Report of the Directors and Financial Statements

MANULIFE (INTERNATIONAL) LIMITED
(Incorporated in Bermuda with limited liability)

December 31, 2023

MANULIFE (INTERNATIONAL) LIMITED

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MANULIFE (INTERNATIONAL) LIMITED

REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company for the year ended December 31, 2023.

Principal activities

The Company's principal activities involve the transaction of life insurance business and administration of retirement schemes. The Company did not carry on insurance business relating to liabilities or risks in respect of which persons are required by any ordinance or government regulations to be insured. The principal activities of the Company's subsidiaries are set out in note 6 to the financial statements.

Results and dividends

The Company's profit for the year ended December 31, 2023 and the state of affairs of the Company at that date are set out in the financial statements on pages 10 to 127.

Dividends totaling HK$3,989 million were paid during the year. Details of the dividends are set out in note 22 of the financial statements.

Fixed assets

Details of movements in fixed assets of the Company during the year are set out in note 5 to the financial statements.

Share capital

Details of the share capital of the Company during the year are set out in note 21 to the financial statements.

Directors and controllers

The composition of directors of the Company during the year and up to the date of this report were:

Director

Patrick David Graham (appointed on January 1, 2023)
Kenneth Joseph Rappold Jr (resigned on November 1, 2023)
Damien Allen Green (resigned on January 1, 2023)
Rachel Elizabeth Derry
Pankaj Banerjee (resigned on January 1, 2023)
Philip James Witherington (appointed on November 1, 2023)
Michael Andree Thomssen (appointed on November 1, 2023)

Independent Non-executive Directors

Garry Alides Willinge
Christopher Alan Edwards

Subsequent to the end of the reporting period, Christopher Alan Edwards passed away on January 15, 2024.

In accordance with the Company's bye-laws, all remaining directors retire and, being eligible, offer themselves for re-election.

Directors and controllers (continued)

The Company's controllers during the year and up to the date of this report were as follows:

Manulife Financial Corporation
Manulife Financial Asia Limited
Manulife Holdings (Bermuda) Limited
Manulife International Holdings Limited
The Manufacturers Life Insurance Company
Rocco Gori
Damien Allen Green (resigned on January 1, 2023)
Patrick David Graham (appointed on January 1, 2023)
Philip James Witherington (appointed on July 1, 2023)

Directors' and controllers' interests
At no time during the year were there any loans advanced to or obligations assumed by or for a director or controller of the Company.

The ultimate holding company grants stock options under its Executive Stock Option Plan ("ESOP") to selected individuals. The options provide the holder the right to purchase Manulife Financial Corporation ("MFC") common shares at an exercise price equal to the higher of the prior day, prior five-day or prior ten-day average closing market price of the shares on the Toronto Stock Exchange on the date the options are granted. The options vest over a period not exceeding four years and expire not more than 10 years from the grant date. Effective with the 2015 grant, options may only be exercised after the fifth-year anniversary. A total of 73.6 million common shares have been reserved for issuance under the ESOP.

The following directors of the Company during the year were eligible to participate in the above plans:

Patrick David Graham (appointed on January 1, 2023)
Kenneth Joseph Rappold Jr (resigned on November 1, 2023)
Philip James Witherington (appointed on November 1, 2023)
Michael Andree Thomssen (appointed on November 1, 2023)]

Except for the ESOP plans, no arrangements to enable a director or controller to acquire shares in the ultimate holding company of the Company or any other body corporate, to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party, existed at the end of the year or at any time during the year.

No contracts of significance to which the Company, or any of its holding companies, subsidiaries and fellow subsidiaries was a party, and in which any director or controller of the Company had a material interest, either directly or indirectly existed at the end of the year or at any time during the year.

Charitable donations
During the year, the Company made charitable donations of HK$0.9 million.

MANULIFE (INTERNATIONAL) LIMITED

REPORT OF THE DIRECTORS

Material reinsurance arrangements

The Company has reinsurance arrangements with various reputable reinsurers for its Hong Kong and Macau businesses. They are summarised by line of business as follows:

Line of business	Type of cover	Retention
Group Life	Excess	HK$3,000,000 per benefit
Group Health (under John Hancock International Group Program (IGP))	Quota share	50% for new business and 25% for existing business with a retention limit of HK$6,000,000
High End Medical Plan	Quota Share	50% quota share "per life" of all business ceded under this treaty
Critical Illness Plan	Quota Share and Excess	50% up to US$100,000/HK$800,000 (risks assessed by reinsurer) US100,000/HK$800,000 (risks not assessed by reinsurer)
ManuMulti Care (MMC) ManuEssential Care (MEC) ManuPrime Care (MPC) Cancer Treatment Benefit Rider Health Care Plans CareGuard Critical Illness Benefit Rider	Quota Share and Excess	the lower of (a) 50% of the net amount each risk at policy commencement date on a per life basis (b) US$100,000/HK$800,000 net amount at risk at policy commencement date on a per life basis
High Net Worth Universal Life	Quota Share and Excess	the lower of 50% of initial sum at risk (a) or 20% of initial sum at risk for policies after Sep 1, 2019: (b) US$5,000,000 for HK and Macau residents; (c) US$3,000,000 for PRC residents; (d) US$1,000,000 for the rest of the countries
Alpha Regular Investor ManuFuture Education Plan	Excess	US$1,000,000 per life insured or 10% of Sum Assured (where applicable).

Material reinsurance arrangements (continued)

Line of business	Type of cover	Retention
My Premier Lady	Quota Share	60% of the net amount at risk
ManuSilver Care (MSC) ManuAmber Care (MAC)	Quota Share and Excess	the lower of (a) 50% of the net amount at risk at policy commencement date on a per life basis; (b) US$100,000/HK$800,000 net amount at risk at policy commencement date on a per life basis
ManuVital Care (MVC) ManuBright Care (MBC) series ManuLove Care (MLC)	Quota Share and Excess	the lower of (a) 20% of the net amount at risk at policy commencement date on a per life basis; (b) US$100,000/HK$800,000 net amount at risk at policy commencement date on a per life basis
Whole-In-One Prime series	Quota Share & Excess	the lower of (a) 20% of the net amount at risk at policy commencement date on a per life basis; (b) US$5,000,000 for Hong Kong and Macau Residents; (c) US$3,000,000 for PRC Residents; (d) US$1,000,000 for residents in the rest of the countries.
ManuDelight Annuity Plan	Quota Share	50% of Extra Income Protector Benefit and 100% of other benefits
All other Individual Life	Excess and Quota Share	US$100,000 (policy issued prior to January 1, 2004) US$1,000,000 (policy issued from July 1, 2006)

Material reinsurance arrangements (continued)

A block of selected Par products issued prior to June 30, 2017 are ceded to RGA through a yearly renewable term quota share treaty.

Jade RMB Insurance plan and ManuWealth USD Insurance Plan (2017 version and 2022 version) have a coinsurance arrangement with China Life Reinsurance Company, under which the majority (95%) of the benefits is ceded. ManuFortune and ManuWealth USD Insurance Plan (2018 to 2021 versions) have a coinsurance arrangement with Taiping Reinsurance Company Limited, under which the majority (95%) of the benefits is ceded.

Selected universal life policies are ceded to RGA Reinsurance Company, Swiss Reinsurance Company and SCOR SE from July 1, 2022.

There was a reinsurance arrangement with Manufacturers Life Reinsurance Limited under which 70% of the Hong Kong dollars Par Open block in-force before January 1, 2020 is ceded.

There was a reinsurance arrangement with Manufacturers Life Reinsurance Limited under which 75% of new business policies of selected products between April 1, 2020 and September 30, 2020 is ceded.

The Company accepts risk from several affiliates of the Company for amounts above the respective operation's retention up to a limit as detailed below for each affiliate: -

- Singapore US$5 million
- Malaysia US$5 million
- Vietnam US$5 million
- Philippines US$5 million
- Indonesia US$7.5 million
- Cambodia US$5 million

If the amount at risk shall increase above the retention limit, the increase will be subject to a special approval by the Company.

MANULIFE (INTERNATIONAL) LIMITED

REPORT OF THE DIRECTORS

Auditor

Ernst & Young retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

Patrick David Graham
Chief Executive Officer, Hong Kong
April 23, 2024

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

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

Independent auditor's report
To the members of Manulife (International) Limited
(Incorporated in Bermuda with limited liability)

Opinion

We have audited the financial statements of Manulife (International) Limited (the "Company") set out on pages 10 to 127, which comprise the company statements of financial position as at December 31, 2023, and the statement of profit or loss, the statement of 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 material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2023, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Basis for opinion

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

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

The directors of the Company are responsible for the other information. The other information comprises the information included in the report of the directors.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report (continued)
To the members of Manulife (International) Limited
(Incorporated in Bermuda with limited liability)

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 HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent auditor's report (continued)
To the members of Manulife (International) Limited
(Incorporated in Bermuda with limited liability)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 of the Company 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

Certified Public Accountants
Hong Kong
23 April 2024

MANULIFE (INTERNATIONAL) LIMITED

STATEMENT OF FINANCIAL POSITION

As at December 31, 2023

	Notes	31 December 2023	Restated 31 December 2022	Restated 1 January 2022
		HK$'000	HK$'000	HK$'000
ASSETS				
Intangible assets	4	500,661	542,857	573,608
Goodwill	8	1,122,666	1,122,666	1,122,666
Investment property	7	6,370,000	6,620,000	6,890,000
Fixed assets	5	562,484	527,999	396,665
Interests in subsidiaries	6	781,921	792,046	891,285
Mortgage and other loans	9	1,795,679	1,780,255	1,499,394
Accrued investment income	10	2,139,034	1,878,230	1,726,460
Loan to an intermediate holding company	11	320,370	476,306	629,112
Deferred tax assets	12	149,561	138,979	332
Amounts due from affiliates	13	1,004,878	1,230,263	1,610,110
Insurance contract assets	17	9,406	71,900	28,631
Reinsurance contract held assets	17	5,289,293	5,273,505	7,845,320
Other assets		7,038,063	7,072,637	2,449,307
Investment securities	14	273,695,876	236,726,913	273,942,183
Derivative financial instruments	15	5,430,420	3,685,411	2,003,181
Cash and cash equivalents	16	8,123,733	6,957,821	8,797,439
Segregated funds net assets		115,303,786	109,573,472	120,706,999
TOTAL ASSETS		429,637,831	384,471,260	431,112,692
LIABILITIES				
Insurance contract liabilities	17	250,705,451	217,202,545	240,394,608
Reinsurance contract held liabilities	17	742,756	651,726	490,566
Investment contract liabilities	18	321,001	296,915	318,479
Amounts due to affiliates		1,623,003	1,246,567	2,584,629
Tax payable		235,602	189,115	160,287
Derivative financial instruments	15	5,810,926	6,527,277	1,472,996
Accounts payable and accrued liabilities	19	6,926,475	5,589,242	6,474,013
Insurance contract liabilities for account of segregated fund holders	17	49,400,607	46,408,090	56,050,152
Investment contract liabilities for account of segregated fund holders		65,903,179	63,165,382	64,656,847
TOTAL LIABILITIES		381,669,000	341,276,859	372,602,577
NET ASSETS		47,968,831	43,194,401	58,510,115
EQUITY				
Issued capital	21	15,791,430	15,791,430	15,791,430
Share premium		2,145,943	2,145,943	2,145,943
Share option reserve		38,350	39,660	42,860
Shareholders and other equity holder' retained earnings		43,406,951	39,262,705	42,352,430
Shareholders and other equity holders' accumulated other comprehensive income/(loss) ("AOCI")		(13,413,843)	(14,045,337)	(1,822,548)
TOTAL EQUITY		47,968,831	43,194,401	58,510,115

Director

Director

MANULIFE (INTERNATIONAL) LIMITED

STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2023

	Notes	2023	Restated 2022
		HK$'000	HK$'000
Insurance service results:			
Insurance revenue		10,116,553	9,244,743
Insurance service expenses		(4,269,363)	(4,313,223)
Net income from reinsurance contracts held		712,928	1,124,280
Total insurance service result		6,560,118	6,055,800
Investment result:			
Investment income			
Investment income	23	7,095,358	6,162,462
Realised and unrealised gains/(losses) on assets supporting insurance and investment contract liabilities	23	9,365,738	(17,407,261)
Investment expenses		(314,902)	(307,690)
Net investment income/(loss)		16,146,194	(11,552,489)
Insurance finance (expense)/income and effect of movement in foreign exchange rates		(13,417,525)	9,904,373
Reinsurance finance expense and effect of movement in foreign exchange rates		(1,916,580)	(4,565,241)
(Increase)/decrease in investment contract liabilities		(60,435)	3,773
Segregated funds imvestment results			
Investment income/(losses) related to segregated funds net assets		10,490,680	(17,492,144)
Financial changes related to insurance and investment contract liabilities for account of segregated fund holders		(10,490,680)	17,492,144
Net segregated funds investment results		-	-
Total investment result		751,654	(6,209,584)
Other revenue	24	3,006,047	2,906,519
General expenses	25	(1,374,104)	(982,891)
Commissions related to non-insurance contracts		(593,341)	(608,209)
Finance costs		(41,513)	(51,179)
Profit before tax		**8,308,861**	**1,110,456**
Income taxes	29	(155,798)	(276,891)
Profit for the year		**8,153,063**	**833,565**

MANULIFE (INTERNATIONAL) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2023

	2023	Restated 2022
	HK$'000	HK$'000
Profit for the year	8,153,063	833,565
Other comprehensive income		
Exchange differences on translating foreign operations	-	-
Insurance finance (expense)/income	(6,691,485)	27,878,180
Reinsurance finance income/(expense)	22,462	(32,651)
Fair value through OCI investments		
Unrealized gains/(losses) arising during the period on assets supporting insurance and investment contract	7,300,517	(40,068,318)
Total items that may be subsequently reclassfied to net income	631,494	(12,222,789)
Total comprehensive income for the year, net of tax	8,784,557	(11,389,224)

MANULIFE (INTERNATIONAL) LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

	Notes	Issued capital	Share premium	Share option reserve	Shareholders and other equity holders' retained earnings	AOCI	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance as at December 31, 2021		**15,791,430**	**2,145,943**	**42,860**	**34,852,256**	**-**	**52,832,489**
At January 1, 2022		**15,791,430**	**2,145,943**	**42,860**	**34,852,256**	**-**	**52,832,489**
Opening adjustment of insurance contracts at adoption of HKFRS 17		-	-	-	15,223,104	(7,486,645)	7,736,459
Opening adjustment of insurance contracts and financial assets at adoption of HKFRS 9/ HKFRS 17		-	-	-	(7,722,930)	5,664,097	(2,058,833)
Restated balance, beginning of year		15,791,430	2,145,943	42,860	42,352,430	(1,822,548)	58,510,115
Other comprehensive income for the year		-	-	-	-	(12,222,789)	(12,222,789)
Profit for the year		-	-	-	833,565	-	833,565
Share-based payments arrangement		-	-	(3,200)	-	-	(3,200)
Dividends	22	-	-	-	(3,923,290)	-	(3,923,290)
Balance as at December 31, 2022		**15,791,430**	**2,145,943**	**39,660**	**39,262,705**	**(14,045,337)**	**43,194,401**
Opening adjustment of insurance contracts and financial assets at adoption of HKFRS 9/ HKFRS 17		-	-	-	(19,377)	-	(19,377)
At January 1, 2023		**15,791,430**	**2,145,943**	**39,660**	**39,243,328**	**(14,045,337)**	**43,175,024**
Other comprehensive income for the year		-	-	-	-	631,494	631,494
Profit for the year		-	-	-	8,153,063	-	8,153,063
Share-based payments arrangement		-	-	(1,310)	-	-	(1,310)
Dividends	22	-	-	-	(3,989,440)	-	(3,989,440)
Balance as at December 31, 2023		**15,791,430**	**2,145,943**	**38,350**	**43,406,951**	**(13,413,843)**	**47,968,831**

MANULIFE (INTERNATIONAL) LIMITED

STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

	2023	Restated 2022
	HK$'000	HK$'000
CASH GENERATED FROM OPERATING ACTIVITIES		
Profit before tax	8,308,861	1,110,456
Adjustments for:		
Finance costs	41,513	51,179
Depreciation	173,599	140,387
Change in fair value of investment property	250,000	270,000
Depreciation of right-of-use assets	225,833	200,850
Amortisation of intangible assets	30,308	30,751
Impairment of intangible assets	11,888	-
Share-based payment	(1,310)	(3,200)
	9,040,692	1,800,423
Increase in mortgage and other loans	(15,424)	(280,861)
Increase in accrued investment income	(260,804)	(151,770)
Change in amounts due from/to affiliates, net	601,821	(958,215)
Increase in other assets	(191,259)	(4,824,180)
Increase in investment securities	(29,668,446)	(2,860,802)
Increase in derivative financial instruments, assets	(1,745,009)	(1,682,230)
Decrease in reinsurance contract assets	97,704	2,700,324
Increase in net insurance contract liabilities	26,873,915	4,642,848
Increase/(decrease) in investment contract liabilities	24,086	(21,564)
Decrease/(increase) in derivative financial instruments, liabilities	(716,351)	5,054,281
Increase/ (decrease) in accounts payable and accrued liabilities	1,634,503	(606,882)
Cash generated from operating activities	5,675,428	2,811,372
OPERATING ACTIVITIES		
Hong Kong profits tax paid	(51,094)	(306,406)
Overseas tax paid	(93,551)	(3,588)
Finance costs	(41,513)	(51,179)
Net cash inflow from operating activities	5,489,270	2,450,199
INVESTING ACTIVITIES		
Purchases of fixed assets	(208,084)	(271,721)
Net cash outflow from investing activities	(208,084)	(271,721)
FINANCING ACTIVITIES		
Principal portion of lease payments	(203,719)	(184,338)
Dividends paid	(3,989,440)	(3,923,290)
Repayment of loan to an intermediate holding company	155,936	152,806
Net cash outflow from financing activities	(4,037,223)	(3,954,822)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	1,243,963	(1,776,345)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,957,821	8,797,439
Effect of foreign exchange rate changes, net	(78,051)	(63,273)
CASH AND CASH EQUIVALENTS AT END OF YEAR	8,123,733	6,957,821
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank call deposits	369,515	275,340
Bank current accounts	7,754,183	6,682,448
Cash on hand	35	33
	8,123,733	6,957,821

1 CORPORATION INFORMATION

The Company was incorporated in Bermuda and registered in Hong Kong to carry on long term insurance business. The Company is a wholly-owned subsidiary of Manulife International Holdings Limited, a company incorporated in Bermuda. The directors consider that Manulife Financial Corporation ("MFC"), a company incorporated in Canada, is the Company's ultimate holding company.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These financial statements have been prepared under the historical cost convention, except for investment property, derivative financial instruments, and investment securities, which have been measured at fair value. These financial statements are presented in Hong Kong dollars, which is also the Company's functional currency, and all values are rounded to the nearest thousand except when otherwise indicated.

The Company presents its statement of financial position broadly in order of liquidity. Financial assets and financial liabilities are offset and net amounts reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liabilities simultaneously.

2.2 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.

HKFRS 17	*Insurance Contracts*
Amendments to HKFRS 17	*Insurance Contracts*
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred tax related to assets and liabilities arising from a single transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

HKFRS 17 was issued in 2018 to be effective for years beginning on January 1, 2021. Amendments to HKFRS 17 were issued in October 2020 and included a two-year deferral of the effective date. HKFRS 17 as amended, became effective for years beginning on January 1, 2023, to be applied retrospectively. If full retrospective application to a group of contracts is impracticable the modified retrospective or fair value methods may be used. The standard replaced HKFRS 4 "Insurance Contracts" ("HKFRS 4") and materially changed the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the Company's financial statements.

Narrow-scope amendments to HKFRS 17 were issued in August 2022 and were effective on initial application of HKFRS 17 and HKFRS 9 which the Company has adopted on January 1, 2023. The amendments reduce accounting mismatches between insurance contract liabilities and financial assets in scope of HKFRS 9 within comparative prior periods when initially applying HKFRS 17 and HKFRS 9. The amendments allow insurers to present comparative information on financial assets as if HKFRS 9 were fully applicable during the comparative period. The amendments do not permit application of HKFRS 9 hedge accounting principles to the comparative period.

The Company adopted HKFRS 17 on January 1, 2023, with an effective date of January 1, 2022. The 2022 comparative figures and the opening Statement of Financial Position as at January 1, 2022 as presented in these Financial Statements have been restated, where indicated, for the adoption of HKFRS 17.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The principles underlying HKFRS 17 differ from HKFRS 4. The following outlines some of the key measurement differences:

- Under HKFRS 17 new business gains are recorded on the Statements of Financial Position (in the Contractual Service Margin ("CSM") component of the insurance contract liability) and amortized into income as services are provided. New business losses are recorded into income immediately. Under HKFRS 4, both new business gains and new business losses were recognized in income immediately.

- Under HKFRS 17 the Company aggregates insurance contracts that are subject to similar risks and managed together into portfolios. Since new business gains and losses have different accounting treatments, insurance contracts are further aggregated into groups by profitability and issuance period to limit offsetting of new business gains and losses. Such aggregation of contracts into groups is required on initial recognition and not reassessed subsequently. Under HKFRS 4, new business gains and new business losses offset each other in income.

- Under HKFRS 17 the discount rate used to estimate the present value of insurance contract liabilities is based on the characteristics of the liability. Under HKFRS 4, the rates of returns for current and projected assets supporting insurance contract liabilities were used to value the liabilities. The valuation of insurance liabilities was referenced to HK Statutory basis as proxy in which NPV approach was adopted and the discount rate methodology was portfolio yield graded to Long-term reinvestment (risk-free) yield according to Actuarial Guidance Notes ("AGN") 3 issued by The Actuarial Society of Hong Kong ("ASHK").

- Under HKFRS 17 the Company use contracts as the unit of account assessment. The unit of account affects the contract boundary assessment of HKFRS4 and HKFRS17. Under HKFRS4, the contract boundary assessment of basic plan and rider is separated.

- Under HKFRS 17 the insurance contract liability discount rate is not related to the expected return on Alternative Long-Duration Assets ("ALDA") and public equity assets, and as a result, the earnings sensitivity of a change in return assumptions for ALDA and public equity assets will be significantly reduced.

- Under HKFRS 17 the Company has elected the option to record changes in insurance contract liabilities arising from changes in interest rates through other comprehensive income, for substantially all insurance products, and classify debt instruments supporting these insurance contract liabilities as fair value through other comprehensive income ("FVTOCI") under HKFRS 9. Under HKFRS 4, changes in insurance contract liabilities were recorded in net income.

