IMPORTANT NOTICE

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

IMPORTANT: You must read the following before continuing. The following applies to the offering circular (the "**Offering Circular**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES (THE "**SECURITIES**") AND THE GUARANTEE DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD INTO OR WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED IN WHOLE OR IN PART TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the Securities described herein, investors must not be located in the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to Citigroup Global Markets Limited and The Hongkong and Shanghai Banking Corporation Limited (the "**Joint Lead Managers**") that your stated electronic mail address to which this e-mail has been delivered is not located in the United States and that you consent to delivery of the Offering Circular by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase the Securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

The materials relating to the offering of the Securities do not constitute, and may not be used in connection with, an offer or solicitation by or on behalf of the Issuer (as defined in the Offering Circular), the Guarantor (as defined in the Offering Circular) and the Joint Lead Managers in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering of the Securities be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers are licensed brokers or dealers in that jurisdiction, the offering of the Securities shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers, nor any person who controls any of them nor any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers. You are responsible for protecting against viruses and other destructive items. Your use of this electronic mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Peak Re (BVI) Holding Limited

(incorporated in the British Virgin Islands with limited liability)

U.S.$250,000,000
Perpetual Subordinated Guaranteed Capital Securities
unconditionally and irrevocably guaranteed by

Peak Reinsurance Company Limited

(incorporated in Hong Kong under the Companies Ordinance with limited liability)

Issue price: 100.00 per cent.

Perpetual Subordinated Guaranteed Capital Securities (the "**Securities**") will be issued in an initial aggregate principal amount of U.S.$250,000,000 by Peak Re (BVI) Holding Limited (the "**Issuer**") and will be unconditionally and irrevocably guaranteed on a subordinated basis (the "**Guarantee**") by Peak Reinsurance Company Limited (the "**Guarantor**"). The Securities confer a right to receive distributions (each, a "**Distribution**") (i) in respect of the period from, and including, 28 October 2020 (the "**Issue Date**") to, but excluding, 28 October 2025 (the "**First Call Date**") at 5.35 per cent. per annum; and (ii) in respect of the period (A) from, and including, the First Call Date, to, but excluding, the Reset Date falling immediately after the First Call Date (the "**Second Reset Date**"), at the First Relevant Reset Distribution Rate, and (B) (x) from, and including, the Second Reset Date, to, but excluding, the Reset Date falling immediately after the Second Reset Date, and (y) from, and including, each Reset Date falling after the Second Reset Date to, but excluding, the immediately following Reset Date, at the Relevant Reset Distribution Rate. Except expressly provided otherwise, capitalised terms used herein shall have the meaning ascribed thereto in "*Terms and Conditions of the Securities*".

Subject to the provisions of the Securities relating to deferral of Distributions (see "*Terms and Conditions of the Securities – Distributions – Distribution Deferral*"), Distributions shall be payable semi-annually in arrear on 28 April and 28 October in each year (each, a "**Distribution Payment Date**") with the first Distribution Payment Date falling on 28 April 2021 in respect of the period from, and including, the Issue Date to, but excluding, such first Distribution Payment Date. The Issuer may, at its sole discretion, elect to defer (in whole or in part) any Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the holders of the Securities ("**Holders**", and each, a "**Holder**"), the Trustee and Principal Paying Agent not more than ten nor less than five business days prior to a scheduled Distribution Payment Date, unless a Compulsory Distribution Payment Event has occurred. Any Distribution so deferred shall remain outstanding in full and constitute "Arrears of Distribution" and shall subject the Issuer and the Guarantor to the restrictions as described in "*Terms and Conditions of the Securities – Distribution Deferral – Restrictions in the case of Deferral*". Each amount of Arrears of Distribution shall bear Distribution as if it constituted the principal of the Securities at the prevailing Distribution Rate (the "**Additional Distribution Amount**"). Save for certain restrictions, the Issuer may, at its sole discretion, elect to defer further any Arrears of Distribution by complying with the foregoing notice requirement applicable to any deferral of an accrued Distribution, and is not subject to any limit as to the number of times Distributions and Arrears of Distribution can or shall be deferred. See "*Terms and Conditions of the Securities – Distributions – Distribution Deferral*".

The Securities are perpetual securities in respect of which there is no fixed redemption date. However, the Issuer may at its sole discretion, subject to the satisfaction of the Redemption and Purchase Condition, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities (i) on the First Call Date and on any Distribution Payment Date thereafter at their principal amount together with any Distributions accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount); (ii) upon the occurrence of a Gross-Up Event at their principal amount together with any Distributions accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount); (iii) upon the occurrence of an Equity Credit Classification Event, a Regulatory Event or an Accounting Event at (A) 101 per cent. of their principal amount together with any Distributions accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount) if such redemption occurs prior to the First Call Date or (B) their principal amount together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount) if such redemption occurs on or after the First Call Date; or (iv) if the aggregate principal amount of the Securities outstanding is less than 20 per cent. of the aggregate principal amount of the Securities originally issued, at their principal amount, together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount). See "*Terms and Conditions of the Securities – Redemption and Purchase*".

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

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

Pursuant to the Notice of the National Development and Reform Commission on Promoting the Administrative Reform of the Recordation and Registration System for Enterprises' Issuance of Foreign Debts (Fa Gai Wai Zi [2015] No.2044)(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044號)) issued by the National Development and Reform Commission of the PRC or its local counterparts (the "**NDRC**") on 14 September 2015 which came into effect on the same day and any relevant rules and regulations from time to time issued by the NDRC (together, the "**NDRC Regulations**"), Fosun International Limited, the parent company of Fosun High Technology (Group) Co., Ltd., and Fosun International Limited's subsidiaries, including the Guarantor, have been granted a quota of foreign debt (the "**NDRC Quota**") by the NDRC on 27 March 2020. Under the NDRC Regulations, as the Securities will be issued within the NDRC Quota, the Guarantor is not required to complete the pre-issuance registration in respect of the Securities with the NDRC but is still required to file with the NDRC the requisite information on the issuance of the Securities after the issuance of such Securities. The Guarantor will be required to provide the requisite information in relation to the issuance of the Securities to the NDRC within ten PRC business days as prescribed by the NDRC Regulations.

Investors should be aware that the Securities are perpetual in tenor and that they have no right to require redemption, that Distributions may be deferred in the circumstances set out in "*Terms and Conditions of the Securities – Distribution Deferral*", that there are limited remedies for default under the Securities and that there are various other risks relating to the Securities, the Issuer, the Guarantor and its subsidiaries, their business and their jurisdictions of operations which investors should familiarise themselves with before making an investment in the Securities. See "*Risk Factors*" beginning on page 21.

The Securities and the Guarantee described in this Offering Circular have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state of the United States or other jurisdiction, and the Securities and the Guarantee may not be offered or sold within the United States except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act and applicable state or local securities laws. For a description of these and certain further restrictions on offers and sales of the Securities and the distribution of this Offering Circular, see "*Subscription and Sale*".

PRIIPs Regulation – Prohibition of sales to EEA and UK retail investors – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA") – In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Securities are expected to be rated "Baa2" by Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("**Moody's**"). Such rating of the Securities does not constitute a recommendation to buy, sell or hold the Securities and may be subject to revision or withdrawal at any time by either such rating organisation. Each such rating should be evaluated independently of any other rating of the Securities, the Issuer's or the Guarantor's other securities or of the Issuer or the Guarantor. The Guarantor has been rated "A3" by Moody's and "A-" by A.M. Best Company, Inc. ("**A.M. Best**").

The Securities will initially be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date, with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for the Securities will not be issued in exchange for interests in the Global Certificate.

Joint Lead Managers

Citigroup **HSBC**

Offering Circular dated 20 October 2020

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange for the purpose of giving information with regard to the Issuer and the Guarantor. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries that, to the best of its knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Issuer and the Guarantor having made all reasonable enquiries, confirm that (a) this Offering Circular contains all information with respect to the Issuer, the Guarantor and Group (as defined below), the Securities and the Guarantee (including all information which, according to the particular nature of the Issuer, the Guarantor, the Group, the Securities and the Guarantee is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Guarantor and the Group and of the rights attaching to the Securities and the Guarantee) and does not contain any untrue statement of a material fact, including, without limitation, with respect to the Issuer and the Guarantor, the Group, and the Securities and the Guarantee, or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; (b) the opinions, statements of intentions, belief or expectation expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly and reasonably made or held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; and (c) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements in this Offering Circular.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Each person receiving this Offering Circular acknowledges that such person has not relied on any Joint Lead Managers named in the section entitled "*Subscription and Sale*" (each, a "**Joint Lead Manager**" and together, the "**Joint Lead Managers**"), any other person affiliated with the Joint Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision.

