group held for sale.

On 3 October 2017, the Group disposed of its 100% interest in FWD Pension Trust Limited and the MPF business (excluding policies relating to products classified as Class G of Long Term Business under the Hong Kong Insurance Ordinance ("Class G Policies")). The Group received a total consideration of US$38,404,000 for transferring its sponsorship of MPF, the employees and the business contracts of the Pension Business and for entering the strategic distribution agreement with Sun Life. These revenues are fully recognized as other operating revenue as presented in the consolidated statement of profit or loss and other comprehensive income.

During 2018, the Group continued discussions with the regulator for the transfer of the assets of the ORSO business and the Class G Policies. The transfer of assets is expected to be completed in 2019. Operating results of the Pension Business before the disposal are set out in note 13(a) of the financial statements.

FWD Vietnam

On 30 June 2016, the Group acquired a 100% interest in Great Eastern Life (Vietnam) Co. Ltd., which has been renamed FWD Vietnam Life Insurance Company Limited ("FWD Vietnam"). At the time of the acquisition, the Group had the intention to sell FWD Vietnam to a related party and initiated discussions with the regulator on the process required to obtain regulatory approval for the sale. As at 31 December 2016, FWD Vietnam was classified as a disposal group held for sale.

In 2017, the Group continued discussions with the regulator and developed a concrete action plan to obtain regulatory approval for the sale of FWD Vietnam. As at 31 December 2017, FWD Vietnam continued to be classified as a disposal group held for sale.

During 2018, the regulator circulated a checklist of items to the Group which are required to obtain the final regulatory approval for the sale of FWD Vietnam. As at 31 December 2018, the Group is working on the checklist and expects to complete all items in the checklist in 2019. As at 31 December 2018, FWD Vietnam continues to be classified as a disposal group held for sale.

The operating results and major classes of assets and liabilities of FWD Vietnam are set out in note 13(b) of the financial statements.

13. DISCONTINUED OPERATIONS (continued)

(a) The Pension Business

The operating results of the Pension Business are presented below:

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
Fee and commission income	1,831	4,692
Interest income	-	479
Realized gains on financial assets		
Available-for-sale financials assets (transfer from Equity)	-	285
Other operating revenue	-	-
	1,831	5,456
Depreciation of plant and equipment	-	(1)
Other operating expenses	-	(3,044)
	-	(3,045)
Profit from the discontinued operation	1,831	2,411
Gain/(loss) recognized on the re-measurement to the fair value	-	-
Profit before tax from the discontinued operation	1,831	2,411
Gain on disposal of FWD Pension Trust Limited	-	4,799
Tax benefit/(expense):		
Related to pre-tax profit	-	(308)
Profit for the year from the discontinued operation	1,831	6,902

The major classes of assets and liabilities of the Pension Business are as follows:

US$'000	31 December 2018	31 December 2017
Assets		
Plant and equipment	-	-
Financial assets		
Available-for-sale financial assets	-	-
Financial assets at fair value through profit or loss	346,386	387,246
Prepayments, deposits and other assets	-	-
Due from related parties	-	-
Cash and cash equivalents		-
TOTAL ASSETS	346,386	387,246
Liabilities		
Investment contract liabilities	346,386	387,246
Due to related parties	-	-
Other liabilities	-	-
TOTAL LIABILITIES	346,386	387,246
NET ASSETS DIRECTLY ASSOCIATED WITH THE DISPOSAL GROUP	-	-
Amounts included in accumulated other comprehensive income:		
Available-for-sale financial assets revaluation reserve	-	-
Foreign currency translation reserve	-	-
RESERVE OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE	-	-

13. DISCONTINUED OPERATIONS (continued)

(a) The Pension Business (continued)

The net cash flows from the Pension Business are as follows:

US$'000	31 December 2018	31 December 2017
Operating activities	1,831	1,301
Investing activities	-	24,089
Financing activities	-	-
Net cash inflow/(outflow)	1,831	25,390

(b) FWD Vietnam

The operating results of FWD Vietnam are presented below:

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
Net premium	31,850	12,293
Fee and commission income	426	70
Interest income	4,315	2,534
Other operating revenue	865	-
Total revenue	37,456	14,897
Net benefits and claims	(25,028)	(8,627)
Net deferred acquisition cost movement	26,725	4,667
Commission and commission related expenses	(29,001)	(16,192)
Amortization of intangible assets	(473)	(86)
Depreciation of plant and equipment	(787)	(623)
Loss on disposal of plant and equipment	(2)	(18)
Loss on disposal of intangible assets	-	(82)
Other operating and administrative expenses	(24,199)	(17,471)
Total expenses	(52,765)	(38,432)
Loss from the discontinued operation	(15,309)	(23,535)
Gain/(loss) recognized on the re-measurement to the fair value	-	-
Loss before tax from the discontinued operation	(15,309)	(23,535)
Tax benefit/(expense):		
Related to pre-tax profit	(3,627)	(67)
Related to re-measurement to fair value	-	-
Loss for the year from the discontinued operation	(18,936)	(23,602)

13. DISCONTINUED OPERATIONS (continued)

(b) FWD Vietnam (continued)

The major classes of assets and liabilities of FWD Vietnam classified as held for sale are as follows:

US$'000

	31 December 2018	31 December 2017
Assets		
Goodwill	698	713
Intangible assets	12,952	413
Deferred acquisition cost	31,127	4,670
Plant and equipment	2,595	2,575
Financial assets		
Available-for-sale financial assets	25,743	22,873
Loans and receivables	3,759	581
Prepayments, deposits and other assets	5,658	9,305
Insurance receivables	2,859	228
Cash and cash equivalents	38,055	28,496
TOTAL ASSETS	123,446	69,854
Liabilities		
Insurance contract liabilities	35,991	12,295
Insurance and other liabilities	24,579	12,456
Deferred tax liabilities	3,883	67
TOTAL LIABILITIES	64,453	24,818
NET ASSETS DIRECTLY ASSOCIATED WITH THE DISPOSAL GROUP	58,993	45,036
Amounts included in accumulated other comprehensive income:		
Available-for-sale financial assets revaluation reserve	877	1,490
Foreign currency translation reserve	(1,388)	(562)
RESERVE OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE	(511)	928

The net cash flows from FWD Vietnam are as follows:

US$'000

	31 December 2018	31 December 2017
Operating activities	(13,466)	(7,141)
Investing activities	(11,280)	(4,052)
Financing activities	34,305	27,295
Net cash inflow/(outflow)	9,559	16,102

14. GOODWILL

US$'000	31 December 2018	31 December 2017
At beginning of year		
Cost	902,057	902,057
Accumulated impairment	-	-
Foreign exchange difference	(512)	3
Net carrying amount	901,545	902,060
Movement during the year		
Impairment provided during the year	-	-
Foreign exchange difference	(147)	(515)
Net carrying amount	901,398	901,545
At end of year		
Cost	902,057	902,057
Accumulated impairment	-	-
Foreign exchange difference	(659)	(512)
Net carrying amount	901,398	901,545

Impairment of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating unit for impairment testing:

- FWD Life Insurance Company (Bermuda) Limited
- FWD Life Insurance Company (Macau) Limited

The recoverable amounts of FWD Life Insurance Company (Bermuda) Limited and FWD Life Insurance Company (Macau) Limited have been determined based on a value in use calculated as an actuarially determined appraisal value, based on (i) the Embedded Value ("EV") with respect to the in-force business together with (ii) the value of future new business. EV captures the market value of the assets in excess of those backing the policy reserves and other liabilities as well as the value of all in-force policies as at the reporting date attributable to the shareholders of the Company. The value of future new business is calculated by aggregating the present value of future expected profits on policies expected to be sold in the future (i.e., value of new business ("VNB")). Both EV and VNB are calculated in accordance with the Group's policies.

14. GOODWILL (continued)

The Group adopts an approach that tests goodwill impairment at three levels.

- Level I – review any recent similar market transactions. If the purchase price implied by a similar market transaction is greater than the net asset value ("NAV") (inclusive of goodwill), the impairment test is passed.
- Level II –Impairment test is passed if the EV is greater than the NAV (inclusive of goodwill) prepared on the IFRS basis.
- Level III - The impairment test is passed if the EV plus the VNB for a reasonable number of future years is greater than the NAV (inclusive of goodwill) prepared on the IFRS basis.

If the recoverable amount is less than the NAV, the difference is recognized as an impairment loss in the Group's profit or loss. No impairment loss has been recognized during the year as impairment test is passed at Level III for the FWD Life Insurance Company (Bermuda) and FWD Life Insurance Company (Macau) Limited.

The key assumptions used for the value in use impairment calculation of FWD Life Insurance Company (Bermuda) Limited and FWD Life Insurance Company (Macau) Limited are:

- Risk discount rate of 7.50% (2017: 7.25%) which is in line with industry average
- Investment return assumptions of 3.77% (2017: 3.71%) and 4.74% (2017: 3.49%) for in-force traditional life business and in-force universal life business, respectively, progressively increasing to 4.93% (2017:4.71%) and 5.4% (2017:5.13%) as the ultimate investment return assumption. For new business, investment return assumptions of 4.32% (2017: 4.34%) and 4.46% (2017: 4.72%) were used for traditional life and universal life business, respectively, progressively increasing to 4.93% (2017: 4.71%) and 5.4% (2017: 5.13%) as the ultimate investment return assumption. The investment return assumption for the separate account is 5.28% (2017: 5.03%).
- VNB multiplier of 15 (2017: 15) calculated using projected new sales over the next 15 years (2017: 15 years) at a discount rate of 9.25% (2017: 9.25%).

The Group has projected new sales over the next 15 years to estimate the value of future new business. The growth rates assumed in the first five years has taken into account those used in the current five year business plan approved by the Group’s Board and the market growth rates. The growth rate beyond five years is 3% per year. The use of a fifteen year period to estimate future new business value is in line with current industry practice.

Sensitivity to changes in assumptions

For the risk discount rate assumption, a 395bps (2017: 328bps) increase would give a value in use equal to the carrying amount of the cash generating unit. A 100bps increase in the risk discount rate assumption would cause the value in use of the cash generating unit to exceed the carrying amount by US$1,081.0m (2017: US$1,090.0m).

For the investment return assumption, a 337bps (2017: 222bps) reduction would give a value in use equal to the carrying amount of the cash generating unit. A 50bps reduction in the investment return assumption would cause the value in use of the cash generating unit to exceed the carrying amount by US$1,232.8m (2017: US$1.214.3m).

For the VNB multiplier assumption, a reduction of the VNB multiplier by approximately 12.4 (2017: 11.2) would give a value in use equal to the carrying amount of the cash generating unit.

The Group recognizes the fact that an unfavorable change in any of these assumptions could materially affect the recoverability of goodwill.

15. INTANGIBLE ASSETS

US$'000	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Value of business acquired	15(a)	614,161	646,384
Other intangible assets	15(b)	702	-
		614,863	646,384

(a) Value of business acquired

US$'000	31 December 2018	31 December 2017
At beginning of year	646,384	673,508
Effecting of regrouping	-	-
Amortization during the year	(32,151)	(26,818)
Foreign exchange difference	(72)	(306)
At end of year	614,161	646,384

(b) Other intangible assets

US$'000	31 December 2018	31 December 2017
At beginning of year	-	7,259
Additions	734	-
Amortization during the year	(31)	(7,259)
Foreign exchange difference	(1)	-
At end of year	702	-

The other intangible assets in 2017 represent retention fees paid to agents under a retention program launched in 2014.

16. DEFERRED ACQUISITION COST AND DEFERRED COMMISSION INCOME

US$'000	31 December 2018		
	Deferred acquisition cost	Deferred commission income	Net
At beginning of year	756,533	(261,964)	494,569
Expenses/(Income) deferred	331,227	(60,065)	271,162
Amortization during the year	(152,293)	44,197	(108,096)
Foreign exchange difference	(84)	21	(63)
At end of year	935,383	(277,811)	657,572

US$'000	31 December 2017		
	Deferred acquisition cost	Deferred commission income	Net
At beginning of year	628,469	(251,197)	377,272
Expenses/(Income) deferred	228,516	(50,343)	178,173
Amortization during the year	(100,190)	39,538	(60,652)
Foreign exchange difference	(262)	38	(224)
At end of year	756,533	(261,964)	494,569

17. PROPERTY, PLANT AND EQUIPMENT

US$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Property held for own use	Total
31 December 2018						
31 December 2017:						
Cost	14,507	224	3,942	13,910	10,081	42,664
Accumulated depreciation	(9,848)	(103)	(1,451)	(9,588)	(8)	(20,998)
Net carrying amount	4,659	121	2,491	4,322	10,073	21,666
31 December 2017, net of accumulated depreciation	4,659	121	2,491	4,322	10,073	21,666
Additions	900	-	99	2,776	-	3,775
Transfer from investment property	-	-	-	-	-	-
Effect of regrouping			117		(117)	-
Disposals	(326)	-	(15)	(64)	-	(405)
Depreciation provided during the year	(2,121)	(37)	(751)	(2,714)	(93)	(5,716)
Assets included in discontinued operation	-	-	-	-	-	-
Foreign exchange difference	(1)	-	(4)	(2)	(23)	(30)
31 December 2018, net of accumulated depreciation	3,111	84	1,937	4,318	9,840	19,290
31 December 2018:						
Cost	14,716	224	4,122	16,251	9,941	45,254
Accumulated depreciation	(11,605)	(140)	(2,185)	(11,933)	(101)	(25,964)
Net carrying amount	3,111	84	1,937	4,318	9,840	19,290
31 December 2017						
31 December 2016:						
Cost	13,923	150	2,188	12,329	-	28,590
Accumulated depreciation	(7,436)	(62)	(1,001)	(6,270)	-	(14,769)
Net carrying amount	6,487	88	1,187	6,059	-	13,821
31 December 2016, net of accumulated depreciation	6,487	88	1,187	6,059	-	13,821
Additions	596	74	1,756	1,591	-	4,017
Transfer from investment property (note 18)	-	-	-	-	10,086	10,086
Disposals	-	-	-	-	-	-
Depreciation provided during the year	(2,416)	(41)	(451)	(3,324)	(8)	(6,240)
Foreign exchange difference	(8)	-	(1)	(4)	(5)	(18)
31 December 2017, net of accumulated depreciation	4,659	121	2,491	4,322	10,073	21,666
31 December 2017:						
Cost	14,507	224	3,942	13,910	10,081	42,664
Accumulated depreciation	(9,848)	(103)	(1,451)	(9,588)	(8)	(20,998)
Net carrying amount	4,659	121	2,491	4,322	10,073	21,666

18. INVESTMENT PROPERTY

During 2017, subsequent to the end of the operating leases with third parties, the Group began to use the commercial signage acquired in 2016 to advertise the FWD brand. The Group engaged an independent, professionally qualified real estate appraiser to measure the fair value of the commercial signage as of 1 December 2017, and reclassified the commercial signage from investment property to property held for own use at that date. This asset is presented as property and equipment in the consolidated statement of financial position at 31 December 2018 and 31 December 2017.

US$'000	31 December 2018	31 December 2017
Carrying amount at beginning of year	-	10,086
Additions	-	-
Transfer to property held for own use	-	(10,086)
Foreign exchange difference	-	-
Carrying amount at end of year	-	-

19. FINANCIAL ASSETS

The following tables analyze the Group's financial investments by type and nature. The Group manages its financial investments in two distinct categories: Investment-linked Investments, and Policyholder and Shareholder Investments. The investment risk in respect of Investment-linked Investments is generally wholly borne by policyholders, and does not directly affect the profit or loss for the year. Furthermore, investment-linked policyholders are responsible for allocation of their policy values among investment funds offered by the Group. Policyholder and Shareholder Investments include all financial investments other than Investment-linked Investments. The investment risk in respect of Policyholder and Shareholder Investments is partially or wholly borne by the Group.

The Group has elected to apply the available for sale classification for the majority of debt securities and equities in the Policyholder and Shareholder Investments category. The investment risk from investments in this category directly impacts the Group's financial statements.

In the following tables, "FVTPL" indicates financial investments classified at fair value through profit or loss and "AFS" indicates financial investments classified as available-for-sale.

In compiling the tables, external ratings have been used where available. The following conventions have been adopted to conform the ratings of the various rating agencies.

Standard and Poor's	Moody's	Reported as
AAA	Aaa	AAA
AA+ to AA-	Aa1 to Aa3	AA
A+ to A-	A1 to A3	A
BBB+ to BBB-	Baa1 to Baa3	BBB
BB+ and below	Ba1 and below	Below investment grade

19. FINANCIAL ASSETS (continued)

19.1 Available-for-sale financial assets

Debt securities

US$'000

31 December 2018	Rating	Policyholder and shareholder				Total
		Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Government bonds - issued in local currency						
United States	AAA	84,424	696,471	-	172,956	953,851
Hong Kong	AA	-	-	-	249	249
Sub-total		84,424	696,471	-	173,205	954,100
Government bonds - issued in foreign currency						
United States	AAA	-	-	-	10,705	10,705
South Korea	AA	8,521	-	-	202	8,723
Qatar	AA	2,819	19,403	-	2,205	24,427
United Arab Emirates	AA	-	-	-	387	387
China	A	1,319	5,290	-	188	6,797
Saudi Arabia	A	47,730	25,314	-	381	73,425
Indonesia	BBB	720	13,067	-	-	13,787
Sub-total		61,109	63,074	-	14,068	138,251
Government agency bonds[1]						
AAA		613	14,140	-	6,407	21,160
AA		21,599	32,305	-	23,196	77,100
A		11,642	9,551	-	4,402	25,595
Sub-total		33,854	55,996	-	34,005	123,855
Corporate bonds						
AAA		7,659	11,310	-	621	19,590
AA		94,824	177,948	526	79,439	352,737
A		1,631,565	1,303,159	-	150,198	3,084,922
BBB		1,715,259	1,018,001	-	70,524	2,803,784
Below investment grade		20,872	10,834	-	17,178	48,884
Not rated		-	-	-	1,022	1,022
Sub-total		3,470,179	2,521,252	526	318,982	6,310,939
Structured securities						
Not rated		-	25,000	-	-	25,000
Sub-total		-	25,000	-	-	25,000
Equity securities						
Equity shares - Listed		-	58,292	-	25,845	84,137
Equity shares - Unlisted		495,165	103,302	-	48,970	647,437
Interest in investment funds		24,088	25,112	-	9,440	58,640
Sub-total		519,253	186,706	-	84,255	790,214

19. FINANCIAL ASSETS (continued)

19.1 Available-for-sale financial assets (continued)

US$'000 31 December 2018	Policyholder and shareholder				Total
	Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Others					
Certificate of deposits	-	-	-	21,080	21,080
Others	-	155	-	181	336
Sub-total	-	155	-	21,261	21,416
Total Available-for-sale financial assets	4,168,819	3,548,654	526	645,776	8,363,775

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

19. FINANCIAL ASSETS (continued)

19.1 Available-for-sale financial assets (continued)

Debt securities US$'000 31 December 2017	Rating	Policyholder and shareholder Universal life	Life fund	Deposit administration	Other policyholder and shareholder	Total
Government bonds - issued in local currency						
United States	AAA	54,901	600,880	-	184,692	840,473
Sub-total		54,901	600,880	-	184,692	840,473
Government bonds - issued in foreign currency						
United States	AAA	-	-	-	599	599
South Korea	AA	8,870	-	-	212	9,082
Qatar	AA	2,899	17,247	-	2,243	22,389
United Arab Emirates	AA	-	-	-	394	394
China	A	1,390	5,505	-	198	7,093
Japan	A	-	-	-	297	297
Saudi Arabia	A	43,025	14,831	-	200	58,056
Indonesia	BBB	772	14,508	-	-	15,280
Sub-total		56,956	52,091	-	4,143	113,190
Government agency bonds[1]						
AAA		670	15,455	-	6,128	22,253
AA		21,812	33,215	-	20,305	75,332
A		11,873	10,150	-	2,470	24,493
Sub-total		34,355	58,820	-	28,903	122,078
Corporate bonds						
AAA		3,351	9,611	-	338	13,300
AA		85,076	159,432	540	47,834	292,882
A		1,538,975	1,310,143	-	139,889	2,989,007
BBB		1,789,622	900,762	-	50,637	2,741,021
Below investment grade		2,010	11,925	-	18,339	32,274
Not rated		-	-	-	1,065	1,065
Sub-total		3,419,034	2,391,873	540	258,102	6,069,549
Equity securities						
Equity shares - Listed		-	140,347	-	43,250	183,597
Equity shares - Unlisted		255,899	69,934	-	16,023	341,856
Interest in investment funds		175,866	26,226	-	11,744	213,836
Sub-total		431,765	236,507	-	71,017	739,289
Others						
Certificate of deposits		-	-	-	20,578	20,578
Others		-	179	-	166	345
Sub-total		-	179	-	20,744	20,923
Total Available-for-sale financial assets		3,997,011	3,340,350	540	567,601	7,905,502

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

19. FINANCIAL ASSETS (continued)

19.1 Available-for-sale financial assets (continued)

During the year, the gross change in fair value in respect of the Group's available-for-sale financial assets recognized in other comprehensive income amounted to a decrease of US$275,451,000 (2017: an increase of US$284,356,000). Net realized gains of US$7,019,000 (2017: net realized gains of US$13,444,000) with impairment loss of US$2,640,000 (2017: impairment loss of US$1,603,000) were reclassified from other comprehensive income to profit or loss.

Bonds of US$200,114,000 (December 2017: bonds of US$164,662,000 and investment funds of US$11,745,000) were used to guarantee the insurance reserves at 31 December 2018 as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

19. FINANCIAL ASSETS (continued)

19.2 Financial assets at fair value through profit or loss

Debt securities

US$'000 31 December 2018	Rating	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Government bonds				
- issued in foreign currency				
Qatar	AA	133	-	133
Sub-total		133	-	133
Government agency bonds[1]				
AAA		-	-	-
AA		6,446	-	6,446
A		323	-	323
Sub-total		6,769	-	6,769
Corporate bonds				
AA		22,882	-	22,882
A		27,519	-	27,519
BBB		2,953	-	2,953
Sub-total		53,354	-	53,354

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

Equity securities

US$'000 31 December 2018	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Equity shares - Listed	45,262	-	45,262
Equity shares - Unlisted	228,128	-	228,128
Interest in investment funds	-	791,620	791,620
Sub-total	273,390	791,620	1,065,010
Total financial assets at fair value through profit or loss	333,646	791,620	1,125,266

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

19. FINANCIAL ASSETS (continued)

19.2 Financial assets at fair value through profit or loss (continued)

Debt securities

US$'000 31 December 2017	Rating	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Government bonds				
- issued in foreign currency				
Qatar	AA	169	-	169
Sub-total		169	-	169
Government agency bonds(1)				
AAA		447	-	447
AA		7,142	-	7,142
A		406	-	406
Sub-total		7,995	-	7,995
Corporate bonds				
AA		32,462	-	32,462
A		46,564	-	46,564
BBB		2,840	-	2,840
Sub-total		81,866	-	81,866

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

Equity securities

US$'000 31 December 2017	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Equity shares - Listed	16,308	-	16,308
Equity shares - Unlisted	100,824	-	100,824
Interest in investment funds	-	901,344	901,344
Sub-total	117,132	901,344	1,018,476
Total financial assets at fair value through profit or loss	207,162	901,344	1,108,506

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

19. FINANCIAL ASSETS (continued)

19.3 Loans and receivables

US$'000	31 December 2018	31 December 2017
Policy loans	65,382	64,347
Secured loans	6,240	15,014
Accreting deposits	70,703	67,205
Provision for impairment	(521)	(483)
At end of year	141,804	146,083

Policy loans are stated at amortized cost, are interest-bearing at market interest rates 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 policy loans bear interest at 9% (2017: 9%) per annum.