- Under HKFRS 17 the Company separates distinct investment components from insurance contracts and accounts for them under HKFRS 9. Under HKFRS4 the separation of deposit components was permitted, but not required.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- Under HKFRS 17 insurance contracts with different features are measured by one of the three measurement models: General Model Method ("GMM"), Premium Allocation Approach ("PAA") and Variable Fee Approach ("VFA"). Under HKFRS4, insurance contracts were generally valued by one measurement model, although an unearned premium reserve method similar to PAA was allowed and used by the Company for certain short duration / annually renewable business.

  In addition, there are significant changes to presentation and disclosure of the financial information. The following outlines some of the key presentation and disclosure changes:

- Statements of financial position: under HKFRS 17 the Company presents portfolios of insurance and reinsurance contracts issued separately from portfolios of reinsurance contracts held, and portfolios of asset position are further presented separately from portfolios of liability position. Under HKFRS 4, contracts were not split and presented by asset and liability positions.

- Statements of comprehensive income: under HKFRS 17 the Company separately presents insurance revenue, insurance service expense, insurance finance income or expenses, and income or expenses from reinsurance contracts held. Under HKFRS 4 the Company reported premium income, gross claims and benefits, changes in insurance contract liabilities, benefits and expenses ceded to reinsurers and changes in reinsurance assets.

HKFRS 17 Transition

The Company is required to prepare an opening balance sheet as at January 1, 2022, the date of transition to HKFRS 17, which forms the starting point for its financial reporting in accordance with HKFRS 17. Any differences between the carrying value and the presentation of assets, liabilities and equity determined in accordance with HKFRS 4 and HKFRS 17, as at January 1, 2022 will be recorded in opening retained earnings and accumulated other comprehensive income.

On the transition date, January 1, 2022, the Company;

- Identified, recognized, and measured each group of contracts as if HKFRS 17 had always applied, unless it was impracticable (see Full Retrospective Approach and Fair Value Approach below);
- Identified, recognized, and measured assets for insurance acquisition cash flows as if HKFRS 17 had always applied, unless it was impracticable. However, no recoverability assessment was performed before the transition date;
- Derecognized any balances that would not exist had HKFRS 17 always applied;
- Recognized any resulting net difference in equity.

<u>Full Retrospective Approach</u>

The Company has adopted HKFRS 17 retrospectively unless the full retrospective approach was deemed impracticable. The Company has applied the full retrospective approach to most contracts issued on or after January 1, 2021, except for participating insurance contracts and variable annuity contracts for which the fair value approach was used.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Fair Value Approach

The Company has applied the fair value approach to all insurance contracts issued prior to January 1, 2021, as obtaining reasonable and supportable information to apply the full retrospective approach was deemed impracticable.

HKFRS 17 allows the use of the fair value approach for groups of insurance contracts with direct participation features if the risk mitigation option is applied prospectively from the transition date and the Company used derivatives, reinsurance contracts held or non-derivative financial instruments held at FVTPL to mitigate financial risk on these groups of contracts. With these conditions met, the Company has elected to apply the fair value approach to participating insurance contracts and variable annuity contracts issued on or after January 1, 2021.

Under the fair value approach, the Company has determined the CSM of the GMM and VFA liabilities for remaining coverage at the transition date as the difference between the fair value of the groups of insurance contracts and the fulfilment cash flows measured at that date. In determining the fair value, the Company has applied the requirements of HKFRS 13 "Fair Value Measurement", except for the demand deposit floor requirement. The Company used the income approach to determine the fair value of the insurance contracts at the transition date, in which future cash flows are discounted to a single amount that reflects current market expectations about those future amounts.
To determine groups of insurance contracts under the fair value approach the Company has aggregated contracts issued more than one year apart as it did not have reasonable and supportable information to divide groups into those including only contracts issued within one year or less.

For the application of the fair value approach, the Company has used reasonable and supportable information available at the transition date in order to:

- Identify groups of insurance contracts;
- Determine whether an insurance contract meets the definition of an insurance contract with direct participation features;
- Identify discretionary cash flows for insurance contracts without direct participation features; and
- Determine whether an investment contract meets the definition of an investment contract with discretionary participation features.

For insurance contracts where the fair value approach was applied, the discount rate used to determine the fair value of the group of insurance contracts was determined at the transition date. For cash flows of insurance contracts that do not vary based on the returns on underlying items, the Company determines discount rates by adjusting a liquid risk-free yield curve to reflect the differences between the liquidity characteristics of the financial instruments that underlie the rates observed in the market and the liquidity characteristics of the insurance contracts (a bottom-up approach).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Other Comprehensive Income at Transition

Under HKFRS 17 changes in the carrying amount of insurance contracts arising from the effect of and changes in the time value of money and in financial risk are presented as insurance finance income or expense (except for some changes for insurance contracts with direct participation features under certain circumstances). Under HKFRS 17 the Company has the option to present all insurance finance income or expense in profit or loss or disaggregated between profit or loss and OCI (the "OCI option"). The Company has elected the OCI option and determined the cumulative OCI balance at transition as follows:

- For some GMM and PAA groups of contracts where the fair value approach was applied, the cumulative OCI was set retrospectively only if reasonable and supportable information was available, otherwise it was set to zero at the transition date.
- For GMM groups of contracts where the full retrospective approach was applied, the cumulative balance was calculated as if the Company had been applying the OCI option since inception of the contracts.
- For VFA contracts, the cumulative OCI at transition was set equal to the difference between the market value and carrying value of the underlying items.

Reclassification of Financial Assets for the Comparative Period of HKFRS 17 Adoption

Under the amendments to HKFRS 17 with regard to the "Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information" ("HKFRS 17 amendments"), the Company has elected the option to reclassify financial assets, including those held in respect of activities not connected to contracts within the scope of HKFRS 17, on an instrument-by-instrument basis, for the comparative period in alignment with the expected classification on initial application of HKFRS 9 as at January 1, 2023. These reclassification changes also led the Company to present certain investment results previously reported in net investment income under HKAS 39, within OCI or net investment income in alignment with the expected classifications of HKFRS 9, respectively.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The following table presents financial assets by type and measurement category as at December 31, 2021, with transitional measurement differences and presentation differences and then financial assets by type and category as at January 1, 2022.

HK$'000	December 31, 2021		Impact of HKFRS 17 Amendments		January 1, 2022	
	HKAS 39 Measurement Category	Total carrying value	Measurement Differences	Presentation Differences	Total carrying value	HKFRS9 Measurement Category
Listed debt securities	AFS	-	-	161,216,506	161,216,506	FVOCI[1]
	FVTPL	180,510,910	-	(161,216,506)	19,294,404	FVTPL
		180,510,910	-	-	180,510,910	
Listed stocks	FVTPL	46,058,360	-	-	46,058,360	FVTPL
		46,058,360	-	-	46,058,360	
Unlisted debt securities	AFS	-	-	12,262,224	12,262,224	FVOCI[1]
	FVTPL	12,262,224	-	(12,262,224)	-	FVTPL
		12,262,224	-	-	12,262,224	
Unlisted unit-linked funds	FVTPL	1,976,574	-	-	1,976,574	FVTPL
		1,976,574	-	-	1,976,574	
Private equities	FVTPL	33,134,115	-	-	33,134,115	FVTPL
		33,134,115	-	-	33,134,115	
Mortgage	AFS	-	14,879	1,484,515	1,499,394	FVOCI[2]
	Amortized cost	1,484,515	-	(1,484,515)	-	Amortized cost
		1,484,515	14,879	-	1,499,394	
Cash and cash equivalents	Amortized cost	8,797,439	-	-	8,797,439	Amortized cost
Total in-scope financial assets		284,224,137	14,879	-	284,239,016	

(1) The reclassification of unrealized gains (losses), net of tax, of HK$7,723M from retained earnings to accumulated other comprehensive income (AOCI) related to FVOCI classification of debt investments classified as FVTPL under HKAS 39.

(2) The remeasurement of mortgage from amortized cost to FVOCI resulted in an increase in carrying value of HK$15M. The impact on AOCI, net of tax, was HK$15M.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The effects as a result of adoption of HKFRS 17 were recognized as adjustments to retained earnings and accumulated other comprehensive income as at January 1, 2022. The adoption resulted in an increase to total equity as of January 1, 2022 of HK$5,678 million.

HKFRS 9 was issued in November 2009 and amended in November 2010, December 2013 and July 2014, and is effective for years beginning on or after January 1, 2018, to be applied retrospectively, or on a modified retrospective basis. In conjunction with the amendments to HKFRS 17 issued in October 2020, the HKICPA amended HKFRS 4 to permit eligible insurers to apply HKFRS 9 effective January 1, 2023, alongside HKFRS 17. The standard replaced HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39"). HKFRS 9 addresses accounting and reporting principles for the classification and measurement of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. HKFRS 7 "Financial Instruments: Disclosures" ("HKFRS 7") was amended in conjunction with HKFRS 9 and HKFRS 17, with expanded qualitative and quantitative disclosures related to financial instruments and became effective along with HKFRS 9 and HKFRS 17 on January 1, 2023.

The Company adopted HKFRS 9 on January 1, 2023, as permitted under the October 2020 amendments to HKFRS 4 "Insurance Contracts". The Company's accounting policies for financial assets, and derivative instruments in accordance with HKFRS 9 are presented in note 2.4.

HKFRS 9 does not require restatement of comparative periods and the Company has not done so. The Company elected the option under HKFRS 17 to reclassify financial assets, including those held in respect of activities not connected to contracts within the scope of HKFRS 17, on an instrument-by-instrument basis, for 2022 comparatives in order to align with the classifications on initial application of HKFRS 9 as at January 1, 2023. These classification changes led the Company to present certain investment results previously reported in net investment income or OCI under HKAS 39, within OCI or net investment income under HKFRS 9, respectively. For 2022 comparative information, the Company did not apply HKFRS 9's expected credit loss ("ECL") impairment model or hedge accounting principles. With respect to these matters, the guidance contained in HKAS 39 was maintained. In the case of assets previously classified as FVTPL under HKAS 39 and classified as FVOCI or amortized cost under HKFRS 9, no HKAS 39 impairment was calculated for these financial statements.

Consistent with HKFRS 17 amendments, the adoption of HKFRS 9 resulted in certain differences in the classification and measurement of financial assets when compared to their classification and measurement under HKAS 39. The most significant classification changes included approximately HK$160 billion of debt securities previously classified as FVTPL which were classified as FVOCI under HKFRS 9 on January 1, 2023.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The effects of adoption were as follows:

- Effects from applying HKFRS 17 asset classification changes among FVTPL, AFS and amortized cost under HKAS 39 to FVOCI and FVTPL under HKFRS 9 resulted in a reduction in retained earnings of HK$7,723 million, net of tax, and an increase in OCI of HK$5,664 million, net of tax, as at January 1, 2022 when HKFRS 17's transition option was elected. These were presented under "Opening adjustment of financial assets at adoption of HKFRS 9 / HKFRS 17" in the statements of changes in equity.

- The adoption of HKFRS 9 resulted in recognition of ECL of HK$288 million. Loss allowances when applied to assets held at amortized cost reduce the carrying value of the assets and reduce equity. Loss allowances do not affect the fair value of assets held at FVOCI and therefore do not affect their carrying value. Loss allowances for assets held at FVOCI do not change total equity, instead result in movement between OCI and retained earnings.

- The impact of adopting HKFRS 9's ECL impairment methodology resulted in a reduction to retained earnings of HK$248 million, net of tax, and an increase to accumulated OCI ("AOCI") of HK$288 million net of tax, on January 1, 2023. This results from the derecognition of loss allowances in accordance with HKAS 39, and the recognition of ECL on FVOCI assets with reductions in retained earnings and corresponding increases in AOCI. For financial assets held at amortized cost and investment commitments, ECL was recognized with reductions in retained earnings.

- The impact of changes made as at January 1, 2023 were presented under line items labeled "Opening adjustment of financial assets at adoption of HKFRS 9 / HKFRS 17" in the statements of changes in equity.

The Company adopted HKFRS 7 (as amended), which expanded qualitative and quantitative disclosures related to financial instruments on January 1, 2023.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The following table illustrates the impact on loss allowances for financial assets on transition from the incurred losses impairment under HKAS 39 to the expected credit losses impairment allowance under HKFRS 9.

	December 31, 2022 HKAS 39 Impairment allowance	January 1, 2023 HKFRS 9 ECL allowance
	HK$'000	HK$'000
Listed Debt securities at FVOCI under HKFRS 9	-	242,785
Unlisted debt securities at FVOCI under HKFRS 9	-	41,825
Mortgages at FVOCI under HKFRS 9	-	3,324
Private equities at FVTPL under HKAS 39	40,781	-
Total on-balance sheet exposures	40,781	287,934
Allowance for credit losses on off-balance sheet exposures		723
Total	40,781	288,657

The following table shows financial liabilities under HKAS 39 and the impact of classification and measurement changes on adoption of HKFRS 9.

	Measurement Category	December 31, 2022 HKAS 39 Total carrying value	Impact of classification and measurement changes [1],[2]	January 1, 2023 HKFRS 9 Total carrying value
		HK$'000	HK$'000	HK$'000
Investment contract liabilities	FVTPL	94,851,943	(31,389,646)	63,462,297
Financial liabilities included in Other Liabilities	FVTPL	407,952	-	407,952
	Amortized cost	2,757,365	473,469	3,230,834
Total Financial Liabilities		98,017,260	(30,916,177)	67,101,083

(1) Investment contract liabilities held at FVTPL of $31,390 million were reclassified to insurance contract liabilities under HKFRS 17

(2) Financial liabilities held at amortized cost of $473 million under HKFRS 9 were reclassified from other liabilities under HKFRS 4

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 Making Materiality Judgements provide non mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Company has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Company's financial statements.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Company's approach and policy align with the amendments, the amendments had no impact on the Company's financial statements.

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Amendments to HKAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Company has applied the amendments retrospectively. Since the Company did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Company.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not applied the following new and revised standards, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[1, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[1]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangement*[1]
Amendments to HKAS 21	*Lack of Exchangeability*[2]

1 Effective for annual periods beginning on or after January 1, 2024

2 Effective for annual periods beginning on or after January 1, 2025

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised to align the corresponding wording with no change in conclusion.

2.4 MATERIAL ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing 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 MATERIAL ACCOUNTING POLICIES (continued)

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 either the Company or an entity related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Group.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of a fixed asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of fixed assets are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Furniture, fixtures and equipment	10% to 50% (or remaining lease terms)
Computer equipment	25% to 50%
Automobiles	20%

A fixed asset and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment property

Investment property is interests in land and buildings (including the leasehold property held as a right-of-use asset 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 property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is 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 property is 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 recognised in the statement of profit or loss in the year of the retirement or disposal. For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Intangible assets

The intangible assets represent a contractual relationship in respect of an acquired distribution network and an acquired customer relationship that have been measured upon initial recognition at cost. They are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets are reviewed at least at each financial year end. The amortisation charge for the year is included in the statement of profit or loss under “General expenses”.

Goodwill

Goodwill represents the difference between the purchase consideration of an acquired business and the Company’s proportionate share of the net identifiable assets acquired and liabilities and contingent liabilities assumed. It is initially recorded at cost and subsequently measured at cost less any accumulated impairment. Goodwill is tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable at the cash generating unit (“CGU”) or group of CGUs level. The Company allocates goodwill to CGUs or groups of CGUs for the purpose of impairment testing based on the lowest level within the entity in which the goodwill is monitored for internal management purposes. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Any potential impairment of goodwill is identified by comparing the recoverable amount of a CGU or group of CGUs to its carrying value. Goodwill is reduced by the amount of deficiency, if any. If the deficiency exceeds the carrying amount of goodwill, the carrying values of the remaining assets in the CGU or group of CGUs are subject to being reduced by the excess on a pro-rata basis. The recoverable amount of a CGU is the higher of the estimated fair value less costs to sell or the value-in-use of the CGU. In assessing value-in-use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In some cases, the most recent detailed calculation made in a prior period of the recoverable amount of a CGU is used in the testing of impairment of goodwill in the current period. This is the case only if there are no significant changes to the CGU, the likelihood of impairment is remote based on the analysis of current events and circumstances, and the most recent recoverable amount substantially exceeds the carrying amount of the CGU.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of the asset’s or cash-generating unit’s fair value less costs of disposal and its value in use. The recoverable amount 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.

An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to the statement of profit or loss in the year in which it arises.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Company initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets designated at fair value through other comprehensive income (equity investments)
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on the equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging

Initial recognition and subsequent measurement

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments or reference to the present value of estimated future cash flows.

The derivative financial instruments entered into by the Company do not qualify for hedge accounting and, accordingly, are stated at fair value at the end of the reporting period with any fair value gains or losses being taken directly to the statement of profit or loss.

Mortgage and other loans

Mortgage and other loans are carried at fair value through other comprehensive income. Interest on mortgage and other loans is credited to the statement of profit or loss.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Company recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

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

When the Company has transferred its right to receive cash flows from an asset, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement.

Financial liabilities at amortised cost

Financial liabilities including accounts payable, amounts due to affiliates and other monetary liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Company's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Financial guarantee contracts

A financial guarantee contract issued by the Company is a contract that requires a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Company measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

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

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

Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the statement of profit or loss or in equity if it relates to items that are recognised in the same or a different period 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.

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

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

- when the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

2.4 MATERIAL ACCOUNTING POLICIES (continued)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Company has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Leases
Right-of-use assets
Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease 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 incentives receivable, 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 Company and payments of penalties for termination of a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company 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. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Employee benefits

Share-based payment transactions

MFC, the Company's ultimate holding company, operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of MFC Group's operations. Employees (including directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes option pricing model, further details of which are given in note 26 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of MFC ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date").

The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The cost of cash-settled transactions is measured initially at fair value, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at the end of each reporting period up to and including the settlement date with changes in fair value recognised in the statement of profit or loss.

The Company has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after November 7, 2002 that had not vested by January 1, 2005 and to those granted on or after January 1, 2005.

Paid leave carried forward

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

Pension scheme

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

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Dividends

Dividends on common and preference shares are recorded when declared. Final dividends proposed by the directors are classified as a separate allocation of accumulated surplus within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared in a general meeting, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits. Apart from restricted cash and cash equivalents in note 16(c), all the balances are not restricted as to use .

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Segregated funds

Segregated fund assets and liabilities for investment contracts without discretionary participating features ("DPF") are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at transaction price excluding any transaction costs directly attributable to the issue of the contracts. Subsequent to initial recognition, segregated fund assets and liabilities are measured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position, known as deposit accounting. Fees charged and investment income received are recognised in the statement of profit or loss when earned.

Fair value adjustments are performed at the end of the reporting period and are recognised in the statement of profit or loss. Fair value is determined through the use of prospective discounted cash flow techniques. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the end of the reporting period. The fund assets and liabilities used to determine the unit-prices at the end of the reporting period are valued on a basis consistent with their measurement basis in the statement of financial position, adjusted to take account of the effect on the liabilities discounted for the time value of future tax on unrealised gains on assets in the fund.

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

Insurance contract liabilities and reinsurance contract assets

Scope and Classification

Contracts issued by the Company are classified as insurance, investment, or service contracts at initial recognition. Insurance contracts are contracts under which the Company accepts significant insurance risk from a policyholder. A contract is considered to have significant insurance risk if an insured event could cause an insurer to pay significant additional amounts in any single scenario with commercial substance. The additional amounts refer to the present value of amounts that exceed those that would be payable if no insured event had occurred.

Reinsurance contracts held are contracts held by the Company under which it transfers significant insurance risk related to underlying insurance contracts to other parties, along with the associated premiums. The purpose of the reinsurance contracts held is to mitigate the significant insurance risk that the Company may have from the policies.

Both insurance and reinsurance contracts are accounted for in accordance with HKFRS 17. Contracts under which the Company does not accept significant insurance risk are either classified as investment contracts or considered as service contracts and are accounted for in accordance with HKFRS 9 "Financial Instruments" ("HKFRS 9") or HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15"), respectively.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)

Scope and Classification (continued)

Insurance contracts are classified as direct participation contracts or contracts without direct participation features based on specific criteria. Insurance contracts with direct participation features are insurance contracts that are substantially investment-related service contracts under which an entity promises an investment return based on underlying items. They are viewed as creating an obligation to pay policyholders an amount that is equal to the fair value of the underlying items, less a variable fee for service.

Separation of components

At inception of insurance and reinsurance contracts held, the Company analyses whether they contain the following components that should be separated and accounted for under other HKFRS standards:

- Derivatives embedded within insurance contracts which contains risks and characteristics that are not closely related to those of the host contract, unless the embedded derivative itself meets the definition of an insurance contract;

- Distinct investment components which represent cash flows paid (received) in all circumstances regardless of whether an insurance event has occurred or not. Investment components are distinct if they are not highly interrelated with insurance component cash flows and if they could be issued on a standalone basis; and

- Distinct service components which are promises to transfer goods or non-insurance services if the policyholder can benefit from it either on its own or with other resources that are readily available to the policyholder. The service components are distinct if they are not highly interrelated with the insurance components and the Company provides no significant service in integrating the service component with the insurance component.

The Company applies HKFRS 17 to all remaining components of the insurance and reinsurance contracts held.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)

Level of aggregation

Insurance contracts are aggregated into portfolios of insurance contracts which are managed together and are subject to similar risks. The Company has defined portfolios by considering various factors such as measurement model, major product line and type of insurance risk. The portfolios of insurance contracts are further grouped by:

- Date of issue: the period cannot be longer than one year. Most of the Company's insurance contracts are aggregated into annual cohorts; and;

- Expected profitability at inception into one of three categories: onerous contracts, contracts with no significant risk of becoming onerous and other remaining contracts. Onerous contracts are those contracts that at initial inception, the Company expects to generate net outflow, without considering investment returns or the benefit of any reinsurance contracts held.

The Company establishes the groups at initial recognition and may add contracts to the groups after the end of a reporting period, however, the Company does not reassess the composition of the groups subsequently.

For reinsurance contracts held, the portfolios align with the direct insurance contract portfolios. Groups of reinsurance contracts typically comprise a single reinsurance contract, and similar to direct groups they do not contain contracts issued more than one year apart.