No person has been or is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents. The delivery of this Offering Circular at any time does not imply that the information contained herein is correct as at any time subsequent to its date. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Guarantor, any of the Joint Lead Managers, the Trustee or the Agents to subscribe for or purchase, any of the Securities and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Lead Managers to inform themselves about and to observe any such restrictions. Distribution of this Offering Circular to any person other than the recipient is prohibited. For a description of certain further restrictions on offers and sales of Securities and the distribution of this Offering Circular, see "*Subscription and Sale*".

None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisers has independently verified the information contained or incorporated in this Offering Circular. Accordingly, no representation or warranty, express or implied, is made or given by any of the Joint Lead Managers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by any of the Joint Lead Managers, the

Trustee or any of the Agents. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Issuer, the Guarantor, any of the Joint Lead Managers, the Trustee or any of the Agents that any recipient of this Offering Circular should purchase the Securities. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer, the Guarantor and the Group (as defined below) and the merits and risks involved in investing the Securities. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Securities. Each investor contemplating purchasing Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Each potential purchaser of the Securities should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Securities should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisers accepts any responsibility for the contents of this Offering Circular. Each of the Joint Lead Managers, the Trustee, the Agents and their respective affiliates, directors or advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisers undertakes to review the results of operations, financial condition or affairs of the Issuer, the Guarantor or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Securities of any information coming to the attention of the Joint Lead Managers, the Trustee or the Agents.

Listing of the Securities on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Group, the Securities or the Guarantee. In making an investment decision, prospective investors must rely on their examination of the Issuer, the Guarantor, the Group and the terms of this offering, including the merits and risks involved. The Securities have not been approved or recommended by any Hong Kong or other regulatory authority. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this Offering Circular.

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

PRIIPs Regulation – Prohibition of sales to EEA and UK retail investors – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID**

II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

None of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates or representatives is making any representation to any offeree or purchaser of the Securities offered hereby regarding the legality of any investment by such offeree or purchaser under applicable legal investment or similar laws. Each prospective purchaser of the Securities should consult with its own advisers as to legal, tax, business, financial and related aspects of a purchase of the Securities.

The distribution of this Offering Circular and the offer and sale of the Securities may, in certain jurisdictions, be restricted by law. Each purchaser of the Securities must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Securities or possesses or distributes this Offering Circular, and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes purchases, offers or sales. There are restrictions on the offer and sale of the Securities, and the circulation of documents relating thereto, in certain jurisdictions, including the United States, the United Kingdom, the European Economic Area, Hong Kong, the PRC, the British Virgin Islands, Japan, Singapore and Taiwan, and to persons connected therewith. See "*Subscription and Sale*".

Presentation of Financial Information

The Guarantor prepares its consolidated financial statements in accordance with the Hong Kong Financial Reporting Standards (the "**HKFRS**"). The Guarantor's summary consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2017, 2018 and 2019 and consolidated statements of financial position as at 31 December 2017, 2018 and 2019, as set out in the section entitled "*Selected Consolidated Financial Information and Operating Data*", have been derived from the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019, which have been audited by Ernst & Young, the independent auditor of the Guarantor and a member of Hong Kong Institute of Certified Public Accountants ("**EY**"). Such summary consolidated financial information of the Guarantor should be read in conjunction with the audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2018 and 2019 and the notes thereto, which are included elsewhere in this Offering Circular. The Guarantor's consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2019 and 2020 and the Guarantor's summary consolidated statement of financial position as at 30 June 2020, as set out in the section entitled "*Selected Consolidated Financial Information and Operating Data*", have been derived from the Guarantor's unaudited but reviewed consolidated financial statements as at and for the six months ended 30 June 2020. Such summary interim consolidated financial information of the Guarantor should be read in conjunction with the unaudited but reviewed consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2020 and the notes thereto, which are included elsewhere in this Offering Circular.

"*Preface to Hong Kong Financial Reporting Standards*" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") sets out the relationship between HKFRS and International Financial Reporting Standards ("**IFRS**"). The Council of HKICPA (the "**Council**") has a policy to achieve convergence of HKFRS with IFRS. Each HKFRS issued by the Council contains information about the extent of compliance with the equivalent IFRS. Where the requirements of a HKFRS and an IFRS differ, the HKFRS should be followed by entities reporting within the area of application of the HKFRS. As at the date of this Offering Circular, there are no differences between HKFRS and IFRS which will impact the financial position and results of operations of the Group.

Certain Definitions

Unless otherwise specified or the context requires, references to "**Hong Kong dollars**" and "**HK$**" are to the lawful currency of Hong Kong, references to "**RMB**" are to Renminbi, the lawful currency of the PRC, references to "**Euro**" are to the lawful currency of the European Union, references to "**U.S.$**" and "**USD**" are to United States dollars, references to "**Yen**" are to the lawful currency of Japan and references to "**HKFRS**" are to Hong Kong Financial Reporting Standards issued by HKICPA.

References to "**China**", "**Mainland China**" and the "**PRC**" in this Offering Circular mean the People's Republic of China (excluding for the purpose of this Offering Circular, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan, the Republic of China), references to "**Hong Kong**" are to the Hong Kong Special Administrative Region, references to "**Macau**" are to the Macau Special Administrative Region and references to "**Taiwan**" are to Taiwan, the Republic of China.

All references to the "**Issuer**" herein are to Peak Re (BVI) Holding Limited, a company incorporated in the British Virgin Islands with limited liability. All references to "**Peak Re**" or the "**Guarantor**" herein are to Peak Reinsurance Company Limited, a company incorporated in Hong Kong with limited liability and references to the "**Group**" are to Peak Re and all of its direct and indirect subsidiaries unless otherwise provided. Certain of Peak Re's subsidiaries are not wholly owned, as described more fully herein.

Rounding

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

Industry and Market Data

Market data and certain industry forecasts used throughout this Offering Circular have been obtained based on internal surveys, market research, publicly available information, industry publications and third party reports. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts, market research and third party reports, while believed to be reliable, have not been independently verified, and none of the Issuer, the Guarantor, the Joint Lead Managers or their respective directors and advisers makes any representation as to the correctness, accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

FORWARD-LOOKING STATEMENTS

There are statements in this Offering Circular which contain words and phrases such as "aim", "anticipate", "assume", "believe", "contemplate", "continue", "estimate", "expect", "future", "goal", "intend", "may", "objective", "plan", "predict", "positioned", "project", "risk", "seek to", "shall", "should", "will likely result", "will pursue", "plan" and words and terms of similar substance used in connection with any discussion of future operating or financial performance or the Group's expectations, plans, projections or business prospects. However, these words are not the exclusive means of identifying forward-looking statements. In particular, the statements under the headings "*Risk Factors*" and "*Description of the Guarantor*" regarding the Group's financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on the Group's income or results of operations could materially differ from those that have been estimated. For example, turnover could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realised.

Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as at the date of this Offering Circular. Except as required by law, the Group is not under any obligation, and expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to the Group or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Offering Circular.

TABLE OF CONTENTS

SUMMARY

Terms used in this summary and not otherwise defined shall have the meanings given to them elsewhere in this Offering Circular. The following summary is qualified in its entirety by, and is subject to, the detailed information and the financial statements contained elsewhere in this Offering Circular. Prospective investors should therefore read this Offering Circular in its entirety.

Overview

The Guarantor, incorporated in 2010 and commenced operation in late 2012, is a global reinsurance company authorised by the Insurance Authority of Hong Kong (the "**IA**") and headquartered in Hong Kong. The Guarantor is one of the few locally established reinsurance companies in the Asia Pacific region to underwrite both property and casualty ("**P&C**") and life and health ("**L&H**") reinsurance. The Guarantor is rated "A3 (stable)" by Moody's and "A- (stable)" by A.M. Best, and was named amongst the top 30 global reinsurers in terms of net written premiums in the S&P Top 40 Global Reinsurance Groups 2020. The Guarantor was named "Asian Reinsurer of the Year" by the Asian Banking and Finance Magazine for five consecutive years since 2016.

The Guarantor has established an Asia-focused but globally diversified business over the years by gradually diversifying its exposure outside of the Asia Pacific region, and across several lines of business. It now offers reinsurance capacity to clients across the Asia Pacific, the Americas as well as Europe, the Middle East and Africa (the "**EMEA**"). In 2015, to enhance its proximity and offerings to European clients, the Guarantor opened a branch office in Zurich, Switzerland, and in December 2016, the Guarantor's subsidiary in Zurich, Switzerland, Peak Reinsurance AG, received a licence from the Swiss Financial Market Supervisory Authority ("**FINMA**") to operate P&C reinsurance business from January 2017. Peak Reinsurance AG was incorporated in September 2016 and authorised to accept P&C reinsurance business from January 2017. In August 2016, the Guarantor completed a strategic investment to acquire a 50 per cent. stake in the Caribbean insurer, NAGICO Holdings Limited ("**NAGICO**"). During the course of 2016, the Guarantor also obtained a licence from the IA to write aviation business, thereby becoming fully licensed to write all lines of P&C reinsurance. In June 2017, the Guarantor received authorisation from the Monetary Authority of Singapore as a life and general reinsurer in Singapore. On 1 July 2017, the Guarantor was granted a licence by the Labuan Financial Services Authority to conduct general reinsurance business through its newly established Labuan branch in Malaysia. In December 2018, the Guarantor launched the first reinsurance sidecar transaction in Asia via a new Bermuda-domiciled special purpose insurer, Lion Rock Re Ltd. ("**Lion Rock Re**"). In April 2020, as part of the Guarantor's plan to build its insurance-linked securities ("**ILS**") platform to enhance its capital capabilities and secure a stable stream of low risk income, the Guarantor acquired Lutece Holdings Ltd., a Bermuda-based ILS investment specialist (renamed as Peak Capital Holdings Ltd ("**Peak Capital**")) and its subsidiaries, including Lutece Investment Management Ltd. (renamed as Peak Capital Ltd.). The Guarantor believes that its growing global platform provides it with enhanced strategic and financial flexibility, enabling it to leverage its risk management and reinsurance capabilities across a wider range of businesses and hedge against market conditions.