Secured loans are carried at amortized cost less repayment and any impairment losses.

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

US$'000	31 December 2018	31 December 2017
At beginning of year	(483)	(470)
(Impairment)/Reversal of impairment charged for the year	(38)	(13)
At end of year	(521)	(483)

The above provision for impairment of secured loans is a provision for individually impaired loans related to agents in default or delinquent in repayment. The gross amount of the loans was US$6,240,000 (2017: US$15,014,000) with a carrying amount of US$5,719,000 (2017: US$14,531,000).

Accreting deposits are carried at amortized cost less any impairment losses.

The carrying amounts of loans and receivables approximate their fair values.

19.4 Derivative financial investments

The Group had the following derivative financial instruments outstanding as at the end of the reporting year.

US$'000	Contract/notional Amount	Carrying Amount Assets	Carrying Amount Liabilities
31 December 2018	2,671,494	1,976	8,667
31 December 2017	6,154,532	3,447	12,520

Derivatives assets and derivative liabilities are recognized in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities, respectively. The carrying amounts of the derivative financial instruments are equal to their fair values and all derivatives are classified as current. The Group's derivative contracts are foreign exchange swaps and foreign exchange forwards, which provide an economic hedge for the Group's foreign exchange risk exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the table above reflect the aggregate of individual derivative positions on a gross basis to give an indication of the overall scale of derivative transactions. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

20. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2018

Financial assets

US$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	21,416	141,804	163,220
Debt securities	60,256	7,552,145	-	7,612,401
Equity securities	1,065,010	790,214	-	1,855,224
Derivative financial instruments	1,976	-	-	1,976
Deposits and other assets	-	-	103,672	103,672
Insurance receivables	-	-	83,716	83,716
Due from related parties	-	-	10,524	10,524
Cash and cash equivalents	-	-	831,101	831,101
	1,127,242	8,363,775	1,170,817	10,661,834

Financial liabilities

US$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Investment contract liabilities	316,456	-	316,456
Due to related parties	-	142,079	142,079
Borrowings	-	322,566	322,566
Derivative financial instruments	8,667	-	8,667
Insurance and other liabilities	-	365,536	365,536
	325,123	830,181	1,155,304

20. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2017

Financial assets

US$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	20,923	146,083	167,006
Debt securities	90,030	7,145,290	-	7,235,320
Equity securities	1,018,476	739,289	-	1,757,765
Derivative financial instruments	3,447	-	-	3,447
Deposits and other assets	-	-	93,510	93,510
Insurance receivables	-	-	73,857	73,857
Due from related parties	-	-	2,607	2,607
Cash and cash equivalents	-	-	729,694	729,694
	1,111,953	7,905,502	1,045,751	10,063,206

Financial liabilities

US$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Investment contract liabilities	359,827	-	359,827
Due to related parties	-	82,365	82,365
Borrowings	-	420,999	420,999
Derivative financial instruments	12,520	-	12,520
Insurance and other liabilities	-	155,314	155,314
	372,347	658,678	1,031,025

The carrying amounts of financial assets and financial liabilities at amortized cost approximate to their fair values, except for borrowings which have a fair value of US$333,478,000 (2017: US$443,667,000).

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of loans and receivables, deposits and other assets, insurance receivables, amounts due from related parties, cash and cash equivalents, amounts due to related parties, insurance and other liabilities 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 value.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair values of unlisted private equity funds are based on the reported NAV in their audited financial statements. Management has obtained the audited financial statements 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 Group from disposing the investments, the Group'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. At 31 December 2018 and 31 December 2017, no reported NAV is adjusted. The directors believe that the fair values resulting from the reported NAV, which are recorded in the consolidated 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.

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

22. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Assets measured at fair value:

31 December 2018

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	19.1	1,097,175	6,619,125	647,475	8,363,775
Financial assets at fair value through profit or loss	19.2	836,881	60,257	228,128	1,125,266
Derivative financial instruments	19.4	-	1,976	-	1,976
		1,934,056	6,681,358	875,603	9,491,017

31 December 2017

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	19.1	1,238,213	6,325,394	341,895	7,905,502
Financial assets at fair value through profit or loss	19.2	917,652	90,030	100,824	1,108,506
Derivative financial instruments	19.4	-	3,447	-	3,447
		2,155,865	6,418,871	442,719	9,017,455

22. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value:

31 December 2018

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivative financial instruments	19.4	-	8,667	-	8,667
		-	8,667	-	8,667

31 December 2017

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivative financial instruments	19.4	-	12,520	-	12,520
		-	12,520	-	12,520

Liabilities for which fair values are disclosed:

31 December 2018

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Borrowings	20	333,478	-	-	333,478
		333,478	-	-	333,478

31 December 2017

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Borrowings	20	342,384	101,283	-	443,667
		342,384	101,283	-	443,667

22. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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

US$'000	31 December 2018	31 December 2017
Financial assets - unlisted		
At beginning of year	442,719	197,352
Purchases/(Disposals)	362,217	218,384
Impairment charged for the year	(647)	(1,291)
Fair value change recognized through profit or loss	13,110	(2,450)
Fair value change recognized in other comprehensive income	58,204	30,724
At end of year	875,603	442,719

During the year, there were no transfers of financial instruments between Level 1 and Level 2, and no transfers into or out of Level 3.

23. INVESTMENTS IN ASSOCIATE AND JOINT VENTURE

On 3 February 2016, the Group acquired a 44% interest in the ordinary share capital of AMG Financial Group Limited ("AMG Financial"). The purchase consideration for the investment was US$10,030,000. AMG Financial is a private entity that provides wealth management and financial advisory services focused in the Greater China Region. The Group's interest in AMG Financial, as an associate, is accounted for using the equity method in the consolidated financial statements.

On 28 April 2017, the Group acquired a 50% interest in the ordinary share capital of One George Street LLP ("OGS LLP"). The purchase consideration for the investment was US$230,896,000. OGS LLP is a private entity that owns and develops real estate properties in Singapore. Considering all facts and circumstances, the Group concluded it has joint control over OGS LLP. The Group's interest in OGS LLP, as a joint venture, is accounted for using the equity method in the consolidated financial statements.

The following table shows the Group's carrying amounts of investments in associate and joint venture:

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US$'000	Notes	31 December 2018	31 December 2017
AMG Financial		7,458	8,194
OGS LLP	23(a)	244,764	241,237
		252,222	249,431
The Group's share of post-acquisition losses in AMG Financial		(718)	(1,118)
The Group's share of post-acquisition other comprehensive income in AMG Financial		-	-
		(718)	(1,118)
The Group's share of post-acquisition profits in OGS LLP	23(a)	16,983	4,942
The Group's share of post-acquisition other comprehensive income in OGS LLP	23(a)	(4,325)	7,707
		12,658	12,649
The Group's share of post-acquisition total comprehensive income		11,940	11,531

(a) OGS LLP

Summarized statement of financial position of OGS LLP:

	31 December 2018	31 December 2017
Assets	850,441	858,894
Liabilities	(441,447)	(453,056)
Equity	408,994	405,838
Group's share in equity – 50%	204,497	202,919
Goodwill	40,267	38,318
Group's carrying amount of the investment in OGS LLP	244,764	241,237

Summarized statement of profit or loss and other comprehensive income of OGS LLP:

	31 December 2018	31 December 2017
Revenue	37,228	19,576
Expenses	(3,262)	(9,692)
Profit for the year	33,966	9,884
Other comprehensive income for the year	(8,650)	15,414
Total comprehensive income for the year	25,316	25,298
Group's share of total comprehensive income for the year – 50%	12,658	12,649

24. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

US$'000	31 December 2018	31 December 2017
Accounts receivable	6,252	3,027
Accrued investment income	77,417	71,512
Deposits	8,180	5,242
Investment receivable	4,603	11,262
Prepayments	37,591	12,072
Other assets	7,770	2,467
Total prepayments, deposits and other assets	141,813	105,582

25. INSURANCE RECEIVABLES

US$'000	31 December 2018	31 December 2017
Due from policyholders	70,453	63,182
Due from reinsurers	13,263	10,675
Total insurance receivables	83,716	73,857
Current insurance receivables	83,716	73,857

The amounts due from policyholders represent premiums due for payment. No provision for impairment is necessary as the policy terminates and becomes void if and when the total indebtedness on the policy exceeds its cash surrender value.

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.

Premium deposit fund under reinsurance arrangement represents a 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 policy anniversary.

The carrying amounts of insurance receivables approximate their fair values.

26. CASH AND CASH EQUIVALENTS

US$'000	31 December 2018	31 December 2017
Time deposits	224,859	161,666
Savings accounts	313,952	344,724
Current accounts	292,284	223,298
Cash on hand	6	6
	831,101	729,694
Cash and cash equivalents attributable to discontinued operation	38,055	28,496
	869,156	758,190
Less: Pledged time deposits	(10,898)	(14,198)
Cash and cash equivalents	858,258	743,992

Time deposits of US$10,898,000 (2017: US$14,198,000) were used to guarantee the insurance reserve as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

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 six months depending on the immediate cash requirements of the Group, 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 37 to the financial statements.

27. INSURANCE CONTRACT LIABILITIES

US$'000		31 December 2018		
	Notes	Insurance contract liabilities	Reinsurance contract assets	Net
Life insurance contracts	27(a)	11,144,313	(1,591,253)	9,553,060
Non-life insurance contracts	27(b)	81,509	(16,840)	64,669
Total insurance contract liabilities		11,225,822	(1,608,093)	9,617,729

US$'000		31 December 2017		
	Notes	Insurance contract liabilities	Reinsurance contract assets	Net
Life insurance contracts	27(a)	10,118,037	(1,309,215)	8,808,822
Non-life insurance contracts	27(b)	76,896	(12,600)	64,296
Total insurance contract liabilities		10,194,933	(1,321,815)	8,873,118

27. INSURANCE CONTRACT LIABILITIES (continued)

(a) Life insurance contract liabilities

US$'000	Notes	31 December 2018 Insurance contract liabilities	Reinsurance contract assets	Net
Insurance contract liabilities other than coinsurance arrangements	(i)	10,269,030	(715,901)	9,553,129
Coinsurance arrangements	(ii)	875,283	(875,352)	(69)
Total life insurance contract liabilities		11,144,313	(1,591,253)	9,553,060

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurance contract assets	Net
Insurance contract liabilities other than coinsurance arrangements	(i)	9,314,136	(500,475)	8,813,661
Coinsurance arrangements	(ii)	803,901	(808,740)	(4,839)
Total life insurance contract liabilities		10,118,037	(1,309,215)	8,808,822

The movement of insurance contract liabilities and reinsurance contract assets under life insurance contracts is as follows:

(i) Insurance contract liabilities other than coinsurance arrangements:

US$'000	31 December 2018 Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2018	9,314,136	(500,475)	8,813,661
Valuation premiums and deposits received	1,576,546	(290,048)	1,286,498
Expected investment return	163,296	(6,732)	156,564
Liabilities released for deaths, maturities, surrenders and other benefit payments	(812,024)	76,693	(735,331)
Fees deducted	(74,941)	174	(74,767)
Interest accrued and change in unit price	102,140	(11,632)	90,508
Foreign exchange movements	-	-	-
Other movement	(123)	16,119	15,996
At 31 December 2018	10,269,030	(715,901)	9,553,129

US$'000	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2017	8,097,425	(409,733)	7,687,692
Valuation premiums and deposits received	1,491,237	(84,290)	1,406,947
Expected investment return	130,903	(5,615)	125,288
Liabilities released for deaths, maturities, surrenders and other benefit payments	(648,543)	28,059	(620,484)
Fees deducted	(79,539)	163	(79,376)
Interest accrued and change in unit price	301,273	(9,711)	291,562
Foreign exchange movements	-	-	-
Other movement	21,380	(19,348)	2,032
At 31 December 2017	9,314,136	(500,475)	8,813,661

27. INSURANCE CONTRACT LIABILITIES (continued)

(ii) Coinsurance arrangements

US$'000	31 December 2018		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2018	803,901	(808,740)	(4,839)
Reserves ceded for policies inforce on 1 January 2018	-	-	-
Premium received	-	(126,070)	(126,070)
Funds withheld	73,173	(36,116)	37,057
Expected investment return	-	-	-
Liabilities released for deaths, maturities, surrenders and other benefit payments	-	88,249	88,249
Other movement	(1,791)	7,325	5,534
At 31 December 2018	875,283	(875,352)	(69)

US$'000	31 December 2017		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
At 1 January 2017	731,901	(743,141)	(11,240)
Reserves ceded for policies inforce on 1 January 2017	-	-	-
Premium received	-	(114,186)	(114,186)
Funds withheld	77,774	-	77,774
Expected investment return	-	(33,132)	(33,132)
Liabilities released for deaths, maturities, surrenders and other benefit payments	-	69,754	69,754
Other movement	(5,774)	11,965	6,191
At 31 December 2017	803,901	(808,740)	(4,839)

27. INSURANCE CONTRACT LIABILITIES (continued)

Business description

The table below summarizes the key variables underlying life insurance and investment contract cash flows.

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends, the timing or amount of which is at the discretion of the insurer taking into account factors such as investment experience.	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations.	· Investment performance · Expenses · Mortality · Lapses · Morbidity · Dividend / bonus rates
Traditional non-participating life	Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer.	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole.	· Mortality · Morbidity · Lapses · Expenses
Accident and health non-participating	These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover.	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole.	· Mortality · Morbidity · Lapses · Expenses
Investment-linked	Investment-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitized funds.	Benefits are based on the value of the unitized funds and death and living benefits.	· Investment performance · Lapses · Partial withdrawals · Premium holidays · Expenses · Mortality · Morbidity
Universal Life	Universal Life contracts combine savings with protection. Account balances are credited with interest at a rate set by the insurer.	Benefits are based on the account balance and death and living benefits.	· Investment performance · Crediting rates · Lapses · Partial withdrawals · Premium holidays · Expenses · Mortality · Morbidity

27. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions

The most significant items impacting profit or loss for the period and shareholders' equity are market, insurance and lapse risks, as shown in the table below. Indirect exposure indicates that there is a second-order impact. For example, while the profit or loss for the period attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders, there is a second-order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being "net neutral", this is because the exposure to market and credit risk is offset by a corresponding movement in insurance contract liabilities.

	Market and credit risk			
	Direct exposure			
Type of contract	Insurance and investment contract liabilities	Risks associated with related investment portfolio	Indirect exposure	Significant insurance and lapse risks
Traditional participating life assurance with DPF	· Net neutral except for the insurer's share of participating investment performance · Guarantees	· Net neutral except for the insurer's share of participating investment performance	· Investment performance	· Persistency · Mortality · Morbidity
Traditional non-participating life assurance	· Investment performance · Asset-liability mismatch risk	· Asset-liability mismatch risk · Credit Risk · Investment performance	· Not applicable	· Mortality · Morbidity · Persistency
Accident and health non-participating	· Loss ratio · Asset-liability mismatch risk	· Investment performance · Credit risk · Asset-liability mismatch risk	· Not applicable	· Morbidity · Persistency
Pension	· Net neutral except minimum crediting rate is zero · Asset-liability mismatch risk	· Net neutral except minimum crediting rate is zero · Asset-liability mismatch risk	· Performance related investment management fees	· Persistency
Investment-Linked	· Net neutral	· Net neutral	· Performance-related investment management fees	· Mortality · Persistency · Partial withdrawals · Premium holidays
Universal Life	· Guarantees · Asset-liability mismatch risk	· Investment performance · Credit risk · Asset-liability mismatch risk	· Spread between earned rate and crediting rate to policyholders	· Mortality · Persistency · Partial withdrawals · Premium holidays

The Group is also exposed to currency risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

27. INSURANCE CONTRACT LIABILITIES (continued)

(b) Non-life insurance contracts

The movement of non-life insurance liabilities is as follows:

US$'000	Notes	31 December 2018 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		34,411	(8,090)	26,321
Provision for claims incurred but not reported ("IBNR")		15,226	(2,661)	12,565
Total claims reported and IBNR	(i)	49,637	(10,751)	38,886
Provision for unearned premiums	(ii)	31,872	(6,089)	25,783
Total non-life insurance contract liabilities		81,509	(16,840)	64,669

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		30,933	(4,487)	26,446
Provision for claims incurred but not reported ("IBNR")		13,975	(2,533)	11,442
Total claims reported and IBNR	(i)	44,908	(7,020)	37,888
Provision for unearned premiums	(ii)	31,988	(5,580)	26,408
Total non-life insurance contract liabilities		76,896	(12,600)	64,296

(i) The provision for claims reported by policyholders and IBNR is as follows:

US$'000	Notes	31 December 2018 Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2018		44,908	(7,020)	37,888
Claims incurred in the year		40,040	(22,441)	17,599
Claims recovered/(paid) during the year	9	(35,216)	18,698	(16,518)
Foreign exchange movements		(95)	12	(83)
31 December 2018		49,637	(10,751)	38,886

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2017		41,890	(6,295)	35,595
Claims incurred in the year		35,864	(18,121)	17,743
Claims recovered/(paid) during the year	9	(32,527)	17,347	(15,180)
Foreign exchange movements		(319)	49	(270)
31 December 2017		44,908	(7,020)	37,888

27. INSURANCE CONTRACT LIABILITIES (continued)

(ii) The provision for unearned premiums is as follows:

US$'000	Notes	31 December 2018 Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2018		31,988	(5,580)	26,408
Premiums written in the year	6	64,073	(31,967)	32,106
Premiums earned during the year		(64,119)	31,446	(32,673)
Foreign exchange difference		(70)	12	(58)
31 December 2018		31,872	(6,089)	25,783

US$'000	Notes	31 December 2017 Insurance contract liabilities	Reinsurers' share of liabilities	Net
1 January 2017		33,109	(4,670)	28,439
Premiums written in the year	6	62,090	(30,505)	31,585
Premiums earned during the year		(62,952)	29,548	(33,404)
Foreign exchange difference		(259)	47	(212)
31 December 2017		31,988	(5,580)	26,408

28. INVESTMENT CONTRACT LIABILITIES

US$'000	Notes	31 December 2018 Gross and net investment contract liabilities	31 December 2017 Gross and net investment contract liabilities
Investment contract liabilities with DPF	28(a)	134,023	158,819
Investment contract liabilities without DPF	28(b)	182,433	201,008
Total investment contract liabilities		316,456	359,827

The movement of investment contract liabilities is as follows:

(a) Investment contract liabilities with DPF

Gross and net investment contract liabilities	31 December 2018	31 December 2017
At beginning of year	158,819	158,123
Premium received	5,095	5,641
Surrenders and withdrawals	(35,081)	(12,889)
Interest accrued and change in unit price	5,363	5,617
Liabilities included in discontinued operations	-	-
Others	(173)	2,327
At end of year	134,023	158,819

(b) Investment contract liabilities without DPF

Gross and net investment contract liabilities	31 December 2018	31 December 2017
At beginning of year	201,008	187,169
Premium received	-	-
Surrenders and withdrawals	(11,917)	(17,011)
Net investment income	239	243
Expenses	-	-
Interest accrued and change in unit price	(6,373)	31,846
Liabilities included in discontinued operations	-	-
Others	(524)	(1,239)
At end of year	182,433	201,008

29. BORROWINGS

US$'000	31 December 2018	31 December 2017
Medium Term Notes	322,566	420,999
Total borrowings	322,566	420,999

FWD Limited issued a 10-year senior unsecured note at nominal amount of US$325,000,000 in September 2014. The note, due 2024, bears interest at 5.00% per annum. The note is listed on The Stock Exchange of Hong Kong Limited.

FWD Limited further issued an 8-year senior unsecured note at nominal amount of US$100,000,000 in May 2015. The note, due 2023, bears interest at 4.15% per annum. In May 2018, FWD Limited redeemed this note, which had a carrying value of US$98,868,000, resulting in a loss of US$1,132,000. This loss is disclosed as a Realized Loss on Financial Liability in Note 8.

The fair value of borrowings has been estimated based on the market quoted prices or prices obtained from brokers.

Finance costs in 2018 were US$18,485,000 (2017: US$21,091,000).

The Group's total borrowings at 31 December 2018 were US$322,566,000 (2017: US$420,999,000). The net decrease of US$98,433,000 in the carrying amount during 2018 consists of redemption of carrying value of US$98,868,000 of a senior unsecured note, plus US$18,325,000 of interest payment, by cash and cash equivalents on the senior unsecured notes, less US$18,760,000 of non-cash increase due to amortization using the effective interest rate method.

30. INSURANCE AND OTHER LIABILITIES

US$'000	31 December 2018	31 December 2017
Accounts payable	78	70
Accrued commissions	95,873	66,575
Accrued expenses	42,194	22,919
Accrued agent expenses	16,402	32,852
Insurance payables	175,795	5,648
Investment creditors	1,524	7,559
Others	28,249	18,241
Tax payable	5,421	1,450
Total insurance and other liabilities	365,536	155,314

The carrying amounts of the insurance and other liabilities approximate to their fair values.

31. SHARE CAPITAL AND RESERVES

(1) Share capital

US$'000	31 December 2018	31 December 2017
Authorized,		
1,750,000,000 (2017: 2,000,000,000) ordinary shares of US$0.01 each	17,500	20,000
250,000,000 (2017: 250,000,000) preference shares of US$0.01 each	2,500	2,500
500,000,000 (2017: 250,000,000) convertible preference shares of US$0.01 each	5,000	2,500
	25,000	25,000
Issued and fully paid,		
18,956,250 (2017: 18,790,625) ordinary shares of US$0.01 each	190	188
8,202,225 (2017: 8,202,225) preference shares of US$0.01 each	82	82
2,529,334 (2017: 1,580,830) convertible preference shares of US$0.01 each	25	16
	297	286

(1) Share capital

During the year, the movements in share capital and share premium were as follows:

	Issued capital	Share premium
(a) Ordinary shares issued and fully paid		
Issuance of 10 ordinary shares of US$1 each on 13 December 2012	-	-
Issuance of 18,486,630 ordinary shares of US$1 each on 27 February 2013	18,487	1,830,176
Surrender of 18,301,773.6 ordinary shares of US$1 each on 10 December 2013	(18,302)	-
Sub-division of 184,866.4 ordinary shares of US$1 each to 18,486,640 ordinary shares of US$0.01 each on 10 December 2013	-	-
Issuance of 100,000 ordinary shares of US$0.01 each on 5 June 2015	1	7,668
Issuance of 50,000 ordinary shares of US$0.01 each on 29 Jan 2016	1	3,834
Issuance of 34,565 ordinary shares of US$0.01 each on 29 July 2016	0	2,651
Issuance of 50,000 ordinary shares of US$0.01 each on 28 July 2017	0	3,834
Issuance of 69,420 ordinary shares of US$0.01 each on 6 December 2017	1	5,324
31 December 2017	188	1,853,487
Issuance of 165,625 ordinary shares of US$0.01 each on 21 March 2018	2	12,799
31 December 2018	190	1,866,286

31. SHARE CAPITAL AND RESERVES (continued)

(1) Share capital (continued)

During the year, the movements in share capital and share premium were as follows (continued):

(b) Preference shares issued and fully paid		
13 December 2012	-	-
Issuance of 2,601,634 preference shares of US$0.01 each on 10 December 2013	26	-
Issuance of 5,600,591 preference shares of US$0.01 each on 19 August 2015	56	-
31 December 2018/ 31 December 2017	82	-
(c) Convertible preference shares issued and fully paid		
13 December 2012	-	-
Issuance of 1,264,672 convertible preference shares of US$0.01 each on 23 February 2017	13	-
Issuance of 316,158 convertible preference shares of US$0.01 each on 11 May 2017	3	-
31 December 2017	16	-
Issuance of 948,504 convertible preference shares of US$0.01 each on 7 March 2018	9	-
31 December 2018	25	-
31 December 2018	297	1,866,286

Preference Shares

The holders of preference shares in the Company are entitled to the same voting rights as each ordinary share in the Company.