Cash flows within the contract boundaries

The Company includes in the measurement of a group of insurance contracts and reinsurance contracts held, all future cash flows within the boundary of the contracts in the group. Cash flows are within the boundary of an insurance contract (and a reinsurance contract held) if they arise from substantive rights and obligations that exist in which the Company can compel the policyholder to pay the premiums (or is compelled to pay amounts to a reinsurer) or has a substantive obligation to provide services to policyholder (or a substantive right to receive services from a reinsurer).

For insurance contracts, a substantive obligation to provide services ends when the Company has the practical ability to reassess the risks and as a result, can set price or level of benefits that fully reflects those risks.

For reinsurance contracts held, a substantive right to receive services ends when the reinsurer has the practical ability to reassess the risk transferred to it and can set a price or level of benefits that fully reflects those risks, or the reinsurer can terminate the coverage.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)

Measurement models

There are three measurement models for insurance contracts:

Variable fee approach ("VFA"): The Company applies this approach to insurance contracts with direct participation features such as participating life insurance contracts, unit linked type contracts, and variable annuity contracts. The direct participating feature is identified at inception, where the Company has the obligation to pay the policyholder an amount equal to the fair value of the underlying items less a variable fee in exchange for investment services.

Premium allocation approach ("PAA"): The Company applies this simplified approach for certain insurance contracts and reinsurance contracts with duration of typically one year or less.

General measurement model ("GMM"): The Company applies this model to the remaining insurance contracts and reinsurance contracts not measured using the VFA or the PAA.

Recognition of insurance contracts

The Company recognizes groups of insurance contracts that it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts,
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date, and
- For a group of onerous contracts, as soon as facts and circumstances indicate that the group is onerous.

Insurance contracts measured under the GMM and VFA measurement model

Initial measurement

The measurement of insurance contracts at initial recognition is the same for GMM or VFA. At initial recognition, the Company measures a group of insurance contracts as the total of: (a) fulfilment cash flows, and (b) a contractual service margin ("CSM").

Fulfilment cash flows comprise estimates of future cash flows, adjusted to reflect the time value of money and financial risks and a risk adjustment for non-financial risk. In determining the fulfilment cash flows, the Company uses estimates and assumptions considering a range of scenarios which have commercial substance and give a fair representation of possible outcomes.

If fulfilment cash flows generate a total of net cash inflows at initial recognition, a CSM is set up to fully offset the fulfilment cash flows, and results in no impact on income at initial recognition. The CSM represents the unearned profit the Company will recognize as it provides services under the insurance contracts. However, if fulfilment cash flows generate a total of net cash outflows at initial recognition, a loss is recognized in income or expenses immediately and the group of contracts is considered to be onerous.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)
Insurance contracts measured under the GMM and VFA measurement model (continued)
Initial measurement (continued)

For contracts with fulfilment cash flows in multiple foreign currencies the group of insurance contracts, including the contractual service margin, is considered to be denominated in a single currency. If a group of insurance contracts has cash flows in more than one currency, on initial recognition the company determines a single currency in which the multicurrency group of contract is denominated. The Company determine the single currency to be the currency of the predominant cash flows.

The unit of account for CSM or loss is on a group of contracts basis consistent with the level of aggregation specified above.

Subsequent measurement of fulfilment cash flows
The fulfilment cash flows at each reporting date are measured using the current estimates of expected cash flows and current discount rates. In the subsequent periods, the carrying amount of a group of insurance contracts at each reporting date is the sum of:

- The liability for remaining coverage ("LRC"), which comprises the fulfilment cash flows that relate to services to be provided in the future and any remaining CSM at that date; and
- The liability for incurred claims ("LIC"), which comprises the fulfilment cash flows for incurred claims and expenses that have not yet been paid.

For onerous contracts, the LRC is further divided into a loss component, which represents the remaining net outflow for the group of insurance contracts; and the LRC excluding the loss component, which represents the amount of liability with offsetting inflows.

Premiums received increases the LRC. Where a third-party administrator is involved in the collection and remittance of premiums, amounts receivable from the third-party are included in the measurement of insurance contract liabilities until actual cash is remitted to the Company.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)

Insurance contracts measured under the GMM and VFA measurement model (continued)

Subsequent measurement of the CSM under the GMM measurement model

For contracts without direct participation features when applying the GMM measurement model, the carrying amount of the CSM at end of the reporting period is adjusted to reflect the following changes:

(a) effect of new contracts added to the group;

(b) interest accreted on the carrying amount of CSM, measured at the locked-in discount rate. The locked-in discount rate is the weighted average of the rates applicable at the date of initial recognition of contracts that joined a group over a 12-month period, and is determined using the bottom-up approach;

(c) Changes in fulfilment cash flows that relate to future services such as:
- Experience differences between actual and expected premiums and related cash flows at the beginning of the period measured at the locked in rate.
- Non-financial changes in estimates of the present value of future cash flows measured at the locked in rate.
- Changes in the risk adjustment for non-financial risk that relate to future service measured at the locked in rate.
- Differences between actual and expected investment component that becomes payable in the period. The same applies to a policyholder loan that becomes repayable;

(d) Effect of any currency exchange differences on the CSM;

(e) CSM amortization, which is the recognition of unearned profit into insurance revenue for services provided in the period. The CSM is recognized into insurance revenue over the duration of the group of insurance contracts based on the respective coverage units as insurance services are provided. The number of coverage units is the quantity of services provided by the contracts in the group, determined by considering the quantity of benefits provided and its expected coverage period. The coverage units are reviewed and updated at each reporting date. The Company allocates the CSM equally to each coverage units and recognize the amount allocated to coverage units provided and expected to be provided in each period.

When measuring the fulfilment cash flows, changes that relate to future services are measured using the current discount rate, however, the CSM is adjusted for these changes using the locked in rate at initial recognition. The application of the two different discount rates gives rise to a gain or loss that is recognized as part of insurance finance income or expense.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)

Insurance contracts measured under the GMM and VFA measurement model (continued)

Subsequent measurement of the CSM under the VFA measurement model

For contracts with direct participation features applying the VFA measurement model, subsequent measurement of the CSM is similar to the GMM model with the following exceptions or modifications:

For changes in fulfillment cash flows that do not vary with the underlying items:

- Non-financial changes adjust the CSM at the current discount rate, there is no interest accretion on CSM at the locked in rate,

- Changes in the effect of time value of money and financial risks such as the effect of financial guarantees adjust the CSM, however, income or expenses would be impacted if the risk mitigation option is elected.

For changes in fulfillment cash flows that vary with the fair value of the underlying items:

- Changes in the shareholders' share adjust the CSM, however, income or expenses would be impacted if the risk mitigation option is elected,

- Changes in the policyholders' share are recognized in income or expenses or OCI.

The Company uses derivatives, non-derivative financial instruments measured at fair value through profit or loss, and reinsurance contracts to mitigate the financial risk arising from direct participation contracts applying the VFA measurement model. The Company may elect the risk mitigation option to recognize some or all changes of financial guarantees and shareholders' share of the underlying items in income or expenses instead of adjusting CSM.

Groups of GMM or VFA insurance contracts with a CSM at initial recognition can subsequently become onerous when increases in fulfilment cash flows that do not vary with the underlying items or declines in the shareholder's share of the underlying items exceed the carrying amount of the CSM. The excess establishes a loss which is recognized in income or expenses immediately, and the LRC is then divided into the loss component and the LRC excluding the loss component.

Subsequent measurement of the loss component

The loss component represents the net outflow attributable to each group of onerous insurance contracts (or contracts profitable at inception that have subsequently become onerous), any subsequent decrease relating to future service in estimates of future cash flows and risk adjustment for non-financial risk or any subsequent increase the shareholders' share of the fair value of underlying items will reverse the loss component. Any remaining loss component will be reversed systematically as actual cash flows are incurred.

When actual cash flows are incurred, the LIC is recognized and the LRC is derecognized accordingly. The Company uses the proportion on initial recognition to determine the systematic allocation of LRC release between the loss component and the LRC excluding the loss component, resulting in both components being equal to zero by the end of the coverage period.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)

Insurance contracts measured under the PAA measurement

The Company applies the PAA to all insurance contracts it issues if the coverage period of the contract is one year or less; or the coverage period is longer than one year and the measurement of the LRC for the contracts under the PAA does not differ materially from the measurement that would be produced applying the GMM approach under possible future scenarios.

The LRC is initially measured as the premium received at initial recognition minus any insurance acquisition cash flows at that date. There is generally no allowance for time value of money as the premiums are mostly received within one year of the coverage period.

For acquisition cash flows allocated to recognized groups of contracts applying the PAA, the Company is permitted to defer and amortize the amount over the coverage period or recognize the amount as an expense as incurred provided that the coverage period of the contracts in the group is no more than one year. This election can be made at the level of each group of insurance contracts. For the majority of the Company's insurance contracts applying the PAA, the Company has elected to defer directly attributable acquisition costs and recognize in net income over the coverage period in a systematic way on the basis of passage of time.

In these lines of business, directly attributable insurance acquisition cash flows paid are to acquire the current contract with an expectation of a number of renewals over future years. As such, directly attributable insurance acquisition cash flows are allocated to the group in which the current contract belongs to as well as to future groups that will include expected renewals applying a systematic methodology. If facts and circumstances indicate that there are onerous group of contracts at initial measurement, a loss is immediately recognized in the income or expenses for the net outflow and a loss component of the LRC is created for the group.

Subsequent Measurement

Subsequently, the Company measures the carrying amount of the LRC at the end of each reporting period as:

- The LRC at beginning of the period; plus
- Premium received in the period; minus
- Directly attributable acquisition costs net of related amortization (unless expensed as incurred); minus
- Amount recognized as insurance revenue for the period; minus
- Investment component paid or transferred to the LIC.

The amount recognized as insurance revenue for the period is typically based on the passage of time.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, the Company will recognize a loss in income or expenses and an increase in the LRC to the extent that the current estimate of the fulfilment cash flows that relate to remaining coverage (including the risk adjustment for non-financial risk) exceed the carrying amount of the LRC.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)
Insurance contracts measured under the PAA measurement (continued)
Subsequent Measurement (continued)
The Company estimates the LIC as the fulfilment cash flows related to incurred claims. The Company does not adjust the future cash flows for the time value of money, except when claims are expected to settle more than one year after the actual claim occurs.

Assets for acquisition cash flows
Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows paid or incurred before the recognition of the related group of contracts are recognized as an asset within the portfolio of insurance contract liabilities in which the group of contracts is expected to be included. The Company applies a systematic basis to allocate these costs which includes:

- Insurance acquisition cash flows directly attributable to a group of contracts that will include future expected renewals of in-force contracts; and
- Insurance acquisition cash flows directly attributable to a portfolio of insurance contracts, which will include future new business.

When facts and circumstances indicate the assets for insurance acquisition cash flows maybe impaired, the Company conducts impairment tests. If the asset is impaired, an impairment loss will be recognized in income or expenses, which can be subsequently reversed when the impairment condition no longer exists.

Recognition of reinsurance contracts held
The Company recognizes a group of reinsurance contracts held from the earliest of the following:

- The beginning of the coverage period of the group of reinsurance contracts held. However, the Company delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date when any underlying insurance contract is initially recognized, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held, and

- The date the Company recognizes an onerous group of underlying insurance contracts if the Company entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)

Reinsurance contracts held measured under the GMM model

Initial measurement

The measurement of reinsurance contracts held follows the same principles as the GMM for insurance contracts issued, with the following exceptions or modifications specified in this section below. Reinsurance contracts held and assumed cannot use the VFA measurement model.

At initial recognition, the Company recognizes any net gain or net cost as a CSM in the statement of financial position, with some exceptions. If any net cost of obtaining reinsurance contracts held relates to insured events that occurred before initial recognition of any insurance contracts, it is recognized immediately in income or expenses. In addition, if the underlying insurance contracts is in an onerous position, the Company is required to recognize a reinsurance gain immediately in income for the portion of claims that the Company expects to recover from the reinsurance, if the reinsurance contract held was entered into prior to or at the same time as the onerous contract.

For contracts with fulfilment cash flows in multiple foreign currencies, the group is denominated in a single currency as defined by the predominant cash flow.

Measurement of reinsurance contract cash flows is consistent with the underlying insurance contracts, but with an adjustment for any risk of non-performance by the reinsurer. The risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

Subsequent measurement

Subsequently, the carrying amount of a group of reinsurance contracts held at each reporting date is the sum of:

- The asset for remaining coverage ("ARC"), which comprises the fulfilment cash flows that relate to services to be received under the contracts in future periods, and any remaining CSM at that date; and

- The asset for incurred claims ("AIC"), which comprises the fulfilment cash flows for incurred claims and expenses that have not yet been received.

If the underlying insurance contracts are onerous at inception and a reinsurance gain is recognized in income as described above, the asset for remaining coverage is made up of a loss-recovery component and the ARC excluding the loss-recovery component. The loss-recovery component reflects changes in the loss component of the underlying onerous insurance contracts, and determines the amounts that are subsequently presented in income or expenses as reversals of recoveries of losses from the reinsurance contracts held and are excluded from the allocation of reinsurance premiums paid.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)

Reinsurance contracts held measured under the GMM model (continued)

Subsequent measurement (continued)

The Company adjusts the carrying amount of the CSM of a group of reinsurance contracts held to reflect changes in the fulfillment cash flows applying the same approach as for insurance contracts issued, except:

- Income recognized to cover the losses from onerous underlying contracts also adjusts the carrying amount of CSM;

- Reversal of the loss-recovery component, to the extent that those reversals are not changes in fulfilment cash flows of the group of reinsurance contract held, also adjusts the carrying amount of CSM; and

- Changes in fulfilment cash flows related to future services also adjusts the carrying amount of CSM provided that changes in fulfillment cash flows related to the group of underlying insurance contracts adjust the CSM.

Where a loss component has been set up subsequent to initial recognition of a group of underlying insurance contracts, the reinsurance gain that has been recognized adjusts the loss-recovery component of the reinsurance asset for remaining coverage. The carrying amount of the loss-recovery component must not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the Company expects to recover from the group of reinsurance contracts. On this basis, the loss-recovery component is reduced to zero when the loss component of underlying insurance contracts is reduced to zero.

Reinsurance contracts held measured under the PAA model

Reinsurance contracts held may be classified and measured under the PAA model if they meet the eligibility requirements, which are similar to the PAA requirements for direct insurance contracts.

For reinsurance contracts held applying the PAA model, the Company measures them on the same basis as insurance contracts that it issues, adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued.

If a loss-recovery is created for a group of reinsurance contracts measured under the PAA, the Company adjusts the carrying amount of the ARC as there is no CSM to adjust under PAA.

Derecognition of insurance contracts

The Company derecognizes insurance contracts when the rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled; or expired) or the contract is modified such that the modification results in a change in the measurement model, or the applicable standard for measuring a component of the contract. In such cases, the Company derecognizes the initial contract and recognizes the modified contract as a new contract.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)

Presentation and Disclosure

The Company has presented the carrying amount of portfolios of insurance contracts that are in a net asset or liability position, and portfolios of reinsurance contracts that are in a net asset or liability position separately in the Statements of financial position.

The Company separately presents the insurance service result, which comprises of insurance revenue and insurance service expenses, from the investment result, which comprises of insurance finance income or expenses in the Statements of profit or loss. HKFRS 17 provides an option to disaggregate the changes in risk adjustment between insurance service results and insurance finance income. The Company disaggregates the change in risk adjustment for non-financial risk between the insurance service expenses and insurance finance income or expenses.

Net insurance service result

The insurance revenue depicts the performance of insurance services and excludes investment components.

For the GMM and the VFA contracts, the insurance revenue represents the change in the LRC relating to insurance services for which the Company expects to receive consideration. This insurance revenue comprises :

(a) expected claims and other insurance expenses including policyholder taxes where applicable;

(b) changes in risk adjustment for non-financial risk;

(c) release of CSM based on coverage units; and

(d) portion of premiums that relate to recovering of insurance acquisition cash flows.

For contracts measured under the PAA, the insurance revenue for each period is the amount of expected premium receipts for providing insurance services in the period.

The insurance service expenses arising from insurance contracts are recognized in income or expenses generally as they are incurred and excludes repayment of investment components. The insurance service expenses comprise of:

(a) incurred claims and other insurance service expenses;

(b) losses on onerous contracts and reversal of such losses;

(c) adjustments to LIC;

(d) amortization of insurance acquisition cash flows; and

(e) impairment losses on assets for insurance acquisition cash flows, if any, and reversals of such impairment losses.

The amortization of insurance acquisition cash flows within insurance service expense is equal to the recovery of insurance acquisition cash flows in insurance revenue for contracts measured under the GMM and VFA. For contracts measured under the PAA with deferred acquisition cash flows, the Company amortizes insurance acquisition cash flows over the duration of the group of insurance contracts based on the respective coverage units.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)

Presentation and Disclosure (continued)

Net insurance service result (continued)

Net expenses from reinsurance contracts held comprise of allocation of reinsurance premiums paid and the amounts expected to be recovered from reinsurers. Reinsurance cash flows that are contingent on claims on the underlying contracts are treated as part of the claims expected to be recovered from reinsurers, whereas reinsurance cash flows that are not contingent on claims on the underlying contracts (for example, some types of ceding commissions) are treated as a reduction in reinsurance premiums paid. For reinsurance contracts measured under the GMM, the allocation of reinsurance premiums paid represents the total of the changes in the asset for remaining coverage that relate to services for which the Company expects to pay consideration. For reinsurance contracts measured under the PAA, the allocation of reinsurance premiums paid is the amount of expected premium payments for receiving services in the period.

Insurance finance income or expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from: (a) the effect of the time value of money and changes in the time value of money; and (b) the effect of financial risk and changes in financial risk.

The Company disaggregates insurance finance income or expenses on insurance contracts issued for most of its groups of insurance contracts between income or expenses and OCI. The impact of changes in market interest rates on the value of the life insurance and related reinsurance assets and liabilities are reflected in OCI in order to minimize accounting mismatches between the accounting for insurance assets and liabilities and the supporting financial assets. The impacts from differences between current period rates and locked-in rates are presented in OCI.

The Company's financial assets which are debt instruments (including bonds and mortgages) are predominantly measured at FVOCI. As a result, the effect of the time value of money for the groups of insurance contracts and supporting fixed maturity assets is reflected in income or expenses and the effect of financial risk and changes in financial risk is reflected in OCI.

The systematic allocation of expected total insurance finance income or expenses depends on whether changes in assumptions that relate to financial risk have a substantial effect on the expected amounts paid to the policyholders.

- For groups of insurance contracts for which changes in assumptions that relate to financial risk do not have a substantial effect on the amounts paid to the policyholders, the Company systematically allocates expected total insurance finance income or expenses over the duration of the group of contracts to income or expenses using discount rates determined on initial recognition of the group of contracts.

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Insurance contract liabilities and reinsurance contract assets (continued)
Presentation and Disclosure (continued)
Insurance finance income or expenses (continued)

- For groups of insurance contracts for which changes in assumptions that relate to financial risk have a substantial effect on the amounts paid to the policyholders, the Company systematically allocates expected total insurance finance income or expenses over the duration of the group of contracts to income or expenses using either a constant rate, or an allocation that is based on the amounts credited in the period and expected to be credited in future periods for fulfillment cash flows. The CSM accretion rate would use the discount rates determined on initial recognition of the group of contracts for contractual service margin.

In the event of transfer of a group of insurance contracts or derecognition of an insurance contract, the Company reclassifies any amounts that were previously recognized in OCI to income or expenses as insurance finance income or expense. There are no changes in the basis of disaggregation of insurance finance income or expenses between income or expenses and OCI in the period.

Investment contract liabilities
Investment contract liabilities include contracts issued to investors that do not contain significant insurance risk. Investment contract liabilities and deposits are measured at amortized cost or at FVTPL by election. The election is made when these liabilities as well as the related assets are managed, and their performance is evaluated, on a fair value basis or when doing so reduces the accounting mismatches between assets supporting these contracts and the related policy liabilities. Investment contract liabilities are derecognized when the contract expires, is discharged or is cancelled.

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

Impairment of intangible assets
The Company assesses whether there are any indicators of impairment for intangible assets at the end of each reporting period and at other times when such an indicator exists. An impairment exists when the carrying value of the asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The determination of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use determination is undertaken, management would 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 ESTIMATES

Estimation uncertainty

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

Valuation of investment contracts

Unitised investment contract fair values are determined by reference to the values of the assets backing the liabilities, which are based on the value of the unit-linked funds.

Non-unitised investment contract fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modelling. A variety of factors are considered in these valuation techniques, including time value of money, volatility, policyholder behaviour, servicing cost and fair values of similar instruments.

Valuation of investment property

Investment property fair values are determined by direct capitalization approach and discounted cash flow approach. Direct capitalizations approach which capitalise the estimated gross passing income (on both a passing and market rent basis) on a fully leased basis. The adopted fully leased income is capitalized at an appropriate capitalization rate. The adopted yield reflects the nature, location, tenancy profile of the Property, the property tax and Government Rent liability of the landlord, together with current market investment criteria. Discounted cash flow approach which combine income growth over an assumed investment horizon (10-year assumed), a wide range of assumptions have been made including a target or pre-selected internal rate of return, revenue growth, outgoings and also its disposal at the end of the investment period. The valuation was performed by Jones Lang Lasalle, an independent professionally qualified valuer.