Competitive Strengths

The Guarantor believes that it has the following competitive strengths in the markets in which it operates:

Diversified global business with differentiated access and expertise in Asia

The Guarantor was established to support the reinsurance needs of emerging, middle class markets in Asia and around the globe. As a privately-owned, Asia-based global reinsurer, the Guarantor believes it is well positioned to take advantage of the high growth markets across Asia for both life and non-life reinsurance products due to low insurance penetration, as well as to compete and capture significant market opportunities on a global basis. In 2019, the non-life insurance penetration (as measured by premiums as a percentage of gross domestic product) in Asia was only two per cent., compared to eight per cent. in North America and three per cent. in Europe[1]. The reinsurance market is large, with the top 40 players in the global reinsurance market contributing U.S.$247 billion in net reinsurance premiums in 2019[2], and Asia-based reinsurers accounting for approximately 14 per cent. of net reinsurance premiums. The Guarantor believes the more mature, sophisticated markets provide reinsurers access to large and diverse risk pools, while emerging middle class markets, including a large part of Asia, present significant long-term growth opportunities.

The Guarantor has built a global presence with hubs in key locations to access business in markets across the globe, and diversify its sources of risks. The Guarantor's business is anchored in Asia but has also developed a complementary global portfolio, with 35 per cent. in Mainland China, 24 per cent. in the Americas, 11 per cent. in Korea, 11 per cent. in Europe, 10 per cent. in Japan and 9 per cent. in other jurisdictions based on Gross Written Premiums ("**GWP**") for the six months ended 30 June 2020, including P&C and L&H. Its headquarter in Hong Kong provide access to the Mainland China reinsurance market, while maintaining strategic proximity to other markets in Asia. The Hong Kong domicile also allows the Guarantor to provide a more attractive product offering to customers in China through favourable capital treatment via the Equivalence Assessment Framework Agreement on Solvency Regulatory Regime ("**EAFA**"), which was most recently extended until 30 June 2021. The Guarantor's Solvency II compliant Zurich subsidiary enables it to provide P&C reinsurance services and solutions to Western Europe. The Guarantor accesses markets in North America and Asia through its branch, representative office and subsidiary. Its Hong Kong headquarter also allow it to attract international talent and grow efficiently in a favourable tax environment.

The Guarantor underwrites a well-diversified portfolio of risks which allows it to sustain growth and profitability across market cycles while expanding its capital base. It seeks to maintain a balanced portfolio and operates a low volatility underwriting model focusing on traditional risks and proportional treaties which tend to provide stable, relatively predictable underwriting results over a market cycle. It was established as a P&C reinsurer, and in 2014 expanded its solutions offering to include L&H lines to capture the growing needs of L&H insurers in Asia. The Guarantor's P&C business is mostly short tail but it is prudently growing longer tail lines. In addition, about 88 per cent. of its GWP for the year ended 31 December 2019 was proportional treaty business which provides stable and relatively predictable underwriting results.

---

[1] Source: Swiss Re Sigma. Europe refers to advanced EMEA as defined by Swiss Re.
[2] Source: S&P Global. Top 40 Global Reinsurance and Reinsurers By Country: 2020.

The Guarantor has established itself as a leader in the emerging Asia ILS market through the issuance of Asia's first reinsurance sidecars, and the establishment of Peak Capital by way of acquisition. It has established a reputation for structuring high quality securities which provide healthy, diversified returns, which are largely uncorrelated to financial markets. The ILS business allows the Guarantor to generate a growing stream of low-risk fee income by leveraging its leading expertise in Asia risk. In addition, it provides the Guarantor with an additional avenue to optimise its portfolio of risks and deepen its gross underwriting capacity.

Differentiated underwriting capabilities

The Guarantor has achieved consistently strong underwriting performance by taking a differentiated approach to underwriting. It adopts a formalised, collaborative underwriting process which incorporates inputs from underwriting, markets and analytics teams, and leverages its superior access to profitable business in diverse markets and utilises advanced, data-driven analytics.

Formalised, Collaborative Underwriting Process

The Guarantor has formalised a collaborative process, with every underwriting decision based upon qualitative and quantitative inputs from each of the underwriting, markets and analytics teams to provide an unbiased, comprehensive view of each transaction. As a result of its holistic and conservative approach, the Guarantor has produced stable P&C technical combined ratios[3] (excluding the impact of extraordinary losses[4]) in the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 of 94 per cent., 94 per cent., 93 per cent., 98 per cent. and 91 per cent., respectively.

The Guarantor has assembled a seasoned team of high calibre underwriters with diverse, global experience, unique insights across multiple lines of business and markets, and has a proven track record of underwriting profitable business. Underwriters underwrite reinsurance business across lines of business and geographies to maximise operating effectiveness, and collective insights of underwriters are fundamental to developing tailored and efficient risk transfer solutions for clients. The Guarantor's underwriters work closely with its markets team and professional intermediaries to develop insightful, comprehensive and sustainable solutions to clients. Underwriters collaborate with risk and capital management teams at each stage of the underwriting process to ensure the Guarantor's risk and capital requirements are met.

Superior Access to Profitable Business

The Guarantor accesses profitable businesses and manages client relationships through its markets team, which is staffed by seasoned professionals with over 15 years of reinsurance experience on average. In addition to differentiated access to key clients and relationships in their respective regions, the Guarantor's market professionals have deep underwriting expertise across multiple lines of business and work closely with the underwriting and analytics teams to develop unique solutions to address the challenges of clients in each market. It has organically grown its presence to 560 clients in approximately 73 markets as at 31 December 2019 by focusing on establishing enduring and long-term relationships with high quality customers, and providing innovative and forward-looking solutions, tailored to suit the customers' needs. As a result, it has managed to achieve a robust client retention ratio of 94.5 per cent. (representing the percentage of clients that renewed in 2019) for the year ended 31 December 2019.

---

3 Calculated as the sum of P&C net claims incurred and P&C net commissions expenses, divided by P&C net reinsurance contracts earned premiums revenue.

4 Extraordinary losses include losses incurred from severe catastrophe events, which had an adverse effect on the global reinsurance industry, and are deemed to be highly rare occurrences. The Guarantor incurred losses of U.S.$77 million, U.S.$39 million, U.S.$41 million, U.S.$15 million and U.S.$12 million, for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, respectively.

Advanced, Data-Driven Analytics

The Guarantor's underwriting strategy is based on robust, vigorous, analytics-supported risk selection.

It has developed a strong set of analytic capabilities driven by a solid team of data, actuarial and analytics professionals, with aggregate industry experience of over 60 years. The team has developed a proprietary set of methodologies and models to provide comprehensive analytics support to the underwriting team in pricing and risk analysis, including a bespoke real-time risk accumulation tracking system as well as an economic capital model. In order to analyse catastrophe risks, the Guarantor supplements its proprietary infrastructure by licensing comprehensive catastrophe modelling technology from external vendors which have access to larger, global, proprietary databases.

Agile, lean and cost-efficient business

The Guarantor adopts a centralised operating model, with most of its staff located in its headquarters in Hong Kong. It has a centralised underwriting centre in Hong Kong, and utilises its Zurich subsidiary and representative office in Japan to extend its access to clients in respective regions. In April 2020, it established the headquarter of its ILS platform, Peak Capital, by way of acquisition in Bermuda. The Guarantor has a Labuan branch and is registered with the Monetary Authority of Singapore as an authorised reinsurer but has no local physical office in either Labuan or Singapore. It adopts a simple and flat organisation culture to minimise unnecessary overlap and administration, and enhance its decision-making cycle. The Guarantor also leverages technology to enhance the efficiency and effectiveness of its operations. This efficient operating model allows the Guarantor to benefit from economies of scale, as it continues to expand its global operations. The Guarantor has a track record of strong cost management as exhibited by its expense ratio[5] which has steadily declined between 2017 and 2019 – the expense ratio was 3.5 per cent., 3.6 per cent. and 3.4 per cent., in the years ended 31 December 2017, 2018 and 2019, respectively. The decline in the expense ratio has also been driven by the Guarantor's highly skilled and productive staff capable of operating across markets and lines of business. The Guarantor had an average premium per headcount of U.S.$15 million in 2017 and U.S.$17 million in 2019 and achieved a cumulative annual growth rate ("**CAGR**") of 6.6 per cent. for the period from 2017 to 2019.