The preference shares rank pari passu with all other shares in the Company on any payment of dividend or distribution or return of capital (other than on a liquidation event). On a liquidation event, the assets of the Company available for distribution amongst the shareholders shall be applied to pay the preference shareholders pari passu with the holders of the convertible preference shares (in priority to any payment to the holders of any other class of shares in the capital of the Company).

Convertible Preference Shares

The holders of convertible preference shares in the Company are not entitled to attend or vote at general meetings of the Company.

The convertible preference shares rank pari passu with all other shares in the Company, with the exception that (i) on any payment of a dividend or distribution or return of capital (other than on a liquidation event), certain holders of the convertible preference shares shall have the benefit of an increased entitlement to such dividend or distribution and (ii) on a liquidation event, the assets of the Company available for distribution amongst the shareholders shall be applied to pay the convertible preference shareholders pari passu with the holders of the preference shares (in priority to any payment to the holders of any other class of shares in the capital of the Company).

31. SHARE CAPITAL AND RESERVES (continued)

(2) Direct capital instruments

FWD Limited issued a direct capital instrument ("DCI1") on 17 January 2017. The DCI1 is a subordinated perpetual capital security for a nominal amount of US$250,000,000. The DCI1 confers a right to receive distributions (the "Distributions") semi-annually in arrears on 24 January and 24 July of each year (the "Distribution Payment Dates"). The DCI1 is listed on The Stock Exchange of Hong Kong Limited.

The Company may, at its sole option, defer the Distributions on the DCI1 by giving notice to the DCI1 holders not more than ten nor less than five business days prior to a Distribution Payment Date. Any Distributions deferred are cumulative and compounding and in the event of any Distribution deferral, the Group cannot declare or pay any dividend on its ordinary or preference share capital. The DCI has been treated as equity in its entirety in the consolidated statement of financial position.

The DCI1 has no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the principal amount on 24 January 2022, or at any Distribution Payment Date following 24 January 2022.

During the year, the Group paid US$15,625,000 (2017: US$7,813,000) in Distributions on the DCI1.

On 1 February 2018, FWD Limited issued a US$200,000,000 nominal amount of subordinated perpetual capital security (“DCI2”). The DCI2 has similar features to the DCI1, except that any Distributions deferred by the Company are non-cumulative. DCI2 confers a right to receive distribution semi-annually in arrears on 1 August and 1 February of each year. The DCI2 has been treated as equity in its entirety in the consolidated statement of financial position.

The DCI2 has no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the principal amount on 1 February 2023, or at any Distribution Payment Date following 1 February 2023.

During the year, the Group paid US$5,500,000 (2017: nil) in Distributions on the DCI2.

(3) Reserves

(a) Share-based payment reserve
The share-based payment reserve comprises the outstanding reserve for the share-based compensation plan.

(b) Legal reserve
The legal reserve has been established to fulfill the requirement of Article 60 of the Decree-Law No. 32/93/M of 30 July 1993 of Macau.

(c) Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative gain or loss on the hedging instrument from inception of the cash flow hedge.

(d) Available-for-sale financial assets revaluation reserve
The available-for-sale financial assets revaluation reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

(e) Capital redemption reserve
The capital redemption reserve represents the non-distributable reserve for paid up share capital.

(f) Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

32. SUBSIDIARIES

Particulars of the Group's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
FWD Financial Services Pte. Limited	Singapore	100	-	Investment holding
FWD Management Holdings Limited	Hong Kong	-	100	Investment holding
FWD Life Insurance Company (Bermuda) Limited	Bermuda/ Hong Kong	49	51	Life Insurance
FWD Life Insurance Company (Macau) Limited	Macau	-	100	Life Insurance
FWD General Insurance Company Limited	Hong Kong	-	100	General Insurance
FWD Financial Planning Limited	Hong Kong	-	100	Investment Advisory
FWD Vietnam Life Insurance Company Limited	Vietnam	-	100	Life Insurance

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included above. The percentage of total direct and indirect equity attributable to the Group in each of the above subsidiaries was the same at both 31 December 2018 and 31 December 2017.

33. COMMITMENTS

Operating lease commitments

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

US$'000	31 December 2018 Lowest	31 December 2018 Highest
Within one year	24,706	24,706
In the second to fifth years, inclusive	38,102	38,102
Over five years	-	-
	62,808	62,808

US$'000	31 December 2017 Lowest	31 December 2017 Highest
Within one year	14,510	16,405
In the second to fifth years, inclusive	29,779	37,784
Over five years	-	-
	44,289	54,189

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 market conditions.

Investment and capital commitments

As of 31 December 2018, the Group has investment and capital commitments to invest in its private equity partnerships.

US$'000	31 December 2018	31 December 2017
Within one year	276,124	255,172
In the second to fifth years, inclusive	828,372	765,516
Over five years	-	-
	1,104,496	1,020,688

Capital commitment for a business acquisition subsequent to the reporting period

As of 31 December 2018, the Group has a capital commitment for a business acquisition subsequent to the reporting period. The Group has agreed to acquire a 49% interest in HSBC Amanah Takaful in Malaysia for a consideration of approximately US$25,000,000. Regulatory approval has been obtained from Bank Negara Malaysia, and the Group has also received no objection letters for the acquisition from the Insurance Authority in Hong Kong and the Bermuda Monetary Authority. The acquisition is expected to be closed after all cutover procedures are completed in March 2019.

34. RELATED PARTY TRANSACTIONS

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

Key management personnel of the Group are those that have the authority and responsibility for planning, directing and controlling the activities of the Group. Directors (both executive and non-executive) and senior management are considered key personnel. Accordingly, the summary of compensation of key management personnel is as follows.

US$'000	Year ended 31 December 2018	Year ended 31 December 2017
Short-term employee benefits	12,902	9,185
Post-employment benefits	191	204
Share-based payment	20,612	12,490
Other long-term benefits	1,938	799
Total compensation paid and payable to key management personnel	35,643	22,678

(b) Transactions with related parties:

The Group has transactions with certain related companies and these consolidated financial statements reflect the effect of these transactions which are conducted in accordance with terms mutually agreed between the parties.

(I) In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following related party transactions during the year.

(i) The Group charged US$4,529,000 (2017: US$4,406,000) to a related party for provision of IT, HR and other building-related services and incurred US$6,372,000 (2017: US$3,768,000) for administration, consultancy and management services provided by the related party.

(ii) Related companies charged US$13,326,000 (2017: US$13,344,000) for the provision of telecommunication and investment advisory services and US$2,403,000 (2017: US$1,391,000) for brand licensing fees to the Group.

(iii) The Group has underwritten various group insurance contracts with related companies. The total premium revenue from those contracts for the year was US$3,194,000 (2017: US$1,836,000).

(iv) The Group has entered into reinsurance contracts with a related company. The total premium ceded, claim recovery received and commission income received for the year was US$10,928,000, US$2,899,000 and US$4,193,000 (2017: US$7,813,000, US$2,686,000 and US$3,536,000), respectively.

(II) As disclosed in the consolidated statements of financial position, the Group had amounts due from related companies of US$10,524,000 (2017: US$2,607,000) as at the end of the reporting year. The amounts due are unsecured, interest-free and payable on demand.

(III) As disclosed in the consolidated statements of financial position, the Group had outstanding advances payable to related companies of US$142,079,000 (2017: US$82,365,000), of which US$111,500,000 (2017: US$76,100,000) is an inter-company loan. The advances are unsecured, interest-free and payable on demand.

35. SHARE-BASED COMPENSATION

Share-based compensation plans

During the period, the Group initiated a share-option award plan, to reward eligible employees for their services and the achievement of meeting shareholder value targets. More details are set out in note 35 (b) of the financial statements.

(a) Share award plan

The Group operates a share award plan that provides FWD Limited shares to participants upon vesting. Eligible employees 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 a conditional allocation of shares. These share awards have vesting periods of up to four 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. 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 ordinary shares of FWD Limited.

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

Number of shares	2018	2017
At beginning of year	693,750	750,000
Granted during the year	33,835	93,750
Vested during the year	(167,625)	(119,420)
Forfeited during the year	-	(30,580)
At end of year	559,960	693,750

Valuation methodology
To calculate the fair value of the share awards with performance conditions, the Group utilizes an appraisal value methodology (Embedded Value plus a multiple of Value of New Business) 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 total fair value of share awards granted during the year ended 31 December 2018 is US$3,535,000 (2017: US$7,783,000).

Recognized compensation cost
The fair value of the employee services received in exchange for the grant of shares 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 consolidated financial statements related to share-based compensation awards granted under the share award plan by the Group for the year ended 31 December 2018 is US$10.5 million (2017: US$12.5 million).

35. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

(b) Share-option award plan

The Group operates a share-option award plan that provides FWD Limited share-options to participants upon vesting. Eligible employees are granted share-option awards 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 Group's share-option award plan:

Number of share-options	2018	2017
At beginning of year	-	-
Granted during the year	302,769	-
Vested during the year	(36,833)	-
Forfeited during the year	(1,254)	-
At end of year	264,682	-

Valuation methodology
To calculate the fair value of the share awards with performance conditions, the Group 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 Group determines the fair value of share options by following input:

	2018	2017
· Dividend yield (%)	0	-
· 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$31,630,000 (2017: nil).

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 consolidated financial statements related to share-based compensation awards granted under the share-option award plan by the Group for the year ended 31 December 2018 is US$10.1 million (2017: nil).

36. GROUP CAPITAL STRUCTURE

Capital Management

The Group's capital management objective is focused on maintaining a strong capital base to safeguard the Group's ability to continue as a going concern, to support the development of the business, maximize shareholders' value and to ensure that the Group complies with regulatory capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

Regulatory Solvency

The Group complied with all regulatory capital requirements during the year. The primary insurance regulators for the Group's subsidiaries are:

Subsidiary	Primary insurance regulator	Solvency regulation
FWD Life Insurance Company (Bermuda) Limited	Independent Insurance Authority (IIA)	Hong Kong Insurance Ordinance (HKICO)
FWD General Insurance Company Limited	Independent Insurance Authority (IIA)	Hong Kong Insurance Ordinance (HKICO)
FWD Vietnam Life Insurance Company Limited	Insurance Supervisory Authority	Circular 125 issued by Vietnam Ministry of Finance (MoF)

The capital positions of the Group's principal operating companies at 31 December 2018 and 31 December 2017 are as follows:

31 December 2018 US$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	874,289	328,057	267%
FWD General Insurance Company Limited	31,617	6,442	491%
FWD Vietnam Life Insurance Company Limited	31,362	5,249	597%

31 December 2017 US$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	821,141	304,802	269%
FWD General Insurance Company Limited	34,852	6,348	549%
FWD Vietnam Life Insurance Company Limited	32,748	6,310	519%

The IIA (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Hong Kong. The IIA requires FWD Life Insurance Company (Bermuda) Limited and FWD General Insurance Company Limited to maintain an excess of assets over liabilities of not less than the required minimum solvency margin. The amount required under the HKICO is 100 per cent of the required minimum solvency margin.

The circular 50 issued by the Ministry of Finance of Vietnam (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Vietnam. It requires FWD Vietnam Life Insurance Company Limited to maintain a required minimum solvency margin of 100 per cent.

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

36. GROUP CAPITAL STRUCTURE (continued)

Capital and Regulatory Orders Specific to the Group

At 31 December 2018 and 31 December 2017, the requirements and restrictions summarized below may be considered material to the Group and remain in effect unless otherwise stated.

Independent Insurance Authority

Undertakings have been given to the IIA that:

(i) FWD Life Insurance Company (Bermuda) Limited will maintain and continue to maintain a solvency ratio target of 150 per cent to 200 per cent at all times and if the solvency ratio falls below the minimum target range, FWD Life Insurance Company (Bermuda) Limited will reinstate it within 90 days or a period of time as agreed with the IIA;

(ii) FWD General Insurance Company Limited will maintain and continue to maintain a solvency ratio target of 300% to 500% at all times and if the solvency ratio falls below the minimum target range, FWD General Insurance Company Limited will reinstate it within 90 days or a period of time as agreed with the IIA; and

(iii) Prior written consent from IIA will be obtained before declaring or paying dividends to shareholders.

37. RISK MANAGEMENT

Risk management framework

The Group's Risk Management Framework has been established for the identification, evaluation and management of the key risks faced by the organization within its stated Risk Appetite. The framework includes an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of financial and non-financial risks.

The Group issues contracts that transfer insurance risks, financial risks or both. The insurance risks and financial risks associated with the Group's operations and the Group's management of these risks are summarized below:

Insurance risks

(1) Life insurance contracts and investment contracts

Insurance risks comprise product design risk, underwriting and expense overrun risk, lapse risk and claims risk.

(a) Product design risk
Product design risk refers to potential defects in the development of a particular insurance product. The Group manages product design risk through its product approval process where products are reviewed against pricing, design and operational risk parameters. All new products and product enhancements are reviewed and approved by the Group Office.

The Group closely monitors the performance of new products and actively manages the product portfolio to minimize risks in the in-force book and new products. A portion of the Group's life insurance business is participating in nature. In the event of a volatile investment environment and/or unusual claims experience, the Group has the option of adjusting non-guaranteed bonuses and dividends payable to policyholders.

(b) Underwriting and expense overrun risk
Underwriting and expense overrun risk refers to the possibility of product-related income being inadequate to support future obligations arising from an insurance product. The Group manages underwriting risk by adhering to underwriting guidelines. Each operating unit maintains a team of professional underwriters who review and select risks that are consistent with the underwriting strategy of the Group. In certain circumstances where insufficient experience data is available, the Group makes use of reinsurers to obtain underwriting expertise. In pricing insurance products, the Group manages expense overrun risk by allowing for an appropriate level of expenses that reflects a realistic medium-to long-term view of the underlying cost structure. A disciplined expense budgeting and management process is followed to control expenses.

(c) Lapse risk
Lapse risk refers to the possibility that lapse experience diverges from that assumed when products were priced. It includes potential financial loss due to early termination of contracts where the acquisition costs incurred may not be recoverable from future revenue. The Group carries out regular reviews of persistency experience. In addition, many of the Group's products include surrender charges that entitle the Group to additional fees on early termination by the policyholder, thereby reducing exposure to lapse risk.

(d) Claims risk
Claims risk refers to the possibility that the frequency or severity of claims arising from insurance contracts exceeds the level assumed when the products were priced. The Group seeks to mitigate claims risk by conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs.

Reinsurance solutions are used to help reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophes. Although the Group 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.

37. RISK MANAGEMENT (continued)

Insurance risks

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

The Group's accounting policies lock in assumptions for traditional insurance contracts at policy inception and incorporate provisions for adverse deviation. As a result, the levels of movement illustrated in the table below do not result in loss recognition, and so there is no corresponding effect on liabilities. The table below shows the impact on profit before tax from changes in mortality, morbidity, investment return, expenses and lapse/discontinuance rates:

Impact on profit before tax US$'000	2018	2017
10% increase in mortality	(2,899)	(2,997)
10% increase in morbidity	(4,475)	(4,124)
1% decrease in investment return	(1,693)	(1,397)
10% increase in expenses	(15,179)	(11,912)
10% increase in lapse/discontinuance rates	(54,811)	(31,681)

(2) Non-life insurance contracts

The Group's non-life insurance business is diversified over seven classes of business. The Group has developed a robust underwriting framework to ensure that all risks accepted meet the guidelines and standards of the Group.

The Group's non-life insurance business is primarily derived from Hong Kong. Geographically, there is an inherent concentration of insurance risks in the Group's insurance portfolio. The Group has developed a reinsurance strategy to ensure that a prudent and appropriate reinsurance program is in place, which manages such concentration of insurance risks based on historical experience of loss frequency and severity of similar risks and in similar geographical zones. The primary objectives of the Group's reinsurance strategy include protection of shareholders' funds, reduction in volatility of the Group's underwriting result and diversified credit risk. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance strategy, ascertaining suitable allowance for impairment of reinsurance assets.

(i) Case estimates
For non-life insurance contracts, the case estimate for each reported claim is set up based on the best estimate of the ultimate claim settlement amount considering all the information available for the claim. The case estimate is revised from time to time according to the latest information available. When setting case estimates for larger claims, reference is made to the advice of independent consultants such as loss adjusters and solicitors where applicable.

(ii) Key assumptions
Generally accepted actuarial methodologies, such as chain-ladder and Bornhuetter-Ferguson methods, are used to project the ultimate claims by class of business. The Group's past experience and claim development patterns are important assumptions for such projections. Other assumptions include average claim costs, claims handling expenses and claims inflation. The projected ultimate claim amount may also be judgmentally adjusted by external factors such as prevailing trends in judicial decisions, the economic environment and relevant government legislation.

(iii) Sensitivities
Sensitivity analysis is performed to assess the effect of increasing the claim liabilities by 10% on the Group's net income and shareholders' equity.

In performing the sensitivity analysis, it is assumed that all reinsurance recoveries are recoverable.

37. RISK MANAGEMENT (continued)

Insurance risks (continued)

(2) Non-life insurance contracts (continued)

The table below shows the results of the sensitivity analysis:

US$'000	Change in Assumptions %	Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
	31 December 2018				
Insurance risks	+10%	4,007	1,761	(1,761)	(1,471)

US$'000	Change in Assumptions %	Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
	31 December 2017				
Insurance risks	+10%	3,577	1,770	(1,770)	(1,478)

* Impact on equity reflects adjustments for tax, when applicable.

37. RISK MANAGEMENT (continued)

Insurance risks (continued)

(2) Non-life insurance contracts (continued)

Loss development triangle

The tables below show the development of incurred claims, including both notified and IBNR claims, over time for each successive accident year following the reporting year. Cumulative claims payments as at the current reporting year are also shown.

31 December 2018

Gross claims development
US$'000

Accident Year	Note	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Accident year		37,457	18,517	20,208	24,065	25,458	28,752	37,820	42,004	45,271	47,807	
One year later		34,732	16,758	18,744	21,448	23,216	27,021	33,354	34,801	38,185		
Two years later		34,024	17,286	19,922	23,011	25,243	27,114	33,695	35,448			
Three years later		32,954	17,730	20,075	23,067	24,793	25,831	31,508				
Four years later		32,507	18,270	20,063	22,321	23,876	26,355					
Five years later		32,247	18,105	20,281	22,175	24,186						
Six years later		32,206	18,049	20,083	22,189							
Seven years later		32,187	18,043	20,141								
Eight years later		32,119	18,001									
Nine years later		32,042										
Current estimate of Cumulative claims		32,042	18,001	20,141	22,189	24,186	26,355	31,508	35,448	38,185	47,807	295,862
Cumulative payment to date		(31,732)	(17,929)	(19,880)	(21,636)	(23,154)	(23,723)	(28,260)	(28,420)	(29,011)	(22,480)	(246,225)
Total gross non-life insurance claim liabilities as per the statement of financial position	27(b)	310	72	261	553	1,032	2,632	3,248	7,028	9,174	25,327	49,637

37. RISK MANAGEMENT (continued)

Insurance risks (continued)

(2) Non-life insurance contracts (continued)

Loss development triangle (continued)

31 December 2018

Net claims development
US$'000

Accident Year	Note	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Accident year		33,100	17,261	18,973	22,221	24,337	27,629	22,292	24,293	25,850	26,386	
One year later		29,629	15,786	17,475	19,904	22,155	25,913	16,477	17,962	18,554		
Two years later		28,210	16,308	18,392	21,542	23,728	25,957	16,966	18,760			
Three years later		26,689	16,552	18,439	21,591	23,137	24,748	14,789				
Four years later		26,046	16,641	18,025	20,804	22,253	24,626					
Five years later		26,035	16,419	17,988	20,626	22,279						
Six years later		25,887	16,398	17,943	20,609							
Seven years later		25,876	16,391	17,994								
Eight years later		25,849	16,350									
Nine years later		25,851										
Current estimate of Cumulative claims		25,851	16,350	17,994	20,609	22,279	24,626	14,789	18,760	18,554	26,386	206,198
Cumulative payment to date		(25,685)	(16,304)	(17,859)	(20,167)	(21,651)	(22,986)	(11,906)	(12,282)	(11,324)	(7,148)	(167,312)
Total net non-life insurance claim liabilities as per the statement of financial position	27(b)	166	46	135	442	628	1,640	2,883	6,478	7,230	19,238	38,886

The estimated claim liabilities are subject to a significant degree of uncertainty, and could vary materially depending on the development of future claims experience. Differences resulting from reassessment of the ultimate liabilities will be recognized in subsequent financial statements.

37. RISK MANAGEMENT (continued)

Financial risks

The Group is exposed to a range of financial risks, including credit risk, market risk, and liquidity risk. The Group 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 summarizes the Group's key risk exposures and the primary policies and processes used by the Group to manage its exposures to these risks.

(a) 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 Group's investment portfolio, credit risk also arises in reinsurance, settlement and treasury activities.

The level of credit risk the Group accepts is managed and monitored by the Asset and Liability Management Committee, through establishment of an exposure limit 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 Group 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 Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder.

Management of the Group directs the Group'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 information. The Group also monitors the recoverability of its reinsurance assets on an ongoing basis.

37. RISK MANAGEMENT (continued)

Financial risks (continued)

The table below provides information regarding the credit risk exposure of the Group at the end of the reporting year.

(a) Credit risk (continued)

31 December 2018 US$'000	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets								
Available-for-sale	1,005,306	471,882	3,202,547	2,818,584	38,149	10,735	816,572	8,363,775
Fair value through profit or loss	-	29,461	27,842	2,953	-	-	1,065,010	1,125,266
Loans and receivables	-	-	70,703	-	-	-	71,101	141,804
Derivative financial instruments	-	1,931	45	-	-	-	-	1,976
Reinsurance assets	-	886,179	705,075	-	-	-	16,839	1,608,093
Prepayments, deposits and other assets	-	-	-	-	-	-	141,813	141,813
Insurance receivables	-	-	-	-	-	-	83,716	83,716
Due from related parties	-	-	-	-	-	-	10,524	10,524
Cash and cash equivalents	-	262,238	557,776	3,708	-	-	7,379	831,101
Assets of disposal group classified as held for sale	-	-	-	-	58,841	-	410,991	469,832
	1,005,306	1,651,691	4,563,988	2,825,245	96,990	10,735	2,623,945	12,777,900

37. RISK MANAGEMENT (continued)

Financial risks (continued)

(a) Credit risk (continued)

31 December 2017 US$'000	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets								
Available-for-sale	876,625	404,011	3,094,581	2,757,312	22,991	9,283	740,699	7,905,502
Fair value through profit or loss	447	39,773	46,970	2,840	-	-	1,018,476	1,108,506
Loans and receivables	-	-	67,205	-	-	-	78,878	146,083
Derivative financial instruments	-	-	3,447	-	-	-	-	3,447
Reinsurance assets	-	819,846	489,369	-	-	-	12,600	1,321,815
Prepayments, deposits and other assets	-	-	-	-	-	-	105,582	105,582
Insurance receivables	-	-	-	-	-	-	73,857	73,857
Due from related parties	-	-	-	-	-	-	2,607	2,607
Cash and cash equivalents	-	248,028	475,380	2,459	-	-	3,827	729,694
Assets of disposal group classified as held for sale	-	-	-	49,828	1,542	-	405,730	457,100
	877,072	1,511,658	4,176,952	2,812,439	24,533	9,283	2,442,256	11,854,193

The credit ratings are provided by reputable international credit rating agencies as explained in note 19. Assets identified as "not rated" mainly represented listed and unlisted equities, unit trust investments, policyholder loans and receivables which, by nature, do not have credit ratings.