4. INTANGIBLE ASSETS

	Customer base and distribution network HK$'000
At December 31, 2022 and at January 1, 2023:	
Cost	839,375
Accumulated amortisation	(267,058)
Accumulated impairment	(29,460)
Net carrying amount	542,857
At January 1, 2023, net of accumulated amortisation	542,857
Amortisation provided during the year	(30,308)
Intangible asset impairment	(11,888)
At December 31, 2023, net of accumulated amortisation	500,661
At December 31, 2023:	
Cost	827,487
Accumulated amortisation	(297,366)
Accumulated impairment	(29,460)
Net carrying amount	500,661

	HK$'000
At December 31, 2021 and at January 1, 2022:	
Cost	839,375
Accumulated amortisation	(236,307)
Accumulated impairment	(29,460)
Net carrying amount	573,608
At January 1, 2022, net of accumulated amortisation	573,608
Amortisation provided during the year	(30,751)
At December 31, 2022, net of accumulated amortisation	542,857
At December 31, 2022:	
Cost	839,375
Accumulated amortisation	(267,058)
Accumulated impairment	(29,460)
Net carrying amount	542,857

5. FIXED ASSETS

	Furniture, fixtures and equipment HK$'000	Computer equipment HK$'000	Automobiles HK$'000	Total HK$'000
At December 31, 2022 and at January 1, 2023:				
Cost	853,009	599,992	4,000	1,457,001
Accumulated depreciation	(553,916)	(371,861)	(3,225)	(929,002)
Net carrying amount	299,093	228,131	775	527,999
At January 1, 2023, net of accumulated depreciation	299,093	228,131	775	527,999
Additions	58,376	149,708	-	208,084
Depreciation provided during the year	(78,406)	(94,999)	(194)	(173,599)
At December 31, 2023, net of accumulated depreciation	279,063	282,840	581	562,484
At December 31, 2023:				
Cost	911,385	749,700	4,000	1,665,085
Accumulated depreciation	(632,322)	(466,860)	(3,419)	(1,102,601)
Net carrying amount	279,063	282,840	581	562,484

	Furniture, fixtures and equipment HK$'000	Computer equipment HK$'000	Automobiles HK$'000	Total HK$'000
At December 31, 2021 and at January 1, 2022:				
Cost	684,413	497,836	3,031	1,185,280
Accumulated depreciation	(478,335)	(307,249)	(3,031)	(788,615)
Net carrying amount	206,078	190,587	-	396,665
At January 1, 2022, net of accumulated depreciation	206,078	190,587	-	396,665
Additions	168,596	102,156	969	271,721
Depreciation provided during the year	(75,581)	(64,612)	(194)	(140,387)
At December 31, 2022, net of accumulated depreciation	299,093	228,131	775	527,999
At December 31, 2022:				
Cost	853,009	599,992	4,000	1,457,001
Accumulated depreciation	(553,916)	(371,861)	(3,225)	(929,002)
Net carrying amount	299,093	228,131	775	527,999

6. INTERESTS IN SUBSIDIARIES

	2023 HK$'000	2022 HK$'000
Insurer:		
Unlisted shares, at cost	869,899	869,899
Due from a subsidiary	1,116	11,241
Non-insurer:		
Unlisted shares, at cost	200,756	200,756
	1,071,771	1,081,896
Impairment	(289,850)	(289,850)
	781,921	792,046

The amount due from a subsidiary is unsecured, interest-free and repayable on demand. The carrying amount of the amount due from the subsidiary approximates its fair value, and the amount due from a subsidiary is considered as part of the Company's investments in its subsidiary.

Particulars of subsidiaries are as follows:

Name of company	Place of incorporation/ registration	Issued share/ registered capital	Proportion directly held	Principal activities
The Manufacturers (Pacific Asia) Company Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
Manulife Consultants Limited	Hong Kong	Ordinary HK$154,353,883	100%	Investment holding
Manulife Financial Investment Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
Manulife-Sinochem Life Insurance Company Limited	Shanghai, The People's Republic of China	RMB1,600 million	51%	Life insurance

Name of unit trusts	Place of incorporation/ registration	Percentage of shares held	Number of units held indirectly	Number of units in issue	Principal activities
Manulife Hong Kong Short Term Bond Fund	Hong Kong	92%	1,107,072,795	1,203,222,752	Investment trading
Manulife Hong Kong Medium Term Bond Fund	Hong Kong	82%	1,025,791,773	1,257,651,320	Investment trading

7. INVESTMENT PROPERTY

Reconciliation of fair value movements within level 3 financial investments:

	2023 HK$'000	2022 HK$'000
Carrying amount at January 1	6,620,000	6,890,000
Net loss from fair value adjustment	(250,000)	(270,000)
Carrying amount at December 31	6,370,000	6,620,000

The Company's investment property represents one commercial property in Hong Kong. The Company's investment property was revalued on December 31, 2023 based on valuation performed by Jones Lang Lasalle, an independent professionally qualified valuer, at HK$6,370 million. The valuer has adopted both income approach and market approach in the valuation of the investment property. The fair value of the investment property was catergorised as Level 3 of the fair value hierarchy as at December 31, 2023. During the year 2023, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Significant unobservable inputs used by the external valuer to the valuation of the investment property in undertaking direct capitalisation approach included estimated gross passing income and the capitalisation rate, by making reference to market rental of neighborhood. In undertaking the discounted cash flow analysis, a wider range of assumptions have to be made including a target or pre-selected internal rate of return, revenue growth, outgoings and its disposal at the end of the investment period.

Significant changes in the estimated rental value and the revenue growth rate per annum in isolation would result in a significant change in the fair value of the investment property. A significant change in the discount rate in isolation would result in a significant change in the fair value of the investment property.

8. GOODWILL

	HK$'000
At December 31, 2022, at January 1, 2023 and December 31, 2023:	
Cost and Net carrying amount	1,122,666
At December 31, 2021, at January 1, 2022 and December 31, 2022:	
Cost and Net carrying amount	1,122,666

9. MORTGAGE AND OTHER LOANS

Mortgage are carried at fair value through other comprehensive income. The fair value of the mortgage loans as at December 31, 2023 was HK$1,796 million (2022: HK$1,780 million) based on the present value of the estimated future cash flows discounted using the prevailing market rate at the reporting date.

10. ACCRUED INVESTMENT INCOME

The carrying amount of accrued investment income approximates its fair value at year end and is expected to be realised within a year from the end of the reporting period.

11. LOAN TO AN INTERMEDIATE HOLDING COMPANY

The initial loan to an intermediate holding company was fully repaid in October 2021. The additional loan of US$100 million (HK$772 million) to the intermediate holding company which is repayable by year 2025. The intermediate holding company settled HK$156 million in June 2023 (June 2022: HK$154 million). Both loans are charged at market interest rate. The carrying amount of the loan balances approximate to their fair value.

12. DEFERRED TAXATION

The movements in assets and liabilities during the year are as follows:

	Fixed assets HK$'000	Financial Instruments HK$'000	Insurance and investment contracts HK$'000	Total HK$'000
As at January 1, 2022	332	-	-	332
Deferred tax (charged) / credited to the statement of profit or loss during the year	(185)	11,431	127,401	138,647
As at December 31, 2022	147	11,431	127,401	138,979
Deferred tax (charged) / credited to the statement of profit or loss during the year	(24)	(5,685)	16,291	10,582
	123	5,746	143,692	149,561

13. AMOUNTS DUE FROM/TO AFFILIATES

The balances with affiliates comprise balances with non-insurer subsidiaries, fellow subsidiaries and immediate holding company are unsecured, interest-free and repayable on demand. The carrying amounts of the balances with affiliates approximate their fair values.

14. INVESTMENT SECURITIES

Carrying values and fair values of financial assets:

	FVTPL HK$'000	FVOCI HK$'000	2023 Total carrying values and fair values HK$'000
Listed debt securities at fair value			
- Hong Kong	135,322	10,901,536	11,036,858
- outside Hong Kong	7,588,738	148,769,023	156,357,761
	7,724,060	159,670,559	167,394,619
Listed stocks at fair value			
- Hong Kong	4,694,829	-	4,694,829
- outside Hong Kong	31,321,918	-	31,321,918
	36,016,747	-	36,016,747
Other investments at fair value			
- unlisted debt securities	-	14,532,889	14,532,889
- unit-linked funds	1,663,597	-	1,663,597
- private equities	54,088,024	-	54,088,024
	55,751,621	14,532,889	70,284,510
	99,492,428	174,203,448	273,695,876

14. INVESTMENT SECURITIES (continued)

Carrying values and fair values of financial assets (continued)

	FVTPL HK$'000	FVOCI HK$'000	2022 Total carrying values and fair values HK$'000
Listed debt securities at fair value			
- Hong Kong	159,649	11,403,315	11,562,964
- outside Hong Kong	113,091	138,000,055	138,113,146
	272,740	149,403,370	149,676,110
Listed stocks at fair value			
- Hong Kong	2,515,928	-	2,515,928
- outside Hong Kong	29,218,829	-	29,218,829
	31,734,757	-	31,734,757
Other investments at fair value			
- unlisted debt securities	-	11,070,928	11,070,928
- unit-linked funds	1,924,792	-	1,924,792
- private equities	42,320,326	-	42,320,326
	44,245,118	11,070,928	55,316,046
	76,252,615	160,474,298	236,726,913

Please refer to note 33 for the fair value hierarchy of these financial assets.

15. DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount HK$'000	2023 Assets HK$'000	Liabilities HK$'000
Forward currency contracts	71,812,612	3,152,572	582,254
Interest rate swap	18,628,848	103,380	3,084,731
Future contracts	11,680,496	2,173,463	2,143,941
Equity swaps	88,177	1,005	-
	102,210,133	5,430,420	5,810,926

	Notional amount HK$'000	2022 Assets HK$'000	Liabilities HK$'000
Forward currency contracts	67,881,566	3,430,642	355,962
Interest rate swap	18,475,645	102,673	3,670,839
Futures contracts	39,536,098	147,510	2,500,476
Equity swaps	69,889	4,586	-
	125,963,198	3,685,411	6,527,277

The Company entered into the above derivative financial instruments as economic hedges to manage its investment, interest rate and exchange rate exposure.

The carrying amounts of the above derivative financial instruments are equivalent to their fair values. Please refer to note 33 for the fair value hierarchy of these financial instruments.

16. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents are analysed as follows:

	2023	2022
	HK$'000	HK$'000
Call deposits	369,515	275,340
Current accounts	7,754,183	6,682,448
Cash on hand	35	33
	8,123,733	6,957,821

(b) Maturity profile of the call deposits

Call deposits of the Company are all with a residual maturity of three months or less. They are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term time deposit rates. The bank balances are deposited with different creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents approximate their fair values.

(c) Restricted cash and cash equivalent balances

In order to comply with the requirements of the local regulator in Macau, as at the end of the reporting period, certain cash and bank balances of the Company amounting to HK$525 million (2022: HK$272 million) were held at a branch of the Company and could not be freely remitted to the Company.

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES

(a) Composition

Portfolio of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the Statements of Financial Position. The components of net insurance and reinsurance contract liabilities are shown below. The composition of insurance contract asset and liabilities, and reinsurance contract held assets and liabilities is as follows.

Insurance contract asset and liabilities

	2023			
	Insurance contract assets	Insurance contract liabilities	Insurance contract liabilities for account of segregated fund holders	Net insurance contract liabilities
	HK$'000	HK$'000	HK$'000	HK$'000
Insurance contract balances	(9,406)	252,013,678	49,400,607	301,404,879
Assets for insurance acquisition cash flows	-	(1,308,227)	-	(1,308,227)
Total	(9,406)	250,705,451	49,400,607	300,096,652

	2022			
	Insurance contract assets	Insurance contract liabilities	Insurance contract liabilities for account of segregated fund holders	Net insurance contract liabilities
	HK$'000	HK$'000	HK$'000	HK$'000
Insurance contract balances	(23,043)	218,535,057	46,408,090	264,920,104
Assets for insurance acquisition cash flows	(48,857)	(1,332,512)	-	(1,381,369)
Total	(71,900)	217,202,545	46,408,090	263,538,735

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(a) Composition (continued)

Reinsurance contract held assets and liabilities

	2023 HK$'000	2022 HK$'000
Assets	5,289,293	5,273,505
Liabilities	(742,756)	(651,726)
Net reinsurance contract held assets	4,546,537	4,621,779

	2023 HK$'000	2022 HK$'000
Net insurance contract held liabilities	300,096,652	263,538,735
Net reinsurance contract held assets	(4,546,537)	(4,621,779)
Net insurance and reinsurance contract held liabilities	295,550,115	258,916,956

(b) Movements in carrying amounts of insurance and reinsurance contracts

The following tables present the movement in the net carrying amounts of insurance contracts issued and reinsurance contracts held during the year for the Company and for each reporting segment. The changes include amounts that are recognized in income and OCI, and movements due to cash flows.

There are two types of tables presented:

•Tables which analyze movements in the net assets or liabilities for remaining coverage and for incurred claims separately and reconcile them to the relevant Statements of profit or loss and Statements of comprehensive income line items.

•Tables which analyze movements of contracts by measurement components including estimates of the present value of future cash flows, risk adjustment and CSM for portfolios.

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

Insurance contracts – Analysis by remaining coverage and incurred claims

The following tables present the movement in the net assets or liabilities for insurance contracts issued, showing the amounts for remaining coverage and the amounts for incurred claims for the years ended December 31, 2023 and December 31, 2022.

	Liabilities for remaining coverage		Liabilities for incurred claims				
HK$'000	Excluding loss component	Loss component	Products not under PAA	PAA Estimates of PV of future cash flows	PAA Risk adjustment for non-financial risk	Assets for insurance acquisition cash flows	Total
Opening insurance contract assets	42,777	-	-	(65,820)	-	(48,857)	**(71,900)**
Opening insurance contract liabilities	215,898,092	542,789	1,697,157	397,019	-	(1,332,512)	**217,202,545**
Opening insurance contract liabilities for account of segregated fund	46,408,090	-	-	-	-	-	**46,408,090**
Net opening balance, January 1, 2023	**262,348,959**	**542,789**	**1,697,157**	**331,199**	-	**(1,381,369)**	**263,538,735**
Insurance revenue							
Expected incurred claims and other insurance service result	(333,432)	-	-	-	-	-	**(333,432)**
Change in risk adjustment for non-financial risk expired	(1,132,103)	-	-	-	-	-	**(1,132,103)**
CSM recognized for services provided	(3,408,775)	-	-	-	-	-	**(3,408,775)**
Recovery of insurance acquisition cash flows	(666,868)	-	-	-	-	-	**(666,868)**
Contracts under PAA	(4,575,375)	-	-	-	-	-	**(4,575,375)**
	(10,116,553)	-	-	-	-	-	**(10,116,553)**
Insurance service expense							
Incurred claims and other insurance service expenses	-	(79)	(130,724)	3,341,982	-	-	**3,211,179**
Losses and reversal of losses on onerous contracts (future service)	-	(253,378)	-	-	-	-	**(253,378)**
Amortization of insurance acquisition cash flows	1,311,562	-	-	-	-	-	**1,311,562**
	1,311,562	(253,457)	(130,724)	3,341,982	-	-	4,269,363
Investment components and premium refunds	**(12,059,560)**	-	**12,059,560**	-	-	-	-
Insurance service result	**(20,864,551)**	**(253,457)**	**11,928,836**	**3,341,982**	-	-	**(5,847,190)**
Insurance finance (income) expense	19,058,493	1,907	745,668	912	28,226	-	**19,835,206**
Effects of movements in foreign exchange rates	(146,190)	(612)	391	11	(106)	(153)	**(146,659)**
Total changes in income and OCI	**(1,952,248)**	**(252,162)**	**12,674,895**	**3,342,905**	**28,120**	**(153)**	**13,841,357**
Cash flows							
Premiums and premium tax received	42,932,324	-	-	-	-	-	**42,932,324**
Claims and other insurance service expenses paid, including investment components	-	-	(12,634,314)	(3,255,731)	-	-	**(15,890,045)**
Insurance acquisition cash flows	(7,092,276)	-	-	-	-	-	**(7,092,276)**
Total cash flows	**35,840,048**	-	**(12,634,314)**	**(3,255,731)**	-	-	**19,950,003**
Allocation from assets for insurance acquisition cash flows to groups of insurance contracts	(299,255)	-	-	-	-	299,255	-
Acquisition cash flows incurred in the year	-	-	-	-	-	(225,960)	**(225,960)**
Movements related to insurance contract liabilities for account of segregated fund holders	2,992,517	-	-	-	-	-	**2,992,517**
Net closing balance	**298,930,021**	**290,627**	**1,737,738**	**418,373**	**28,120**	**(1,308,227)**	**300,096,652**
Closing insurance contract assets	9,962	-	-	(19,368)	-	-	**(9,406)**
Closing insurance contract liabilities	249,519,452	290,627	1,737,738	437,741	28,120	(1,308,227)	**250,705,451**
Closing insurance contract liabilities for account of segregated fund	49,400,607	-	-	-	-	-	**49,400,607**
Net closing balance, December 31, 2023	**298,930,021**	**290,627**	**1,737,738**	**418,373**	**28,120**	**(1,308,227)**	**300,096,652**

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

Insurance contracts – Analysis by remaining coverage and incurred claims (continued)

	Liabilities for remaining coverage		Liabilities for incurred claims				
HK$'000	Excluding loss component	Loss component	Products not under PAA	PAA Estimates of PV of future cash flows	PAA Risk adjustment for non-financial risk	Assets for insurance acquisition cash flows	Total
Opening insurance contract assets	1,080,285	-	-	227,563	-	(1,336,479)	**(28,631)**
Opening insurance contract liabilities	239,646,634	19,520	634,899	93,555	-	-	**240,394,608**
Opening insurance contract liabilities for account of segregated fund	56,050,152	-	-	-	-	-	**56,050,152**
Net opening balance, January 1, 2022	**296,777,071**	**19,520**	**634,899**	**321,118**	-	**(1,336,479)**	**296,416,129**
Insurance revenue							
Expected incurred claims and other insurance service result	(196,427)	-	-	-	-	-	**(196,427)**
Change in risk adjustment for non-financial risk expired	(1,213,911)	-	-	-	-	-	**(1,213,911)**
CSM recognized for services provided	(3,213,067)	-	-	-	-	-	**(3,213,067)**
Recovery of insurance acquisition cash flows	(335,059)	-	-	-	-	-	**(335,059)**
Contracts under PAA	(4,286,279)	-	-	-	-	-	**(4,286,279)**
	(9,244,743)	-	-	-	-	-	**(9,244,743)**
Insurance service expense							
Incurred claims and other insurance service expenses	-	20,944	(367,820)	3,064,844	-	-	**2,717,968**
Losses and reversal of losses on onerous contracts (future service)	-	508,509	-	-	-	-	**508,509**
Changes to liabilities for incurred claims (past service)	-	-	5,415	6,877	-	-	**12,292**
Amortization of insurance acquisition cash flows	1,074,454	-	-	-	-	-	**1,074,454**
	1,074,454	529,453	(362,405)	3,071,721	-	-	**4,313,223**
Investment components and premium refunds	**(12,278,294)**	-	**12,278,294**	-	-	-	-
Insurance service result	**(20,448,583)**	**529,453**	**11,915,889**	**3,071,721**	-	-	**(4,931,520)**
Insurance finance (income) expense	(38,530,776)	428	639,819	841	-	-	**(37,889,688)**
Effects of movements in foreign exchange rates	40,439	(6,612)	(3,776)	44	-	(10)	**30,085**
Total changes in income and OCI	**(58,938,920)**	**523,269**	**12,551,932**	**3,072,606**	-	**(10)**	**(42,791,123)**
Cash flows							
Premiums and premium tax received	39,372,727	-	-	-	-	-	**39,372,727**
Claims and other insurance service expenses paid, including investment components	-	-	(11,489,674)	(3,062,525)	-	-	**(14,552,199)**
Insurance acquisition cash flows	(4,915,482)	-	-	-	-	-	**(4,915,482)**
Total cash flows	**34,457,245**	-	**(11,489,674)**	**(3,062,525)**	-	-	**19,905,046**
Allocation from assets for insurance acquisition cash flows to groups of insurance contracts	(304,375)	-	-	-	-	304,375	-
Acquisition cash flows incurred in the year	-	-	-	-	-	(349,255)	**(349,255)**
Movements related to insurance contract liabilities for account of segregated fund	(9,642,062)	-	-	-	-	-	**(9,642,062)**
Net closing balance	**262,348,959**	**542,789**	**1,697,157**	**331,199**	-	**(1,381,369)**	**263,538,735**
Closing insurance contract assets	42,777	-	-	(65,820)	-	(48,857)	**(71,900)**
Closing insurance contract liabilities	215,898,092	542,789	1,697,157	397,019	-	(1,332,512)	**217,202,545**
Closing insurance contract liabilities for account of segregated fund	46,408,090	-	-	-	-	-	**46,408,090**
Net closing balance, December 31, 2022	**262,348,959**	**542,789**	**1,697,157**	**331,199**	-	**(1,381,369)**	**263,538,735**

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

Insurance contracts – Analysis by measurement components

The following tables present the movement in the net assets or liabilities for insurance contracts issued, showing estimates of the present value of future cash flows, risk adjustment and CSM for the years ended December 31, 2023 and December 31, 2022.