Track record of strong financial performance

The Guarantor's GWP has grown from U.S.$103.2 million in 2013 to approximately U.S.$1.7 billion in 2019 (a compound annual growth rate of 59.0 per cent.). During the same period, it grew shareholders' equity from U.S.$652.7 million to approximately U.S.$1.1 billion (a compound annual growth rate of 9.0 per cent.). It has managed to produce an after-tax profit every year since its first full year of operations in 2013, despite significant reinsurance industry headwinds including an extended period of soft pricing, as well as severe catastrophe activity. The Guarantor has continued to produce strong underwriting results, delivering a P&C technical underwriting profit (before the impact of extraordinary losses and administrative expenses) of U.S.$42.2 million, U.S.$55.1 million and U.S.$73.0 million in the financial years ended 31 December 2017, 2018 and 2019, respectively. Over the same period, the Guarantor also generated strong growth in accumulated float (net cashflow generated from reinsurance business) at a CAGR of 24.3 per cent. (2017: U.S.$670.8 million; 2018: U.S.$786.4 million; and 2019: U.S.$1,036.4 million). For the six months ended 30 June 2019 and 2020, the Guarantor grew accumulated float by 26 per cent. (for the six months ended 30 June 2019: U.S.$842.3 million; and for the six months ended 30 June 2020: U.S.$1,061.5 million). The Guarantor maintains a prudent investment management strategy which emphasises the maintenance of a diversified portfolio of high quality assets with relatively short duration, which produces regular and predictable income, while protecting against downside risks, and maintaining sufficient liquidity.

[5] Calculated as administrative expenses divided by net reinsurance contracts earned premiums revenue.

Strong capital position and prudent risk management practice

As at 30 June 2020, the Guarantor has had zero debt on its balance sheet, high liquidity ratio (liquid assets to net technical reserves) of 78.7 per cent. and an IA solvency ratio of 358 per cent., well in excess of the statutory minimum requirement of 200 per cent. applicable to general reinsurers regulated by the IA and insurance companies at a consolidated level regulated by the IA. The Guarantor has in place a comprehensive Enterprise Risk Management ("**ERM**") framework and infrastructure to manage its risk profile across exposures – reinsurance underwriting, operations and financial markets, to meet its strategic objectives. As part of its prudent approach to risk management, the Guarantor maintains sufficient liquidity to meet its claims liabilities in a stress scenario. For the year ended 31 December 2019, the Guarantor maintained a modest operating leverage of 109 per cent.[6] The Guarantor employs a self-developed risk-based economic capital model, together with regulatory and rating agency capital models with stress tests to ensure the company is sufficiently capitalised at all times. The Guarantor's strong capital position is evidenced by its "A3 (stable)" rating from Moody's and "A- (stable)" rating from A.M. Best. The Guarantor also uses adequate retrocession protection to protect its balance sheet and financial performance. As a result, the Guarantor has managed to compound the growth of retained earnings and shareholders' equity since inception, further strengthening its financial flexibility.

High quality, diversified and liquid investment portfolio

As at 31 December 2019 and 30 June 2020, the Guarantor had assets under management ("**AUM**") of U.S.$2.0 billion[7] and U.S.$2.0 billion[7], respectively, and the AUM of the Guarantor has grown by a CAGR of 16.4 per cent. between 2017 and 2019. It has in place a robust strategic asset allocation strategy which emphasises the achievement of consistent risk-adjusted returns over the market cycle. The Guarantor maintains a diversified, high quality and liquid investment portfolio, with a strong cash holding, which provides it with the flexibility to adapt to market conditions. As at 30 June 2020, the allocation of the investment portfolio by asset class was as follows: 69 per cent. in fixed income (including bond funds), 15 per cent. in cash, 10 per cent. in equities, 4 per cent. in real estate, and 2 per cent. in private equity and others. Its fixed income assets are diversified across sectors and issuers, and carried an average rating of BBB+ as at 30 June 2020. With its prudent investment strategy, the Guarantor has produced return on average investment of 8.0 per cent.[7], 2.7 per cent.[7] and 3.0 per cent.[7] in the financial years ended 31 December 2017, 2018 and 2019, respectively, despite the challenges caused by depressed interest rates globally.

Experienced management with a best-in-class team

The Guarantor is a leading reinsurer with in-depth local knowledge and experience and is managed by a team of executives with a wealth of experience in the global and regional reinsurance markets. Its seasoned leadership team has more than 20 years' experience on average with the world's top reinsurers and reinsurance brokers such as Swiss Re Ltd, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft (Munich Re), Lloyd's of London, Jardine Lloyd Thompson Group plc and Aon plc. The Guarantor has successfully recruited and retained a diverse team of seasoned and talented professionals which comprise individuals of 17 nationalities, who collectively speak 25 languages and have diverse experience across multiple geographies – on average, each employee has over 15 years of industry experience.

Business Strategies

The Guarantor's business involves assessing and assuming risk for an appropriate return. The Guarantor creates value through its ability to understand, evaluate, diversify and distribute risk. Its strategy is founded on a capital-based risk appetite and the selected risks that the Guarantor believes will allow it to meet its goals for appropriate profitability and risk management within that appetite. The Guarantor's key strategies are outlined below.

---

6 Calculated as P&C net written premiums in the financial year ended 31 December 2019 divided by total equity as at 31 December 2019.

7 Excluding investments in and share of profit of NAGICO.

Establish leadership position as a global reinsurer with strong Asia foothold

The Guarantor seeks to expand its relationships with high quality brokers and clients in Asia, enhance its engagement with existing clients, and increase its leading positions on existing business lines. By deepening its coverage of the Asia reinsurance market, it will be able to access more attractive business, and exert greater control over pricing, deal economics and contract terms. It seeks to achieve these goals by leveraging its solid track record and reputation, introducing new, innovative products, and increasing its participation in existing reinsurance treaties. The Guarantor also seeks to continue its strategy of disciplined, profitable expansion outside of Asia by increasing its product offerings and focusing on building new, high quality, sustainable client relationships in the Americas and EMEA. The Guarantor has built a solid reputation as an innovative reinsurer, and seeks to leverage this advantage to sustain its growth momentum and differentiate itself as a leading global reinsurer.

Further diversify across markets and product offerings

The Guarantor intends to continue diversifying its portfolio of reinsurance to diversify its earnings stream and to provide access to risks that position the Guarantor for future growth. The Guarantor believes its market research and analysis capability is a key competitive advantage, which it intends to leverage in order to develop unique, non-commoditised, higher-margin solutions for its clients. The Guarantor also seeks to continue the prudent expansion of its L&H reinsurance business in Asia and global markets, and its structured solutions business to diversify its portfolio of risks. The Guarantor believes that both geographic and product diversification will enhance its competitive advantage, which would help increase return per unit of risk, provide access to risk worldwide and reduce the overall volatility of results.

Optimise long-term risk-adjusted returns while maintaining sufficient solvency and liquidity

The Guarantor seeks to optimise its return over the reinsurance cycle, while maintaining sufficient liquidity to meet its claims obligations. It adopts a comprehensive, real-time approach towards tracking and managing its portfolio of exposures, supported by a robust and prudent retrocession strategy. In addition, it utilises a proprietary internal economic model to assess its risk capital requirements and support the optimisation of its risk appetite and reinsurance portfolio. The Guarantor will continue to develop and fine tune its risk exposure, and capital structure to sustain superior, risk-adjusted returns across the market cycle. This will be supported by the Guarantor's investments into talent and technology for its underwriting. Also, the Guarantor will continue to adopt a prudent approach to capital management, and seek to maintain a solvency level in excess of regulatory requirements, and a leverage ratio commensurate to its rating and similar to global peers.

Establish leadership in Asia ILS

The Guarantor seeks to grow its scale in ILS and establish itself as the leader in the Asia ILS market. The Asia ILS market remains relatively underdeveloped and the Guarantor plans to continue to be the leader in introducing ILS products in the Asia market. On the other hand, there has been growing interest by global investors in Asian risks, whilst lacking high quality instruments to meet that demand. As an expert in Asian risks with existing local network to both cedants and investors, the Guarantor believes that it is well positioned to take advantage of the market opportunity, and to accelerate the growth of its fee income from ILS business. The Guarantor seeks to accelerate the development of bespoke ILS products in order to engage global investors, and provide cedants and investors with unique investment solutions. The Guarantor intends to continue to use ILS, including but not limited to, reinsurance sidecar, to attract third-party capital to support its business growth and allow it to underwrite larger and more attractive risks. In addition, the Guarantor plans to grow its ILS fund management business through Peak Capital, which generates low risk asset management fee income for the Guarantor.