37. RISK MANAGEMENT (continued)

Financial risks (continued)

(b) Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet payment obligations when they become due. The Group 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 Group 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 Group 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 Group performs regular monitoring of its liquidity position through cash flow projections.

The table below summarizes financial assets and liabilities of the Group into their relevant maturity groupings based on the remaining period at the end of the reporting year to their contractual maturities or expected repayment dates. Most of the Group's assets are used to support its insurance and investment contract liabilities, which are not shown in the table below. Refer to Notes 27 and 28 for additional information on the Group's insurance and investment contract liabilities, as well as to the Insurance Risks section within Note 37.

31 December 2018

US$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
Financial assets						
Available-for-sale	579,613	798,043	1,382,408	4,813,161	790,550	8,363,775
Fair value through profit or loss	7,284	21,210	21,094	10,669	1,065,009	1,125,266
Loans and receivables	747	508	1,578	2,947	136,024	141,804
Derivative financial instruments	1,227	421	328	-	-	1,976
Deposits and other assets	94,301	5,385	-	-	3,986	103,672
Insurance receivables	83,716	-	-	-	-	83,716
Due from related parties	11	-	-	-	10,513	10,524
Cash and cash equivalents	815,777	-	-	-	15,324	831,101
Assets of disposal group classified as held for sale	469,832	-	-	-	-	469,832
Total	2,052,508	825,567	1,405,408	4,826,777	2,021,406	11,131,666
Financial liabilities						
Borrowings	-	-	-	322,566	-	322,566
Derivative financial instruments	4,233	4,434	-	-	-	8,667
Insurance and other liabilities	320,520	45,000	-	-	16	365,536
Due to related parties	5,647	-	-	-	136,432	142,079
- Liabilities directly associated with the assets of disposal group classified as held for sale	410,839	-	-	-	-	410,839
Total	741,239	49,434	-	322,566	136,448	1,249,687

37. RISK MANAGEMENT (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

31 December 2017

US$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
Financial assets						
Available-for-sale	234,208	718,731	1,041,091	5,171,837	739,635	7,905,502
Fair value through profit or loss	8,965	25,231	31,025	24,809	1,018,476	1,108,506
Loans and receivables	4,688	1,858	2,978	72,695	63,864	146,083
Derivative financial instruments	39	2,964	444	-	-	3,447
Deposits and other assets	88,806	4,611	-	-	93	93,510
Insurance receivables	73,857	-	-	-	-	73,857
Due from related parties	2,607	-	-	-	-	2,607
Cash and cash equivalents	593,213	-	-	-	136,481	729,694
Assets of disposal group classified as held for sale	457,100	-	-	-	-	457,100
Total	1,463,483	753,395	1,075,538	5,269,341	1,958,549	10,520,306
Financial liabilities						
Borrowings	-	-	-	420,999	-	420,999
Derivative financial instruments	8,524	1,954	2,042	-	-	12,520
Insurance and other liabilities	150,081	-	-	-	5,233	155,314
Due to related parties	82,365	-	-	-	-	82,365
Liabilities directly associated with the assets of disposal group classified as held for sale	412,064	-	-	-	-	412,064
Total	653,034	1,954	2,042	420,999	5,233	1,083,262

37. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) Market risk

(i) Currency risk

The level of currency risk the Group accepts is managed and monitored by the Asset and Liability Management Committee of the Group, through regular monitoring of currency positions of financial assets and insurance and investment contracts.

The Group'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 31 December 2017.

At 31 December 2018, assets denominated in United States dollars and Hong Kong dollars accounted for 67% (2017: 69%) and 27% (2017: 25%) of the Group's total assets, respectively, and liabilities denominated in United States dollars and Hong Kong dollars accounted for 50% (2017: 50%) and 47% (2017: 46%) of the Group's total liabilities, respectively. The Group 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.

(ii) Interest rate risk

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

The Group 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 Group. 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 Group's accounting policies lock in interest rate assumptions for traditional insurance contracts at policy inception and incorporate a provision for adverse deviation. As a result, the level of interest rate movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

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

US$'000

Currency	Change in variables	Impact on shareholders' equity 31 December 2018	31 December 2017
HKD	+25 basis points	(7,206)	(8,260)
HKD	-25 basis points	7,206	8,260
USD	+25 basis points	(119,262)	(127,116)
USD	-25 basis points	119,262	127,116

37. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) Market risk (continued)

(iii) Equity market risk

The Group's equity market 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 Group manages these risks by setting and monitoring investment limits in each country and sector.

The analysis below shows the impact on shareholders' equity to changes in equity prices, with all other variables held constant.

US$'000

		Impact on shareholders' equity	
		31 December 2018	31 December 2017
Change in equity prices	-10%	(8,414)	(18,360)

Unaudited Interim Condensed Consolidated Financial Statements

FWD Limited

(Incorporated in the Cayman Islands with limited liability)

For the six month period ended 30 June 2019

FWD LIMITED

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FWD LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

US$'000

	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
CONTINUING OPERATIONS			
REVENUE			
Gross premiums	7(a)	906,309	802,119
Reinsurers' share of gross premiums	7(b)	(164,857)	(143,993)
Change in unearned premiums	7(c)	(2,177)	(1,338)
Net premiums		739,275	656,788
Fees and commission income	8	79,319	89,593
Net deferred commission income movement	18	4,087	(9,775)
Investment return	9	282,929	166,018
Other operating revenue		4,944	44
TOTAL REVENUE		1,110,554	902,668
BENEFITS, CLAIMS AND EXPENSES			
Net benefits and claims	10	(891,564)	(724,004)
Amortization of intangible assets	17	(6,946)	(12,832)
Net deferred acquisition cost movement	18	128,462	86,856
Finance costs	11	(9,632)	(10,003)
Commission and commission related expenses	12	(210,651)	(132,868)
Other operating and administrative expenses	13	(136,244)	(88,735)
TOTAL BENEFITS, CLAIMS AND EXPENSES		(1,126,575)	(881,586)
Share of gains in associate and joint venture	25	3,724	3,818
(LOSS)/PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		(12,297)	24,900
Income tax expense	14(a)	(5,849)	(7,804)
(LOSS)/PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		(18,146)	17,096
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations	15	(7,415)	(7,431)
(LOSS)/PROFIT FOR THE PERIOD		(25,561)	9,665
(Loss)/Profit for the year attributable to:			
Shareholders		(24,040)	9,665
Non-controlling interests	6	(1,521)	-
(LOSS)/PROFIT FOR THE PERIOD		(25,561)	9,665

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

US$'000

	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
(LOSS)/PROFIT FOR THE PERIOD		(25,561)	9,665
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	21.1	496,827	(296,007)
Reclassification adjustments for (gains)/losses included in profit or loss of			
- (gains)/losses on disposal	9, 21.1	(14,993)	(1,442)
- (reversal of impairment losses)/impairment losses	9, 21.1	5,338	1,113
Income tax effect	14(b)	(75,917)	47,486
Total Available-for-sale financial assets		411,255	(248,850)
Cash flow hedges:			
Effective portion of changes in fair value		1,305	(960)
Reclassification adjustments for (gains)/losses included in profit or loss		76	76
Income tax effect	14(b)	(216)	158
Total Cash flow hedges		1,165	(726)
Exchange differences on translation of foreign operations		700	(2,158)
Share of other comprehensive income of associate and joint venture	25	1,519	(4,627)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		414,639	(256,361)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		414,639	(256,361)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		389,078	(246,696)
Total comprehensive income attributable to:			
Shareholders		391,152	(246,696)
Non-controlling interests	6	(2,074)	-
		389,078	(246,696)

FWD LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US$'000

	Notes	30 June 2019	31 December 2018
ASSETS			
Goodwill	16	902,312	901,398
Intangible assets	17	612,018	614,863
Deferred acquisition cost	18	1,063,922	935,383
Property, plant and equipment	19	24,306	19,290
Right-of-use assets	20	47,320	-
Financial assets			
Available-for-sale financial assets	21.1	9,202,672	8,363,775
Financial assets at fair value through profit or loss	21.2	1,501,887	1,125,266
Loans and receivables	21.3	151,007	141,804
Derivative financial instruments	21.4	823	1,976
Reinsurance assets	29	1,691,104	1,608,093
Investment in associate and joint venture	25	252,875	252,222
Prepayments, deposits and other assets	26	150,152	141,813
Deferred tax assets	14(b)	-	-
Insurance receivables	27	150,250	83,716
Due from related parties	37(b)	13,619	10,524
Fixed deposits	28	39,125	18,347
Cash and cash equivalents	28	579,418	812,754
		16,382,810	15,031,224
Assets of disposal group classified as held for sale	15	525,726	469,832
TOTAL ASSETS		16,908,536	15,501,056
LIABILITIES			
Insurance contract liabilities	29	12,137,392	11,225,822
Investment contract liabilities	30	321,939	316,456
Due to related parties	37(b)	191,595	142,079
Deferred commission income	18	273,736	277,811
Borrowings	31	322,750	322,566
Derivative financial instruments	21.4	20,072	8,667
Deferred tax liabilities	14(b)	194,292	112,918
Lease liabilities	32	50,373	-
Insurance and other liabilities	33	233,013	365,536
		13,745,162	12,771,855
Liabilities directly associated with the assets of disposal group classified as held for sale	15	438,180	410,839
TOTAL LIABILITIES		14,183,342	13,182,694
EQUITY			
Issued capital	34	303	297
Share premium	34	1,881,336	1,866,286
Direct capital instrument	34	446,511	446,511
Capital redemption reserve	34	18,302	18,302
Share-based payment reserve	34	29,141	36,705
Legal reserve	34	3,292	1,546
Cash flow hedge reserve	34	(888)	(2,053)
Available-for-sale financial assets revaluation reserve	34	347,581	(63,685)
Foreign currency translation reserve	34	(2,504)	(3,983)
Reserves of disposal groups held for sale	15	(733)	(511)
Share of other comprehensive income of joint venture	25	4,901	3,382
Retained earnings		(23,549)	15,565
TOTAL EQUITY		2,703,693	2,318,362
Non-controlling interests	6	21,501	-
TOTAL LIABILITIES AND EQUITY		16,908,536	15,501,056

FWD LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US$'000

	Notes	Issued capital	Share premium	Direct capital instrument	Capital redemption reserve	Share-based payment reserve	Legal reserve	Cash flow hedge reserve	Available-for-sale financial assets revaluation reserve	Foreign currency translation reserve	Reserve of disposal group held for sale	Share of other comprehensive income of associate and joint venture	Retained earnings/ (accumulated losses)	Non controlling Interest	Total equity
1 January 2018		297	1,866,286	446,511	18,302	36,705	1,546	(2,053)	(63,685)	(3,983)	(511)	3,382	15,565	-	2,318,362
Issuance of shares	34	6	15,050	-	-	(15,051)	-	-	-	-	-	-	-	-	5
Issuance of direct capital instrument	34	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiaries	6	-	-	-	-	-	-	-	-	-	-	-	-	23,575	23,575
Change in share-based payment reserve	38	-	-	-	-	7,487	-	-	-	-	-	-	-	-	7,487
Change in foreign currency translation reserve		-	-	-	-	-	(15)	-	-	15	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	-	-	1,165	411,424	1,084	-	1,519	(24,040)	(2,074)	389,078
Transfer to legal reserve		-	-	-	-	-	1,761	-	-	-	-	-	(1,761)	-	-
Distribution paid	34	-	-	-	-	-	-	-	-	-	-	-	(13,313)	-	(13,313)
Discontinued operations	15	-	-	-	-	-	-	-	(158)	380	(222)	-	-	-	-
30 June 2019		303	1,881,336	446,511	18,302	29,141	3,292	(888)	347,581	(2,504)	(733)	4,901	(23,549)	21,501	2,725,194

FWD LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

US$'000

	Notes	Issued capital	Share premium	Direct capital instrument	Capital redemption reserve	Share-based payment reserve	Legal reserve	Cash flow hedge reserve	Available-for-sale financial assets revaluation reserve	Foreign currency translation reserve	Reserve of disposal group held for sale	Share of other comprehensive income of associate and joint venture	Retained earnings/ (accumulated losses)	Total equity
1 January 2018		286	1,853,487	248,354	18,302	28,894	1,550	(1,212)	170,412	(2,196)	928	7,707	47,139	2,373,651
Issuance of shares	34	11	12,799	-	-	(12,801)	-	-	-	-	-	-	-	9
Issuance of direct capital instrument	34	-	-	198,157	-	-	-	-	-	-	-	-	-	198,157
Change in share-based payment reserve	38	-	-	-	-	9,558	-	-	-	-	-	-	-	9,558
Change in foreign currency translation reserve		-	-	-	-	-	(7)	-	-	7	-	-	-	-
Total comprehensive income for the period		-	-	-	-	-	-	(726)	(248,850)	(2,158)	-	(4,627)	9,665	(246,696)
Distribution paid	34	-	-	-	-	-	-	-	-	-	-	-	(7,813)	(7,813)
Discontinued operations	15	-	-	-	-	-	-	-	(17)	490	(473)	-	-	-
30 June 2018		297	1,866,286	446,511	18,302	25,651	1,543	(1,938)	(78,455)	(3,857)	455	3,080	48,991	2,326,866

FWD LIMITED

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

US$'000

	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss/(profit) before tax:			
From continuing operations		(12,297)	24,900
From discontinued operations	15	(5,953)	(5,999)
Adjustments for:			
Dividend income	9	(30,482)	(19,895)
Interest income	9, 15	(155,942)	(139,424)
Net realized gain on disposal of financial assets	9	(27,664)	(38,875)
Net realized loss on settlement of a financial liability	9	-	1,132
Fair value (gain)/loss on financial assets	9	(76,585)	28,578
Depreciation of plant and equipment	15, 19	4,138	3,179
Depreciation of right-of-use assets	15, 20	11,739	-
Loss on disposal of intangible assets		-	-
Impairment on available-for-sale financial assets	9	5,338	1,113
Reversal of impairment on secured loans	9	(59)	(22)
Deferred acquisition cost movement	15, 18	(144,580)	(97,060)
Deferred commission income movement	18	(4,087)	9,775
Finance cost	11,15	9,827	10,003
Share of gain of associate and joint venture	25	(3,724)	(3,818)
Share-based payments	13	7,487	9,558
Amortization of intangible assets	15,17	7,488	12,892
Foreign exchange loss		786	1,568
		(414,570)	(202,395)
Increase in reinsurance assets		(77,579)	(55,754)
Increase in prepayments, deposits and other assets		(4,157)	(15,157)
(Increase)/decrease in insurance receivables		(66,793)	7,877
Increase in amounts due from related parties		(3,112)	(796)
Increase in insurance contract liabilities		639,625	444,470
Increase/(decrease) in investment contract liabilities		5,483	(28,075)
Increase in amounts due to related parties		42,860	41,411
(Decrease)/increase in insurance and other liabilities		(140,322)	16,664
Cash flows generated from operations		(18,565)	208,245
Dividend received from investments		38,804	21,519
Interest received		161,981	144,115
Investment expenses paid		(6,972)	(6,833)
Income tax paid		(3,855)	(37)
Net cash flows from operating activities		171,393	367,009
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiary, net of cash received	6	4,802	-
Dividend received from a joint venture		4,611	2,383
Purchases of intangible assets		(126)	(102)
Purchases of plant and equipment		(8,736)	(1,472)
Purchases of financial assets		(1,825,386)	(1,202,608)
Proceeds from disposal and maturities of financial assets		1,450,255	769,677
Net cash flows used in investing activities		(374,580)	(432,122)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

US$'000

	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of preference shares	34	4	9
Issue of direct capital instrument	34	-	198,157
Distribution paid on direct capital instrument	34	(13,313)	(7,813)
Redemption of medium term note	9	-	(100,000)
Finance costs paid on bond borrowings		(8,179)	(10,200)
Finance costs paid on lease liabilities		(1,381)	-
Repayment of lease liabilities		(10,644)	-
Net cash flows from financing activities		(33,513)	80,153
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(236,700)	15,040
Cash and cash equivalents at beginning of the period		828,242	716,893
Effect of foreign exchange rate changes, net		537	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	28	592,079	731,933
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		461,132	576,653
Non-pledged time deposits with original maturity of less than three months when acquired		130,947	155,280
Cash and cash equivalents as stated in the statement of cash flows	28	592,079	731,933

1. CORPORATE INFORMATION

FWD LIMITED (the "Company") was incorporated on 13 December 2012 in the Cayman Islands, with its registered office at Vistra (Cayman) Limited, P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY-1205, Cayman Islands. The Company's principal place of business address in Hong Kong is Room 1902, 19/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. The principal activity of the Company is investment holding, whilst the principal activities of the Company and its subsidiaries (collectively referred to as the "Group"), are to provide products and services focusing on life insurance, general insurance, and investment services.

PCGI Limited, a company incorporated in the Cayman Islands, is the Company's immediate and ultimate holding company as at the end of the reporting period. PCGI Limited is wholly owned by Mr. Richard Li Tzar Kai. Swiss Re Investments Company Ltd is a 13.4% (December 2018: 13.5%) shareholder of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These unaudited interim condensed consolidated financial statements are presented in United States dollars with all values rounded to the nearest thousand unless otherwise stated, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statement are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards, interpretations and amendments effective as of 1 January 2019.

2.2 New accounting pronouncements

(a) Mandatory for the financial reporting periods commencing on or after 1 January 2019

The following relevant new standard and amendments to standards are mandatory for the first time for the financial reporting periods commencing on or after 1 January 2019 and are relevant to the consolidated financial statements of the Group:

(i) IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

(1) Transition and practical expedients applied

The Group has lease contracts for office premises and office equipment. In accordance with IAS 17, the Group classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased asset was not capitalized and the lease payments were recognized as rent expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under prepayments, deposits and other assets and insurance and other liabilities, respectively.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The comparatives for the 2018 reporting period have not been restated as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 January 2019.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting pronouncements (continued)

(a) Mandatory for the financial reporting periods commencing on or after 1 January 2019 (continued)

(i) IFRS 16 Leases (continued)

(1) Transition and practical expedients applied (continued)

In applying IFRS 16 for the first time, the Group has also applied the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessment of whether leases are onerous;
- the accounting of operating leases with a remaining lease term of less than 12 months as at 1 January as short-term leases ("short-term lease"), and lease contracts for which the underlying asset is of low value ("low-value assets");
- the exclusion of the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(2) Nature of the effect of adoption of IFRS 16

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate of 4.49% at the date of initial application.

Impact on the consolidated statement of financial position as at 31 December 2018:

US$'000

	As at 31 December 2018	Opening adjustments	As at 1 January 2019
Assets			
Right-of-use assets	-	53,422	53,422
Total assets	-	53,422	53,422
Liabilities			
Lease liabilities	-	58,848	58,848
Insurance and other liabilities	-	(5,426)	(5,426)
Total liabilities	-	53,422	53,422

There was no impact on the consolidated statement of profit or loss and other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting pronouncements (continued)

(a) Mandatory for the financial reporting periods commencing on or after 1 January 2019 (continued)

(i) IFRS 16 Leases (continued)

(2) Nature of the effect of adoption of IFRS 16 (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

US$'000

Operating lease commitments disclosed as at 31 December 2018	62,808
Discounted using the leasee's incremental borrowing rate at the date of initial application	59,403
(Less): short-term leases recognized on a straight-line basis as expense	(28)
(Less): contracts reassessed as service agreements	(1,856)
(Less): adjustments as a result of a different treatment of extension and termination options	(50)
Add: contracts reassessed as lease agreements and others	1,379
Lease liability recognized as at 1 January 2019	58,848

The carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period are as follows:

US$'000

	Office Premises	Office equipment	Total ROU Assets	Total Lease liabilities
As at 1 January 2019	53,409	13	53,422	58,848
Additions	4,984	-	4,984	1,685
Depreciation	(11,104)	(2)	(11,106)	-
Foreign exchange	20	-	20	21
Net interest accrued	-	-	-	7
Payments	-	-	-	(10,188)
As at 30 June 2019	47,309	11	47,320	50,373

The Group recognized rent expense from short-term leases of US$163,000 for the six months ended 30 June 2019. There were no leases of low-value assets and variable lease payments for the six months ended 30 June 2019.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting pronouncements (continued)

(a) Mandatory for the financial reporting periods commencing on or after 1 January 2019 (continued)

(i) IFRS 16 Leases (continued)

(3) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Depreciation of right-of-use assets are included in “Other operating and administrative expenses”. Right-of-use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentive receivables, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Interest expense is included in “Finance costs”. In addition, the carrying amount of lease liabilities is remeasured if there is a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying assets.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e., below US$5,000). Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term and are included in “Other operating and administrative expenses”.

(4) Significant judgements in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has an option, under some of its leases to lease the assets for additional terms of one to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew, considering all relevant factors that create an economic incentive for it to exercise the renewal.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting pronouncements (continued)

(a) Mandatory for the financial reporting periods commencing on or after 1 January 2019 (continued)

(i) IFRS 16 Leases (continued)

(4) Significant judgements in determining the lease term of contracts with renewal options (continued)

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group includes the renewal period as part of the lease term for leases of office premises due to the significance of these assets to its operations. These leases have a non-cancellable period (i.e., four to six years) and there will be a significant negative effect on the operation if a replacement is not readily available.

(ii) IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

(iii) Annual Improvements 2015-2017 Cycle

(1) IFRS 3 Business Combinations
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting pronouncements (continued)

(a) Mandatory for the financial reporting periods commencing on or after 1 January 2019 (continued)

(iii) Annual Improvements 2015-2017 Cycle (continued)

(2) IFRS 11 Joint Arrangements
A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

(3) IAS 12 Income Taxes
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events. An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

(b) Temporary exemption from adoption for the annual reporting period beginning 1 January 2019

The following are relevant new standards and amendments to standards have been issued and are effective for the annual reporting period beginning 1 January 2019 for which the Group has elected to apply temporary exemption options.

(i) IFRS 9 Financial Instruments
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The Group has elected to apply a temporary exemption option to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) to annual reporting periods beginning on or after 1 January 2021 (the IASB is considering a proposal to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2022). Therefore, the Group continues to apply IAS 39 to its financial assets and liabilities in these financial statements. After the date of eligibility assessment, there has been no change in the Group's activities that requires a reassessment of the eligibility assessment.

(ii) Amendments to IAS 28: Long-term interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The amendments also clarified that, in applying IFRS 9, an entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28 Investments in Associates and Joint Ventures. The Group will apply these amendments concurrently with the application of IFRS 9, and expects no significant impact to its consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting pronouncements (continued)

(c) Issued but not yet effective for the financial period ended 30 June 2019

The following relevant new standards, interpretations and amendments to standards have been issued but are not effective for the six months ended 30 June 2019 and have not been early adopted.

(i) IFRS 17 Insurance Contracts

IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, will replaces IFRS 4 Insurance Contracts. IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration contracts, which typically applies to certain non-life insurance contracts. The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profit of the insurance contracts and is recognized in profit or loss over the contractual service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period
- The effect of changes in discount rates are reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income is based on the concept of services provided during the period
- Amounts that the policyholder will receive that are independent of an insured event (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet
- Insurance underwriting results (earned revenue less insurance expenses) are presented separately from insurance finance income or expense
- Extensive new disclosures are required to provide information on the amounts recognized in profit or loss from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with retrospective application and comparative figures required. The Group is in the process of assessing the impact of implementation, and expects that IFRS 17 will result in important changes to the accounting policies for insurance contract liabilities of the Group, and is likely to have a significant impact on profit, total equity, financial statement presentation and disclosures. The Group plans to adopt the new standard on the required effective date together with IFRS 9 (see above)

In June 2019, the IASB issued an exposure draft for proposed amendments to IFRS 17, including the deferral of the effective date to annual reporting periods beginning on or after 1 January 2022. The Group will consider these proposed amendments in its impact assessment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting pronouncements (continued)

(c) Issued but not yet effective for the financial period ended 30 June 2019 (continued)

(ii) Amendments to IFRS 3 Definition of a Business

The amendment to IFRS 3 Definition of a Business is effective for annual periods beginning on or after 1 January 2020. The Group is assessing the impact of this amendment.