HK$'000	Estimates of PV of future cash flows	Risk adjustment for non-financial risk	CSM Fair value	CSM Other	Assets for insurance acquisition cash flows	Total
Opening GMM and VFA insurance contract assets	-	-	-	-	-	-
Opening GMM and VFA insurance contract liabilities	170,080,457	22,569,513	21,495,576	2,516,045	-	**216,661,591**
Opening PAA insurance contract net liabilities	1,850,423	-	-	-	(1,381,369)	**469,054**
Opening insurance contract liabilities for account of segregated fund holders	46,408,090	-	-	-	-	**46,408,090**
Net opening balance, January 1, 2023	**218,338,970**	**22,569,513**	**21,495,576**	**2,516,045**	**(1,381,369)**	**263,538,735**
CSM recognized for services provided	-	-	(2,985,802)	(422,974)	-	**(3,408,776)**
Change in risk adjustment for non-financial risk for risk expired	-	(1,125,055)	-	-	-	**(1,125,055)**
Experience adjustments	(608,042)	-	-	-	-	**(608,042)**
Changes that relate to current services	**(608,042)**	**(1,125,055)**	**(2,985,802)**	**(422,974)**	**-**	**(5,141,873)**
Contracts initially recognized during the year	(4,633,866)	931,735	3,062	3,702,011	-	**2,942**
Changes in estimates that adjust the CSM	(3,391,724)	(9,331,347)	11,641,176	1,081,895	-	-
Changes in estimates that relate to losses and reversal of losses on onerous contracts	(305,215)	48,893	-	-	-	**(256,322)**
Changes that relate to future services	**(8,330,805)**	**(8,350,719)**	**11,644,238**	**4,783,906**	**-**	**(253,380)**
Adjustments to liabilities for incurred claims	-	-	-	-	-	-
Changes that relate to past services	-	-	-	-	-	-
Insurance service result	**(8,938,847)**	**(9,475,774)**	**8,658,436**	**4,360,932**	**-**	**(5,395,253)**
Insurance finance (income) expense	19,650,843	95,871	49,742	4,378	-	**19,800,834**
Effects of movements in foreign exchange rates	(151,031)	8,030	4,151	(7,690)	-	**(146,540)**
Total changes in income and OCI	**10,560,965**	**(9,371,873)**	**8,712,329**	**4,357,620**	**-**	**14,259,041**
Total cash flows	19,021,337	-	-	-	-	**19,021,337**
Change in PAA balance	183,760	28,120	-	-	73,142	**285,022**
Movements related to insurance contract liabilities for account of segregated fund	2,992,517	-	-	-	-	**2,992,517**
Net closing balance	**251,097,549**	**13,225,760**	**30,207,905**	**6,873,665**	**(1,308,227)**	**300,096,652**
Closing GMM and VFA insurance contract assets	-	-	-	-	-	-
Closing GMM and VFA insurance contract liabilities	199,662,759	13,197,640	30,207,905	6,873,665	-	**249,941,969**
Closing PAA insurance contract net liabilities	2,034,183	28,120	-	-	(1,308,227)	**754,076**
Closing insurance contract liabilities for account of segregated fund insurance holders	49,400,607	-	-	-	-	**49,400,607**
Net closing balance, December 31, 2023	**251,097,549**	**13,225,760**	**30,207,905**	**6,873,665**	**(1,308,227)**	**300,096,652**

Insurance finance (income) expense	HK$'000
Insurance finance (income) expense, per disclosure above	19,800,834
Reclassification of derivative OCI to IFIE – cash flow hedges	-
Reclassification of derivative (income) loss changes to IFIE – fair value hedge	-
PAA items:	
PAA IFIE per disclosure	34,372
PAA Reclassification of derivative OCI to IFIE – cash flow hedges	-
PAA Reclassification of derivative (income) loss changes to IFIE – fair value hedge	-
	19,835,206

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

Insurance contracts – Analysis by measurement components (continued)

	Estimates of PV of future cash flows	Risk adjustment for non-financial risk	CSM Fair value	CSM Other	Assets for insurance acquisition cash flows	Total
Opening GMM and VFA insurance contract assets	-	-	-	-	-	-
Opening GMM and VFA insurance contract liabilities	190,354,530	24,507,400	24,405,747	579,265	-	**239,846,942**
Opening PAA insurance contract net liabilities	1,855,514	-	-	-	(1,336,479)	**519,035**
Opening insurance contract liabilities for account of segregated fund holders	56,050,152	-	-	-	-	**56,050,152**
Net opening balance, January 1, 2022	**248,260,196**	**24,507,400**	**24,405,747**	**579,265**	**(1,336,479)**	**296,416,129**
CSM recognized for services provided	-	-	(3,068,099)	(144,968)	-	**(3,213,067)**
Change in risk adjustment for non-financial risk for risk expired	-	(1,202,762)	-	-	-	**(1,202,762)**
Experience adjustments	(554,245)	-	-	-	-	**(554,245)**
Changes that relate to current services	**(554,245)**	**(1,202,762)**	**(3,068,099)**	**(144,968)**	-	**(4,970,074)**
Contracts initially recognized during the year	(3,589,336)	1,100,010	192,520	2,358,553	-	**61,747**
Changes in estimates that adjust the CSM	2,032,630	(1,648,681)	(108,865)	(275,084)	-	-
Changes in estimates that relate to losses and reversal of losses on onerous contracts	427,681	19,081	-	-	-	**446,762**
Changes that relate to future services	**(1,129,025)**	**(529,590)**	**83,655**	**2,083,469**	-	**508,509**
Adjustments to liabilities for incurred claims	5,415	-	-	-	-	**5,415**
Changes that relate to past services	**5,415**	-	-	-	-	**5,415**
Insurance service result	(1,677,855)	(1,732,352)	(2,984,444)	1,938,501	-	**(4,456,150)**
Insurance finance (income) expense	(37,673,424)	(219,738)	53,555	1,895	-	**(37,837,712)**
Effects of movements in foreign exchange rates	(933)	14,203	20,718	(3,616)	-	**30,372**
Total changes in income and OCI	**(39,352,212)**	**(1,937,887)**	**(2,910,171)**	**1,936,780**	-	**(42,263,490)**
Total cash flows	19,078,139	-	-	-	-	**19,078,139**
Change in PAA balance	(5,091)	-	-	-	(44,890)	**(49,981)**
Movements related to insurance contract liabilities for account of segregated fund holders	(9,642,062)	-	-	-	-	**(9,642,062)**
Net closing balance	**218,338,970**	**22,569,513**	**21,495,576**	**2,516,045**	**(1,381,369)**	**263,538,735**
Closing GMM and VFA insurance contract assets	-	-	-	-	-	-
Closing GMM and VFA insurance contract liabilities	170,080,457	22,569,513	21,495,576	2,516,045	-	**216,661,591**
Closing PAA insurance contract net liabilities	1,850,423	-	-	-	(1,381,369)	**469,054**
Closing insurance contract liabilities for account of segregated fund insurance holders	46,408,090	-	-	-	-	**46,408,090**
Net closing balance, December 31, 2022	**218,338,970**	**22,569,513**	**21,495,576**	**2,516,045**	**(1,381,369)**	**263,538,735**

Insurance finance (income) expense	HK$'000
Insurance finance (income) expense, per disclosure above	(37,837,712)
Reclassification of derivative OCI to IFIE – cash flow hedges	-
Reclassification of derivative (income) loss changes to IFIE – fair value hedge	-
PAA items:	-
PAA IFIE per disclosure	(51,976)
PAA Reclassification of derivative OCI to IFIE – cash flow hedges	-
PAA Reclassification of derivative (income) loss changes to IFIE – fair value hedge	-
	(37,889,688)

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

Reinsurance Contracts Held – Analysis by remaining coverage and incurred claims
The following tables present the movement in the net assets or liabilities for reinsurance contracts held, showing assets for remaining coverage and amounts recoverable on incurred claims arising from business ceded to reinsurers for the years ended December 31, 2023 and December 31, 2022.

HK$'000	Assets for remaining coverage: Excluding loss recovery component	Assets for remaining coverage: Loss recovery component	Assets for incurred claims: Products not under PAA	Assets for incurred claims: PAA Estimates of PV of future cash flows	Assets for incurred claims: PAA Risk adjustment for non-financial risk	Total
Opening reinsurance contract held assets	40,506,903	123,368	(35,371,088)	14,322	-	**5,273,505**
Opening reinsurance contract held liabilities	505,538	36	(984,336)	(172,964)	-	**(651,726)**
Net opening balance, January 1, 2023	**41,012,441**	**123,404**	**(36,355,424)**	**(158,642)**	**-**	**4,621,779**
Changes in income and OCI						
Allocation of reinsurance premium paid	(2,731,411)	-	-	-	-	**(2,731,411)**
Amounts recoverable from reinsurers						
Recoveries of incurred claims and other insurance service expenses	-	(338)	3,315,722	120,186	-	**3,435,570**
Recoveries and reversals of recoveries of losses on onerous underlying contracts	-	8,769	-	-	-	**8,769**
Insurance service result	(2,731,411)	8,431	3,315,722	120,186	-	**712,928**
Investment components and premium refunds	(759,951)	-	759,951	-	-	**-**
Net expenses from reinsurance contracts	(3,491,362)	8,431	4,075,673	120,186	-	**712,928**
Net finance (income) expense from reinsurance contracts	1,754,757	990	(3,652,207)	11	-	**(1,896,449)**
Effect of changes in non-performance risk of reinsurers	543	-	-	-	-	**543**
Effects of movements in foreign exchange rates	1,702	(1,259)	3	-	-	**446**
Contracts measured under PAA	-	-	-	-	-	**-**
Total changes in income and OCI	**(1,734,360)**	**8,162**	**423,469**	**120,197**	**-**	**(1,182,532)**
Cash flows						
Premiums paid	5,666,555	-	-	-	-	**5,666,555**
Amounts received	-	-	(4,390,358)	(168,907)	-	**(4,559,265)**
Total cash flows	**5,666,555**	**-**	**(4,390,358)**	**(168,907)**	**-**	**1,107,290**
Net closing balance	**44,944,636**	**131,566**	**(40,322,313)**	**(207,352)**	**-**	**4,546,537**
Closing reinsurance contract held assets	44,272,394	131,542	(39,134,302)	19,659	-	**5,289,293**
Closing reinsurance contract held liabilities	672,242	24	(1,188,011)	(227,011)	-	**(742,756)**
Net closing balance, December 31, 2023	**44,944,636**	**131,566**	**(40,322,313)**	**(207,352)**	**-**	**4,546,537**

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

Reinsurance Contracts Held – Analysis by remaining coverage and incurred claims (continued)

HK$'000	Assets for remaining coverage		Assets for incurred claims			
	Excluding loss recovery component	Loss recovery component	Products not under PAA	PAA Estimates of PV of future cash flows	PAA Risk adjustment for non-financial risk	Total
Opening reinsurance contract held assets	50,056,579	18,544	(42,247,940)	18,137	-	**7,845,320**
Opening reinsurance contract held liabilities	658,188	-	(1,003,327)	(145,427)	-	**(490,566)**
Net opening balance, January 1, 2022	**50,714,767**	**18,544**	**(43,251,267)**	**(127,290)**	-	**7,354,754**
Changes in income and OCI						
Allocation of reinsurance premium paid	(2,717,122)	-	-	-	-	**(2,717,122)**
Amounts recoverable from reinsurers						
Recoveries of incurred claims and other insurance service expenses	-	(1,209)	3,673,478	54,948	-	**3,727,217**
Recoveries and reversals of recoveries of losses on onerous underlying contracts	-	116,058	-	-	-	**116,058**
Adjustments to assets for incurred claims	-	-	(1,834)	(39)	-	**(1,873)**
Insurance service result	(2,717,122)	114,849	3,671,644	54,909	-	**1,124,280**
Investment components and premium refunds	(951,179)	-	951,179	-	-	-
Net expenses from reinsurance contracts	(3,668,301)	114,849	4,622,823	54,909	-	**1,124,280**
Net finance (income) expense from reinsurance contracts	(11,653,658)	350	7,087,828	8	-	**(4,565,472)**
Effect of changes in non-performance risk of reinsurers	(2,619)	-	-	-	-	**(2,619)**
Effects of movements in foreign exchange rates	(17,989)	(10,339)	1,319	-	-	**(27,009)**
Contracts measured under PAA	-	-	-	-	-	-
Total changes in income and OCI	**(15,342,567)**	**104,860**	**11,711,970**	**54,917**	-	**(3,470,820)**
Cash flows						
Premiums paid	5,640,241	-	-	-	-	**5,640,241**
Amounts received	-	-	(4,816,127)	(86,269)	-	**(4,902,396)**
Total cash flows	**5,640,241**	-	**(4,816,127)**	**(86,269)**	-	**737,845**
Net closing balance	**41,012,441**	**123,404**	**(36,355,424)**	**(158,642)**	-	**4,621,779**
Closing reinsurance contract held assets	40,506,903	123,368	(35,371,088)	14,322	-	**5,273,505**
Closing reinsurance contract held liabilities	505,538	36	(984,336)	(172,964)	-	**(651,726)**
Net closing balance, December 31, 2022	**41,012,441**	**123,404**	**(36,355,424)**	**(158,642)**	-	**4,621,779**

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

Reinsurance Contracts Held – Analysis by measurement components

The following tables present the movement in the net assets or liabilities for reinsurance contracts held, showing estimates of the present value of future cash flows, risk adjustment and CSM for the years ended December 31, 2023 and December 31, 2022.

HK$'000	Estimates of PV of future cash flows	Risk adjustment for non-financial risk	CSM Fair value	CSM Other	Total
Opening reinsurance contract held assets	(6,474,872)	6,577,544	5,227,938	(85,935)	5,244,675
Opening reinsurance contract held liabilities	(1,242,800)	1,002,036	(254,918)	(81,345)	(577,027)
Opening PAA reinsurance contract net assets	(45,869)	-	-	-	(45,869)
Net opening balance, January 1, 2023	**(7,763,541)**	**7,579,580**	**4,973,020**	**(167,280)**	**4,621,779**
CSM recognized for services received	-	-	(542,073)	20,736	(521,337)
Change in risk adjustment for non-financial risk for risk expired	-	(316,951)	-	-	(316,951)
Experience adjustments	1,596,182	-	-	-	1,596,182
Changes that relate to current services	**1,596,182**	**(316,951)**	**(542,073)**	**20,736**	**757,894**
Contracts initially recognized during the year	(205,660)	219,113	122,035	(135,480)	8
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	-	-	1,544	(5,416)	(3,872)
Changes in estimates that adjust the CSM	174,406	(3,703,670)	3,225,521	303,743	-
Changes in estimates that relate to losses and reversal of losses on onerous contracts	26,315	(13,684)	-	-	12,631
Changes that relate to future services	**(4,939)**	**(3,498,241)**	**3,349,100**	**162,847**	**8,767**
Insurance service result	1,591,243	(3,815,192)	2,807,027	183,583	766,661
Insurance finance (income) expenses from reinsurance contracts	(2,179,380)	229,327	62,064	(8,471)	(1,896,460)
Effects of changes in non-performance risk of reinsurers	543	-	-	-	543
Effects of movements in foreign exchange rates	(678)	821	(58)	338	423
Total changes in income and OCI	**(588,272)**	**(3,585,044)**	**2,869,033**	**175,450**	**(1,128,833)**
Total cash flows	1,103,361	-	-	-	**1,103,361**
Change in PAA balance	(49,770)	-	-	-	**(49,770)**
Net closing balance	**(7,298,222)**	**3,994,536**	**7,842,053**	**8,170**	**4,546,537**
Closing reinsurance contract held assets	(5,905,526)	3,572,380	7,632,287	(41,848)	5,257,293
Closing reinsurance contract held liabilities	(1,297,057)	422,156	209,766	50,018	(615,117)
Closing PAA reinsurance contract net assets	(95,639)	-	-	-	(95,639)
Net closing balance, December 31, 2023	**(7,298,222)**	**3,994,536**	**7,842,053**	**8,170**	**4,546,537**

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

Reinsurance Contracts Held – Analysis by measurement components (continued)

HK$'000	Estimates of PV of future cash flows	Risk adjustment for non-financial risk	CSM Fair value	CSM Other	Total
Opening reinsurance contract held assets	(5,082,138)	7,429,871	5,467,410	286	7,815,429
Opening reinsurance contract held liabilities	(809,973)	759,566	(387,318)	-	(437,725)
Opening PAA reinsurance contract net assets	(22,950)	-	-	-	(22,950)
Net opening balance, January 1, 2022	**(5,915,061)**	**8,189,437**	**5,080,092**	**286**	**7,354,754**
CSM recognized for services received	-	-	(163,735)	(359,207)	(522,942)
Change in risk adjustment for non-financial risk for risk expired	-	(231,544)	-	-	(231,544)
Experience adjustments	1,784,178	-	-	-	1,784,178
Changes that relate to current services	**1,784,178**	**(231,544)**	**(163,735)**	**(359,207)**	**1,029,692**
Contracts initially recognized during the year	(199,031)	231,801	153,361	(134,342)	51,789
Changes in recoveries of losses on onerous underlying contracts that adjust the CSM	-	-	4,812	(23,423)	(18,611)
Changes in estimates that adjust the CSM	(184,257)	(11,150)	(156,088)	351,495	-
Changes in estimates that relate to losses and reversal of losses on onerous contracts	382,874	(299,992)	-	-	82,882
Changes that relate to future services	**(414)**	**(79,341)**	**2,085**	**193,730**	**116,060**
Adjustments to liabilities for incurred claims	(1,834)	-	-	-	(1,834)
Changes that relate to past services	**(1,834)**	**-**	**-**	**-**	**(1,834)**
Insurance service result	1,781,930	(310,885)	(161,650)	(165,477)	**1,143,918**
Insurance finance (income) expenses from reinsurance contracts	(4,316,315)	(299,249)	53,992	(3,908)	(4,565,480)
Effects of changes in non-performance risk of reinsurers	(2,619)	-	-	-	(2,619)
Effects of movements in foreign exchange rates	(29,709)	277	586	1,819	(27,027)
Total changes in income and OCI	**(2,566,713)**	**(609,857)**	**(107,072)**	**(167,566)**	**(3,451,208)**
Total cash flows	741,152	-	-	-	**741,152**
Change in PAA balance	(22,919)	-	-	-	**(22,919)**
Net closing balance	**(7,763,541)**	**7,579,580**	**4,973,020**	**(167,280)**	**4,621,779**
Closing reinsurance contract held assets	(6,474,872)	6,577,544	5,227,938	(85,935)	5,244,675
Closing reinsurance contract held liabilities	(1,242,800)	1,002,036	(254,918)	(81,345)	(577,027)
Closing PAA reinsurance contract net assets	(45,869)	-	-	-	(45,869)
Net closing balance, December 31, 2022	**(7,763,541)**	**7,579,580**	**4,973,020**	**(167,280)**	**4,621,779**

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(c) Insurance revenue by transition method

The following table provides information as a supplement to the insurance revenue disclosures in note 17(b).

	2023 HK$'000	2022 HK$'000
Contracts under the fair value method	4,270,331	4,374,022
Contracts under the full retrospective method	229,654	287,502
Other contracts	5,616,568	4,583,219
Total	10,116,553	9,244,743

(d) Effect of new business recognised in the year

The following table presents components of new business for insurance contracts issued for the years presented.

	2023	
	Non-Onerous HK$'000	Onerous HK$'000
Estimates of present value of cash outflows	24,673,580	34,362
Insurance acquisition cash flows	5,366,784	32,448
Claims and other insurance service expenses payable	19,306,796	1,914
Estimates of present value of cash inflows	(29,303,564)	(38,244)
Risk adjustment for non-financial risk	924,911	6,824
Contractual service margin	3,705,073	-
Amount included in insurance contract liabilities for the year	-	2,942

	2022	
	Non-Onerous HK$'000	Onerous HK$'000
Estimates of present value of cash outflows	15,549,668	372,781
Insurance acquisition cash flows	3,325,819	126,166
Claims and other insurance service expenses payable	12,223,849	246,615
Estimates of present value of cash inflows	(19,176,095)	(335,690)
Risk adjustment for non-financial risk	1,075,354	24,656
Contractual service margin	2,551,073	-
Amount included in insurance contract liabilities for the year	-	61,747

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(d) Effect of new business recognised in the year (continued)

The following tables present components of new business for reinsurance contracts held portfolios for the years presented.

	2023 HK$'000	2022 HK$'000
New business reinsurance contracts:		
Estimates of present value of cash outflows	(411,465)	(655,043)
Estimates of present value of cash inflows	205,805	456,012
Risk adjustment for non-financial risk	219,113	231,801
Contractual service margin	(13,445)	19,019
	8	51,789

(e) Expected recognition of contractual service margin

The following table presents expectations for the timing of recognition of CSM in income in future years.

December 31, 2023	Up to a year HK$'000	1-3 years HK$'000	3-5 years HK$'000	Over 5 years HK$'000	More than 20 years HK$'000	Total HK$'000
Insurance contracts issued	3,526,469	6,078,048	4,996,413	16,425,434	6,055,206	37,081,570
Reinsurance contracts held	729,329	1,279,204	1,050,853	3,632,480	1,158,357	7,850,223
Total	4,255,798	7,357,252	6,047,266	20,057,914	7,213,563	44,931,793

December 31, 2022	Up to a year HK$'000	1-3 years HK$'000	3-5 years HK$'000	Over 5 years HK$'000	More than 20 years HK$'000	Total HK$'000
Insurance contracts issued	2,146,533	3,774,069	3,174,414	10,885,603	4,031,002	24,011,621
Reinsurance contracts held	422,459	743,102	630,135	2,233,788	776,256	4,805,740
Total	2,568,992	4,517,171	3,804,549	13,119,391	4,807,258	28,817,361

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(f) Insurance finance income and expense

The following tables present insurance finance income and expense recognized in income or expense or other comprehensive income, for the years ended December 31, 2023 and December 31, 2022.