Enhance operational efficiency through rigorous expense management

Strong underwriting must be complemented with prudent financial management, careful reserving, strong asset management and efficient back-office support in order to achieve the Guarantor's targeted returns. The Guarantor has managed to achieve an industry leading expense ratio through rigorous expense management, which enables it to effectively compete with its larger global peers. As the business grows in scale and complexity, the Guarantor seeks to maintain its low-cost advantage through rigorous expense management, adopting a prudent product and market expansion strategy, and focusing on utilising technology to continuously improve operating efficiency.

Optimise investment portfolio through further diversification

The Guarantor seeks to optimise its investment portfolio through further diversification with the objective of achieving stable and strong risk adjusted return. It has implemented a robust asset allocation strategy which has shown a track record of downside protection for its assets, most notably during the first half of 2020, where the impact to the portfolio was within its modelled scenarios. The Guarantor seeks to continue to expand its investment management capabilities by enhancing in-house research and execution capability, while opportunistically participating in bespoke opportunities in the market which meet its comprehensive investment limits.

Focus on sustaining entrepreneurial culture and effective talent management

The Guarantor has managed to build a robust, world-class franchise since its establishment. It has placed strong emphasis on recruiting, retaining and empowering the best talents in the market, and has managed to instil an entrepreneurial culture in the organisation to foster an innovative and solutions-based approach towards operating. The Guarantor believes that its culture and talent are significant competitive advantages. The Guarantor will seek to recruit talents based on their track record, and how they fit within the Guarantor's organisation, in order to support the Guarantor's strategic growth objectives.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The summary consolidated financial information of the Guarantor as at and for the years ended 31 December 2017, 2018 and 2019 set forth below is derived from audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2018 and 2019 (which have been audited by EY). The summary consolidated financial information of the Guarantor as at and for the six months ended 30 June 2019 and 2020 set forth below is derived from the Guarantor's unaudited but reviewed consolidated financial statements as at and for the six months ended 30 June 2020 (which have been reviewed by EY). Information contained in or derived from these financial statements may change if an audit had been conducted. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisers makes any representation or warranty, express or implied, regarding the accuracy, completeness or sufficiency of such interim unaudited but reviewed consolidated financial statements, and potential investors therefore should not rely upon such information as providing the same quality as audited information, and investors must exercise caution when using such information to evaluate the Group's financial condition and results of operations. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers has independently verified any of the information contained therein and can give assurance that such information is accurate, truthful or complete. The Guarantor's financial statements for any interim period should not be taken as an indication of the expected financial condition and results of operations of the Group for the full financial year. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Guarantor, which are included in the F-pages of this Offering Circular. Historical results are not necessarily indicative of results that may be achieved in any future period.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2017	2018	2019	2019	2020
	(audited)	*(audited)*	*(audited)*	*(unaudited)*	*(unaudited)*
	U.S.$	*U.S.$*	*U.S.$*	*U.S.$*	*U.S.$*
GROSS WRITTEN PREMIUMS	1,098,346,198	1,381,891,328	1,664,590,491	815,890,258	855,879,430
Gross earned premiums	926,222,183	1,264,916,291	1,579,760,814	732,140,082	834,738,723
Retrocessionaires' share of gross earned premiums	(125,528,463)	(282,629,245)	(341,140,492)	(162,109,448)	(197,349,665)
Net reinsurance contracts earned premiums revenue	800,693,720	982,287,046	1,238,620,322	570,030,634	637,389,058
Investment income	106,653,846	41,964,662	47,256,593	32,070,620	961,565
Commission income	29,071,119	72,979,831	81,797,548	42,972,160	51,155,281
Foreign exchange gains	2,739,099	9,884,549	6,934,322	2,265,012	1,559,431
Total revenue	939,157,784	1,107,116,088	1,374,608,785	647,338,426	691,065,335
Gross claims paid and payable	(387,848,737)	(620,430,023)	(824,941,013)	(397,850,285)	(478,787,625)
Retrocessionaires' share of claims paid	32,097,751	111,711,214	222,003,592	100,134,503	123,851,531
Change in gross reinsurance outstanding claims	(324,184,517)	(314,644,150)	(536,424,220)	(217,231,225)	(87,140,132)
Change in retrocessionaires' share of outstanding claims	49,327,885	133,292,912	228,140,729	74,446,389	(351,795)
Net claims incurred	(630,607,618)	(690,070,047)	(911,220,912)	(440,500,618)	(442,428,021)
Commission expense	(235,906,325)	(364,578,557)	(381,711,908)	(178,263,322)	(206,753,361)
Administration expenses	(27,873,348)	(35,016,981)	(41,613,650)	(23,325,525)	(26,424,515)
Finance costs on lease liability	–	–	–	–	(376,288)
Other expenses	(1,475,245)	(3,749,608)	(1,964,517)	(954,697)	(332,795)
Total expenses	(895,862,536)	(1,093,415,193)	(1,336,510,987)	(643,044,162)	(676,314,980)
Profit before share of profit of associates and joint ventures	43,295,248	13,700,895	38,097,798	4,294,264	14,750,355
Share of (loss)/profit of associates	(8,006,500)	3,535,000	(5,995,519)	2,327,981	5,667,096
Share of profit of joint ventures	–	–	6,628,759	–	1,912,179
PROFIT BEFORE TAX	35,288,748	17,235,895	38,731,038	6,622,245	22,329,630
Income tax credit/(expense)	(4,760,220)	2,284,168	(3,852,040)	(1,080,955)	(1,353,049)
PROFIT FOR THE YEAR/PERIOD	30,528,528	19,520,063	34,878,998	5,541,290	20,976,581
OTHER COMPREHENSIVE INCOME					
Other comprehensive income to be reclassified to profit or loss in subsequent years/periods:					
Available-for-sale investments					
Changes in fair value	26,739,534	(91,959,835)	86,704,081	75,268,338	(14,652,378)
Reclassification adjustments for losses/(gains) on disposal included in the consolidated statement of profit or loss	20,225,586	(18,710,396)	10,802,394	6,145,484	8,389,282
Income tax effect	(6,474,009)	8,249,747	(3,822,761)	3,968,149	(88,358)
	40,491,111	(102,420,484)	93,683,714	77,445,673	(6,351,454)
Share of other comprehensive (loss)/income of an associate	(509,500)	23,000	516,500	–	(1,606,000)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD	39,981,611	(102,397,484)	94,200,214	77,445,673	(7,957,454)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD	70,510,139	(82,877,421)	129,079,212	82,986,963	13,019,127

Consolidated Statement of Financial Position

	As at 31 December			As at 30 June
	2017	2018	2019	2020
	(audited)	*(audited)*	*(audited)*	*(unaudited)*
	U.S.$	*U.S.$*	*U.S.$*	*U.S.$*
ASSETS				
Intangible assets	139,663	7,109	15,267	11,416
Right-of-use assets	–	–	–	17,016,730
Goodwill	–	–	–	357,250
Property and equipment	243,044	243,650	179,888	2,085,156
Investment in associates	45,969,500	66,537,500	61,058,481	65,119,577
Investment in joint ventures	–	–	61,440,825	62,559,800
Held-to-maturity investments	37,091,953	29,220,607	24,678,801	20,650,467
Available-for-sale investments	894,160,585	1,203,268,182	1,454,661,007	1,415,641,297
Investments at fair value through profit or loss	149,786,285	81,748,439	78,128,516	52,173,917
Loans and receivables	150,355,595	126,807,869	119,874,260	119,878,662
Deferred acquisition costs	145,010,723	159,002,597	183,520,774	186,810,613
Prepayments, deposits and other receivables	30,915,144	19,080,006	20,604,973	24,043,392
Retrocession assets	150,609,224	325,137,151	553,828,256	562,309,000
Reinsurance receivables	923,623,714	1,533,616,403	1,579,654,841	1,860,363,818
Amount due from holding company	258	2,019,647	3,293,814	3,293,842
Loan to an associate	–	–	–	10,000,000
Deferred tax assets	–	9,385,940	3,674,360	4,629,047
Current tax recoverable	–	106,595	–	–
Cash and cash equivalents	267,541,237	195,075,304	273,561,737	299,310,133
TOTAL ASSETS	2,795,446,925	3,751,256,999	4,418,175,800	4,706,254,117
LIABILITIES				
Reinsurance contracts/policy liabilities	1,378,178,212	1,793,763,590	2,413,625,113	2,508,512,645
Reinsurance payables	470,153,024	939,270,554	811,118,438	1,021,095,952
Derivatives	224,133	2,984,653	–	–
Deferred commission income	22,453,539	35,287,446	33,234,444	38,128,249
Other payables and accrued liabilities	11,328,026	14,459,346	63,555,201	9,635,122
Deferred tax liability	1,144,769	–	–	–
Current tax payable	317,105	–	2,071,982	4,392,013
Lease liability	–	–	–	16,900,387
TOTAL LIABILITIES	1,883,798,808	2,785,765,589	3,323,605,178	3,598,664,368
NET ASSETS	911,648,117	965,491,410	1,094,570,622	1,107,589,749
EQUITY				
Share capital	650,000,000	786,720,714	786,720,714	786,720,714
Reserves	261,648,117	178,770,696	307,849,908	320,869,035
TOTAL EQUITY	911,648,117	965,491,410	1,094,570,622	1,107,589,749

THE OFFERING

This is a summary of the Terms and Conditions of the Securities. Please refer to "Terms and Conditions of the Securities" for a detailed description of the Terms and Conditions. Phrases used in this summary and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Securities".