(iii) Amendments to IAS 1 and IAS 8 Definition of Material

The amendments to IAS 1 and IAS 8 Definition of Material are effective for annual periods beginning on or after 1 January 2020. The Group is assessing the impact of these amendments.

(iv) Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate of Joint Venture

The effective date to the Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate of Joint Venture has been deferred indefinitely. The Group will assess the impact of implementation when the effective date is confirmed.

2.3 Reclassification of comparatives

Certain comparative figures have been re-presented to conform with the current year’s presentations.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. All estimates are based on management’s knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly.

In preparing these unaudited interim condensed consolidated financial statements, the significant accounting judgements made by management in applying the Group's accounting policies, as well as key assumptions concerning the future and other key sources of estimation uncertainty, are the same as those applied to the annual consolidated financial statements for the period ended 31 December 2018, except for the right-of-use assets and lease liabilities as described in Note 2.2 and certain assets and liabilities acquired from HSBC Amanah Takaful (Malaysia) Berhad as described in note 6.

4. EXCHANGE RATES

The Group's principal operations during the reporting periods are Hong Kong, Macau, Vietnam and Malaysia. The results and cash flows of these operations have been translated into US Dollars at the following average rates:

	US dollar exchange rate	
	Six months ended 30 June 2019	Six months ended 30 June 2018
Hong Kong	7.843	7.838
Macau	8.017	8.134
Vietnam	23,255.761	22,943.710
Malaysia	4.119	3.938
China	6.7864	6.3684

Assets and liabilities have been translated at the following period end rates:

	US dollar exchange rate	
	30 June 2019	31 December 2018
Hong Kong	7.809	7.832
Macau	8.047	8.065
Vietnam	23,360.082	23,200.000
Malaysia	4.137	4.13
China	6.8704	6.8778

5. SEGMENT INFORMATION

The reportable segments of the Group correspond to its principal subsidiary legal entities representing the life insurance business and the general insurance business, as follows:

- The life insurance segment provides life insurance products and services to customers in Hong Kong, Macau and Malaysia. Life insurance is the Group's largest business line and comprises traditional participating life insurance products, traditional non-participating life insurance products, accident and health insurance non-participating products, investment-linked insurance products and universal life insurance products.

- The general insurance segment provides a range of general insurance products for individuals and commercial institutions in Hong Kong, including health and medical care insurance, motor insurance, property insurance and marine insurance.

The remaining operations of the Group, which consist of discontinued operations, start-up costs for operations in China and transactions of the holding and intermediate holding companies and consolidation adjustments, are included in Corporate and Others. Further details of the discontinued operations are provided in note 15.

US$'000

	Six months ended 30 June 2019			
	Life Insurance	General Insurance	Corporate and Others	Total
Net premiums	724,798	14,477	-	739,275
Fees and commission income	84,380	4,919	(5,893)	83,406
Investment return	279,066	1,235	2,628	282,929
Other operating revenue	3,810	-	1,134	4,944
TOTAL REVENUE FROM CONTINUING OPERATIONS	1,092,054	20,631	(2,131)	1,110,554
Net benefits and claims	(882,928)	(8,636)	-	(891,564)
Amortization of intangible assets	(6,865)	-	(81)	(6,946)
Net deferred acquisition cost movement	127,697	765	-	128,462
Finance costs	(910)	-	(8,722)	(9,632)
Commission and commission related expenses	(202,951)	(8,403)	703	(210,651)
Other operating and administrative expenses	(104,320)	(5,464)	(26,460)	(136,244)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(1,070,277)	(21,738)	(34,560)	(1,126,575)
Share of gains/(losses) in associate and joint venture	3,890	-	(166)	3,724
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPEATIONS	25,667	(1,107)	(36,857)	(12,297)
Income tax expense	(5,535)	(314)	-	(5,849)
PROFIT/(LOSS) FOR THE PERIOD AFTER TAX FROM CONTINUING OPEATIONS	20,132	(1,421)	(36,857)	(18,146)
Loss for the period from discontinued operations	-	-	(7,415)	(7,415)
NET PROFIT/(LOSS)	20,132	(1,421)	(44,272)	(25,561)
OTHER COMPREHENSIVE INCOME, NET OF TAX	409,945	3,035	1,659	414,639
TOTAL COMPREHENSIVE INCOME	430,077	1,614	(42,613)	389,078

5. SEGMENT INFORMATION (continued)

US$'000

	30 June 2019			
	Life Insurance	General Insurance	Corporate and Others	Total
TOTAL ASSETS	17,179,777	159,060	(430,301)	16,908,536
TOTAL LIABILITIES	13,511,097	103,317	568,928	14,183,342
TOTAL EQUITY	3,668,680	55,743	(999,229)	2,725,194

US$'000

	Six months ended 30 June 2018			
	Life Insurance	General Insurance	Corporate and Others	Total
Net premiums	641,563	15,225	-	656,788
Fees and commission income	77,041	4,413	(1,636)	79,818
Investment return	164,076	1,207	735	166,018
Other operating revenue	267	-	(223)	44
TOTAL REVENUE	882,947	20,845	(1,124)	902,668
Net benefits and claims	(716,114)	(7,890)	-	(724,004)
Amortization of intangible assets	(12,832)	-	-	(12,832)
Net deferred acquisition cost movement	86,215	641	-	86,856
Finance costs	-	-	(10,003)	(10,003)
Commission and commission related expenses	(125,199)	(7,523)	(146)	(132,868)
Other operating and administrative expenses	(73,033)	(5,392)	(10,310)	(88,735)
TOTAL BENEFITS, CLAIMS AND EXPENSES	(840,963)	(20,164)	(20,459)	(881,586)
Share of gains/(losses) in associate and joint ventures	4,127	-	(309)	3,818
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	46,111	681	(21,892)	24,900
Income tax expense	(7,592)	(212)	-	(7,804)
PROFIT/(LOSS) FOR THE PERIOD AFTER TAX FROM CONTINUING OPERATIONS	38,519	469	(21,892)	17,096
Loss for the period from discontinued operations	-	-	(7,431)	(7,431)
NET PROFIT/(LOSS)	38,519	469	(29,323)	9,665
OTHER COMPREHENSIVE INCOME, NET OF TAX	(253,487)	(1,711)	(1,163)	(256,361)
TOTAL COMPREHENSIVE INCOME	(214,968)	(1,242)	(30,486)	(246,696)

	30 June 2018			
	Life Insurance	General Insurance	Corporate and Others	Total
TOTAL ASSETS	14,912,185	148,366	(355,613)	14,704,938
TOTAL LIABILITIES	11,816,169	94,703	467,200	12,378,072
TOTAL EQUITY	3,096,016	53,663	(822,813)	2,326,866

6. BUSINESS COMBINATIONS

On 22 March 2019, the Group acquired a 49% interest in HSBC Amanah Takaful (Malaysia) Berhad in Malaysia, which was subsequently renamed FWD Takaful Berhad ("FWD Malaysia"). The Group became the largest shareholder of FWD Malaysia, a family takaful operator offering Takaful insurance products. The acquisition represents a strategic milestone in expanding the Group's insurance business in Malaysia.

Due to the proximity of the acquisition to the reporting period, fair values of the acquired identifiable net assets as at 30 June 2019 have been determined provisionally and are subject to adjustment pending completion of a comprehensive evaluation of the net assets acquired. As a result, the excess of the purchase price over the fair value of net assets acquired representing goodwill may be adjusted retrospectively to the acquisition date within one year of the acquisition.

The initial accounting for the acquisition is incomplete for the valuation of insurance reserves, valuation of business acquired, insurance payables, contingent assets and liabilities, if any, and related income taxes. Accordingly, the non-controlling interest has also been valued provisionally.

The purchase consideration for the acquisition was Malaysian Ringgit (RM) 68,390,000, paid in cash at the acquisition date. The provisional fair values of the identifiable assets and liabilities of FWD Malaysia as at the date of acquisition were as follows:

US$'000	Notes	Fair values (provisional)
Value of business acquired ("VOBA") (a)	17(a)	2,034
Other intangible assets	17(b)	1,927
Property, plant and equipment	19	-
Financial assets		
Available-for-sale financial assets		150,240
Financial assets at fair value through profit or loss		152,809
Reinsurance assets (a)		5,610
Prepayments, deposits and other assets		4,804
Insurance receivables		179
Fixed deposits		6,633
Cash and cash equivalents		14,967
Insurance contract liabilities (a)		(286,306)
Insurance and other liabilities		(5,614)
Due to related parties (b)		(6,631)
Deferred tax liabilities	14	(1,057)
Net identifiable assets at fair value		39,595
Non-controlling interests (c)		(23,575)
Goodwill on acquisition	16	778
Total		16,798
Satisfied by cash		16,798

An analysis of the cash flows in respect of the acquisition is as follows:

US$'000	
Cash consideration	(16,798)
Cash and bank balances (including deposits) acquired	21,600
Net inflow of cash and cash equivalents included in cash flows from investing activities	4,802

6. BUSINESS COMBINATIONS (continued)

The goodwill represents the value of new business from existing and new distribution channels and customers going forward, and the value of workforce and management. It will not be deductible for income tax purposes.

(a) Significant estimates

The fair value of reinsurance assets and insurance contract liabilities represent the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from the in-force business on insurance contracts acquired by the Group.

The fair value of VOBA recognized at the acquisition date represents the present value of future profits for the in-force business on insurance contracts acquired by the Group. The present value of future profits takes into consideration the cost of capital and is estimated using actuarial assumptions based on projections made at the acquisition date. The discount rate used to calculate the VOBA was 9%.

(b) Due to related parties

Prior to the acquisition, FWD Malaysia had loans of US$6,633,000 from the former shareholder and the then non-controlling interest holders. At the acquisition date, the loan to the former shareholder was novated to the Group and settled. The remaining balance of USD3,362,000 due to the non-controlling interest holders will mature on 31 December 2019.

(c) Accounting policy choice for non-controlling interests

The Group recognizes non-controlling interests in an acquired entity either at fair value or at the non-controlling interests proportionate share of the acquired entity's net identifiable assets (the "proportional share approach") on an acquisition-by-acquisition basis. For the non-controlling interests in FWD Malaysia, the Group elected to utilise the proportional share approach.

(d) Revenue and profit contribution

FWD Malaysia contributed revenues of US$13,387,637 and loss before tax of US$1,930,766 to the Group for the period from the acquisition date to 30 June 2019.

If the acquisition had occurred on 1 January 2019, consolidated pro-forma revenue and loss before tax for the six-month period ended 30 June 2019 would have been US$19,711,823 and US$2,495,023, respectively. This financial information is presented for informational purposes only. This information neither reflects the actual results that would have occurred had the acquisition been closed on the assumed date, nor indicates future results.

7. NET PREMIUMS

US$'000	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
(a) Gross premiums			
Life insurance contracts		859,425	758,121
Non-life insurance contracts		37,815	33,963
Investment contracts with DPF		9,069	10,035
Total gross premiums		906,309	802,119
(b) Reinsurers' share of gross premiums			
Life insurance contracts		(143,696)	(126,593)
Non-life insurance contracts		(21,161)	(17,400)
Investment contracts with DPF		-	-
Total reinsurers' share of gross premiums		(164,857)	(143,993)
(c) Change in unearned premiums			
Non-life insurance contracts		(2,177)	(1,338)
Net premiums		739,275	656,788

8. FEES AND COMMISSION INCOME

US$'000	Six months ended 30 June 2019	Six months ended 30 June 2018
Policyholder administration service fees and surrender charges		
Insurance contracts	45,462	41,624
Investment contracts	1	-
Reinsurance commission income	28,062	42,130
Commission income	5,794	5,839
	79,319	89,593

9. INVESTMENT RETURN

US$'000	Six months ended 30 June 2019	Six months ended 30 June 2018
Interest income	153,939	137,274
Dividend income	30,482	19,895
Investment income	184,421	157,169
Realized gains on financial assets		
Available-for-sale financial assets (transfer from Equity)	25,092	7,984
Financial assets designated at fair value through profit or loss	16,826	19,913
Derivative financial instruments	919	33,307
Realized losses on financial assets		
Available-for-sale financial assets (transfer from Equity)	(10,099)	(6,542)
Financial assets designated at fair value through profit or loss	(461)	(14)
Derivative financial instruments	(4,613)	(15,773)
Net realized gains on financial assets	27,664	38,875
Realized loss on financial liability[1]	-	(1,132)
Fair value gains/(losses) on derivative financial instruments	(7,032)	1,930
Fair value gains/(losses) on financial assets designated at fair value through profit or loss	83,617	(30,508)
Net fair value gains/(losses) on financial assets	76,585	(28,578)
(Impairment)/Reversal of impairment of available-for-sale financial assets	(5,338)	(1,113)
(Impairment)/Reversal of impairment on secured loans	59	22
Foreign exchange difference	(462)	775
Total investment return	282,929	166,018

The impairment or reversal of impairment of available-for-sale financial assets and secured loans are in the life insurance segment.

The investment return does not include the income from the joint venture investment in One George Street LLP, which is presented as share of gains/(losses) in associate and joint venture in the consolidated statement of profit or loss and other comprehensive income. Further details of the financial results from One George Street LLP are provided in note 25.

(1) In May 2018, FWD Limited redeemed an 8-year senior unsecured note, which had a carrying value of US$98,868,000 at its nominal amount of US$100,000,000, resulting in a loss of US$1,132,000.

10. NET BENEFITS AND CLAIMS INCURRED

US$'000	Six months ended 30 June 2019	Six months ended 30 June 2018
(a) Gross benefits and claims paid		
Life insurance contract benefits and claims paid		
With DPF	345,344	316,299
Without DPF	70,148	76,715
Total life insurance contract benefits and claims paid	415,492	393,014
Non-life insurance contract benefits and claims paid	20,710	17,424
Investment contracts with DPF benefits and claims paid	12,233	63,544
Total gross benefits and claims paid	448,435	473,982
(b) Reinsurers' share of gross benefits and claims paid		
Reinsurers' share of life insurance contract benefits and claims paid		
With DPF	(11,256)	(7,753)
Without DPF	(6,921)	(1,935)
Total reinsurers' share of life insurance contract benefits and claims paid	(18,177)	(9,688)
Reinsurers' share of non-life insurance contract benefits and claims paid	(10,842)	(9,116)
Total reinsurers' share of benefits and claims paid	(29,019)	(18,804)
(c) Gross change in contract liabilities		
Change in life insurance contract liabilities		
With DPF	414,266	405,655
Without DPF	131,907	(58,047)
Total change in life insurance contract liabilities	546,173	347,608
Change in non-life insurance contracts liabilities	(822)	(424)
Change in investment contract liabilities with DPF	(2,020)	(24,108)
Total gross change in contract liabilities	543,331	323,076
(d) Reinsurers' share of gross change in contract liabilities		
Reinsurers' share of change in life insurance contract liabilities		
With DPF	16,846	(15,645)
Without DPF	(87,619)	(38,611)
Total reinsurers' share of change in life insurance contract liabilities	(70,773)	(54,256)
Reinsurers' share of change in non-life insurance contracts liabilities	(410)	6
Total reinsurers' share of gross change in contract liabilities	(71,183)	(54,250)
Total net benefits and claims	891,564	724,004

The total interest expense of the investment contract liabilities with DPF was US$2,559,000 (June 2018: US$5,363,000).

11. FINANCE COSTS

US$'000	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
Borrowings	31	8,439	10,003
Lease liabilities	32	1,193	-
		9,632	10,003

12. COMMISSION AND COMMISSION RELATED EXPENSES

US$'000	Six months ended 30 June 2019	Six months ended 30 June 2018
Commission expenses	103,213	75,961
Commission related expenses	107,438	56,907
	210,651	132,868

13. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

US$'000	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
Advertising and marketing expenses		24,222	16,188
Auditor's remuneration		460	526
Bank charges and other professional service fees		11,274	9,492
Depreciation of plant and equipment	19	3,685	2,808
Depreciation of right-of-use assets	20	11,106	-
Employee benefit expenses			
Salaries and allowances		44,107	30,493
Share-based payment expenses	38	7,487	9,558
Pension contribution		2,120	1,435
Other staff costs		3,256	1,780
Group management fee		4,165	3,741
Office related expenses		5,318	2,108
Computer and IT expenses		6,159	1,555
Expense relating to short-term leases		163	-
Operating leases rental		-	7,230
Others		10,480	3,270
Foreign exchange differences, net		2,242	(1,449)
Total		136,244	88,735

14. TAXATION

(a) Income Tax

The estimated profits arising in Hong Kong and Malaysia during the period have been provided at the effective rate of 16.5% and 24% respectively. Taxes on profits assessable in other jurisdictions have been calculated at the rates of tax prevailing in those jurisdictions in which the Group operates.

US$'000	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
Current – Hong Kong			
Charge for the period		(323)	(221)
Under-provision in prior periods		(333)	-
Current – Others		(967)	(1,168)
Deferred	14(b)	(4,226)	(6,415)
		(5,849)	(7,804)

A reconciliation of the tax credit/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 statutory tax rate to the effective tax rate, is as follows:

US$'000	Six months ended 30 June 2019	%
Loss before tax	(12,297)	
Tax at the statutory tax rate	8,861	(72.0)
Income not subject to tax	6,360	(51.7)
Expenses not deductible for tax	(9,378)	76.3
Tax losses not recognized	(11,171)	90.8
Others	(521)	4.2
	(5,849)	47.6

US$'000	Six months ended 30 June 2018	%
Profit before tax	26,065	
Tax at the statutory tax rate	(4,116)	(15.8)
Income not subject to tax	2,170	8.3
Expenses not deductible for tax	(5,410)	(20.7)
Tax losses not recognized	(578)	(2.2)
Others	130	0.5
	(7,804)	(29.9)

14. TAXATION (continued)

(b) Deferred Tax

The movement in deferred tax assets/(liabilities) during the period is as follows:

US$'000	Note	Insurance contract liabilities	Deferred acquisition cost	Value of business acquired	Revaluation of available-for-sale financial assets	Tax losses	Other temporary differences	Total
1 January 2019		105,937	(151,151)	(101,515)	(2,166)	19,286	16,691	(112,918)
Acquisition of subsidiaries		-	-	(488)	-	-	(569)	(1,057)
Deferred tax credited/(charged) to profit or loss	14(a)	(76,559)	(20,863)	1,058	-	61,977	30,161	(4,226)
Deferred tax credited/(charged) to other comprehensive Income		-	-	-	(75,877)	-	(216)	(76,093)
Foreign exchange difference		12	(5)	(7)	7	-	(5)	2
30 June 2019		29,390	(172,019)	(100,952)	(78,036)	81,263	46,062	(194,292)

US$'000	Note	Insurance contract liabilities	Deferred acquisition cost	Value of business acquired	Revaluation of available-for-sale financial assets	Tax losses	Other temporary differences	Total
1 January 2018		40,304	(122,291)	(106,653)	(47,512)	47,934	32,103	(156,115)
Deferred tax credited/(charged) to profit or loss	14(a)	62,173	(13,980)	2,119	-	(40,540)	(16,187)	(6,415)
Deferred tax credited/(charged) to other comprehensive Income		-	-	-	47,486	-	158	47,644
Foreign exchange difference		4	13	26	382	-	(7)	418
30 June 2018		102,481	(136,258)	(104,508)	356	7,394	16,067	(114,468)

At June 2019, the negative balance shown above of US$194,292,000 (June 2018: US$114,468,000) represents deferred tax assets of US$81,262,000 (June 2018: US$37,000) and deferred tax liabilities of US$275,554,000 (June 2018: US$114,505,000) relating to tax within the jurisdiction of the same tax authority.

Deferred tax assets are recognized to the extent that sufficient future taxable profits will be available for realization. At June 2019, the Group has tax losses arising in Hong Kong and China of US$46,147,000 (December 2018: US$32,909,000) that are available within the applicable time limits for offsetting against taxable profits from its subsidiaries in which the losses arose. During the period, no additional deferred tax assets have been recognized in respect of these losses as it is not considered probable that taxable profits will be available against which these tax losses can be utilized in the foreseeable future. The tax losses in Hong Kong can be carried forward indefinitely. The tax losses in China can be carried forward for five years.

15. DISCONTINUED OPERATIONS

The Pension Business
On 3 August 2016, the Group signed an Implementation Agreement ("IA") with Sun Life Hong Kong Limited ("Sun Life") and, announced the disposal of FWD's Mandatory Provident Fund ("MPF") and Occupational Retirement Schemes ("ORSO") business, including the disposal of the pension trustee entity, FWD Pension Trust Limited (collectively referred to as "the Pension Business"). The Group and Sun Life also entered into a 15-year strategic distribution agreement which allows FWD Life Insurance Company (Bermuda) Limited to distribute Sun Life's MPF products in the Hong Kong market as Sun Life's principal intermediary. As at 31 December 2016, the Pension Business was classified as a disposal group held for sale.

On 3 October 2017, the Group disposed of its 100% interest in FWD Pension Trust Limited and the MPF business (excluding policies relating to products classified as Class G of Long-Term Business under the Hong Kong Insurance Ordinance ("Class G Policies")). The Group received a total consideration of US$38,404,000 for transferring its sponsorship of MPF, the employees and the business contracts of the Pension Business and for entering the strategic distribution agreement with Sun Life.

The transfer of the assets of the ORSO business and the Class G Policies is expected to be completed in 2019, subject to regulatory approvals. Operating results of the Pension Business before the disposal are set out in note 15(a) of the financial statements.

FWD Vietnam
On 30 June 2016, the Group acquired a 100% interest in Great Eastern Life (Vietnam) Co. Ltd., which has been renamed FWD Vietnam Life Insurance Company Limited ("FWD Vietnam"). At the time of the acquisition, the Group had the intention to sell FWD Vietnam to a related party and initiated discussions with the regulator on the process required to obtain regulatory approval for the sale. As at 31 December 2016, FWD Vietnam was classified as a disposal group held for sale.

The Group has continued discussions with the regulator and completed a checklist of items circulated by the regulator which are required to obtain the final regulatory approval for the sale of FWD Vietnam. The group expects to obtain the regulatory approval at the beginning of 2020. As at 30 June 2019, FWD Vietnam continues to be classified as a disposal group held for sale.

(a) The Pension Business

The operating results of the Pension Business for the period consists of fee and commission income of US$797,000 (30 June 2018:US$1,165,000).

The major classes of assets and liabilities of the Pension Business are as follows:

US$'000

	30 June 2019	31 December 2018
Assets		
Financial assets		
Financial assets at fair value through profit or loss	357,218	346,386
TOTAL ASSETS	357,218	346,386
Liabilities		
Investment contract liabilities	357,218	346,386
TOTAL LIABILITIES	357,218	346,386
NET ASSETS DIRECTLY ASSOCIATED WITH THE DISPOSAL GROUP	-	-

There were no amounts included within accumulated other comprehensive income and reserves for the discontinued Pension Business in the current period (30 June 2018:nil).

The net operating cash inflow of the Pension Business for the period was US$797,000 (30 June 2018: US$1,165,000).