For the year ended December 31, 2023	Insurance contracts	Non-insurance	Total
	HK$'000	HK$'000	HK$'000
Investment related income	5,974,261	1,120,227	7,094,488
Net gains (losses) on financial assets at FVTPL	9,116,649	285,018	9,401,667
Unrealized gains (losses) on FVOCI assets	6,416,719	560,491	6,977,210
Impairment loss on financial assets	(37,832)	2,773	(35,059)
Investment expenses	(202,569)	(112,333)	(314,902)
Total investment return	**21,267,228**	**1,856,176**	**23,123,404**
Portion recognized in income (expense), including effects of exchange rates	14,850,509	1,295,685	16,146,194
Portion recognized in OCI, including effects of exchange rates	6,416,719	560,491	6,977,210
Insurance finance income (expense) from insurance contracts issued and effect of movement in exchange rates			
Interest accreted to insurance contracts using locked-in rate	(331,971)	-	(331,971)
Due to changes in interest rates and other financial assumptions	(569,547)	-	(569,547)
Changes in fair value of underlying items of direct participation contracts	(17,711,649)	-	(17,711,649)
Effects of risk mitigation option	330,990	-	330,990
Net foreign exchange income (expense)	-	-	-
Hedge accounting offset from insurance contracts issued	-	-	-
Reclassification of derivative OCI to IFIE – cash flow hedges	-	-	-
Reclassification of derivative income (loss) changes to IFIE – fair value hedge	-	-	-
Other	(1,553,029)	-	(1,553,029)
Total insurance finance income (expense) from insurance contracts issued	(19,835,206)	-	(19,835,206)
Effect of movements in foreign exchange rates	(5,896)	(2)	(5.898)
Total insurance finance income (expense) from insurance contracts issued and effect of movement in foreign exchange rates	**(19,841,102)**	**(2)**	**(19,841,104)**
Portion recognized in income (expense), including effects of exchange rates	(13,417,523)	(2)	(13,417,525)
Portion recognized in OCI, including effects of exchange rates	(6,423,579)	-	(6,423,579)

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(f) Investment income and insurance finance income and expense (continued)

For the year ended December 31, 2023	Insurance contracts	Non-insurance	Total
	HK$'000	HK$'000	HK$'000
Reinsurance finance income (expense) from reinsurance contracts held and effect of movement in foreign exchange rates			
Interest accreted to insurance contracts using locked-in rate	1,808,124	-	1,808,124
Due to changes in interest rates and other financial assumptions	(52,377)	-	(52,377)
Changes in risk of non-performance of reinsurer	543	-	543
Other	(3,652,196)	-	(3,652,196)
Total reinsurance finance income (expense) from reinsurance contracts held	(1,895,906)	-	(1,895,906)
Effect of movements in foreign exchange rates	1,788	-	1,788
Total reinsurance finance income (expense) from reinsurance contracts held and effect of movement in foreign exchange rates	**(1,894,118)**	**-**	**(1,894,118)**
Portion recognized in income (expense), including effects of foreign exchange rates	(1,916,580)	-	(1,916,580)
Portion recognized in OCI, including effects of exchange rates	22,462	-	22,462
Decrease in investment contract liabilities	-	(60,435)	(60,435)
Total net investment income (loss), insurance finance income (expense) and reinsurance finance income (expense)	**(467,992)**	**1,795,739**	**1,327,747**
Amounts recognized in income (expense)	(483,594)	1,235,248	751,654
Amounts recognized in OCI	15,602	560,491	576,093

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(f) Investment income and insurance finance income and expense (continued)

For the year ended December 31, 2022	Insurance contracts	Non-insurance	Total
	HK$'000	HK$'000	HK$'000
Investment related income	5,030,415	681,432	5,711,847
Net gains (losses) on financial assets at FVTPL	(17,172,611)	215,965	(16,956,646)
Unrealized gains (losses) on FVOCI assets	(26,171,217)	(13,330,029)	(39,501,246)
Impairment loss on financial assets	-	-	-
Investment expenses	(202,927)	(104,763)	(307,690)
Total investment return	**(38,516,340)**	**(12,537,395)**	**(51,053,735)**
Portion recognized in income (expense), including effects of exchange rates	(12,345,123)	792,634	(11,552,489)
Portion recognized in OCI, including effects of exchange rates	(26,171,217)	(13,330,029)	(39,501,246)
Insurance finance income (expense) from insurance contracts issued and effect of movement in exchange rates			
Interest accreted to insurance contracts using locked-in rate	(145,363)	-	(145,363)
Due to changes in interest rates and other financial assumptions	2,051,877	-	2,051,877
Changes in fair value of underlying items of direct participation contracts	32,713,260	-	32,713,260
Effects of risk mitigation option	4,653,954	-	4,653,954
Net foreign exchange income (expense)	-	-	-
Hedge accounting offset from insurance contracts issued	-	-	-
Reclassification of derivative OCI to IFIE – cash flow hedges	-	-	-
Reclassification of derivative income (loss) changes to IFIE – fair value hedge	-	-	-
Other	(1,384,040)	-	(1,384,040)
Total insurance finance income (expense) from insurance contracts issued	37,889,688	-	37,889,688
Effect of movements in foreign exchange rates	(106,909)	(226)	(107,135)
Total insurance finance income (expense) from insurance contracts issued and effect of movement in foreign exchange rates	**37,782,779**	**(226)**	**37,782,553**
Portion recognized in income (expense), including effects of exchange rates	9,904,599	(226)	9,904,373
Portion recognized in OCI, including effects of exchange rates	27,878,180	-	27,878,180

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(f) Investment income and insurance finance income and expense (continued)

For the year ended December 31, 2022	Insurance contracts	Non-insurance	Total
	HK$'000	HK$'000	HK$'000
Reinsurance finance income (expense) from reinsurance contracts held and effect of movement in foreign exchange rates			
Interest accreted to insurance contracts using locked-in rate	264,224	-	264,224
Due to changes in interest rates and other financial assumptions	(11,916,963)	-	(11,916,963)
Changes in risk of non-performance of reinsurer	(2,619)		(2,619)
Other	7,087,267	-	7,087,267
Total reinsurance finance income (expense) from reinsurance contracts held	(4,568,091)	-	(4,568,091)
Effect of movements in foreign exchange rates	(29,801)	-	(29,801)
Total reinsurance finance income (expense) from reinsurance contracts held and effect of movement in foreign exchange rates	**(4,597,892)**	**-**	**(4,597,892)**
Portion recognized in income (expense), including effects of foreign exchange rates	(4,565,241)	-	(4,565,241)
Portion recognized in OCI, including effects of exchange rates	(32,651)	-	(32,651)
Decrease in investment contract liabilities	-	3,773	3,773
Total net investment income (loss), insurance finance income (expense) and reinsurance finance income (expense)	**(5,331,453)**	**(12,533,848)**	**(17,865,301)**
Amounts recognized in income (expense)	(7,005,765)	796,181	(6,209,584)
Amounts recognized in OCI	1,674,312	(13,330,029)	(11,655,717)

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(g) Significant judgements and estimates

Fulfilment cash flows

Fulfilment cash flows have three major components:

- Estimate of future cash flows
- An adjustment to reflect the time value of money and the financial risk related to future cash flows if not included in the estimate of future cash flows
- A risk adjustment for non-financial risk

The determination of insurance fulfilment cash flows involves the use of estimates and assumptions. A comprehensive review of valuation assumptions and methods is performed annually. The review reduces the Company's exposure to uncertainty by ensuring assumptions for liability risks remain appropriate. This is accomplished by monitoring experience and updating assumptions which represent a best estimate of expected future experience, and margins that are appropriate for the risks assumed. While the assumptions selected represent the Company's current best estimates and assessment of risk, the ongoing monitoring of experience and the changes in economic environment are likely to result in future changes to the actuarial assumptions, which could materially impact the insurance contract liabilities.

Method used to measure insurance & reinsurance contract fulfilment cash flows

The Company primarily uses deterministic projections using best estimate assumptions to determine the present value of future cash flows. For product features such as universal life minimum crediting rates guarantees, participating life zero dividend floor implicit guarantees and variable annuities guarantees, the Company developed a stochastic approach to capture the asymmetry of the risk.

Determination of assumptions used

For the deterministic projections, assumptions are made with respect to mortality, morbidity, rates of policy termination, operating expenses and certain taxes. Actual experience is monitored to ensure that assumptions remain appropriate and assumptions are changed as warranted. Assumptions are discussed in more detail in the following table.

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(g) Significant judgements and estimates (continued)
Fulfilment cash flows (continued)
Determination of assumptions used (continued)

Nature of factors and assumption methodology		Risk management
Mortality	Mortality relates to the occurrence of death. Mortality is a key assumption for life insurance and certain forms of annuities. Mortality assumptions are based on the Company's internal experience as well as past and emerging industry experience. Assumptions are differentiated by sex, underwriting class, policy type and geographic market. Assumptions are made for future mortality improvements.	The Company maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits, which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. Mortality is monitored monthly and the overall 2023 experience was favourable (2022 – favourable) when compared to the Company's assumptions.
Morbidity	Morbidity relates to the occurrence of accidents and sickness for insured risks. Morbidity is a key assumption for long-term care insurance, disability insurance, critical illness and other forms of individual and group health benefits. Morbidity assumptions are based on the Company's internal experience as well as past and emerging industry experience and are established for each type of morbidity risk and geographic market. Assumptions are made for future morbidity improvements.	The Company maintains underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits, which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. Morbidity is also monitored monthly and the overall 2023 experience was favourable (2022 – favourable) when compared to the Company's assumptions.
Policy termination	Policies are terminated through lapses and surrenders, where lapses represent the termination of policies due to non-payment of premiums and surrenders represent the voluntary termination of policies by policyholders. Premium persistency represents the level of ongoing deposits on contracts where there is policyholder discretion as to the amount and timing of deposits. Policy termination and premium persistency assumptions are primarily based on the Company's recent experience adjusted for expected future conditions. Assumptions reflect differences by type of contract within each geographic market.	The Company seeks to design products that minimize financial exposure to lapse, surrender and premium persistency risk. The Company monitors lapse, surrender and persistency experience. In aggregate, 2023 policyholder termination and premium persistency experience was unfavourable (2022 – unfavourable) when compared to the Company's assumptions used in the computation of actuarial liabilities.
Directly attributable expenses	Directly attributable operating expense assumptions reflect the projected costs of maintaining and servicing in-force policies, including associated directly attributable overhead expenses. The directly attributable expenses are derived from internal cost studies projected into the future with an allowance for inflation. For some developing businesses, there is an expectation that unit costs will decline as these businesses grow. Directly attributable acquisitions expenses are derived from internal cost studies.	The Company prices its products to cover the expected costs of servicing and maintaining them. In addition, the Company monitors expenses monthly, including comparisons of actual expenses to expense levels allowed for in pricing and valuation. Maintenance expenses for 2023 were unfavourable (2022 – unfavourable) when compared to the Company's assumptions used in the computation of actuarial liabilities.
Tax	Taxes reflect assumptions for future premium taxes and other non-income related taxes.	The Company prices its products to cover the expected cost of taxes.
Policyholder dividends, experience rating refunds, and other adjustable policy elements	The best estimate projections for policyholder dividends and experience rating refunds, and other adjustable elements of policy benefits are determined to be consistent with management's expectation of how these elements will be managed should experience emerge consistently with the best estimate assumptions.	The Company monitors policy experience and adjusts policy benefits and other adjustable elements to reflect this experience. Policyholder dividends are reviewed annually for all businesses under a framework of Board-approved policyholder dividend policies.

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(g) Significant judgements and estimates (continued)

Fulfilment cash flows (continued)

Determination of assumptions used (continued)

The Company reviews actuarial methods and assumptions on an annual basis. If changes are made to non-economic assumptions, the impact based on locked-in economic assumptions would adjust the contractual service margin for general model and VFA contracts if there is any remaining contractual service margin for the group of policies where the change was made. This amount would then be recognized in income over the period of service provided. Changes could also impact net income and other comprehensive income to the extent that the contractual service margin has been depleted, or discount rates are different than the locked-in rates used to quantify changes to the contractual service margin.

Determination of discretionary changes

The terms of some contracts measured under the GMM give the Company discretion over the cash flows to be paid to the policyholders, either in timing or amount. Changes in discretionary cash flows are regarded as relating to future service and accordingly adjust the CSM. The Company determines how to identify a change in discretionary cash flows by specifying the basis on which it expects to determine its commitment under the contract; for example, based on a fixed interest rate, or on returns that vary based on specified asset returns. This determination is specified at the inception of the contract.

Discount rates

Insurance contract cash flows for non-participating business are discounted using risk-free yield curves adjusted by an illiquidity premium to reflect the liquidity characteristics of the liabilities. Cash flows that vary based on returns of underlying items are adjusted to reflect their variability under these adjusted yield curves. Each yield curve is interpolated between the spot rate at the last observable market data point and an ultimate spot rate which reflects the long-term real interest rate plus inflation expectations.

For participating business, insurance contract cash flows that vary based on the return of underlying items are discounted at rates reflecting that variability.

For insurance contracts with cash flows that vary with the return of underlying items and where the present value is measured by stochastic modelling, cash flows are both projected and discounted at scenario specific rates, calibrated on average to be the risk-free yield curves adjusted for liquidity.

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(g) Significant judgements and estimates (continued)

Discount rates

The spot rates used for discounting liability cash flows are presented in the following table and include illiquidity premiums determined with reference to net asset spreads indicative of the liquidity characteristics of the liabilities by geography.

					December 31, 2023					
	Currency	Liquidity category	Observable years	Ultimate year	1 year	5 years	10 years	20 years	30 years	Ultimate
U.S.	USD	Illiquid	30	70	5.38%	4.54%	5.37%	5.65%	5.27%	5.00%
		More liquid	30	70	5.32%	4.57%	5.25%	5.56%	5.18%	4.88%
Hong Kong	HKD	Illiquid	15	55	4.20%	4.01%	4.98%	4.61%	4.19%	3.80%

					December 31, 2022					
	Currency	Liquidity category	Observable years	Ultimate year	1 year	5 years	10 years	20 years	30 years	Ultimate
U.S.	USD	Illiquid	30	70	5.28%	4.87%	5.74%	5.86%	5.34%	5.00%
		More liquid	30	70	5.23%	4.88%	5.61%	5.76%	5.23%	4.88%
Hong Kong	HKD	Illiquid	15	55	4.69%	4.95%	5.60%	4.99%	4.36%	3.80%

Amounts presented in income for policies where changes in assumptions that relate to financial risk do not have a substantial impact on amounts paid to policyholders reflect discount rates locked in beginning with the adoption of HKFRS 17 or locked in at issue for later insurance contracts. These policies include term insurance, guaranteed whole life insurance, and health products including critical illness and long-term care. For policies where changes in assumptions to financial risk have a substantial impact on amounts paid to policyholders, discount rates are updated as future cash flows change due to changes in financial risk, so that the amount presented in income from future changes in financial variables is $nil. These policies include adjustable universal life contracts. Impacts from differences between current period rates and discount rates used to determine income are presented in other comprehensive income.

Risk adjustment and confidence level used to determine risk adjustment

Risk adjustment for non-financial risk represents the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the Company fulfils insurance contracts. The risk adjustment process considers insurance, lapse and expense risks, includes both favourable and unfavourable outcomes, and reflects diversification benefits from the insurance contracts issued.

The Company estimates the risk adjustment using a margin approach. This approach applies a margin for adverse deviation, typically in terms of a percentage of best estimate assumptions, where future cash flows are uncertain. The resulting cash flows are discounted at rates consistent with the best estimate cash flows to arrive at the total risk adjustment. The ranges for these margins are set by the Company and reviewed periodically.

The risk adjustment for non-financial risk for insurance contracts correspond to a 90% - 95% confidence level for all segments.

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(g) Significant judgements and estimates (continued)

Investment component, Investment-return service and Investment-related service

The Company identifies the investment component, investment-return service (contract without direct participation features) and investment-related service (contract with direct participation features) of a contract as part of the product governance process.

Investment components are amounts that are to be paid to the policyholder under all circumstances. Investment components are excluded from insurance revenue and insurance service expenses.

Investment-return services and investment-related services are investment services rendered as part of an insurance contract and are part of the insurance contract services provided to the policyholder.

Relative weighting of the benefit provided by insurance coverage, investment-return service and investment related service

The contractual service margin is released into income, when insurance contract services are provided, by using coverage units. Coverage units represent the quantity of service (insurance coverage, investment-return and investment-related services) provided and are determined by considering the benefit provided under the contract and its expected coverage duration. When the relative size of the investment-related service coverage or the investment-return service coverage unit is disproportionate compared to the insurance service coverage unit, or vice-versa, the Company must determine a relative weighting of the services to reflect the delivery of each of those services. The Company identifies the coverage units as part of the product governance process and did not identify contracts where such weighting was required.

(h) Composition of underlying items

The following table sets out the composition and fair value of the underlying items supporting the Company's liabilities for direct participation contracts as at the dates presented.

	Participating	
	2023	2022
	HK$'000	HK$'000
Listed debt securities	117,261,786	103,098,430
Listed stocks	35,322,560	30,981,974
Mortgages	1,795,679	1,780,255
Unlisted debt securities	13,181,325	10,285,454
Investment property	5,970,836	6,242,301
Private equities	52,659,162	41,181,298
	226,191,348	193,569,712

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(i) Asset for acquisition cash flows

The following table presents the expected future derecognition of asset for acquisition cash flow as at the dates presented.

December 31, 2023				December 31, 2022			
Less than 1 year	1-5 year	More than 5 years	Total	Less than 1 year	1-5 year	More than 5 years	Total
HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
262,738	751,145	294,344	1,308,227	266,106	748,232	367,031	1,381,369

(j) Insurance and reinsurance contracts contractual obligation – maturity analysis and amounts payable

The table below represents the maturities of the insurance contract and reinsurance contract held liabilities as at the dated presented.

Payments due by period	December 31, 2023 Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Insurance contract liabilities(1)	(8,698,458)	(3,535,785)	(112,817)	3,176,630	7,861,292	1,242,584,826	1,241,275,688
Reinsurance contract held liabilities(1)	18,202	13,613	12,116	11,886	11,581	805,446	872,844

Payments due by period	December 31, 2022 Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Insurance contract liabilities(1)	(5,809,447)	(2,567,387)	170,530	2,552,101	4,736,058	1,016,119,412	1,015,201,267
Reinsurance contract held liabilities(1)	19,362	15,283	13,761	13,942	14,027	1,103,824	1,180,199

(1) Insurance contract liabilities cash flows include estimates related to the timing and payment of death and disability claims, policy surrenders, policy maturities, annuity payments, minimum guarantees on segregated fund products, policyholder dividends, commissions and premium taxes offset by contractual future premiums on in-force contracts and exclude amount from insurance contract liabilities for account of segregated fund holders. These estimated cash flows are based on the best estimate assumptions used in the determination of insurance contract liabilities. These amounts are undiscounted. Reinsurance contract liabilities cash flows include estimates related to the timing and payment of future reinsurance premiums offset by recoveries on in-force reinsurance agreements. Due to the use of assumptions, actual cash flows may differ from these estimates. Cash flows include embedded derivatives measured separately at fair value.

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(k) Actuarial methods and assumptions

The Company performs a comprehensive review of actuarial methods and assumptions annually. The review is designed to reduce the Company's exposure to uncertainty by ensuring assumptions for liability risks remain appropriate. This is accomplished by monitoring experience and updating assumptions that represent a best estimate of expected future experience, and margins that are appropriate for the risks assumed. While the assumptions selected represent the Company's best estimates and assessment of risk, the ongoing monitoring of experience and changes in the economic environment are likely to result in future changes to the actuarial assumptions, which could materially impact the insurance contract liabilities. The changes implemented from the review are generally implemented in the third quarter of each year, however, updates could be made outside the third quarter in certain circumstances.

2023 Review of Actuarial Methods and Assumptions

- Par Valuation Interest Rate Update - The annual updates to the Valuation Interest Rate (including Par Fund Separation implementation) as well as dividend glidepath for Par blocks.

- Dividend Glidepath Update - It captures the knock-on PfAD impacts of adjusting the dividend glidepath in the valuation model

- AOD Assumption Update - The AOD assumption update reflects the latest experience review with data spanning 2018 to 2022

- NLP Assumption Update - This item refers to the update of premium scaling factor for a few Par Closed products that are supposed to be Net Level Premium basis but modeled as GPV / PPM in AXIS.

- NB RA Assumption Update - This item refers to the change in Risk Adjustment (RA) assumption on two par products (ManuGlobal Saver and Prestige Saver). It was adopted earlier in 2023 new business reporting and now also implement on the in-force.

- Items Below Threshold - This item contains the following updates: NPGMM modelling Refinement and Par modelling Refinement.

- New Business Risk Adjustment Reduction - At transition the margins used to determine the risk adjustment was increased on most products sold in 2021 and after. For any product where the margins were increased, the increase should be reversed. There were no increases to margins outside the ones mentioned (e.g. mortality/morbidity improvement MfADs, other policyholder behaviour MfADs etc), and hence changes to these margins is not expected

- Risk Adjustment Diversification Factor - The diversification factor for Asia is currently 30% on non-par business, 15% for closed participating business, and 0% on open participating and profit-sharing business. For this basis change item, the diversification factor should be increased to 45% on all Asia business.

17. INSURANCE AND REINSURANCE CONTRACTS ASSETS AND LIABILITIES (continued)

(i) Actuarial methods and assumptions

2022 Review of Actuarial Methods and Assumptions

Total Hong Kong 2022 basis change impact under IFRS 17 is for net padded current reserve. The effective date of basis change is July 1st,2022.

The basis change reserve impact comes from Individual (IFP) only, both Par blocks and Non-Par blocks.

For IFP, key changes include:

- "Par Stochastic Scenario Interest Rate Floor Update"
- "Medical Inflation Methodology Refinement"
- "True-up of Basis Change Items"
- "Par CoG and AOD TVoG Model Enhancement"
- "Dividend Recalibration"
- "Par Valuation Interest Rate Update"
- "Secondary Impact on AOD Spread and Cost of Guarantee"
- "Dividend Glidpath Modeling Refinement"
- "HK Lapse Study"
- "Dividend Yield Factor Modeling Refinement"
- "CALM Valuation Interest Rate Update"

18. INVESTMENT CONTRACT LIABILITIES

Investment contract liabilities are contractual financial obligations of the Company that do not contain significant insurance risk. Those contracts are subsequently measured either at FVTPL or at amortized cost.

(a) Investment contract liabilities designated as FVTPL

Investment contract liabilities measured at fair value are designated as FVTPL on initial recognition and include certain investment savings and pension products. The Company does not have any investment contract liabilities that are mandatorily measured at FVTPL.

The following table presents the movement in investment contract liabilities measured at fair value.

For the years ended December 31	2023 HK$'000	2022 HK$'000
Balance, excluding those for account of segregated fund holders, January 1	296,915	318,479
New policies	11,525	9,981
Changes in market conditions	31,305	(11,968)
Redemptions, surrenders and maturities	(18,527)	(19,688)
Impact of changes in foreign exchange rates	(217)	111
Balance, excluding those for account of segregated fund holders, December 31	321,001	296,915
Investment contract liabilities for account of segregated fund holders	65,903,179	63,165,382
Balance, December 31	66,224,180	63,462,297

The amount due to contract holders is contractually determined based on specified assets and therefore, the fair value of the liability is subject to asset specific performance risk and not credit risk and are fully collateralized. The Company has determined that any residual credit risk is insignificant and has not had any impact on the fair value of the liabilities.

(b) Investment contracts contractual obligations

As at December 31, 2023, the Company's contractual obligations and commitments relating to the investment contracts are as follows.

Payments due by period	Less than 1 year HK$'000	1 to 3 years HK$'000	3 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
2023	66,224,180	-	-	-	66,224,180
2022	63,462,297	-	-	-	63,462,297

19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023 HK$'000	2022 HK$'000
Amounts in respect of direct insurance business	3,777,040	2,647,217
Other accounts payable and accrued liabilities	2,186,920	1,889,271
Lease liabilities (note 20)	962,515	1,052,754
	6,926,475	5,589,242

Accounts payable and accrued liabilities are non-interest bearing and repayable within a year. The carrying amounts of the accounts payable and accrued liabilities approximate their fair values. Included in the balance is a loan commitment which is classified under financial liabilities at fair value through profit or loss of HK$431 million (2022: HK$408 million).

20. LEASES

The Company as a lessee

(a) The carrying amounts of the right-of-use assets (included in other assets) and lease liabilities (included in accounts payable and accrued liabilities), and the movement during the year are as follows:

	Right-of-use assets HK$'000	Lease liabilities HK$'000
At January 1, 2022	562,159	661,276
Additions	592,497	575,816
Depreciation provided during the year (note 25)	(200,850)	-
Interest expense	-	12,179
Payments	-	(196,517)
Others	-	-
At December 31, 2022 and at January 1, 2023	953,806	1,052,754
Additions	114,533	113,480
Depreciation provided during the year (note 25)	(225,833)	-
Interest expense	-	14,366
Payments	-	(218,085)
At December 31, 2023	842,506	962,515

The company had no significant profit or loss from subleasing the right-of-use assets or sale and leaseback transactions for the year ended December 31, 2023.