Issuer . . . . Peak Re (BVI) Holding Limited.

Guarantor . . . . Peak Reinsurance Company Limited.

Issue . . . . U.S.$250,000,000 Perpetual Subordinated Guaranteed Capital Securities.

Guarantee . . . . The Guarantor has irrevocably and unconditionally guaranteed on a subordinated basis the due payment of all sums expressed to be payable by the Issuer under the Securities and the Trust Deed. The obligations of the Guarantor in that respect (the "**Guarantee**") are contained in the Deed of Guarantee, including, but not limited to, an undertaking from the Guarantor that for so long as any of the Securities remains outstanding, the Issuer shall at all times remain a wholly-owned Subsidiary of the Guarantor, whether directly or indirectly.

Status and Subordination of the Securities . . . . . The Securities constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* without any preference or priority of payment among themselves. The rights and claims of the Holders in respect of the Securities are subordinated as provided in Condition 3 of the Terms and Conditions. Any payments obligation of the Issuer in respect of the fees and expenses of the Trustee under the Trust Deed shall not be subordinated.

Subject to the insolvency laws of the British Virgin Islands and other applicable laws, in the event of a Winding-Up of the Issuer, the rights of the Holders to payment of principal, premium and Distributions on the Securities, and any other obligations in respect of the Securities, shall rank, (i) subordinate and junior in right of payment to, and of all claims of, all unsubordinated creditors of the Issuer (including its Policy Holders) and all creditors of the Issuer whose claims are stated to rank senior to the Securities or rank senior to the Securities by operation of law or contract, (ii) *pari passu* in right of payment to, and of all claims of, the holders of Parity Obligations and (iii) senior in right of payment to, and of all claims of, the holders of Junior Obligations, in each case in the manner provided in the Trust Deed.

Status and Subordination of the Guarantee. . . . . The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsecured and subordinated obligations of the Guarantor. The rights and claims of the Holders in respect of the Guarantee are subordinated as provided in Condition 4 of the Terms and Conditions. Any payments obligation of the Guarantor in respect of the fees and expenses of the Trustee under the Trust Deed shall not be subordinated.

Subject to the insolvency laws of Hong Kong and other applicable laws and a claim arising under the Guarantee, in the event of a Winding-Up of the Guarantor, the rights of the Holders to payment of principal, premium and Distributions on the Securities, and any other obligations in respect of the Securities, shall rank (i) subordinate and junior in right of payment to, and of all claims of, all unsubordinated creditors of the Guarantor (including its Policy Holders) and all creditors of the Guarantor whose claims are stated to rank senior to the Securities or rank senior to the Securities by operation of law or contract, (ii) *pari passu* in right of payment to, and of all claims of, the holders of Parity Obligations and (iii) senior in right of payment to, and of all claims of, the holders of Junior Obligations, in each case in the manner provided in the Trust Deed.

Set-off . . . . Subject to applicable laws, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer or the Guarantor in respect of, or arising under or in connection with the Securities or the Guarantee, as the case may be, and each Holder shall, by virtue of his holding of any Securities, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer or the Guarantor. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer or the Guarantor in respect of, or arising under or in connection with the Securities or the Guarantee, as the case may be, is discharged by set-off, such Holder shall, subject to applicable laws, immediately pay an amount equal to the amount of such discharge to the Issuer or the Guarantor (or, in the event of its Winding-Up or administration, the liquidator or, as appropriate, administrator of the Issuer or the Guarantor, as the case may be) and, until such time as payment is made, shall hold such amount in trust for the Issuer or the Guarantor, as the case may be (or the liquidator or, as appropriate, administrator of the Issuer or the Guarantor, as the case may be), and accordingly any such discharge shall be deemed not to have taken place.

Notification . . . . The Guarantor undertakes to file or cause to be filed with the National Development and Reform Commission of the PRC or its local counterparts (the "**NDRC**") the requisite information and documents within ten PRC Business Days after the Issue Date in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt（國家發展改革委關於推進企業發行外債備案登記制管理改革的通知（發改外資[2015]（2044號））issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**").

	The Guarantor shall within fifteen PRC Business Days after submission of such NDRC Post-issue Filing (i) provide the Trustee with a certificate in English (in substantially the form set forth in the Trust Deed) signed by any Authorised Signatory of the Guarantor confirming the submission of the NDRC Post-issue Filing and (ii) give notice to the Holders in accordance with Condition 16 of the Terms and Condition of the same. The Trustee shall have no obligation to monitor and ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to the Holders or any other person for not doing so.
Issue Price.	100.00 per cent.
Form and Denomination.	The Securities are issued in registered form in denomination of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof.
Distributions	Subject to Condition 6.6 of the Terms and Conditions, the Securities shall confer a right on Holders to receive distributions (each, a "**Distribution**") in arrear (i) in respect of the period from, and including, the Issue Date to, but excluding, the First Call Date at 5.35 per cent. per annum (the "**Initial Distribution Rate**"); and (ii) in respect of the period (A) from, and including, the First Call Date to, but excluding, the Reset Date falling immediately after the First Call Date (the "**Second Reset Date**") at the First Relevant Reset Distribution Rate, and (B) (x) from, and including, the Second Reset Date to, but excluding, the Reset Date falling immediately after the Second Reset Date, and (y) from, and including, each Reset Date falling after the Second Reset Date to, but excluding, the immediately following Reset Date, at the Relevant Reset Distribution Rate.
Distribution Payment Date.	Subject to Condition 6.6 of the Terms and Conditions, 28 April and 28 October of each year (each, a "**Distribution Payment Date**"), such Distribution Payment Dates commencing on 28 April 2021.
Distribution Deferral . . .	The Issuer may, at its sole discretion, elect to defer (in whole or in part) any Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the Holders (in accordance with Condition 16 of the Terms and Conditions), the Trustee and the Principal Paying Agent not more than ten nor less than five business days prior to a scheduled Distribution Payment Date unless a Compulsory Distribution Payment Event has occurred.

Arrears of Distribution. .	Any Distribution deferred pursuant to Condition 6.6 of the Terms and Conditions shall remain outstanding in full and constitute "Arrears of Distribution". The Issuer may, at its sole discretion, elect (in the circumstances set out in Condition 6.6(a) of the Terms and Conditions) to defer further any Arrears of Distribution by complying with the foregoing notice requirement applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution can or shall be deferred pursuant to Condition 6.6 of the Terms and Conditions except that Condition 6.6(e) of the Terms and Conditions shall be complied with until all outstanding Arrears of Distribution have been paid in full. Each amount of Arrears of Distribution shall bear Distribution as if it constituted the principal of the Securities at the prevailing Distribution Rate and the amount of such Distribution (the "**Additional Distribution Amount**") with respect to Arrears of Distribution shall be due and payable pursuant to Condition 6 of the Terms and Conditions and shall be calculated by applying the applicable Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the foregoing provisions of Condition 6 of the Terms and Conditions. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added (for the purpose of calculating the Additional Distribution Amount accruing thereafter) to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.
Restrictions in the case of Deferral	If, on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full, each of the Issuer and the Guarantor shall not, and shall procure that none of their Subsidiaries will: (i) declare or pay any discretionary dividends or discretionary distributions or make any other discretionary payment, and will procure that no discretionary dividend, discretionary distribution or other discretionary payment is made, on any of the Junior Obligations or Parity Obligations of the Issuer or the Guarantor save that such restriction shall not apply to payments in respect of (A) any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Issuer or the Guarantor; or (B) any of the Parity Obligations of the Issuer or the Guarantor made on a *pro-rata* basis with payment on the Securities; or

(ii) redeem, reduce, cancel, buy-back or acquire at its discretion, for any consideration any of the Junior Obligations or Parity Obligations of the Issuer or the Guarantor other than (A) a repurchase or other acquisition of securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants of the Issuer or the Guarantor; (B) as a result of the exchange or conversion of the Parity Obligations of the Issuer or the Guarantor for the Junior Obligations of the Issuer or the Guarantor, as the case may be; or (C) in relation to Parity Obligations of the Issuer or the Guarantor, where such redemption, reduction, cancellation, buy-back or acquisition in made on a *pro-rata* basis with a *pro-rata* purchase of Securities,

in each case, unless and until (X) the Issuer or the Guarantor, as the case may be, has satisfied in full all outstanding Arrears of Distribution and Additional Distribution Amounts or (Y) the Issuer, the Guarantor or the relevant Subsidiary of the Issuer or the Guarantor is permitted to do so by an Extraordinary Resolution of the Holders.