15. DISCONTINUED OPERATIONS (continued)

(b) FWD Vietnam

The operating results of FWD Vietnam are presented below:

US$'000	Six months ended 30 June 2019	Six months ended 30 June 2018
Net premium	21,473	11,531
Fee and commission income	154	79
Interest income	2,003	2,150
Other operating revenue	461	3
Total revenue	24,091	13,763
Net benefits and claims	(15,784)	(8,673)
Net deferred acquisition cost movement	16,118	10,204
Commission and commission related expenses	(17,782)	(11,605)
Amortization of intangible assets	(542)	(60)
Depreciation of plant and equipment	(453)	(371)
Depreciation of right of use assets	(633)	-
Finance costs	(195)	-
Other operating and administrative expenses	(11,570)	(10,422)
Total expenses	(30,841)	(20,927)
Loss before tax from the discontinued operation	(6,750)	(7,164)
Income tax	(1,462)	(1,432)
Loss for the period from the discontinued operation	(8,212)	(8,596)

15. DISCONTINUED OPERATIONS (continued)

(b) FWD Vietnam (continued)

The major classes of assets and liabilities of FWD Vietnam are as follows:

US$'000

	30 June 2019	31 December 2018
Assets		
Goodwill	693	698
Intangible assets	12,330	12,952
Deferred acquisition cost	46,967	31,127
Plant and equipment	2,133	2,595
Right-of-use assets	8,418	-
Financial assets		
Available-for-sale financial assets	28,047	25,743
Loans and receivables	3,506	3,759
Reinsurance assets	178	-
Prepayments, deposits and other assets	5,053	5,658
Insurance receivables	3,297	2,859
Fixed deposits	45,225	20,128
Cash and cash equivalents	12,661	17,927
TOTAL ASSETS	168,508	123,446
Liabilities		
Insurance contract liabilities	50,352	35,991
Insurance and other liabilities	16,663	24,579
Deferred tax liabilities	5,352	3,883
Lease liabilities	8,595	-
TOTAL LIABILITIES	80,962	64,453
NET ASSETS DIRECTLY ASSOCIATED WITH THE DISPOSAL GROUP	87,546	58,993
Amounts included in accumulated other comprehensive income:		
Available-for-sale financial assets revaluation reserve	1,036	877
Foreign currency translation reserve	(1,769)	(1,388)
RESERVE OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE	(733)	(511)

The net cash flows from FWD Vietnam are as follows:

US$'000

	30 June 2019	31 December 2018
Operating activities	(13,670)	(13,121)
Investing activities	(27,965)	(3,153)
Financing activities	36,369	34,924
Net cash (outflow)/inflow	(5,266)	18,650

16. GOODWILL

US$'000	30 June 2019	30 June 2018
At beginning of period		
Cost	902,057	902,057
Foreign exchange difference	(659)	(512)
Net carrying amount	901,398	901,545
Movement during the period		
Acquisition of subsidiaries	778	-
Foreign exchange difference	136	(286)
Net carrying amount	902,312	901,259
At end of period		
Cost	902,835	902,057
Foreign exchange difference	(523)	(798)
Net carrying amount	902,312	901,259

17. INTANGIBLE ASSETS

US$'000	Notes	30 June 2019	30 June 2018
Value of business acquired	17(a)	609,584	633,386
Other intangible assets	17(b)	2,434	-
		612,018	633,386

(a) Value of business acquired

US$'000	30 June 2019	30 June 2018
At beginning of period	614,161	646,384
Acquisition of subsidiaries	2,034	-
Amortization during the period	(6,663)	(12,832)
Foreign exchange difference	52	(166)
At end of period	609,584	633,386

(b) Other intangible assets

US$'000	30 June 2019	30 June 2018
At beginning of period	702	-
Acquisition of subsidiaries	1,927	-
Additions	120	-
Amortization during the period	(283)	-
Foreign exchange difference	(32)	-
At end of period	2,434	-

18. DEFERRED ACQUISITION COST AND DEFERRED COMMISSION INCOME

US$'000	30 June 2019		
	Deferred acquisition cost	Deferred commission income	Net
At beginning of period	935,383	(277,811)	657,572
Expenses/(Income) deferred	219,509	(15,976)	203,533
Amortization during the period	(91,047)	20,063	(70,984)
Foreign exchange difference	77	(12)	65
At end of period	1,063,922	(273,736)	790,186

US$'000	30 June 2018		
	Deferred acquisition cost	Deferred commission income	Net
At beginning of period	756,533	(261,964)	494,569
Expenses/(Income) deferred	140,180	(31,846)	108,334
Amortization during the period	(53,324)	22,071	(31,253)
Foreign exchange difference	(128)	15	(113)
At end of period	843,261	(271,724)	571,537

19. PROPERTY, PLANT AND EQUIPMENT

US$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Property held for own use	Total
30 June 2019						
31 December 2018:						
Cost	14,716	224	4,122	16,251	9,941	45,254
Accumulated depreciation	(11,605)	(140)	(2,185)	(11,933)	(101)	(25,964)
Net carrying amount	3,111	84	1,937	4,318	9,840	19,290
31 December 2018, net of accumulated depreciation	3,111	84	1,937	4,318	9,840	19,290
Additions	5,024	2	123	3,579	-	8,728
Disposals	-	-	-	(82)	-	(82)
Depreciation provided during the period	(1,604)	(16)	(377)	(1,642)	(46)	(3,685)
Foreign exchange difference	22	-	4	(1)	30	55
30 June 2019, net of accumulated depreciation	6,553	70	1,687	6,172	9,824	24,306
30 June 2019:						
Cost	19,762	226	4,238	19,358	9,971	53,555
Accumulated depreciation	(13,209)	(156)	(2,551)	(13,186)	(147)	(29,249)
Net carrying amount	6,553	70	1,687	6,172	9,824	24,306

US$'000	Leasehold improvements	Motor vehicles	Furniture and fixtures	Computer equipment	Property held for own use	Total
30 June 2018						
31 December 2017:						
Cost	14,507	224	4,059	13,910	9,964	42,664
Accumulated depreciation	(9,848)	(103)	(1,451)	(9,588)	(8)	(20,998)
Net carrying amount	4,659	121	2,608	4,322	9,956	21,666
31 December 2017, net of accumulated depreciation	4,659	121	2,608	4,322	9,956	21,666
Additions	179	-	99	335	-	613
Disposals	(326)	-	(5)	(64)	-	(395)
Depreciation provided during the period	(1,062)	(21)	(377)	(1,302)	(46)	(2,808)
Foreign exchange difference	(6)	-	(7)	(3)	(40)	(56)
30 June 2018, net of accumulated depreciation	3,444	100	2,318	3,288	9,870	19,020
30 June 2018:						
Cost	13,991	224	4,129	13,992	9,924	42,260
Accumulated depreciation	(10,547)	(124)	(1,811)	(10,704)	(54)	(23,240)
Net carrying amount	3,444	100	2,318	3,288	9,870	19,020

20. RIGHT-OF-USE ASSETS

US$'000	Office Premises	Office Equipment	Total
30 June 2019			
1 January 2019:			
Cost	53,409	13	53,422
Accumulated depreciation	-	-	-
Net carrying amount	53,409	13	53,422
1 January 2019, net of accumulated depreciation	53,409	13	53,422
Additions	4,984	-	4,984
Depreciation during the period	(11,104)	(2)	(11,106)
Foreign exchange difference	20	-	20
30 June 2019, net of accumulated depreciation	47,309	11	47,320
30 June 2019:			
Cost	58,413	13	58,426
Accumulated depreciation	(11,104)	(2)	(11,106)
Net carrying amount	47,309	11	47,320

The Group obtains right to use various office premises and office equipment for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of terms and conditions including lease payments and lease terms ranging from two to ten years.

Additions to the right-of-use assets during the period ended 30 June 2019 were US$4,984,000.

During the period ended 30 June 2019, total cash outflow for leases of US$11,374,000 was included in net cash generated from financing activities.

21. FINANCIAL ASSETS

The following tables analyze the Group's financial investments by type and nature. The Group manages its financial investments in two distinct categories: Investment-linked Investments, and Policyholder and Shareholder Investments. The investment risk in respect of Investment-linked Investments is generally wholly borne by policyholders, and does not directly affect the profit or loss for the period. Furthermore, investment-linked policyholders are responsible for allocation of their policy values among investment funds offered by the Group. Policyholder and Shareholder Investments include all financial investments other than Investment-linked Investments. The investment risk in respect of Policyholder and Shareholder Investments is partially or wholly borne by the Group.

The Group has elected to apply the available for sale classification for the majority of debt securities and equities in the Policyholder and Shareholder Investments category. The investment risk from investments in this category directly impacts the Group's financial statements.

In the following tables, "FVTPL" indicates financial investments classified at fair value through profit or loss and "AFS" indicates financial investments classified as available-for-sale.

In compiling the tables, external ratings have been used where available. The following conventions have been adopted to conform the ratings of the various rating agencies.

Standard and Poor's	Moody's	Reported as
AAA	Aaa	AAA
AA+ to AA-	Aa1 to Aa3	AA
A+ to A-	A1 to A3	A
BBB+ to BBB-	Baa1 to Baa3	BBB
BB+ and below	Ba1 and below	Below investment grade

21. FINANCIAL ASSETS (continued)

21.1 Available-for-sale financial assets

Debt securities

US$'000

30 June 2019	Rating	Policyholder and shareholder: Universal life	Life fund	Deposit administration	Other policyholder and shareholder	Total
Government bonds - issued in local currency						
United States	AAA	-	627,613	-	215,586	843,199
Hong Kong	AA	-	-	-	261	261
Malaysia	A	-	59,665	-	-	59,665
Sub-total		-	687,278	-	215,847	903,125
Government bonds - issued in foreign currency						
United States	AAA	-	-	-	11,215	11,215
South Korea	AA	5,946	1,194	-	-	7,140
Qatar	AA	1,786	23,265	-	2,343	27,394
United Arab Emirates	AA	-	-	-	421	421
China	A	1,420	5,509	-	203	7,132
Saudi Arabia	A	51,481	25,869	-	421	77,771
Indonesia	BBB	779	17,290	-	-	18,069
Sub-total		61,412	73,127	-	14,603	149,142
Government agency bonds(1)						
AAA		663	19,950	-	6,721	27,334
AA		16,884	56,718	-	22,576	96,178
A		7,373	12,057	-	4,771	24,201
BBB		-	3,665	-	-	3,665
Sub-total		24,920	92,390	-	34,068	151,378
Corporate bonds						
AAA		8,939	32,780	-	75,730	117,449
AA		86,078	202,162	523	66,124	354,887
A		1,681,745	1,563,913	-	191,748	3,437,406
BBB		1,753,623	1,207,004	-	53,456	3,014,083
Below investment grade		15,451	12,150	-	17,502	45,103
Not rated		-	-	-	958	958
Sub-total		3,545,836	3,018,009	523	405,518	6,969,886
Structured securities						
Not rated		-	25,007	-	-	25,007
Sub-total		-	25,007	-	-	25,007
Equity securities						
Equity shares - Listed		-	197,010	-	22,009	219,019
Equity shares - Unlisted		516,883	126,875	-	48,714	692,472
Interest in investment funds		26,341	25,578	-	11,139	63,058
Sub-total		543,224	349,463	-	81,862	974,549

21. FINANCIAL ASSETS (continued)

21.1 Available-for-sale financial assets (continued)

US$'000 30 June 2019	Policyholder and shareholder				Total
	Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Others					
Certificate of deposits	-	-	-	29,248	29,248
Others	-	-	-	337	338
Sub-total	-	-	-	29,585	29,585
Total Available-for-sale financial assets	4,175,392	4,245,274	523	781,483	9,202,672

[(1)] Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

21. FINANCIAL ASSETS (continued)

21.1 Available-for-sale financial assets (continued)

Debt securities
US$'000

31 December 2018	Rating	Policyholder and shareholder: Universal life	Life fund	Deposit administration	Other policyholder and shareholder	Total
Government bonds - issued in local currency						
United States	AAA	84,424	696,471	-	172,956	953,851
Hong Kong	AA	-	-	-	249	249
Sub-total		84,424	696,471	-	173,205	954,100
Government bonds - issued in foreign currency						
United States	AAA	-	-	-	10,705	10,705
South Korea	AA	8,521	-	-	202	8,723
Qatar	AA	2,819	19,403	-	2,205	24,427
United Arab Emirates	AA	-	-	-	387	387
China	A	1,319	5,290	-	188	6,797
Saudi Arabia	A	47,730	25,314	-	381	73,425
Indonesia	BBB	720	13,067	-	-	13,787
Sub-total		61,109	63,074	-	14,068	138,251
Government agency bonds[(1)]						
AAA		613	14,140	-	6,407	21,160
AA		21,599	32,305	-	23,196	77,100
A		11,642	9,551	-	4,402	25,595
Sub-total		33,854	55,996	-	34,005	123,855
Corporate bonds						
AAA		7,659	11,310	-	621	19,590
AA		94,824	177,948	526	79,439	352,737
A		1,631,565	1,303,159	-	150,198	3,084,922
BBB		1,715,259	1,018,001	-	70,524	2,803,784
Below investment grade		20,872	10,834	-	17,178	48,884
Not rated		-	-	-	1,022	1,022
Sub-total		3,470,179	2,521,252	526	318,982	6,310,939
Structured securities						
Not rated		-	25,000	-	-	25,000
Sub-total		-	25,000	-	-	25,000
Equity securities						
Equity shares - Listed		-	58,292	-	25,845	84,137
Equity shares - Unlisted		495,165	103,302	-	48,970	647,437
Interest in investment funds		24,088	25,112	-	9,440	58,640
Sub-total		519,253	186,706	-	84,255	790,214

21. FINANCIAL ASSETS (continued)

21.1 Available-for-sale financial assets (continued)

US$'000 31 December 2018	Policyholder and shareholder				Total
	Universal life	Life fund	Deposit administration	Other policyholder and shareholder	
Others					
Certificate of deposits	-	-	-	21,080	21,080
Others	-	155	-	181	336
Sub-total	-	155	-	21,261	21,416
Total Available-for-sale financial assets	4,168,819	3,548,654	526	645,776	8,363,775

(1) Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

During the period, the gross change in fair value in respect of the Group's available-for-sale financial assets recognized in other comprehensive income amounted to an increase of US$496,827,000 (2018: a decrease of US$296,007,000). Net realized gains of US$14,993,000 (2018: net realized gains of US$1,442,000) with impairment loss of US$5,338,000 (2018: impairment loss of US$1,113,000) were reclassified from other comprehensive income to profit or loss.

Bonds of US$201,625,000 (December 2018: bonds of US$200,114,000) were used to guarantee the insurance reserves at 30 June 2019 as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

21. FINANCIAL ASSETS (continued)

21.2 Financial assets at fair value through profit or loss

Debt securities

US$'000 30 June 2019		Policyholder and shareholder Deposit administration	Investment-Linked	Total
Government bonds				
- issued in local currency				
Malaysia	A	18,955	-	18,955
Sub-total		18,955	-	18,955
Government bonds				
- issued in foreign currency				
South Korea	AA	1,313	-	1,313
Qatar	AA	125	-	125
Sub-total		1,438	-	1,438
Government agency bonds[1]				
AA		4,955	-	4,955
A		120	-	120
Not rated		20,243	-	20,243
Sub-total		25,318	-	25,318
Corporate bonds				
AA		21,027	-	21,027
A		26,268	-	26,268
BBB		2,722	-	2,722
Sub-total		50,017	-	50,017
Equity securities				
Equity shares - Listed		143,513	-	143,513
Equity shares - Unlisted		361,615	-	361,615
Interest in investment funds		-	792,249	792,249
Sub-total		505,128	792,249	1,297,377
Others				
Other		-	108,782	108,782
Sub-total		-	108,782	108,782
Total financial assets at fair value through profit or loss		600,856	901,031	1,501,887

All financial assets at fair value through profit or loss at 30 June 2019 were classified as designated at fair value through profit or loss, as these assets match specific liabilities.

[1] Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

21. FINANCIAL ASSETS (continued)

21.2 Financial assets at fair value through profit or loss (continued)

Debt securities

US$'000 31 December 2018	Rating	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Government bonds				
- issued in local currency				
Qatar	AA	133	-	133
Sub-total		133	-	133
Government agency bonds[1]				
AAA		-	-	-
AA		6,446	-	6,446
A		323	-	323
Sub-total		6,769	-	6,769
Corporate bonds				
AA		22,882	-	22,882
A		27,519	-	27,519
BBB		2,953	-	2,953
Sub-total		53,354	-	53,354

Equity securities

US$'000 31 December 2018	Policyholder and shareholder Deposit administration	Investment-Linked	Total
Equity shares - Listed	45,262	-	45,262
Equity shares - Unlisted	228,128	-	228,128
Interest in investment funds	-	791,620	791,620
Sub-total	273,390	791,620	1,065,010
Total financial assets at fair value through profit or loss	333,646	791,620	1,125,266

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

[1] Government agency bonds comprise bonds issued by government-sponsored institutions such as national, provincial and municipal authorities and government-related entities.

21. FINANCIAL ASSETS (continued)

21.3 Loans and receivables

US$'000	30 June 2019	31 December 2018
Policy loans	66,624	65,382
Secured loans	5,729	6,240
Accreting deposits	72,509	70,703
Provision for impairment	(462)	(521)
Other financial receivable	6,607	-
At end of period	151,007	141,804

Policy loans are stated at amortized cost, are interest-bearing at market interest rates 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 policy loans bear interest at 9% (December 2018: 9%) per annum.

Secured loans are carried at amortized cost less repayment and any impairment losses.

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

US$'000	30 June 2018	31 December 2018
At beginning of period	(521)	(483)
Reversal of impairment/(impairment) charged for the period	59	(38)
At end of period	(462)	(521)

The above provision for impairment of secured loans is a provision for individually impaired loans related to agents in default or delinquent in repayment. The gross amount of the loans was US$5,729,000 (December 2018: US$6,240,000) with a carrying amount of US$5,267,000 (December 2018: US$5,719,000).

Accreting deposits are carried at amortized cost less any impairment losses.

The carrying amounts of loans and receivables approximate their fair values.

21.4 Derivative financial investments

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

US$'000	Contract/notional Amount	Carrying Amount Assets	Carrying Amount Liabilities
30 June 2019	3,074,155	823	20,072
31 December 2018	2,671,494	1,976	8,667

Derivatives assets and derivative liabilities are recognized in the consolidated statement of financial position as financial assets at fair value through profit or loss and derivative financial liabilities, respectively. The carrying amounts of the derivative financial instruments are equal to their fair values and all derivatives are classified as current. The Group's derivative contracts consists of foreign exchange swaps, foreign exchange forwards and bond forwards, which provide an economic hedge for the Group's foreign exchange risk and bond value risk exposures. The Group adopts hedge accounting in limited circumstances. The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the consolidated statement of financial position as they do not represent the fair value of these transactions. The notional amounts in the table above reflect the aggregate of individual derivative positions on a gross basis to give an indication of the overall scale of derivative transactions. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

22. FINANCIAL INSTRUMENTS BY CATEGORY

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

30 June 2019

Financial assets

US$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	29,585	151,007	180,592
Debt securities	95,728	8,198,538	-	8,294,266
Equity securities	1,406,159	974,549	-	2,380,708
Derivative financial instruments	823	-	-	823
Deposits and other assets	-	-	109,316	109,316
Insurance receivables	-	-	150,250	150,250
Due from related parties	-	-	13,619	13,619
Fixed deposits	-	-	39,125	39,125
Cash and cash equivalents	-	-	579,418	579,418
	1,502,710	9,202,672	1,042,735	11,748,117

Financial liabilities

US$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Investment contract liabilities	321,939	-	321,939
Due to related parties	-	191,595	191,595
Borrowings	-	322,750	322,750
Derivative financial instruments	20,072	-	20,072
Insurance and other liabilities	-	230,207	230,207
	342,011	744,552	1,086,563

22. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

31 December 2018

Financial assets

US$'000	Fair value through profit or loss	Available for sale	Cost/ amortized cost	Total carrying value
Financial assets				
Loans and deposits	-	21,416	141,804	163,220
Debt securities	60,256	7,552,145	-	7,612,401
Equity securities	1,065,010	790,214	-	1,855,224
Derivative financial instruments	1,976	-	-	1,976
Deposits and other assets	-	-	103,672	103,672
Insurance receivables	-	-	83,716	83,716
Due from related parties	-	-	10,524	10,524
Fixed deposits	-	-	18,347	18,347
Cash and cash equivalents	-	-	812,754	812,754
	1,127,242	8,363,775	1,170,817	10,661,834

Financial liabilities

US$'000	Fair value through profit or loss	Cost/ amortized cost	Total carrying value
Investment contract liabilities	316,456	-	316,456
Due to related parties	-	142,079	142,079
Borrowings	-	322,566	322,566
Derivative financial instruments	8,667	-	8,667
Insurance and other liabilities	-	365,536	365,536
	325,123	830,181	1,155,304

The carrying amounts of financial assets and financial liabilities at amortized cost approximate to their fair values, except for borrowings which have a fair value of US$346,570,000 (December 2018: US$333,478,000).

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of loans and receivables, deposits and other assets, insurance receivables, amounts due from related parties, cash and cash equivalents, amounts due to related parties, insurance and other liabilities 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 value.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair values of unlisted private equity funds are based on the reported NAV in their audited financial statements. Management has obtained the audited financial statements 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 Group from disposing the investments, the Group'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. At 30 June 2019 and 31 December 2018, no reported NAV is adjusted. The directors believe that the fair values resulting from the reported NAV, which are recorded in the consolidated 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.

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

24. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Assets measured at fair value:

30 June 2019

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	21.1	1,119,359	7,391,172	692,141	9,202,672
Financial assets at fair value through profit or loss	21.2	935,762	204,510	361,615	1,501,887
Derivative financial instruments	21.4	-	823	-	823
		2,055,121	7,596,505	1,053,756	10,705,382

31 December 2018

		Fair value measurement using			
US$'000	Notes	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	21.1	1,097,175	6,619,125	647,475	8,363,775
Financial assets at fair value through profit or loss	21.2	836,881	60,257	228,128	1,125,266
Derivative financial instruments	21.4	-	1,976	-	1,976
		1,934,056	6,681,358	875,603	9,491,017

24. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value:

30 June 2019

US$'000	Notes	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivative financial instruments	21.4	-	20,072	-	20,072
		-	20,072	-	20,072

31 December 2018

US$'000	Notes	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Derivative financial instruments	21.4	-	8,667	-	8,667
		-	8,667	-	8,667

Liabilities for which fair values are disclosed:

30 June 2019

US$'000	Notes	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Borrowings	31	346,570	-	-	346,570
		346,570	-	-	346,570

31 December 2018

US$'000	Notes	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Borrowings	31	333,478	-	-	333,478
		333,478	-	-	333,478

24. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The movement in the fair value measurement in the Group's Level 3 financial assets during the period is as follows:

US$'000

	30 June 2019	30 June 2018
Financial assets - unlisted		
At beginning of period	875,603	442,719
Impairment charged for the period	(341)	(224)
Fair value change recognized through profit or loss	12,678	5,271
Fair value change recognized in other comprehensive income	453	15,116
Purchases	165,363	134,763
At end of period	1,053,756	597,645

During the period, there were no transfers of financial instruments between Level 1 and Level 2, and no transfers into or out of Level 3.

25. INVESTMENTS IN ASSOCIATE AND JOINT VENTURE

On 3 February 2016, the Group acquired a 44% interest in the ordinary share capital of AMG Financial Group Limited ("AMG Financial"). The purchase consideration for the investment was US$10,030,000. AMG Financial is a private entity that provides wealth management and financial advisory services focused in the Greater China Region. The Group's interest in AMG Financial, as an associate, is accounted for using the equity method in the consolidated financial statements.