20. LEASES (continued)

(b) The amount recognised in profit or loss in relation to leases are as follows:

	2023 HK$'000	2022 HK$'000
Interest on lease liabilities	14,366	12,179
Depreciation charge of right-of-use assets	225,833	200,850
Expense relating to short-term leases and other leases with remaining lease terms ended on or before end of the year	2,651	2,804
Expense relating to leases of low-value assets (included in general expenses)	9,458	9,483
Total amount recognised in profit or loss	252,308	225,316

The Company as a lessor

The Company leases its investment property (note 7) consisting of one commercial property in Hong Kong under operating lease arrangement. The terms of the lease generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. Rental income recognised by the Company during the year was HK$225 million (2022: HK$225 million).

At December 31, 2023, undiscounted lease payments receivable by the Company in future periods under non-cancellable operating leases with its tenants are as follows:

	2023 HK$'000	2022 HK$'000
Within one year	189,886	199,876
After one year but within two years	192	198,625
After two years but within three years	114	170
	190,192	398,671

21. SHARE CAPITAL

	2023 HK$'000	2022 HK$'000
Authorised:		
10% non-cumulative, non-voting, redeemable preference shares of US$100 each	38,782	38,782
8.8% non-cumulative, non-voting preferred shares, Series A of US$50 each	1,548,000	1,548,000
Common shares of US$1 each	37,178,147	37,178,147
	38,764,929	38,764,929
Issued and fully paid:		
2,034,741,502 (2022:2,034,741,502) common shares with par value of US$1 each	15,791,430	15,791,430

A summary of movement in the Company's issued share capital is as follows:

	Number of issued shares	Issued capital HK$'000	Share premium HK$'000	Total HK$'000
At January 1, 2022, December 31, 2022 and 2023	2,034,741,502	15,791,430	2,145,943	17,937,373

22. DIVIDENDS

Dividends paid during the year are as follows:

	2023 HK$'000	2022 HK$'000
Common shares: US$0.250 per share (2022: US$0.246)	3,989,440	3,923,290

23. INVESTMENT INCOME

For the year ended December 31, 2023	FVTPL	FVOCI	Amortized cost	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and cash equivalents				
Interest income	-	-	177,319	177,319
Listed debt securities				-
Interest income	5,105,551	193,694	-	5,299,245
Gains (losses)(2)	435,961	(277,109)	-	158,852
Impairment loss, net(3)	-	(38,538)	-	(38,538)
Listed stocks				-
Dividend income	839,765	-	-	839,765
Gains (losses)(2)	3,040,079	-	-	3,040,079
Mortgages				-
Interest income	-	63,786	-	63,786
Gains (losses)(2)	-	50,135	-	50,135
Provision, net	-	(260)	-	(260)
Unlisted debt securities				-
Interest income	-	519,293	-	519,293
Gains (losses)(2)	-	191,045	-	191,045
Impairment loss, net(3)	-	5,925	-	5,925
Investment property				-
Rental income, net of depreciation(1)	327,425	-	-	327,425
Gains (losses)(2)	(250,000)	-	-	(250,000)
Impairment loss, net(3)	-	-	-	-
Derivatives				-
Interest income, net	(96,416)	-	-	(96,416)
Gains (losses)(2)	1,994,103	-	-	1,994,103
Unlisted unit-linked funds and private equities				-
Gains (losses)(2)	4,181,524	-	-	4,181,524
Impairment loss, net(3)	-	(2,186)	-	(2,186)
Total investment income (loss)	15,577,992	705,785	177,319	16,461,096

(1) Rental income from investment property is net of direct operating expenses.
(2) Includes net realized and unrealized gains (losses) for financial instruments at FVTPL, and other invested assets measured at fair value. Also includes net realized gains (losses) for financial instruments at FVOCI.
(3) The Company adopted HKFRS 9's ECL impairment requirements as at January 1, 2023 without restating the comparative period. Impairments for 2023 are based on HKFRS 9's ECL requirements and impairments for 2022 are based on HKAS 39's incurred loss impairment requirements.

23. INVESTMENT INCOME (continued)

For the year ended December 31, 2023	FVTPL	FVOCI	Amortized cost	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Investment income				
Interest income	5,009,135	776,773	177,319	5,963,227
Dividends, rental income and other income	1,167,190	-	-	1,167,190
Impairments, provisions and recoveries, net[3]	-	(35,059)	-	(35,059)
	6,176,325	741,714	177,319	7,095,358
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities				
Listed debt securities	435,961	(277,109)	-	158,852
Listed stocks	3,040,079	-	-	3,040,079
Mortgages	-	50,135	-	50,135
Unlisted debt securities	-	191,045	-	191,045
Investment property	(250,000)	-	-	(250,000)
Unlisted unit-linked funds and private equities	4,181,524	-	-	4,181,524
Derivatives	1,994,103	-	-	1,994,103
	9,401,667	(35,929)	-	9,365,738
Total investment income (loss)	15,577,992	705,785	177,319	16,461,096
Investment expenses				(314,902)
Net investment income (loss)				16,146,194

23. INVESTMENT INCOME (continued)

For the year ended December 31, 2022	FVTPL	FVOCI	Amortized cost	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and short-term securities				
Interest income	-	-	22,931	22,931
Listed debt securities				-
Interest income	4,269,543	1,486	-	4,271,029
Gains (losses)[2]	(6,166,303)	(37,531)	-	(6,203,834)
Impairment loss, net[3]	-	-	-	-
Listed stocks				
Dividend income	920,705	-	-	920,705
Gains (losses)[2]	(8,035,861)	-	-	(8,035,861)
Mortgages				-
Interest income	-	54,689	-	54,689
Gains (losses)[2]	-	(111,068)	-	(111,068)
Provision, net	-	-	-	-
Unlisted debt securities				-
Interest income	-	420,113	-	420,113
Gains (losses)[2]	-	(302,016)	-	(302,016)
Impairment loss, net[3]	-	-	-	-
Investment property				-
Rental income, net of depreciation[1]	227,933	-	-	227,933
Gains (losses)[2]	(270,000)	-	-	(270,000)
Impairment loss, net[3]	-	-		-
Derivatives				
Interest income, net	245,062	-	-	245,062
Gains (losses)[2]	(3,717,545)	-	-	(3,717,545)
Unlisted unit-linked funds and private equities				
Gains (losses)[2]	1,233,063	-	-	1,233,063
Impairment loss, net[3]	-	-	-	-
Total investment income (loss)	(11,293,403)	25,673	22,931	(11,244,799)

23. INVESTMENT INCOME (continued)

For the year ended December 31, 2022	FVTPL	FVOCI	Amortized cost	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Investment income				
Interest income	4,514,605	476,288	22,931	5,013,824
Dividends, rental income and other income	1,148,638	-	-	1,148,638
Impairments, provisions and recoveries, net(3)	-	-	-	-
	5,663,243	476,288	22,931	6,162,462
Realized and unrealized gains (losses) on assets supporting insurance and investment contract liabilities				
Listed debt securities	(6,166,303)	(37,531)	-	(6,203,834)
Listed stocks	(8,035,861)	-	-	(8,035,861)
Mortgages	-	(111,068)	-	(111,068)
Unlisted debt securities	-	(302,016)	-	(302,016)
Investment property	(270,000)	-	-	(270,000)
Unlisted unit-linked funds and private equities	1,233,063	-	-	1,233,063
Derivatives	(3,717,545)	-	-	(3,717,545)
	(16,956,646)	(450,615)	-	(17,407,261)
Total investment income (loss)	(11,293,403)	25,673	22,931	(11,244,799)
Investment expenses				(307,690)
Net investment income (loss)				(11,552,489)

24. OTHER REVENUE

	2023	2022
	HK$'000	HK$'000
Management fees	2,986,514	2,847,382
Policy and redemption charges	(3,396)	8,489
Others	22,929	50,648
	3,006,047	2,906,519

25. GENERAL EXPENSES

	Notes	2023 HK$'000	2022 HK$'000
Commission and other acquisition expenses incurred		7,274,451	5,339,494
Employee benefits expense		1,286,044	1,201,416
Depreciation charge of right-of-use assets	20	225,833	200,850
Expense relating to short-term leases and other leases with remaining lease terms ended on or before end of the year	20	2,651	2,804
Expense relating to leases of low-value assets	20	9,458	9,483
Amortisation of intangible assets	4	30,308	30,751
Intangible asset write off	4	11,888	-
Depreciation	5	173,599	140,387
Auditor's remuneration		17,535	5,902
Other expenses		616,660	327,472
Amounts attributed to insurance acquisition cash flows		(8,048,363)	(5,926,413)
Amounts deferred as insurance acquisition cash flows for insurance contracts		(225,960)	(349,255)
		1,374,104	982,891

26. EXECUTIVE STOCK OPTION PLAN, RESTRICTED SHARE UNIT PLAN AND PERFORMANCE SHARE UNIT PLAN OF ULTIMATE HOLDING COMPANY

The ultimate holding company grants stock options under its Executive Stock Option Plan ("ESOP") to selected individuals. The options provide the holder the right to purchase Manulife Financial Corporation ("MFC") common shares at an exercise price equal to the higher of the prior day, prior five-day or prior ten-day average closing market price of the shares on the Toronto Stock Exchange on the date the options are granted. The options vest over a period not exceeding four years and expire not more than 10 years from the grant date. Effective with the 2015 grant, options may only be exercised after the fifth-year anniversary. A total of 73.6 million common shares have been reserved for issuance under the ESOP.

In addition to ESOP, the ultimate holding company of the Company also granted restricted share units ("RSU") and performance share units ("PSU") to certain employees (including directors) of the Company for their service rendered to the Company. Each RSU and PSU entitles the holder to receive payment equal to the market value of one common share, plus credited dividends, at the time of vesting, subject to any performance conditions. RSU and PSU granted in March 2022 will vest after 36 months from their grant date and the related compensation expense is recognised over these periods, except where the employee is eligible to retire prior to a vesting date, in which case the cost is recognised over the period between the grant date and the date on which the employee is eligible to retire.

26. EXECUTIVE STOCK OPTION PLAN, RESTRICTED SHARE UNIT PLAN AND PERFORMANCE SHARE UNIT PLAN OF ULTIMATE HOLDING COMPANY (continued)

Details of the ESOP outstanding during the year ended December 31, 2023 were as follows:

	2023		2022	
	Weighted average exercise price CAD	Number of options	Weighted average exercise price CAD	Number of options
At January 1	-	-	22.22	55,923
Granted during the year	-	-	-	-
Employees transferred out during the year	-	-	23.70	(42,370)
Exercised during the year	-	-	22.22	(13,553)
Expired during the year	-	-	-	-
At December 31		-		-

There are no share options outstanding as at the end of the reporting period.

The fair value of the share options, RSUs and PSUs granted during the year was HK$39 million (2022: HK$4.8 million).

As at December 31, 2023, the carrying value of the RSU and PSU liabilities amounted to HK$66 million (2022: HK$54 million).

No stock options were granted in 2023 and 2022.

27. DIRECTORS' REMUNERATION

The directors received remuneration for their services rendered to the Group for the year amounting to HK$9 million (2022: HK$13 million).

The aggregate amount of remuneration of the three highest paid directors amounted to HK$9 million (2022: HK$13 million).

28. PROFIT BEFORE TAX

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

	Notes	2023 HK$'000	2022 HK$'000
Staff costs:			
Wages and salaries		1,202,104	1,120,896
Pension contribution from employer		59,297	58,852
Share-based payment expenses		24,643	21,668
		1,286,044	1,201,416
Interest on lease liabilities	20	14,366	12,179
Depreciation charge of right-of-use assets	20	225,833	200,850
Amortisation of intangible assets	4	30,308	30,751
Impairment of intangible assets	4	11,888	-
Depreciation	5	173,599	140,387
Auditor's remuneration		17,535	5,902
Realised loss on debt securities		819,793	685,167
Realised loss on equity securities, unlisted unit-linked funds and derivative financial instruments		1,904,060	361,426
Unrealised (gain)/loss in value of listed investments, unlisted unit-linked funds and derivative financial instruments		(12,289,458)	15,979,601
Fair value loss on investment property	7	250,000	270,000
Interest income on debt securities		(5,818,538)	(4,691,141)
Dividend income		(839,765)	(920,705)

29. INCOME TAXES

(a) Tax charge

Hong Kong profits tax has been provided at the rate of 8.25% for first HK$2 million, remaining at 16.5% on the estimated assessable profits arising in Hong Kong during the year (2022: 8.25% for first HK$2 million, remaining at 16.5% on the estimated assessable profits). Tax on profits assessable elsewhere has been calculated at the rate of tax prevailing in the regions in which the Company operates, based on existing legislation, interpretation and practices in respect thereof.

	2023 HK$'000	2022 HK$'000
Current tax charge for the year – Hong Kong	122,885	257,579
Overprovision in prior year – Hong Kong	(857)	(680)
Current tax charge for the year – elsewhere	49,978	147,209
Deferred tax (credit)/ charge for the year – Hong Kong	(26,468)	(8,040)
Deferred tax (credit)/ charge for the year – elsewhere (note 12)	10,260	(119,177)
Total tax (credit)/ charge for the year	155,798	276,891

29. INCOME TAXES (continued)

(b) Reconciliation between accounting profit and tax charge

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

	2023 HK$'000	2022 HK$'000
Profit before tax from continuing operations	8,308,861	1,110,456
Less: (Profit)/ loss attributable to businesses on which profits tax is levied based on premium income	(6,413,017)	1,067,141
Profit/ (loss) attributable to businesses on which profits tax is levied based on the results	1,895,844	2,177,597
Tax at the statutory tax rate (note a)	312,649	359,139
Tax effect of income not subject to tax	(90,967)	(140,118)
Tax effect of expense not deductible for tax	-	-
Tax effect of retirement scheme management accounting profits not subject to tax	(379,141)	(208,929)
Overprovision of profits tax in prior year	(857)	(680)
Others	(25,114)	(41,048)
Tax charge for businesses for which profits tax is levied based on the results in Hong Kong	(183,430)	(31,636)
Tax charge for businesses for which profits tax is levied based on premium income in Hong Kong	305,458	288,535
Deferred tax credit for the year – Hong Kong	(26,468)	(8,040)
Current tax charge for the year – elsewhere (note b)	49,978	147,209
Deferred tax charge/ (credit)for the year – elsewhere (note b)	10,260	(119,177)
Total tax charge for the year	155,798	276,891

Notes:

(a) Statutory tax rate is referring to Hong Kong profits tax rate at 8.25% for first HK$ 2 millions and at 16.5% for the remaining assessable profits.

(b) Macau profits tax has been provided at the rate of 12%.

30. COMMITMENTS

(a) Derivatives commitments

At the end of the reporting period, the Company had outstanding equity index futures contracts amounting to HK$484 million (2022: HK$271 million) in relation to the life insurance business.

(b) Capital commitments

At the end of the reporting period, the Company had total future contractual capital commitments falling due as follows:

	2023 HK$'000	2022 HK$'000
On demand (note)	27,824,429	19,782,596

Note:
The Company had contracted for private equity investments which capital commitments are due on demand.

31. RELATED PARTY TRANSACTIONS

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

	Notes	2023 HK$'000	2022 HK$'000
Manulife Provident Funds Trust Company Limited			
Management service fee income	(i)	3,441,304	3,297,486
Manulife Investment Management (Hong Kong) Limited			
Trailer fee income	(ii)	159,989	184,990
Rental income	(iii)	14,148	14,148
Investment management service fee	(iv)	(160,243)	(152,661)
Administration and service fees	(v)	(58,889)	(55,924)
Manulife General Account Investments (HK) Limited			
Investment management service fee	(iv)	(569,822)	(473,342)
Manufacturers Life Insurance Company ("MLI")			
Management fee expense	(vi)	(92,594)	(66,518)
Manulife (Singapore) Pte. Ltd.			
Reinsurance premiums accepted	(vii)	128,974	121,055
Reinsurance claims	(vii)	(76,448)	(85,028)
PT Asuransi Jiwa Manulife Indonesia			
Reinsurance premiums accepted	(vii)	20,472	19,267
Reinsurance claims	(vii)	(11,579)	(14,746)
Manulife Data Services Inc. ("MDSI")			
Business processing service fee	(viii)	(25,282)	(36,209)
Manulife Information & Technologies Service (Chengdu) Company Limited ("MITS")			
Business processing service fee	(viii)	(272,716)	(274,327)
Manulife Financial Asia Limited ("MFAL")			
Interest income on loan	(ix)	6,684	9,370
Rental income	(iii)	184,222	182,624
Administration and service fees	(x)	(990,149)	(839,557)
Recharge relating to distribution services	(xi)	(199,524)	(167,799)

31. RELATED PARTY TRANSACTIONS (continued)

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

	Notes	2023 HK$'000	2022 HK$'000
Manufacturers Life Reinsurance Limited ("MLRL")			
Reinsurance premium ceded	(xii)	(4,744,348)	(5,391,580)
Investment loss/(gain) ceded	(xii)	(3,652,467)	7,087,593
Expense allowance ceded	(xii)	329,250	372,253
Policyholder benefits ceded	(xii)	3,336,788	3,765,422

Notes:

i. The management service fee was based on the provident funds services provided by the Company and the amount was determined by the Group and Manulife Provident Funds Trust Company Limited.

ii. The trailer fee arose from the sales of mutual funds by the Company's agents and was calculated based on the assets under management.

iii. The rental income arose from the rental of office premises owned by the Company and the rental amount determined with reference to market practice.

iv. The investment management service fee arose from the investment and related advisory services provided by Manulife Investment Management (Hong Kong) Limited and Manulife General Account Investments (HK) Limited and was calculated based on the assets under management.

v. The administration and services fee arose from the provision of management oversight, governance and guidance in various operating functions and the amount was determined by the Group and Manulife Investment Management (Hong Kong) Limited.

vi. The management fee was allocated by MLI and was determined by the Group and the Company.

vii. The reinsurance premiums accepted and reinsurance claims were based on the Automatic Reinsurance Agreement between the Group and Manulife (Singapore) Pte. Ltd and PT Asuransi Jiwa Manulife Indonesia.

viii. The business processing service fee was based on the administrative and business processing services and IT development services provided by MDSI and MITS respectively, it was determined according to fair market value by reference to the market practice.

ix. The interest on loan was charged based on market interest rate.

x. The administration and services fee arose from the provision of management oversight, governance and guidance in various operating functions as well as the provision of office premises and facilities for use by the appointed insurance agents and the amount was determined by the Group and MFAL.

31. RELATED PARTY TRANSACTIONS (continued)

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

xi. The recharge was determined with reference to the distribution agreement between MFAL and the distributor.

xii. The ceded income and expenses arose from the reinsurance arrangement between the Company and MLRL.

(b) Compensation of key management personnel of the Company:

	2023 HK$'000	2022 HK$'000
Short term employee benefits	6,666	10,576
Post-employment benefits	244	202
Share-based payments	1,775	1,836
Total compensation paid to key management personnel	8,685	12,614

Further details of directors' remunerations are included in note 27 to the financial statements.

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying values of each of the categories of financial instruments as at December 31, 2023 and 2022 are as follows.

2023

Financial assets

	FVTPL	FVOCI	Amortised cost	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Mortgage and other loans	-	1,795,679	-	1,795,679
Accrued investment income	-	-	2,139,034	2,139,034
Loan to an intermediate holding company	-	-	320,370	320,370
Amounts due from affiliates	-	-	1,004,878	1,004,878
Financial assets included in other assets	-	-	5,786,572	5,786,572
Investment securities	99,492,428	174,203,448	-	273,695,876
Derivative financial instruments	5,430,420	-	-	5,430,420
Cash and cash equivalents	-	-	8,123,733	8,123,733
Total financial assets	104,922,848	175,999,127	17,374,587	298,296,562

Financial liabilities

	FVTPL	Amortised cost	Total
	HK$'000	HK$'000	HK$'000
Amount due to affiliates	-	1,623,003	1,623,003
Derivative financial instruments	5,810,926	-	5,810,926
Financial liabilities included in accounts payable	431,364	4,781,809	5,213,173
Total financial liabilities	6,242,290	6,404,812	12,647,102

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying values of each of the categories of financial instruments as at December 31, 2023 and 2022 are as follows: (continued)

2022

Financial assets

	FVTPL HK$'000	FVOCI HK$'000	Amortised cost HK$'000	Total HK$'000
Mortgage and other loans	-	1,780,255	-	1,780,255
Accrued investment income	-	-	1,878,230	1,878,230
Loan to an intermediate holding company	-	-	476,306	476,306
Amounts due from affiliates	-	-	1,230,263	1,230,263
Financial assets included in other assets	-	-	5,800,629	5,800,629
Investment securities	76,252,615	160,474,298	-	236,726,913
Derivative financial instruments	3,685,411	-	-	3,685,411
Cash and cash equivalents	-	-	6,957,821	6,957,821
Total financial assets	79,938,026	162,254,553	16,343,249	258,535,828

Financial liabilities

	FVTPL HK$'000	Amortised cost HK$'000	Total HK$'000
Amount due to affiliates	-	1,246,567	1,246,567
Derivative financial instruments	6,527,277	-	6,527,277
Financial liabilities included in accounts payable	407,952	3,230,834	3,638,786
Total financial liabilities	6,935,229	4,477,401	11,412,630

Notes:
The Company's financial assets are separated into two groups:

(i) Financial assets with contractual terms that give rise to cash flow that are solely payment of principal and interest on the principle amount outstanding ("SPPI") in accordance with HKFRS 9 and are not held for trading or managed on fair value basis. The carrying values of loans and receivables set out above approximate their fair values;
(ii) Financial assets at fair value through profit or loss other than those specified in (i).

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, premium receivables, accrued investment income, financial assets included in other assets, claims payable, financial liabilities included in account payables and amounts with affiliates approximate to their carrying amounts largely due to the short term maturities of these instruments. For policy loans, investment securities and derivative financial instruments without specific maturities, the carrying amounts approximate to their fair value.

The fair values of the financial assets and 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.

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 and mortgage loans are valued internally by using a discounted cash flow model by applying observable market data, like sovereign and industry curves and spreads based on security specific characteristics. Inputs to the valuation include credit rating, credit spreads, treasury yields and issue-specific liquidity adjustments. The carrying amounts of unlisted debt securities and mortgage loans approximate their fair values.