Satisfaction of Arrears of Distribution . . . . The Issuer:

(i) may satisfy any Arrears of Distribution (in whole or in part) at any time by giving notice of such election to the Holders (in accordance with Condition 16 of the Terms and Conditions), the Trustee and the Principal Paying Agent not more than ten nor less than five business days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution and all Additional Distribution Amounts on the payment date specified in such notice); and

(ii) in any event shall satisfy any outstanding Arrears of Distribution and any Additional Distribution Amount (in whole but not in part) on the earliest of:

(a) the date of redemption of the Securities in accordance with the redemption events set out in Conditions 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7 of the Terms and Conditions;

(b) the next Distribution Payment Date following the occurrence of a Compulsory Distribution Payment Event or a breach of Condition 6.6(e);

(c) the date on which an order is made or an effective resolution is passed for Winding-Up of the Issuer or the Guarantor; and

(d) the date of any substitution or variation in accordance with Condition 13.3 of the Terms and Conditions.

Expected Issue Date . . . . 28 October 2020.

Maturity Date . . . . There is no maturity date.

Redemption at the option of the Issuer	Subject to satisfaction of the Redemption and Purchase Condition, the Issuer may at its sole discretion, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities on the First Call Date and on any Distribution Payment Date thereafter. On expiry of such notice, the Issuer shall be bound to redeem the Securities on the First Call Date or relevant Distribution Payment Date thereafter at their principal amount together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).
Redemption for Taxation Reasons	Subject to satisfaction of the Redemption and Purchase Condition, the Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders at their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if (a) the Issuer or the Guarantor, as the case may be, informs the Trustee prior to the giving of such notice that the Issuer or the Guarantor has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 of the Terms and Conditions as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction, or any change in the official application or interpretation of such laws or regulations, which change or amendment becomes effective on or after 20 October 2020, and (b) such obligation cannot be avoided by the Issuer (or, as the case may be, the Guarantor) taking reasonable measures available to it. Upon the expiry of any such notice as is referred to in Condition 7.3 of the Terms and Conditions, the Issuer shall be bound to redeem the Securities in accordance with Condition 7.3 of the Terms and Conditions, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such Additional Tax Amounts were a payment in respect of the Securities then payable.

Redemption upon an Equity Credit Classification . . . .

Subject to satisfaction of the Redemption and Purchase Condition, the Issuer may at its sole discretion, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities at (a) 101 per cent. of their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs prior to the First Call Date or (b) their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after the First Call Date, if, before giving such notice, the Guarantor provides notification to the Trustee that an amendment, clarification or change has occurred or will occur in the equity credit criteria, guidelines or methodology of A.M. Best, Moody's or any other rating agency of equivalent international standing and, in each case, any of their respective successors to the rating business thereof (each, a "**Rating Agency**", and together, "**Rating Agencies**") requested from time to time by the Issuer to grant an equity classification to the Securities, which amendment, clarification or change results or will result in a lower equity credit for the Securities than the equity credit assigned by such rating agency immediately before the relevant amendment, clarification or change, provided that any such amendment, clarification or change (including any plan therefor) has not been proposed, circulated or been open for comment on or prior to the Issue Date.

Redemption for Accounting Reasons . .

Subject to satisfaction of the Redemption and Purchase Condition, the Issuer may, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities at (a) 101 per cent. of their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs prior to the First Call Date or (b) their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after the First Call Date, if, before giving such notice, the Guarantor notifies the Trustee that a change or amendment to, or a change or amendment to any interpretation of, HKFRS or any other internationally generally accepted accounting standards that the Guarantor has adopted for the purposes of the Guarantor's consolidated financial statements (the "**Relevant Accounting Standards**"), has occurred or will occur, which change or amendment results or will result in the Securities, in whole or in part, not being permitted to be recorded as "equity" of the Guarantor in the consolidated financial statements of the Guarantor pursuant to the Relevant Accounting Standards.

Redemption upon a Regulatory Event	Subject to satisfaction of the Redemption and Purchase Condition, the Issuer may at its sole discretion, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities at (a) 101 per cent. of their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs prior to the First Call Date or (b) their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after the First Call Date, if a Regulatory Event occurs after the Issue Date.
Redemption in the case of Minimal Outstanding Amount	Subject to the Redemption and Purchase Condition, the Issuer may, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities at their principal amount, together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if, immediately before giving such notice, the aggregate principal amount of the Securities outstanding is less than 20 per cent. of the aggregate principal amount of the Securities originally issued.
Limited right to institute proceedings . .	The right to institute proceedings for Winding-Up is limited to circumstances where payment has become due and is unpaid. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution in accordance with Condition 6.6 of the Terms and Conditions.
Proceedings for Winding Up	If (a) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or the Guarantor, or (b) the Issuer shall not make payment in respect of the Securities or the Guarantor shall not make payment in respect of the Guarantee for a period of ten days or more after the date on which such payment is due, the Issuer or, as the case may be, the Guarantor shall be deemed to be in default under the Trust Deed, the Securities and in the case of the Guarantor, the Guarantee and the Trustee may, subject to the provisions of Condition 10.4 of the Terms and Conditions, institute proceedings for the Winding-Up of the Issuer and/or the Guarantor and/or prove in the Winding-Up of the Issuer and/or the Guarantor and/or claim in the liquidation of the Issuer and/or the Guarantor for such payment.

Substitution or Variation	If a Special Event has occurred and is continuing, then the Issuer may at its sole discretion, subject to Condition 6 of the Terms and Conditions (without any requirement for the consent or approval of the Holders but subject to the Redemption and Purchase Condition) and subject to it having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of Condition 13.3 of the Terms and Conditions have been complied with, and having given not less than 30 nor more than 60 days' irrevocable notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16 of the Terms and Conditions, the Holders, at any time either (a) substitute all, but not some only, of the Securities for, or (b) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the provisions of Condition 13.3 of the Terms and Conditions and subject to the receipt by it of the certificate of the Authorised Signatories of the Guarantor referred to in the Trust Deed) agree to such substitution or variation. The substitution and variation provisions shall not apply to the extent such application would cause the Securities not to be recognised by the Insurance Regulator as regulatory capital (in whole or in part) (including, but not limited to, classification as Tier 1 Capital Securities or Tier 2 Capital Securities under the Relevant Rules then applicable) of the Guarantor. "**Special Event**" means a Gross-Up Event, an Accounting Event, a Regulatory Event, an Equity Credit Classification Event or any combination of the foregoing.
Governing Law	The Trust Deed, the Securities, the Deed of Guarantee and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, except that (a) Clause 10 of the Deed of Guarantee and Condition 4.3 of the Terms and Conditions are governed by, and shall be construed in accordance with, Hong Kong law; (b) Clause 5.2 of the Trust Deed and Condition 3.2 of the Terms and Conditions are governed by, and shall be construed in accordance with, the laws of the British Virgin Islands.
Rating.	The Securities are expected to be rated "Baa2" by Moody's. A rating is not a recommendation to buy, sell or hold the Securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Clearing systems	The Securities will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date, with a common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Securities will not be issued in exchange for beneficial interests in the Global Certificate.

Legal Entity Identifier . .	The Legal Entity Identifier of the Issuer is 549300KB2UHI8ALPSD62.
Clearance and settlement	The Securities have been accepted for clearance by Euroclear and Clearstream under the following codes: ISIN: XS2239623437 Common Code: 223962343
Trustee	The Hongkong and Shanghai Banking Corporation Limited.
Registrar	The Hongkong and Shanghai Banking Corporation Limited.
Transfer Agent	The Hongkong and Shanghai Banking Corporation Limited.
Principal Paying Agent . .	The Hongkong and Shanghai Banking Corporation Limited.
Calculation Agent	The Hongkong and Shanghai Banking Corporation Limited.
Listing	Application will be made to list the Securities by way of debt issues to Professional Investors only on the Hong Kong Stock Exchange. Securities listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies).
Use of Proceeds	The net proceeds of the issue of the Securities, after deducting the fees and other expenses in connection with the issue of the Securities, will be approximately U.S.$249,000,000, which are intended to be used by the Guarantor for strengthening capital and general corporate purposes.
NDRC	Pursuant to the Notice of the National Development and Reform Commission on Promoting the Administrative Reform of the Recordation and Registration System for Enterprises' Issuance of Foreign Debts (Fa Gai Wai Zi [2015] No.2044)(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC on 14 September 2015 which came into effect on the same day and any relevant rules and regulations from time to time issued by the NDRC (together, the "**NDRC Regulations**"), Fosun International Limited, the parent company of Fosun High Technology (Group) Co., Ltd., and Fosun International Limited's subsidiaries, including the Guarantor, have been granted a quota of foreign debt (the "**NDRC Quota**") by the NDRC on 27 March 2020. Under the NDRC Regulations, as the Securities will be issued within the NDRC Quota, the Guarantor is not required to complete the pre-issuance registration in respect of the Securities with the NDRC but is still required to file with the NDRC the requisite information on the issuance of the Securities after the issuance of such Securities. The Guarantor will be required to provide the requisite information in relation to the issuance of the Securities to the NDRC within ten PRC business days as prescribed by the NDRC Regulations.