On 28 April 2017, the Group acquired a 50% interest in the ordinary share capital of One George Street LLP ("OGS LLP"). The purchase consideration for the investment was US$230,896,000. OGS LLP is a private entity that owns real estate properties in Singapore. Considering all facts and circumstances, the Group concluded it has joint control over OGS LLP. The Group's interest in OGS LLP, as a joint venture, is accounted for using the equity method in the consolidated financial statements. During the six months period ended 30 June 2019, OGS LLP paid a dividend of US$4,611,000 to the Group.

The following table shows the Group's carrying amounts of investments in associate and joint venture:

US$'000	Notes	30 June 2019	31 December 2018
AMG Financial		7,312	7,458
OGS LLP	25(a)	245,563	244,764
		252,875	252,222

US$'000	Notes	Six months ended 30 June 2019	Six months ended 30 June 2018
The Group's share in AMG Financial			
Post-acquisition losses		(166)	(308)
Other comprehensive income		-	-
		(166)	(308)
The Group's share in OGS LLP			
Post-acquisition profits		3,890	4,126
Other comprehensive income		1,519	(4,627)
	25(a)	5,409	(501)
The Group's share of post-acquisition total comprehensive income		5,243	(809)

(a) OGS LLP

Summarized statement of financial position:

	30 June 2019	31 December 2018
Assets	854,766	850,441
Liabilities	(440,040)	(441,447)
Equity	414,726	408,994
Group's share in equity – 50%	207,363	204,497
Goodwill	38,200	40,267
Group's carrying amount of the investment in OGS LLP	245,563	244,764

Summarized statement of financial performance:

	30 June 2019	30 June 2018
Revenue	18,689	18,437
Expenses	(10,908)	(10,185)
Profit for the period	7,781	8,252
Other comprehensive income for the period	3,037	(9,254)
Total comprehensive income for the period	10,818	(1,002)
Group's share of total comprehensive income for the period – 50%	5,409	(501)

26. PREPAYMENTS, DEPOSITS AND OTHER ASSETS

US$'000	30 June 2019	31 December 2018
Accounts receivable	5,873	6,252
Accrued investment income	83,482	77,417
Deposits	8,600	8,180
Investment receivable	3,162	4,603
Prepayments	37,918	37,591
Other assets	11,117	7,770
Total prepayments, deposits and other assets	150,152	141,813

27. INSURANCE RECEIVABLES

US$'000	30 June 2019	31 December 2018
Due from policyholders	70,266	70,453
Due from reinsurers	79,984	13,263
Total insurance receivables	150,250	83,716
Current insurance receivables	150,250	83,716

The amounts due from policyholders represent premiums due for payment. No provision for impairment is necessary as the policy terminates and becomes void if and when the total indebtedness on the policy exceeds its cash surrender value.

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.

Premium deposit fund under reinsurance arrangement represents a 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 policy anniversary.

The carrying amounts of insurance receivables approximate their fair values.

28. CASH, CASH EQUIVALENTS AND FIXED DEPOSITS

US$'000	30 June 2019	31 December 2018
Time deposits	130,947	204,073
Savings accounts	226,234	313,952
Current accounts	222,231	292,284
Cash on hand	6	6
Cash and cash equivalents attributable to continuing operations	579,418	810,315
Cash and cash equivalents attributable to discontinued operation (note 15)	12,661	17,927
	592,079	828,242

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 Group, 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 40 to the financial statements

28. CASH, CASH EQUIVALENTS AND FIXED DEPOSITS (continued)

Time deposits with maturities over three months are included within Fixed Deposits. This includes US$11,011,787 (December 2018: US$10,898,000) of time deposits which were used to guarantee the insurance reserve as required by Article 61 of the Decree-Law No. 27/97/M of 30 June 1997 of Macau.

29. INSURANCE CONTRACT LIABILITIES

US$'000	Notes	30 June 2019 Insurance contract liabilities	30 June 2019 Reinsurance contract assets	30 June 2019 Net
Life insurance contracts	(a)	12,050,799	(1,670,320)	10,380,479
Non-life insurance contracts	(b)	86,593	(20,784)	65,809
Total insurance contract liabilities		12,137,392	(1,691,104)	10,446,288

US$'000	Notes	31 December 2018 Insurance contract liabilities	31 December 2018 Reinsurance contract assets	31 December 2018 Net
Life insurance contracts	(a)	11,144,313	(1,591,253)	9,553,060
Non-life insurance contracts	(b)	81,509	(16,840)	64,669
Total insurance contract liabilities		11,225,822	(1,608,093)	9,617,729

(a) Life insurance contract liabilities

US$'000	30 June 2019 Insurance contract liabilities	30 June 2019 Reinsurance contract assets	30 June 2019 Net
Insurance contract liabilities other than coinsurance arrangements	11,139,726	(765,402)	10,374,324
Coinsurance arrangements	911,073	(904,918)	6,155
Total life insurance contract liabilities	12,050,799	(1,670,320)	10,380,479

US$'000	31 December 2018 Insurance contract liabilities	31 December 2018 Reinsurance contract assets	31 December 2018 Net
Insurance contract liabilities other than coinsurance arrangements	10,269,030	(715,901)	9,553,129
Coinsurance arrangements	875,283	(875,352)	(69)
Total life insurance contract liabilities	11,144,313	(1,591,253)	9,553,060

29. INSURANCE CONTRACT LIABILITIES (continued)

Business description

The table below summarizes the key variables underlying life insurance and investment contract cash flows.

Type of contract	Material terms and conditions	Nature of benefits and compensation for claims	Factors affecting contract cash flows
Traditional participating life assurance with DPF	Participating products combine protection with a savings element. The basic sum assured, payable on death or maturity, may be enhanced by dividends, the timing or amount of which is at the discretion of the insurer taking into account factors such as investment experience.	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations.	• Investment performance • Expenses • Mortality • Lapses • Morbidity • Dividend / bonus rates
Takaful	Products combine savings with protection, with an arrangement based on mutual assistance under which takaful participants agree to contribute to a common fund (Family risk fund) providing for mutual financial benefits payable on the occurrence of pre-agreed events.	Minimum guaranteed benefits may be enhanced based on investment experience and other considerations.	• Investment performance • Expenses • Mortality • Lapses • Morbidity • Partial withdrawals • Premium holidays
Traditional non-participating life	Benefits paid on death, maturity, sickness or disability that are fixed and guaranteed and not at the discretion of the insurer.	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole.	• Mortality • Morbidity • Lapses • Expenses
Accident and health non-participating	These products provide morbidity or sickness benefits and include health, disability, critical illness and accident cover.	Benefits, defined in the insurance contract, are determined by the contract and are not affected by investment performance or the performance of the contract as a whole.	• Mortality • Morbidity • Lapses • Expenses
Investment-linked	Investment-linked contracts combine savings with protection, the cash value of the policy depending on the value of unitized funds.	Benefits are based on the value of the unitized funds and death and living benefits.	• Investment performance • Lapses • Partial withdrawals • Premium holidays • Expenses • Mortality • Morbidity
Universal Life	Universal Life contracts combine savings with protection. Account balances are credited with interest at a rate set by the insurer.	Benefits are based on the account balance and death and living benefits.	• Investment performance • Crediting rates • Lapses • Partial withdrawals • Premium holidays • Expenses • Mortality • Morbidity

29. INSURANCE CONTRACT LIABILITIES (continued)

Methodology and assumptions

The most significant items impacting profit or loss for the period and shareholders' equity are market, insurance and lapse risks, as shown in the table below. Indirect exposure indicates that there is a second-order impact. For example, while the profit or loss for the period attributable to shareholders is not directly affected by investment income earned where the investment risk is borne by policyholders, there is a second-order effect through the investment management fees which the Group earns by managing such investments. The distinction between direct and indirect exposure is not intended to indicate the relative sensitivity to each of these items. Where the direct exposure is shown as being "net neutral", this is because the exposure to market and credit risk is offset by a corresponding movement in insurance contract liabilities.

	Market and credit risk			
	Direct exposure			
Type of contract	Insurance and investment contract liabilities	Risks associated with related investment portfolio	Indirect exposure	Significant insurance and lapse risks
Traditional participating life assurance with DPF	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance	• Investment performance	• Persistency • Mortality • Morbidity
Takaful	• Net neutral except for the insurer's share of participating investment performance • Guarantees	• Net neutral except for the insurer's share of participating investment performance	• Investment performance	• Persistency • Mortality • Morbidity • Partial withdrawals • Premium holidays
Traditional non-participating life assurance	• Investment performance • Asset-liability mismatch risk	• Asset-liability mismatch risk • Credit Risk • Investment performance	• Not applicable	• Mortality • Morbidity • Persistency
Accident and health non-participating	• Loss ratio • Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Not applicable	• Morbidity • Persistency
Pension	• Net neutral except minimum crediting rate is zero • Asset-liability mismatch risk	• Net neutral except minimum crediting rate is zero • Asset-liability mismatch risk	• Performance related investment management fees	• Persistency
Investment-Linked	• Net neutral	• Net neutral	• Performance-related investment management fees	• Mortality • Persistency • Partial withdrawals • Premium holidays
Universal Life	• Guarantees • Asset-liability mismatch risk	• Investment performance • Credit risk • Asset-liability mismatch risk	• Spread between earned rate and crediting rate to policyholders	• Mortality • Persistency • Partial withdrawals • Premium holidays

The Group is also exposed to currency risk in respect of its operations, and to interest rate risk, credit risk and equity price risk on assets representing net shareholders' equity, and to expense risk to the extent that actual expenses exceed those that can be charged to insurance and investment contract holders on non-participating business. Expense assumptions applied in the Group's actuarial valuation models assume a continuing level of business volumes.

29. INSURANCE CONTRACT LIABILITIES (continued)

(b) Non-life insurance contracts

The movement of non-life insurance liabilities is as follows:

US$'000	30 June 2019		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders	33,577	(8,519)	25,058
Provision for claims incurred but not reported ("IBNR")	15,382	(2,674)	12,708
Total claims reported and IBNR	48,959	(11,193)	37,766
Provision for unearned premiums	37,634	(9,591)	28,043
Total non-life insurance contract liabilities	86,593	(20,784)	65,809

US$'000	31 December 2018		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders	34,411	(8,090)	26,321
Provision for claims incurred but not reported ("IBNR")	15,226	(2,661)	12,565
Total claims reported and IBNR	49,637	(10,751)	38,886
Provision for unearned premiums	31,872	(6,089)	25,783
Total non-life insurance contract liabilities	81,509	(16,840)	64,669

30. INVESTMENT CONTRACT LIABILITIES

US$'000	30 June 2019	31 December 2018
	Gross and net investment contract liabilities	Gross and net investment contract liabilities
Investment contract liabilities with DPF	132,004	134,023
Investment contract liabilities without DPF	189,935	182,433
Total investment contract liabilities	321,939	316,456

31. BORROWINGS

US$'000

	30 June 2019	31 December 2018
Medium Term Notes	322,750	322,566
Total borrowings	322,750	322,566

FWD Limited issued a 10-year senior unsecured note at nominal amount of US$325,000,000 in September 2014. The note is due in 2024 and bears interest of 5.00% per annum. The note is listed on The Hong Kong Stock Exchange.

32. LEASE LIABILITIES

US$'000

	30 June 2019	31 December 2018
Office premises	50,360	-
Office equipment	13	-
Total lease liabilities	50,373	-

33. INSURANCE AND OTHER LIABILITIES

US$'000

	30 June 2019	31 December 2018
Accounts payable	462	78
Accrued commissions	113,665	95,873
Accrued expenses	32,701	42,194
Accrued agent expenses	17,788	16,402
Insurance payables	28,227	175,795
Investment creditors	5,433	1,524
Others	31,931	28,249
Tax payable	2,806	5,421
Total insurance and other liabilities	233,013	365,536

The carrying amounts of the insurance and other liabilities approximate to their fair values.

34. SHARE CAPITAL AND RESERVES

(1) Share capital

US$'000

	30 June 2019	31 December 2018
Authorized,		
30 June 2019: 1,750,000,000 (December 2018: 1,750,000,000) ordinary shares of US$0.01 each	17,500	17,500
30 June 2019: 250,000,000 (December 2018: 250,000,000) preference shares of US$0.01 each	2,500	2,500
30 June 2019: 500,000,000(December 2018: 500,000,000) convertible preference shares of US$0.01 each	5,000	5,000
	25,000	25,000
Issued and fully paid,		
30 June 2019: 19,141,889 (December 2018: 18,956,250) ordinary shares of US$0.01 each	192	190
30 June 2019: 8,202,225 (December 2018: 8,202,225) preference shares of US$0.01 each	82	82
30 June 2019: 2,971,970 (December 2018: 2,529,334) convertible preference shares of US$0.01 each	29	25
	303	297

During the period, the movements in share capital and share premium were as follows:

	Issued capital	Share premium
(a) Ordinary shares issued and fully paid		
Issuance of 10 ordinary shares of US$1 each on 13 December 2012	-	-
Issuance of 18,486,630 ordinary shares of US$1 each on 27 February 2013	18,487	1,830,176
Surrender of 18,301,773.6 ordinary shares of US$1 each on 10 December 2013	(18,302)	-
Sub-division of 184,866.4 ordinary shares of US$1 each to 18,486,640 ordinary shares of US$0.01 each on 10 December 2013	-	-
Issuance of 100,000 ordinary shares of US$0.01 each on 5 June 2015	1	7,668
Issuance of 50,000 ordinary shares of US$0.01 each on 29 Jan 2016	1	3,834
Issuance of 34,565 ordinary shares of US$0.01 each on 29 July 2016	0	2,651
Issuance of 50,000 ordinary shares of US$0.01 each on 28 July 2017	0	3,834
Issuance of 69,420 ordinary shares of US$0.01 each on 6 December 2017	1	5,324
Issuance of 165,625 ordinary shares of US$0.01 each on 21 March 2018	2	12,799
31 December 2018	190	1,866,286
Issuance of 165,625 ordinary shares of US$0.01 each on 25 March 2019	2	12,800
Issuance of 10,195 ordinary shares of US$0.01 each on 31 May 2019	0	1,146
Issuance of 9,819 ordinary shares of US$0.01 each on 3 June 2019	0	1,104
30 June 2019	192	1,881,336

As at 30 June 2019, 655,249 ordinary shares were issued in relation to the exercise of share options (December 2018: 469,610).

34. SHARE CAPITAL AND RESERVES (continued)

(1) Share capital (continued)

During the period, the movements in share capital and share premium were as follows: (continued)

	Issued capital	Share premium
(b) Preference shares issued and fully paid		
13 December 2012	-	-
Issuance of 2,601,634 preference shares of US$0.01 each on 10 December 2013	26	-
Issuance of 5,600,591 preference shares of US$0.01 each on 19 August 2015	56	-
30 June 2019/31 December 2018	82	-
(c) Convertible preference shares issued and fully paid		
13 December 2012	-	-
Issuance of 1,264,672 convertible preference shares of US$0.01 each on 23 February 2017	13	-
Issuance of 316,158 convertible preference shares of US$0.01 each on 11 May 2017	3	-
Issuance of 948,504 convertible preference shares of US$0.01 each on 7 March 2018	9	-
31 December 2018	25	-
Issuance of 442,636 Convertible Preference Shares of US$0.01 each on 13 March 2019	4	-
30 June 2019	29	-
30 June 2019	303	1,881,336

34. SHARE CAPITAL AND RESERVES (continued)

(1) Share capital (continued)

Preference Shares

The holders of preference shares in the Company are entitled to the same voting rights as each ordinary share in the Company.

The preference shares rank pari passu with all other shares in the Company on any payment of dividend or distribution or return of capital (other than on a liquidation event). On a liquidation event, the assets of the Company available for distribution amongst the shareholders shall be applied to pay the preference shareholders pari passu with the holders of the convertible preference shares (in priority to any payment to the holders of any other class of shares in the capital of the Company).

Convertible Preference Shares

The holders of convertible preference shares in the Company are not entitled to vote at general meetings of the Company.

The convertible preference shares rank pari passu with all other shares in the Company, with the exception that (i) on any payment of a dividend or distribution or return of capital (other than on a liquidation event), certain holders of the convertible preference shares shall have the benefit of an increased entitlement to such dividend or distribution and (ii) on a liquidation event, the assets of the Company available for distribution amongst the shareholders shall be applied to pay the convertible preference shareholders pari passu with the holders of the preference shares (in priority to any payment to the holders of any other class of shares in the capital of the Company).

34. SHARE CAPITAL AND RESERVES (continued)

(2) Direct capital instrument

FWD Limited issued a direct capital instrument ("DCI1") on 17 January 2017. The DCI1 is a subordinated perpetual capital security for a nominal amount of US$250,000,000. The DCI1 confers a right to receive distributions (the "Distributions") semi-annually in arrears on 24 January and 24 July of each year (the "Distribution Payment Dates"). The DCI1 is listed on The Stock Exchange of Hong Kong Limited.

The Company may, at its sole option, defer the Distributions on the DCI1 by giving notice to the DCI1 holders not more than ten nor less than five business days prior to a Distribution Payment Date. Any Distributions deferred are cumulative and compounding and in the event of any Distribution deferral, the Group cannot declare or pay any dividend on its ordinary or preference share capital. The DCI1 has been treated as equity in its entirety in the consolidated statement of financial position.

The DCI1 has no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the principal amount on 24 January 2022, or at any Distribution Payment Date following 24 January 2022.

During the six months period ended 30 June 2019, the Group paid US$7,812,500 (30 June 2018: 7,812,500) for Distributions on the DCI1.

On 1 February 2018, FWD Limited issued a US$200,000,000 nominal amount of subordinated perpetual capital security ("DCI2"). The DCI2 has similar features to the DCI1, except that any Distributions deferred by the Company are non-cumulative. DCI2 confers a right to receive distribution semi-annually in arrears on 1 August and 1 February of each year. The DCI2 has been treated as equity in its entirety in the consolidated of financial position.

The DCI2 has no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the principal amount on 1 February 2023, or at any Distribution Payment Date following 1 February 2023.

During the six months period ended 30 June 2019, the Group paid US$5,500,000 (30 June 2018:nil) for Distributions on the DCI2.

(3) Reserves

(a) Share-based payment reserve
The share-based payment reserve comprises the outstanding reserve for the share-based compensation plan.

(b) Legal reserve
The legal reserve has been established to fulfill the requirement of Article 60 of the Decree-Law No. 32/93/M of 30 July 1993 of Macau.

(c) Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative gain or loss on the hedging instrument from inception of the cash flow hedge.

(d) Available-for-sale financial assets revaluation reserve
The available-for-sale financial assets revaluation reserve comprises the cumulative net change in the fair value of available for sale securities held at the end of the reporting period.

(e) Capital redemption reserve
The capital redemption reserve represents the non-distributable reserve for paid up share capital.

(f) Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements of foreign operations.

35. SUBSIDIARIES

Particulars of the Group's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
FWD Financial Services Pte. Limited.	Singapore	100	-	Investment holding
FWD Management Holdings Limited	Hong Kong	-	100	Investment holding
FWD Life Insurance Company (Bermuda) Limited	Bermuda/ Hong Kong	49	51	Life Insurance
FWD Life Insurance Company (Macau) Limited	Macau	-	100	Life Insurance
FWD General Insurance Company Limited	Hong Kong	-	100	General Insurance
FWD Financial Planning Limited	Hong Kong	-	100	Investment Advisory
FWD Vietnam Life Insurance Company Limited	Vietnam	-	100	Life Insurance
FWD Takaful Berhad	Malaysia	-	49	Takaful

Certain subsidiaries which do not materially affect the results or financial position of the Group are not included above. The percentage of total direct and indirect equity attributable to the Group in each of the above subsidiaries was the same at both 30 June 2019 and 31 December 2018, with exception of FWD Takaful Berhad, which was acquired on 22 March 2019.

36. COMMITMENTS

Short-term lease commitments
As at 30 June 2019, short-term lease commitments due within one year are US$552,000 (December 2018: nil).

Investment and capital commitments
As of 30 June 2019, the Group has investment and capital commitments to invest in its private equity partnerships.

US$'000	30 June 2019	31 December 2018
Within one year	443,231	276,124
In the second to fifth years, inclusive	1,329,694	828,372
Over five years	-	-
	1,772,925	1,104,496

Commitments in Malaysia
The Group has committed to invest a total of RM1.06 billion (equivalent to US$257 million) in Malaysia from 2019 to 2024 in the following areas:

- Capital injections to support the operations and growth of FWD Takaful Berhad;
- Establish a digital IT services and data center;
- Establish a takaful Innovation Hub for the long-term sustainable development of the industry;
- Develop specialized takaful products focusing on the lower-income and disabled segments of the population;
- Promote takaful awareness initiatives; and
- Develop talent within the takaful industry.

37. RELATED PARTY TRANSACTIONS

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

Key management personnel of the Group are those that have the authority and responsibility for planning, directing and controlling the activities of the Group. Directors (both executive and non-executive) and senior management are considered key personnel. Accordingly, the summary of compensation of key management personnel is as follows.

US$'000	Six months ended 30 June 2019	Six months ended 30 June 2018
Short-term employee benefits	8,765	6,136
Post-employment benefits	126	99
Share-based payment	7,488	9,558
Other long-term benefits	1,071	258
Total compensation paid and payable to key management personnel	17,450	16,051

(b) Transactions with related parties:

The Group has transactions with certain related companies and these consolidated financial statements reflect the effect of these transactions which are conducted in accordance with terms mutually agreed between the parties.

(I) In addition to the transactions detailed elsewhere in the consolidated financial statements, the Group had the following related party transactions during the period.

(i) The Group charged US$2,384,000 (period ended 30 June 2018: US$2,153,000) to a related party for provision of IT, HR and other building-related services and incurred US$3,080,000 (period ended 30 June 2018: US$3,741,000) for administration, consultancy and management services provided by the related party.

(ii) Related companies charged US$5,717,000 (period ended 30 June 2018: US$5,469,000) for the provision of telecommunication and investment advisory services and US$1,895,000 (period ended 30 June 2018: US$691,000) for brand licensing fees to the Group.

(iii) The Group has underwritten various insurance contracts with related companies. The total premium revenue from those contracts for the period was US$2,228,000 (period ended 30 June 2018: US$1,769,000).

(iv) The Group has reinsurance contract arrangements with related companies. The total premium ceded was $4,392,000 (period ended 30 June 2018: US$768,000), claim recovery received was US$4,172,000 (period ended 30 June 2018: nil), commission income received was US$1,480,000 (period ended 30 June 2018: US$16,000), and commission expense incurred was US$15,000 (period ended 30 June 2018: nil).

(II) As disclosed in the consolidated statements of financial position, the Group had amounts due from related companies of US$13,619,000 (December 2018: US$10,524,000) as at the end of the reporting period. The amounts due are unsecured, interest-free and payable on demand.

(III) As disclosed in the consolidated statements of financial position, the Group had outstanding advances payable to related companies of US$191,595,000 (December 2018: US$142,079,000), of which US$ 148,500,000 (December 2018: US$111,500,000) is an inter-company loan as at the end of the reporting period. The advances are unsecured, interest-free and payable on demand.

38. SHARE-BASED COMPENSATION

Share-based compensation plans

During the period, the Group initiated a share-option award plan, to reward eligible employees for their services and the achievement of meeting shareholder value targets. More details are set out in note 38 (b) of the financial statements.

(a) Share award plan

The Group operates a share award plan that provides FWD Limited shares to participants upon vesting. Eligible employees 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 a conditional allocation of shares. These share awards have vesting periods of up to four 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. 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.