The fair values of unlisted private equities have been based on the reported net asset value ("NAV") in their audited financial statements. The 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 Company from disposing the investments, the Company's ownership percentage over the investee and other relevant factors. Fair value will be adjusted when such factors suggest the reported NAV does not represent its fair value. In 2022 and 2023, no reported NAV has been adjusted. The directors believe that the fair values resulting from the reported NAV, which are recorded in the statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Company enters into derivative financial instruments with various counterparties, principally financial institutions with sound credit ratings. Derivative financial instruments, including forward currency contracts and equity swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. 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 forward currency contracts and equity swaps are the same as their fair values.

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

(a) Determination of fair value and fair values hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at December 31, 2023 and 2022.

December 31, 2023	Notes	Level 1 Quoted prices in active markets HK$'000	Level 2 Significant observable inputs HK$'000	Level 3 Significant unobservable inputs HK$'000	Total fair value HK$'000
Financial assets designated at fair value through other comprehensive income:					
Listed debt securities	14	159,670,559	-	-	159,670,559
Unlisted debt securities	14	-	14,532,889	-	14,532,889
		159,670,559	14,532,889	-	174,203,448
Financial assets designated at fair value through profit or loss:					
Listed debt securities	14	7,724,060	-	-	7,724,060
Listed stocks	14	36,016,747	-	-	36,016,747
Unlisted unit-linked funds	14	-	1,663,597	-	1,663,597
Private equities	14	-	-	54,088,024	54,088,024
		43,740,807	1,663,597	54,088,024	99,492,428
Derivative financial instruments:					
Forward currency contracts	15	-	3,152,572	-	3,152,572
Interest rate swap	15	-	103,380	-	103,380
Futures contracts	15	90,761	2,082,702	-	2,173,463
Equity swaps	15	-	1,005	-	1,005
		90,761	5,339,659	-	5,430,420
Total financial assets		203,502,127	21,536,145	54,088,024	279,126,296

December 31, 2023	Note	Level 1 Quoted prices in active markets HK$'000	Level 2 Significant observable inputs HK$'000	Level 3 Significant unobservable inputs HK$'000	Total fair value HK$'000
Financial liabilities designated at fair value through profit or loss:					
Financial liabilities included in accounts payable		431,364	-	-	431,364
Derivative financial instruments:					
Forward currency contracts	15	-	582,254	-	582,254
Interest rate swap	15	-	3,084,731	-	3,084,731
Futures contracts	15	354,292	1,789,649	-	2,143,941
		354,292	5,456,634	-	5,810,926
Total financial liabilities		785,656	5,456,634	-	6,242,290

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

(a) Determination of fair value and fair values hierarchy (continued)

December 31, 2022	Notes	Level 1 Quoted prices in active markets HK$'000	Level 2 Significant observable inputs HK$'000	Level 3 Significant unobservable inputs HK$'000	Total fair value HK$'000
Financial assets designated at fair value through other comprehensive income:					
Listed debt securities	14	149,403,370	-	-	149,403,370
Unlisted debt securities	14	-	11,070,928	-	11,070,928
		149,403,370	11,070,928	-	160,474,298
Financial assets designated at fair value through profit or loss:					
Listed debt securities	14	272,740	-	-	272,740
Listed stocks	14	31,734,757	-	-	31,734,757
Unlisted unit-linked funds	14	-	1,924,792	-	1,924,792
Private equities	14	-	-	42,320,326	42,320,326
		32,007,497	1,924,792	42,320,326	76,252,615
Derivative financial instruments:					
Forward currency contracts	15	-	3,430,642	-	3,430,642
Interest rate swap	15	-	102,673	-	102,673
Futures contracts	15	96,502	51,008	-	147,510
Equity swaps	15	-	4,586	-	4,586
		96,502	3,588,909	-	3,685,411
Total financial assets		181,507,369	16,584,629	42,320,326	240,412,324

December 31, 2022	Note	Level 1 Quoted prices in active markets HK$'000	Level 2 Significant observable inputs HK$'000	Level 3 Significant unobservable inputs HK$'000	Total fair value HK$'000
Financial liabilities designated at fair value through profit or loss:					
Financial liabilities included in accounts payable		407,952	-	-	407,952
Derivative financial instruments:					
Forward currency contracts	15	-	355,962	-	355,962
Interest rate swap	15	-	3,670,839	-	3,670,839
Futures contracts	15	588	2,499,888	-	2,500,476
		588	6,526,689	-	6,527,277
Total financial liabilities		408,540	6,526,689	-	6,935,229

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

(b) Reconciliation of fair value movements within Level 3 financial instruments

Financial assets designated at fair value through profit or loss:	At January 1, 2023	Total gain in statement of profit or loss	Purchases	Redemption	At December 31,2023	Total gain for the year included in profit or loss for assets held at December 31, 2023
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Private equities	42,320,326	2,988,541	33,423,168	(24,644,011)	54,088,024	2,988,541

Financial assets designated at fair value through profit or loss:	At January 1, 2022	Total gain in statement of profit or loss	Purchases	Redemption	At December 31,2022	Total gain for the year included in profit or loss for assets held at December 31, 2022
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Private equities	33,134,115	1,146,609	19,120,988	(11,081,386)	42,320,326	1,146,609

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

(b) Reconciliation of fair value movements within Level 3 financial instruments (continued)

Gains or losses (realised and unrealised) included in profit or loss for the year are presented in the statement of profit or loss as follows:

	2023 Realised gain/(loss) HK$'000	2023 Fair value gain/(loss) HK$'000	2023 Total HK$'000
Total gain/(loss) included in profit or loss for the year	-	2,988,541	2,988,541
Total gain/(loss) included in profit or loss for the year for assets held at the end of the reporting year	-	2,988,541	2,988,541

	2022 Realised gain/(loss) HK$'000	2022 Fair value gain/(loss) HK$'000	2022 Total HK$'000
Total gain/(loss) included in profit or loss for the year	-	1,146,609	1,146,609
Total gain/(loss) included in profit or loss for the year for assets held at the end of the reporting year	-	1,146,609	1,146,609

During the year 2023 and 2022, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Regulatory framework

The operation of the Company is subject to local regulatory requirements in Hong Kong. The regulators are interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters and that the risk levels are at acceptable levels.

Investment securities
The Company limits its exposure by setting minimum limits of its portfolio mix in bonds and maximum limits of portfolio mix in equities and other investments. The Company also sets maximum limits on currency, maturity and credit limits on fixed income portfolios. The Company only deals with institutions with high creditworthiness.

(a) Insurance risk

The Company is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents, and related risks. For policies issued from March 2016 onwards, the Company retains a maximum of US$10 million for mortality risk per life for Hong Kong, with the excess being reinsured through surplus treaties, coinsurance treaties, facultative reinsurance, and catastrophe treaties with reputable international reinsurers. Over the last five years, the actual claims in each year have been less than expected. As part of the Company's quality control process, the Company regularly invites reinsurers to audit its underwriting and claim practices and procedures, to ensure that they meet the highest industry standards.

(b) Market risk

Market risk is the risk of changes in fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company structures the level of market risk it accepts through a Company market risk policy which includes determining what constitutes market risk for the Company, the basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; the net exposure limits by geographical segments for investments in countries other than Hong Kong and US; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk (continued)

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities, which mitigate the foreign currency exchange rate risk. There are no significant concentrations of currency risk within the Company.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

The table below summarises the Company's financial assets and financial liabilities by major currencies.

December 31, 2023	HK and US Dollar HK$'000	Renminbi HK$'000	Other HK$'000	Total HK$'000
Mortgage and other loans	-	-	1,795,679	1,795,679
Accrued investment income	1,833,296	8,648	297,090	2,139,034
Loan to an intermediate holding company	320,370	-	-	320,370
Amounts due from affiliates	990,043	-	14,835	1,004,878
Financial assets included in other assets	5,770,434	146	15,992	5,786,572
Investment securities				
Listed debt securities	144,155,430	259,813	22,979,376	167,394,619
Listed stocks	36,016,747	-	-	36,016,747
Unlisted debt securities	7,818,034	-	6,714,855	14,532,889
Unlisted unit-linked funds	1,544,997	24,641	93,959	1,663,597
Private equities	44,807,820	651,217	8,628,987	54,088,024
Derivative financial instruments	5,384,313	9,349	36,758	5,430,420
Cash and cash equivalents	6,808,644	37,795	1,277,294	8,123,733
Total financial assets	255,450,128	991,609	41,854,825	298,296,562
Amounts due to affiliates	1,051,462	(1,809)	573,350	1,623,003
Derivative financial instruments	5,160,455	26,183	624,288	5,810,926
Financial liabilities included in accounts payable	4,726,491	144,773	341,909	5,213,173
Total financial liabilities	10,938,408	169,147	1,539,547	12,647,102

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

The table below summarises the Company's financial assets and financial liabilities by major currencies.

December 31, 2022

	HK and US Dollar HK$'000	Renminbi HK$'000	Other HK$'000	Total HK$'000
Mortgage and other loans	-	-	1,780,255	1,780,255
Accrued investment income	1,665,716	9,585	202,929	1,878,230
Loan to an intermediate holding company	476,306	-	-	476,306
Amounts due from affiliates	1,217,589	18	12,656	1,230,263
Financial assets included in other assets	5,800,629	-	-	5,800,629
Investment securities				
Listed debt securities	130,787,667	662,880	18,225,563	149,676,110
Listed stocks	31,734,757	-	-	31,734,757
Unlisted debt securities	6,283,357	-	4,787,571	11,070,928
Unlisted unit-linked funds	1,808,918	23,282	92,592	1,924,792
Private equities	36,599,116	671,160	5,050,050	42,320,326
Derivative financial instruments	3,675,900	985	8,526	3,685,411
Cash and cash equivalents	6,057,507	199,009	701,305	6,957,821
Total financial assets	226,107,462	1,566,919	30,861,447	258,535,828
Amounts due to affiliates	349,416	18,213	878,938	1,246,567
Derivative financial instruments	6,178,399	48,243	300,635	6,527,277
Financial liabilities included in accounts payable	3,359,110	39,762	239,914	3,638,786
Total financial liabilities	9,886,925	106,218	1,419,487	11,412,630

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk exposures are measured using a variety of techniques, including cash flow gaps, durations, key rate durations, convexity, and earnings and shareholders' economic value at risk. The Company has no significant concentration of interest rate risk.

Potential impacts on contractual service margin, net income attributed to shareholders, other comprehensive income attributed to shareholders, and total comprehensive income attributed to shareholders of an immediate parallel change in interest rates, corporate spreads or swap spreads relative to current rates.

December 31, 2023	Interest rates		Corporate spreads		Swap spreads	
(HK$ millions, post-tax except CSM)	-50bp	+50bp	-50bp	+50bp	-20bp	+20bp
CSM	571	(820)	69	(136)	40	(40)
Net income attributed to shareholders	129	(126)	78	(76)	16	(16)
Other comprehensive income attributed to shareholders	3,053	(2,719)	315	(300)	-	-
Total comprehensive income attributed to shareholders	3,182	(2,845)	393	(376)	16	(16)

December 31, 2022	Interest rates		Corporate spreads		Swap spreads	
(HK$ millions, post-tax except CSM)	-50bp	+50bp	-50bp	+50bp	-20bp	+20bp
CSM	(180)	(154)	(726)	499	-	-
Net income attributed to shareholders	52	(51)	(2)	2	22	(22)
Other comprehensive income attributed to shareholders	2,614	(2,317)	230	(238)	150	(145)
Total comprehensive income attributed to shareholders	2,666	(2,368)	228	(236)	172	(167)

Potential immediate impacts on contractual service margin, net income attributed to shareholders, other comprehensive income attributed to shareholders, and total comprehensive income attributed to shareholders from changes in market values.

	2023		2022	
(HK$ millions, post-tax except CSM)	-10%	10%	-10%	10%
CSM	(767)	658	(573)	483
Net income attributed to shareholders	(193)	197	(170)	179
Other comprehensive income attributed to shareholders	(20)	16	(18)	15
Total comprehensive income attributed to shareholders	(213)	213	(188)	194

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk (continued)

(iii) Price risk

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

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

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

The market equity indices for the following stock exchanges, at the closing of business of the nearest trading day in the year to the end of the reporting period, and their respective highest and lowest points during the year were as follows:

	December 31, 2023	High/Low 2023	December 31, 2022	High/Low 2022
Hong Kong – Hang Seng Index	17,047	22,689/ 16,201	19,781	24,966/ 14,687
United States – S&P 500 Index	4,770	4,783/ 3808	3,840	4,797/ 3,577

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk (continued)

(iii) Price risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

December 31, 2023 (HK$ million, post-tax except CSM)	-30%	-20%	-10%	30%	20%	10%
Net potential impact on net income attributable to shareholder before impact of reinsurance	(2,048)	(1,367)	(685)	2,060	1,373	685
Impact of reinsurance	30	20	10	(30)	(20)	(10)
Net potential impact on net income attributable to shareholder after impact of reinsurance	(2,018)	(1,347)	(675)	2,030	1,353	675
CSM	(2,621)	(1,645)	(808)	2,296	1,553	788
Other comprehensive income attributed to shareholders	(48)	(30)	(13)	34	23	13
Total comprehensive income attributed to shareholders	(2,066)	(1,377)	(688)	2,064	1,376	688

December 31, 2022 (HK$ million, post-tax except CSM)	-30%	-20%	-10%	30%	20%	10%
Net potential impact on net income attributable to shareholder before impact of reinsurance	(2,684)	(1,655)	(654)	1,963	1,309	654
Impact of reinsurance	13	11	17	(12)	(9)	(17)
Net potential impact on net income attributable to shareholder after impact of reinsurance	(2,671)	(1,644)	(637)	1,951	1,300	637
CSM	(1,734)	(1,169)	(741)	2,061	1,409	712
Other comprehensive income attributed to shareholders	(36)	(23)	(11)	31	21	11
Total comprehensive income attributed to shareholders	(2,707)	(1,667)	(648)	1,982	1,321	648

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk

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

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance and investment contracts and the maturity of debt securities.

The Company manages liquidity through a Company liquidity risk policy which includes determining what constitutes liquidity risk for the Company; the minimum proportion of funds to meet emergency calls; the setting up of contingency funding plans; specifying the sources of funding and the events that would trigger the plan; specifying the concentration of funding sources; the reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and the review of the Company's liquidity risk policy for pertinence and changing environment. There are no significant concentrations of liquidity risk within the Company.

The table below analyses the financial assets and liabilities of the Company into their relevant maturity s based on the remaining period at the end of the reporting period to their contractual maturities or expected repayment dates.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

December 31, 2023

	Up to a year HK$'000	1-3 years HK$'000	3-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Mortgage and other loans	94,534	343,559	284,873	1,072,713	1,795,679
Accrued investment income	2,139,034	-	-	-	2,139,034
Loan to an intermediate holding company	158,809	161,561	-	-	320,370
Amounts due from affiliates	1,004,878	-	-	-	1,004,878
Financial assets included in other assets	5,786,572	-	-	-	5,786,572
Investment securities					
Listed debt securities	7,136,339	15,378,765	19,478,681	125,400,834	167,394,619
Listed stocks	36,016,747	-	-	-	36,016,747
Unlisted debt securities	351,265	622,235	1,915,213	11,644,176	14,532,889
Unlisted unit-linked funds	1,663,597	-	-	-	1,663,597
Private equities	54,088,024	-	-	-	54,088,024
Derivative financial instruments	1,546,569	871,612	580,856	2,431,383	5,430,420
Cash and cash equivalents	8,123,733	-	-	-	8,123,733
Total financial assets	118,110,101	17,377,732	22,259,623	140,549,106	298,296,562
Amounts due to affiliates	1,623,003	-	-	-	1,623,003
Derivative financial instruments	891,025	1,129,628	317,145	3,473,128	5,810,926
Financial liabilities included in accounts payable	5,213,173	-	-	-	5,213,173
Total financial liabilities	7,727,201	1,129,628	317,145	3,473,128	12,647,102

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

December 31, 2022

	Up to a year HK$'000	1-3 years HK$'000	3-5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Mortgage and other loans	-	272,999	431,220	1,076,036	1,780,255
Accrued investment income	1,878,230	-	-	-	1,878,230
Loan to an intermediate holding company	156,083	320,223	-	-	476,306
Amounts due from affiliates	1,230,263	-	-	-	1,230,263
Financial assets included in other assets	5,800,629	-	-	-	5,800,629
Investment securities					
Listed debt securities	10,041,453	12,251,974	16,639,921	110,742,762	149,676,110
Listed stocks	31,734,757	-	-	-	31,734,757
Unlisted debt securities	259,668	775,309	1,578,034	8,457,917	11,070,928
Unlisted unit-linked funds	1,924,792	-	-	-	1,924,792
Private equities	42,320,326	-	-	-	42,320,326
Derivative financial instruments	201,353	332,532	360,815	2,790,711	3,685,411
Cash and cash equivalents	6,957,821	-	-	-	6,957,821
Total financial assets	102,505,375	13,953,037	19,009,990	123,067,426	258,535,828
Amounts due to affiliates	1,246,567	-	-	-	1,246,567
Derivative financial instruments	1,112,348	926,148	804,711	3,684,070	6,527,277
Financial liabilities included in accounts payable	3,638,786	-	-	-	3,638,786
Total financial liabilities	5,997,701	926,148	804,711	3,684,070	11,412,630

(d) Reinsurance risk

In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. To minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Credit risk

Credit risk is the risk of loss due to inability or unwillingness of a borrower, or counterparty, to fulfill its payment obligations. Worsening regional and global economic conditions, segment or industry sector challenges, or company specific factors could result in defaults or downgrades and could lead to increased provisions or impairments related to the Company's general fund invested assets.

The Company's exposure to credit risk is managed through risk management policies and procedures which include a defined credit evaluation and adjudication process, delegated credit approval authorities and established exposure limits by borrower, corporate connection, credit rating, industry and geographic region. The Company measures derivative counterparty exposure as net potential credit exposure, which takes into consideration fair values of all transactions with each counterparty, net of any collateral held, and an allowance to reflect future potential exposure. Reinsurance counterparty exposure is measured reflecting the level of ceded liabilities.

Underlying assets bearing credit risk:

December 31, 2023	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Listed debt securities				
Investment grade	148,489,174	1,601,867	-	150,091,041
Non-investment grade	-	45,550	1,171	46,721
Rating not available	9,437,830	93,712	1,255	9,532,797
Total	157,927,004	1,741,129	2,426	159,670,559
Allowance for credit losses on assets measured at amortized cost	-	-	-	-
Net of allowance	157,927,004	1,741,129	2,426	159,670,559
Allowance for credit losses on assets measured at FVOCI	213,642	53,517	14,533	281,692
Unlisted debt securities				
Investment grade	3,979,487	117,108	-	4,096,595
Rating not available	10,042,837	393,457	-	10,436,294
Total	14,022,324	510,565	-	14,532,889
Allowance for credit losses on assets measured at amortized cost	-	-	-	-
Net of allowance	14,022,324	510,565	-	14,532,889
Allowance for credit losses on assets measured at FVOCI	34,022	4,712	-	38,734
Mortgages				
Investment grade	1,658,191	137,488	-	1,795,679
Total	1,658,191	137,488	-	1,795,679
Allowance for credit losses on assets measured at amortized cost	-	-	-	-
Net of allowance	1,658,191	137,488	-	1,795,679
Allowance for credit losses on assets measured at FVOCI	1,877	1,927	-	3,804
Net of allowance, total	173,607,519	2,389,182	2,426	175,999,127

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Credit risk (continued)

The following table provides details on the allowance for credit losses by stage as at and for the year ended December 31, 2023 under HKFRS 9.

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
Balance, beginning of year	**220,682**	**63,929**	**3,324**	**287,935**
Net remeasurement due to transfers	4,635	(7,389)	2,754	-
Transfer to stage 1	*8,639*	*(8,639)*	-	-
Transfer to stage 2	*(228)*	*228*	-	-
Transfer to stage 3	*(3,776)*	*1,022*	*2,754*	-
Net originations, purchases and disposals	24,060	(1,259)	(13,395)	9,406
Repayments	-	-	-	-
Changes to risk, parameters, and models	(3,577)	4,033	22,331	22,787
Foreign exchange and other adjustments	3,741	842	(481)	4,102
Balance, end of year	**249,541**	**60,156**	**14,533**	**324,230**

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Credit risk (continued)

Significant judgements and estimates

The following table shows certain key macroeconomic variables used to estimate the ECL allowances by market. For the base case, upside and downside scenarios, the projections are provided for the next 12 months and then for the remaining forecast period, which represents a medium-term view.

		Base case scenario		Upside scenario		Downside scenario 1		Downside scenario 2	
As at December 31, 2023	Current quarter	Next 12 months	Ensuing 4 years	Next 12 months	Ensuing 4 years	Next 12 months	Ensuing 4 years	Next 12 months	Ensuing 4 years
U.S.									
Gross Domestic Product (GDP), in US$ billions	22,531	1.3%	2.3%	3.6%	2.4%	(2.5%)	2.6%	(4.2)	2.5%
Unemployment rate	3.9%	3.9%	4.0%	3.2%	3.3%	6.5%	5.8%	6.9%	7.6%
7-10 Year BBB U.S. Corporate Index	6.6%	6.5%	6.0%	6.2%	6.1%	6.0%	5.4%	6.6%	5.3%
Hong Kong									
Unemployment rate	2.8%	2.9%	3.2%	2.6%	2.8%	4.0%	4.0%	4.4%	4.8%
Hang Seng Index	19,316	20.9%	5.1%	35.4%	4.7%	(13.6%)	11.3%	(34.1%)	14.8%

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(f) Capital management

Externally imposed capital requirements are set and regulated by the Hong Kong Insurance Ordinance. These requirements are put in place to ensure sufficient solvency margins, to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business objectives and maximise shareholder value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid or return capital to ordinary shareholders.

The Company fully complied with the externally imposed capital requirements during the reported financial periods. No changes were made to its capital management objectives, policies and processes from the previous year.

35. SUBSEQUENT EVENT

On December 28, 2021, the HKIA released a circular setting out requirements for insurers that are "sufficiently advanced" in their preparers to adopt the HKRBC regime at an early date. The Company has submitted an application for early adoption of the HKRBC regime. The application has been approved by the HKIA on March 8, 2024. The requirements under HKRBC regime will be applied to the Company local solvency reporting from January 1, 2024.

36. COMPARATIVES

Certain comparative amounts have been reclassified to conform to the current year's presentation. As disclosed in note 2 Changes in Accounting Policies and Disclosures, comparative amounts have been prepared and presented in accordance with HKFRS 9 and HKFRS 17.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements was approved and authorised for issue by the board of directors on April 23, 2024.