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

Number of shares	June 2019	June 2018
At beginning of period	559,960	693,750
Granted during the period	49,246	-
Vested during the period	(178,640)	(165,625)
Forfeited during the period	(1,254)	-
At end of period	429,312	528,125

Valuation methodology

To calculate the fair value of the share awards with performance conditions, the Group utilizes an appraisal value methodology (Embedded Value plus a multiple of Value of New Business) 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 total fair value of share awards granted during the period is US$5,259,000 (period ended 30 June 2018: nil).

Recognized compensation cost

The fair value of the employee services received in exchange for the grant of shares 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 consolidated financial statements related to share-based compensation awards granted under the share award plan by the Group for the period ended 30 June 2019 is US$1,978,000 (period ended 30 June 2018: US$5,235,000).

38. SHARE-BASED COMPENSATION (continued)

Share-based compensation plans (continued)

(b) Share-option award plan

The Group operates a share-option award plan that provides FWD Limited share-options to participants upon vesting. Eligible employees are granted share-option 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 a conditional allocation of shares. 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 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 Group's share-option award plan:

Number of share-options	June 2019	June 2018
At beginning of period	264,682	-
Granted during the period	119,347	239,985
Vested during the period	(7,000)	-
Forfeited during the period	-	-
At end of period	377,029	239,985

Valuation methodology

The same valuation methodology is used for the share-option plan as described above for the share award plan.

The total fair value of share-option awards granted during the period is US$12,744,000 (period ended 30 June 2018: US$20,831,000).

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 consolidated financial statements related to share-based compensation awards granted under the share-option award plan by the Group for the period ended 30 June 2019 is US$5,509,000 (period ended 30 June 2018: US$4,323,000).

39. GROUP CAPITAL STRUCTURE

Capital Management

The Group's capital management objective is focused on maintaining a strong capital base to safeguard the Group's ability to continue as a going concern, to support the development of the business, maximize shareholders' value and to ensure that the Group complies with regulatory capital requirements. No changes were made in the objectives, policies or processes for managing capital during the periods ended 30 June 2019 and 31 December 2018.

Regulatory Solvency

The Group complied with all regulatory capital requirements during the period. The primary insurance regulators for the Group's subsidiaries are:

Subsidiary	Primary insurance regulator	Solvency regulation
FWD Life Insurance Company (Bermuda) Limited	Independent Insurance Authority (IIA)	Hong Kong Insurance Ordinance (HKICO)
FWD General Insurance Company Limited	Independent Insurance Authority (IIA)	Hong Kong Insurance Ordinance (HKICO)
FWD Vietnam Life Insurance Company Limited	Insurance Supervisory Authority	Circular 50 issued by Vietnam Ministry of Finance (MoF)
FWD Takaful Berhad	Bank Negara Malaysia	Islamic Financial Services Act 2013 Risk-Based Capital Framework for Takaful Operators

The capital positions of the Group's principal operating companies at 30 June 2019 and 31 December 2018 are as follows:

30 June 2019 US$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	993,130	361,764	275%
FWD General Insurance Company Limited	37,327	6,338	589%
FWD Vietnam Life Insurance Company Limited	48,233	7,617	633%
FWD Takaful Berhad	31,508	10,407	303%

31 December 2018 US$'000	Available Capital	Required Capital	Solvency Ratio
FWD Life Insurance Company (Bermuda) Limited	874,289	328,057	267%
FWD General Insurance Company Limited	31,617	6,442	491%
FWD Vietnam Life Insurance Company Limited	31,362	5,249	597%

The IIA (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Hong Kong. The IIA requires FWD Life Insurance Company (Bermuda) Limited and FWD General Insurance Company Limited 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.

Circular 50 issued by the Ministry of Finance of Vietnam (among other matters) sets minimum solvency margin requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Vietnam. It requires FWD Vietnam Life Insurance Company Limited to maintain a required minimum solvency margin of 100 per cent.

39. GROUP CAPITAL STRUCTURE (continued)

Regulatory Solvency (continued)

Islamic Financial Services Act 2013 and Risk-Based Capital Framework for Takaful Operators issued by Bank Negara Malaysia ("BNM") set the requirements on minimum capital funds and surplus of assets over liabilities that a Takaful Operator must meet in order to be authorized to carry on Takaful business in or from Malaysia. FWD Takaful Berhad is required to maintain an excess of assets over liabilities of 130% at all times, which is BNM's Supervisory Target Capital Level. In addition, FWD Takaful Berhad has determined an Individual Target Capital Level of 195% in accordance with the requirements stated in the Risk-Based Capital Framework for Takaful Operators to better reflect its risk appetite, risk profile and risk management practices.

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

Capital and Regulatory Orders Specific to the Group

At 30 June 2019 and 31 December 2018, the requirements and restrictions summarized below may be considered material to the Group and remain in effect unless otherwise stated.

Independent Insurance Authority

Undertakings have been given to the IIA that:

(i) FWD Life Insurance Company (Bermuda) Limited will maintain and continue to maintain a solvency ratio target of 150 per cent to 200 per cent at all times and if the solvency ratio falls below the minimum target range, FWD Life Insurance Company (Bermuda) Limited will reinstate it within 90 days or a period of time as agreed with the IIA;

(ii) FWD General Insurance Company Limited will maintain and continue to maintain a solvency ratio target of 300% to 500% at all times and if the solvency ratio falls below the minimum target range, FWD General Insurance Company Limited will reinstate it within 90 days or a period of time as agreed with the IIA; and

(iii) Prior written consent from IIA will be obtained before declaring or paying dividends to shareholders.

40. RISK MANAGEMENT

Risk management framework

The Group's Risk Management Framework has been established for the identification, evaluation and management of the key risks faced by the organization within its stated Risk Appetite. The framework includes an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of financial and non-financial risks.

The Group issues contracts that transfer insurance risks, financial risks or both. The insurance risks and financial risks associated with the Group's operations and the Group's management of these risks are summarized below:

Insurance risks

(1) Life insurance contracts and investment contracts

Insurance risks comprise product design risk, underwriting and expense overrun risk, lapse risk and claims risk.

(a) Product design risk
Product design risk refers to potential defects in the development of a particular insurance product. The Group manages product design risk through its product approval process where products are reviewed against pricing, design and operational risk parameters. All new products and product enhancements are reviewed and approved by the Group Office.

The Group closely monitors the performance of new products and actively manages the product portfolio to minimize risks in the in-force book and new products. A portion of the Group's life insurance business is participating in nature. In the event of a volatile investment environment and/or unusual claims experience, the Group has the option of adjusting non-guaranteed bonuses and dividends payable to policyholders.

(b) Underwriting and expense overrun risk
Underwriting and expense overrun risk refers to the possibility of product-related income being inadequate to support future obligations arising from an insurance product. The Group manages underwriting risk by adhering to underwriting guidelines. Each operating unit maintains a team of professional underwriters who review and select risks that are consistent with the underwriting strategy of the Group. In certain circumstances where insufficient experience data is available, the Group makes use of reinsurers to obtain underwriting expertise. In pricing insurance products, the Group manages expense overrun risk by allowing for an appropriate level of expenses that reflects a realistic medium-to long-term view of the underlying cost structure. A disciplined expense budgeting and management process is followed to control expenses.

(c) Lapse risk
Lapse risk refers to the possibility that lapse experience diverges from that assumed when products were priced. It includes potential financial loss due to early termination of contracts where the acquisition costs incurred may not be recoverable from future revenue. The Group carries out regular reviews of persistency experience. In addition, many of the Group's products include surrender charges that entitle the Group to additional fees on early termination by the policyholder, thereby reducing exposure to lapse risk.

(d) Claims risk
Claims risk refers to the possibility that the frequency or severity of claims arising from insurance contracts exceeds the level assumed when the products were priced. The Group seeks to mitigate claims risk by conducting regular experience studies, including reviews of mortality and morbidity experience, reviewing internal and external data, and considering the impact of these on product design, pricing and reinsurance needs.

Reinsurance solutions are used to help reduce concentration and volatility risk, especially with large policies or new risks, and as protection against catastrophes. Although the Group 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.

40. RISK MANAGEMENT (continued)

Insurance risks (continued)

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

The Group's accounting policies lock in assumptions for traditional insurance contracts at policy inception and incorporate provisions for adverse deviation. As a result, the levels of movement illustrated in the table below do not result in loss recognition, and so there is no corresponding effect on liabilities. The table below shows the impact on profit before tax from changes in mortality, morbidity, investment return, expenses and lapse/discontinuance rates:

Impact on profit before tax US$'000	30 June 2019	30 June 2018
10% increase in mortality	(1,424)	(1,603)
10% increase in morbidity	(2,989)	(1,906)
1% decrease in investment return	(4,675)	(2,038)
10% increase in expenses	(9,896)	(6,726)
10% increase in lapse/discontinuance rates	(29,629)	(27,041)

(2) Non-life insurance contracts

The Group's non-life insurance business is diversified over seven classes of business. The Group has developed a robust underwriting framework to ensure that all risks accepted meet the guidelines and standards of the Group.

The Group's non-life insurance business is primarily derived from Hong Kong. Geographically, there is an inherent concentration of insurance risks in the Group's insurance portfolio. The Group has developed a reinsurance strategy to ensure that a prudent and appropriate reinsurance program is in place, which manages such concentration of insurance risks based on historical experience of loss frequency and severity of similar risks and in similar geographical zones. The primary objectives of the Group's reinsurance strategy include protection of shareholders' funds, reduction in volatility of the Group's underwriting result and diversified credit risk. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance strategy, ascertaining suitable allowance for impairment of reinsurance assets.

(i) Case estimates
For non-life insurance contracts, the case estimate for each reported claim is set up based on the best estimate of the ultimate claim settlement amount considering all the information available for the claim. The case estimate is revised from time to time according to the latest information available. When setting case estimates for larger claims, reference is made to the advice of independent consultants such as loss adjusters and solicitors where applicable.

(ii) Key assumptions
Generally accepted actuarial methodologies, such as chain-ladder and Bornhuetter-Ferguson methods, are used to project the ultimate claims by class of business. The Group's past experience and claim development patterns are important assumptions for such projections. Other assumptions include average claim costs, claims handling expenses and claims inflation. The projected ultimate claim amount may also be judgmentally adjusted by external factors such as prevailing trends in judicial decisions, the economic environment and relevant government legislation.

(iii) Sensitivities
Sensitivity analysis is performed to assess the effect of increasing the claim liabilities by 10% on the Group's net income and shareholders' equity.

In performing the sensitivity analysis, it is assumed that all reinsurance recoveries are recoverable.

40. RISK MANAGEMENT (continued)

Insurance risks (continued)

(2) Non-life insurance contracts (continued)

The table below shows the results of the sensitivity analysis:

US$'000	30 June 2019 Change in Assumptions %	Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
Insurance risks	+10%	1,996	867	(867)	(724)

US$'000	30 June 2018 Change in Assumptions %	Increase in gross non-life insurance contract liabilities	Increase in net non-life insurance contract liabilities	Impact on profit before tax	Impact on equity*
Insurance risks	+10%	1,698	788	(788)	(658)

* Impact on equity reflects adjustments for tax, when applicable.

40. RISK MANAGEMENT (continued)

Insurance risks (continued)

(2) Non-life insurance contracts (continued)

Loss development triangle

The tables below show the development of incurred claims, including both notified and IBNR claims, over time for each successive accident year following the reporting period. Cumulative claims payments as at the current reporting period are also shown.

30 June 2019

Gross claims development
US$'000

Accident Year	Note	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Accident year		36,979	20,267	24,136	25,533	28,836	37,931	42,127	45,303	47,947	29,873	
One year later		34,506	18,799	21,511	23,285	27,100	33,452	34,903	38,296	37,907		
Two years later		33,962	19,981	23,079	25,317	27,193	33,794	35,552	38,804			
Three years later		33,959	20,134	23,134	24,866	25,907	31,601	35,632				
Four years later		34,240	20,122	22,386	23,946	26,433	31,389					
Five years later		34,034	20,340	22,240	24,257	26,597						
Six years later		33,959	20,142	22,253	24,119							
Seven years later		33,883	20,201	22,231								
Eight years later		33,764	20,166									
Nine years later		33,544										
Current estimate of Cumulative claims		33,544	20,166	22,231	24,119	26,597	31,389	35,632	38,804	37,907	29,873	300,261
Cumulative payment to date		(33,421)	(19,988)	(21,811)	(23,347)	(24,404)	(28,968)	(29,849)	(31,077)	(28,152)	(10,286)	(251,302)
Total gross non-life insurance claim liabilities as per the statement of financial position	29(b)	123	178	420	772	2,193	2,421	5,783	7,727	9,755	19,587	48,959

40. RISK MANAGEMENT (continued)

Insurance risks (continued)

(2) Non-life insurance contracts (continued)

Loss development triangle (continued)

30 June 2019

Net claims development
US$'000

Accident Year	Note	2010 and prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Accident year		32,600	19,029	22,276	24,408	27,710	22,357	24,364	25,926	26,463	18,592	
One year later		29,697	17,526	19,962	22,220	25,989	16,525	18,015	18,609	16,166		
Two years later		28,695	18,446	21,605	23,798	26,034	17,015	18,815	19,242			
Three years later		28,295	18,493	21,654	23,204	24,820	14,833	18,765				
Four years later		28,373	18,078	20,865	22,318	24,698	14,710					
Five years later		28,002	18,041	20,686	22,344	24,833						
Six years later		27,971	17,996	20,670	22,263							
Seven years later		27,937	18,047	20,609								
Eight years later		27,898	18,049									
Nine years later		27,813										
Current estimate of Cumulative claims		27,813	18,049	20,609	22,263	24,833	14,710	18,765	19,242	16,166	18,592	201,042
Cumulative payment to date		(27,725)	(17,961)	(20,258)	(21,842)	(23,662)	(12,543)	(13,627)	(13,193)	(9,642)	(2,823)	(163,276)
Total net non-life insurance claim liabilities as per the statement of financial position	29(b)	88	88	351	421	1,171	2,167	5,138	6,049	6,524	15,769	37,766

The estimated claim liabilities are subject to a significant degree of uncertainty, and could vary materially depending on the development of future claims experience. Differences resulting from reassessment of the ultimate liabilities will be recognized in subsequent financial statements.

40. RISK MANAGEMENT (continued)

Financial risks

The Group is exposed to a range of financial risks, including credit risk, market risk, and liquidity risk. The Group 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 summarizes the Group's key risk exposures and the primary policies and processes used by the Group to manage its exposures to these risks.

(a) 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 Group's investment portfolio, credit risk also arises in reinsurance, settlement and treasury activities.

The level of credit risk the Group accepts is managed and monitored by the Asset and Liability Management Committee, through establishment of an exposure limit 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 Group 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 Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder.

Management of the Group directs the Group'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 information. The Group also monitors the recoverability of its reinsurance assets on an ongoing basis.

40. RISK MANAGEMENT (continued)

Financial risks (continued)

The table below provides information regarding the credit risk exposure of the Group at the end of the reporting period.

(a) Credit risk (continued)

30 June 2019 US$'000	AAA	AA	A	BBB	BB	B	CCC	Not rated	Total
Financial assets									
Available-for-sale	1,024,205	494,873	3,566,144	3,036,840	18,849	10,802	15,451	1,035,508	9,202,672
Fair value through profit or loss	20,242	27,420	26,389	2,722	-	-	-	1,425,114	1,501,887
Loans and receivables	6,607	-	72,509	-	-	-	-	71,891	151,007
Derivative financial instruments	-	-	820	3	-	-	-	-	823
Prepayments, deposits and other assets	-	-	-	-	-	-	-	150,152	150,152
Insurance receivables	-	853	-	-	-	-	-	149,397	150,250
Due from related parties	-	-	-	-	-	-	-	13,619	13,619
Cash and fixed deposits	27,550	195,327	344,350	34,327	-	-	-	16,989	618,543
Assets of disposal group classified as held for sale	-	-	-	-	78,442	-	-	447,284	525,726
	1,078,604	718,473	4,010,212	3,073,892	97,291	10,802	15,451	3,309,954	12,314,679

40. RISK MANAGEMENT (continued)

Financial risks (continued)

(a) Credit risk (continued)

31 December 2018 US$'000	AAA	AA	A	BBB	BB	B	Not rated	Total
Financial assets								
Available-for-sale	1,005,306	471,882	3,202,547	2,818,584	38,149	10,735	816,572	8,363,775
Fair value through profit or loss	-	29,461	27,842	2,953	-	-	1,065,010	1,125,266
Loans and receivables	-	-	70,703	-	-	-	71,101	141,804
Derivative financial instruments	-	1,931	45	-	-	-	-	1,976
Prepayments, deposits and other assets	-	-	-	-	-	-	141,813	141,813
Insurance receivables	-	-	-	-	-	-	83,716	83,716
Due from related parties	-	-	-	-	-	-	10,524	10,524
Cash and fixed deposits	-	262,238	557,776	3,708	-	-	7,379	831,101
Assets of disposal group classified as held for sale	-	-	-	-	58,841	-	410,991	469,832
	1,005,306	765,512	3,858,913	2,825,245	96,990	10,735	2,607,106	11,169,807

The credit ratings are provided by reputable international credit rating agencies as explained in note 21. Assets identified as "not rated" mainly represented listed and unlisted equities, unit trust investments, policyholder loans and receivables which, by nature, do not have credit ratings.

40. RISK MANAGEMENT (continued)

Financial risks (continued)

(b) Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet payment obligations when they become due. The Group 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 Group 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 Group 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 Group performs regular monitoring of its liquidity position through cash flow projections.

The table below summarizes financial assets and liabilities of the Group into their 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 Group's assets are used to support its insurance and investment contract liabilities, which are not shown in the table below. Refer to notes 29 and 30 for additional information on the Group's insurance and investment contract liabilities, as well as to the Insurance Risks section within note 40.

30 June 2019

US$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
Financial assets						
Available-for-sale	614,660	988,448	1,264,405	5,360,273	974,886	9,202,672
Fair value through profit or loss	154,699	18,613	15,565	19,272	1,293,738	1,501,887
Loans and receivables	378	383	392	411	149,443	151,007
Derivative financial instruments	276	547	-	-	-	823
Deposits and other assets	94,854	5,981	-	-	8,481	109,316
Insurance receivables	147,741	-	-	-	2,509	150,250
Due from related parties	-	-	-	-	13,619	13,619
Fixed deposits	39,125	-	-	-	-	39,125
Cash and cash equivalents	456,987	-	-	-	122,431	579,418
Assets of disposal group classified as held for sale	525,726	-	-	-	-	525,726
Total	2,034,446	1,013,972	1,280,362	5,379,956	2,565,107	12,273,843
Financial liabilities						
Borrowings	-	-	-	322,750	-	322,750
Derivative financial instruments	8,370	4,583	-	7,119	-	20,072
Insurance and other liabilities	209,243	8,516	-	-	15,254	233,013
Due to related parties	14,129	-	-	-	177,466	191,595
Lease liabilities	15,486	23,688	-	-	-	39,174
Liabilities directly associated with the assets - of disposal group classified as held for sale	438,180	-	-	-	-	438,180
Total	685,408	36,787	-	329,869	192,720	1,244,784

40. RISK MANAGEMENT (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

31 December 2018

US$'000	Up to a year	1-3 years	3-5 years	Over 5 years	No fixed maturity	Total
Financial assets						
Available-for-sale	579,613	798,043	1,382,408	4,813,161	790,550	8,363,775
Fair value through profit or loss	7,284	21,210	21,094	10,669	1,065,009	1,125,266
Loans and receivables	747	508	1,578	2,947	136,024	141,804
Derivative financial instruments	1,227	421	328	-	-	1,976
Deposits and other assets	94,301	5,385	-	-	3,986	103,672
Insurance receivables	83,716	-	-	-	-	83,716
Due from related parties	11	-	-	-	10,513	10,524
Fixed deposits	18,347	-	-	-	-	18,347
Cash and cash equivalents	797,430	-	-	-	15,324	812,754
Assets of disposal group classified as held for sale	469,832	-	-	-	-	469,832
Total	2,052,508	825,567	1,405,408	4,826,777	2,021,406	11,131,666
Financial liabilities						
Borrowings	-	-	-	322,566	-	322,566
Derivative financial instruments	4,233	4,434	-	-	-	8,667
Insurance and other liabilities	320,520	45,000	-	-	16	365,536
Due to related parties	5,647	-	-	-	136,432	142,079
Liabilities directly associated with the assets - of disposal group classified as held for sale	410,839	-	-	-	-	410,839
Total	741,239	49,434	-	322,566	136,448	1,249,687

40. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) Market risk

(i) Currency risk

The level of currency risk the Group accepts is managed and monitored by the Asset and Liability Management Committee of the Group, through regular monitoring of currency positions of financial assets and insurance and investment contracts.

The Group'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 periods ended 30 June 2019 and 31 December 2018.

At 30 June 2019, assets denominated in United States dollars and Hong Kong dollars accounted for 69% (December 2018: 67%) and 23% (December 2018: 27%) of the Group's total assets, respectively, and liabilities denominated in United States dollars and Hong Kong dollars accounted for 50% (December 2018: 50%) and 45% (December 2018: 47%) of the Group's total liabilities, respectively. The Group 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.

(ii) Interest rate risk

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

The Group 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 Group. 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 Group's accounting policies lock in interest rate assumptions for traditional insurance contracts at policy inception and incorporate a provision for adverse deviation. As a result, the level of interest rate movement illustrated in this sensitivity analysis does not result in loss recognition and so there is no corresponding effect on liabilities.

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

US$'000

Currency	Change in variables	Impact on shareholders' equity 30 June 2019	31 December 2018
HKD	+25 basis points	(6,515)	(7,206)
HKD	-25 basis points	6,515	7,206
USD	+25 basis points	(145,969)	(119,262)
USD	-25 basis points	145,969	119,262

40. RISK MANAGEMENT (continued)

Financial risks (continued)

(c) Market risk (continued)

(iii) Equity market risk

The Group's equity market 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 Group manages these risks by setting and monitoring investment limits in each country and sector.

The analysis below shows the impact on shareholders' equity to changes in equity prices, with all other variables held constant.

US$'000

		Impact on shareholders' equity	
		30 June 2019	31 December 2018
Change in equity prices	-10%	(21,939)	(8,414)

41. EVENTS AFTER THE REPORTING PERIOD

On 28 June 2019, FWD Management Holdings Limited, one of the subsidiaries of FWD Limited, entered into an agreement with MetLife, Inc. to acquire their subsidiaries in Hong Kong, comprising MetLife Limited and the Metropolitan Life Insurance Company of Hong Kong Limited. The transaction is subject to regulatory approval. The total consideration of the acquisition will be determined on the completion date. The Group will use its own resources to fund the acquisition.

ISSUER

PCGI Intermediate Limited
Vistra (Cayman) Limited
P.O. Box 31119
Grand Pavilion, Hibiscus Way
802 West Bay Road, Grand Cayman
KY1-1205 Cayman Islands

GUARANTOR

PCGI Limited
Vistra (Cayman) Limited
P.O. Box 31119
Grand Pavilion, Hibiscus Way
802 West Bay Road, Grand Cayman
KY1-1205 Cayman Islands

FISCAL AGENT, PAYING AND TRANSFER AGENT AND REGISTRAR

The Hongkong and Shanghai Banking Corporation Limited
30th Floor, HSBC Building
1 Queen's Road Central
Hong Kong

AUDITORS OF THE GUARANTOR

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

LEGAL ADVISERS

To the Issuer and Guarantor as to English law

Linklaters
10th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

To the Issuer and Guarantor as to Cayman Islands law

Walkers (Hong Kong)
15th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

To the Joint Lead Managers as to English law

Clifford Chance
27th Floor, Jardine House
One Connaught Place
Central
Hong Kong