RISK FACTORS

An investment in the Securities involves certain risks. You should carefully consider the following risk factors and the other information in this Offering Circular before making an investment decision. Any of the risk factors could impact the Guarantor's business, financial condition, operating results or prospects. The market price of the Securities could decline if one or more of these risks and uncertainties develop into actual events. You may lose all or part of your investment.

Risks Relating to the Guarantor's Business

Natural disasters and catastrophic events may expose the Guarantor to unexpected large losses.

The Guarantor's P&C reinsurance business covers losses from natural catastrophic events, such as typhoons, tsunamis, earthquakes, floods, windstorms, hailstorms, tornadoes, severe winter weather, fires, drought, explosions and other natural disasters, the incidence and severity of which are unpredictable.

The effect of a single catastrophic event or series of events, or changes in the relative frequency or severity of catastrophic or other large loss events, could adversely affect the Guarantor's ability to underwrite future business, reduce the Guarantor's earnings, or limit the funds available to make payments on future claims, including to repay the Securities. The effect of an increase in frequency for mid-sized losses in any one reporting period affecting one or more geographical zones, such as an unusual level of typhoon activity, could also result in similar consequences. In addition, events with impacts which are difficult to identify or predict using traditional scenario processes are occurring with greater frequency. For example, the earthquake in Japan in 2011 caused the Fukushima Daiichi nuclear disaster. The earthquake and the nuclear disaster had consequences for the Japanese economy, in particular the automotive industry, which also incurred impacts to companies and other industries around the world. In 2017, hurricanes Harvey, Irma, and Maria caused widespread damages in the North Atlantic and was one of the costliest North Atlantic hurricane seasons on record, causing significant damages to residential and commercial property and infrastructure, economic loss as well as loss of life. Similarly, the flooding and wind damage from Typhoon Jebi in August 2018 resulted in substantial damage to the western part of Japan, including disruptions to land and air travel and significant economic loss. Such chains of events will take on greater importance in the future. The Guarantor has developed a real-time accumulation tracking tool, which helps to make risks and their interdependencies more transparent. However, even though these tools are intended to provide assurance and predict losses, there can be no assurance that these tools effectively manage risk or reduce the Guarantor's exposure to unexpected large losses.

The ability to properly assess its exposure to potential losses caused by natural perils is critical to the Guarantor's ability to generate profits and achieve its business plan. To make such assessments, insurers and reinsurers rely on historical data about perils and exposures and make assumptions about future changes. For example, climate change has an impact on the frequency, severity, occurrence and patterns of atmospheric perils such as windstorm, precipitation or draught and the occurrence of climate phenomena such as rising sea levels. While scientists debate the precise consequences of climate change, it is indisputable that change is under way. This change will have an impact on the relevance of historical data and will increase uncertainty about future developments. Given this added uncertainty, the Guarantor may miscalculate its exposure to natural catastrophes, may not maintain adequate reserves or may not charge an adequate risk premium, which may in turn lead to higher losses than projected and therefore affect the Guarantor's ability to generate a profit in any given financial year.

The Guarantor has defined risk scenarios to manage these exposures in its underwriting regions. For each scenario, an aggregate capacity has been allocated and the Guarantor tracks the utilisation of such capacity closely. Dependencies between scenarios, notably typhoons, are taken into consideration. The Guarantor licenses third party vendor models to analyse its natural catastrophe exposures per scenario and in aggregate, and retrocession is bought to manage the overall limits. In addition, the Guarantor has a strong analytics team which enables management to evaluate risks according to its own assessments.

However, there can be no assurance that these models and analyses are effective in all circumstances. The underlying data may be inaccurate or the nature of the catastrophe may change over time, which may result in a larger than expected aggregate exposure for the Group and cause the Guarantor to record a significant loss for any financial year. Any of these factors can have a material adverse effect on the Guarantor's profitability and results of operations.

The outbreak of severe communicable diseases and other one-off events such as pandemics can have an adverse effect on the Guarantor's business, earnings from its underwriting business and its investment portfolio.

The outbreak of severe communicable diseases and other one-off events such as pandemics, which are beyond the Guarantor's control, can have an adverse effect on the Guarantor's earnings from its underwriting business and its investment portfolio. For example, in December 2019, a case of a novel strain of coronavirus, known as "COVID-19", was identified in the PRC. The pandemic has since spread globally to other countries, including multiple regions within the Asia Pacific, Europe, the United States and parts of Africa and South America and there have been increased infection and fatality rates across the world. On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. The Guarantor does not have material exposures in lines of reinsurance business that are particularly affected by the COVID-19 pandemic, such as business interruption, event cancellation, travel insurance and worker's compensation, and for the Guarantor's main business lines, pandemics are typically excluded from coverage. While the Guarantor believes that its overall exposure to any impact from the COVID-19 pandemic will be limited, there can be no assurance that the Guarantor's business will not be affected as the COVID-19 pandemic continues to develop. The impact of the COVID-19 pandemic on the reinsurance sector may be uncertain and difficult to predict, as it will depend on a number of variables which are outside of the control of the Guarantor, such as the nature of perils, the extent of government intervention and support and the availability and timing of any vaccine or other effective treatment.

The COVID-19 pandemic has also caused increase in volatility in global financial markets since February 2020. Market interest rates have declined significantly, with the 10-year United States Treasury bond falling below 1.00 per cent. for the first time on 3 March 2020. The continued significant volatility in global financial markets could have an adverse impact on the Guarantor's investment portfolio and, in particular, its fixed income (including bond funds) and equities investments, which comprise 69 per cent. and 10 per cent. of the Guarantor's overall investment portfolio as at 30 June 2020, respectively. The recovery of the global capital markets will depend on various factors such as the introduction of fiscal and monetary stimulus measures by governments. While the Guarantor believes that its investment portfolio is of a high quality and sufficiently diversified, both in terms of asset type and geographical exposure, to mitigate the impact of any such market volatility, there can be no assurance that its investment portfolio may not be affected by increased or protracted volatility in international financial markets due to outbreaks of severe communicable diseases and other one-off events such as pandemics in the future.

Any future outbreak of severe communicable diseases which may develop into epidemics or other unforeseen catastrophic events, such as pandemics in Hong Kong and other countries in which the Guarantor operates or elsewhere in the world, may cause disruption to the Guarantor's business and may cause a material adverse impact on the Guarantor's earnings from its underwriting business and investment portfolio.

The Guarantor could face unanticipated losses from manmade catastrophic events.

Risks can occur as a result of legislative, socio-political, scientific, technological and similar changes and are liable to have unmeasured or unknown effects on the Guarantor's portfolio. In addition, the Guarantor may have significant exposure to unexpected and large losses resulting from manmade catastrophic events, such as a large fire, explosion or acts of terrorism. In recent years, examples of manmade events that have had a material effect on the Guarantor's business include the U.S.$0.9 billion[8] total estimated market loss due to a fire in a semi-conductor factory in Wuxi, China in 2013 and a U.S.$2.5 billion to U.S.$3.5 billion[9] estimated loss following a major explosion at a port storage facility in Tianjin, China in 2015.

The Guarantor tracks its accumulations for individual risks from its fire, personal accident, credit and bond portfolio and agriculture and manages them to a limit system. An individual loss identifies individual risk for a building or a singularly insured entity, for example fire damage to a large plant as distinguished from a real loss such as a windstorm or earthquake. A limit system refers to the Guarantor's willingness to assume risk for a single building, a group of people insured under a personal accident programme or the amount of credit risk for any given name, industry or country under the Guarantor's credit and bond portfolio. Terrorism is either excluded from reinsurance contracts or, if not, tracked separately. While the limit system has proven resilient up to the date of this Offering Circular, the Guarantor cannot guarantee that it will always track all exposures given the nature of the reinsurance portfolio, which is written on a portfolio basis with limited single risk information.

It is difficult to predict the timing of manmade catastrophic events or estimate the amount of loss any given occurrence will generate for the Guarantor. If such a manmade catastrophic event were to occur, the Guarantor's reported income could decrease in the relevant period, which could reduce the Guarantor's earnings and ability to underwrite future business.

The Guarantor may not receive sufficient premiums for risks assumed to pay for future losses.

The Guarantor assumes reinsurance risks on a portfolio basis (through reinsurance treaties) or writes a share on a single risk. As part of the underwriting decision, exposure for each business line is assessed using historical data and making adjustments for future changes. The Guarantor uses pricing tools developed internally on the basis of leading actuarial techniques. However, the underwriting information generated may give an inaccurate or incomplete picture of the risk, or the view on future developments may be erroneous, leading to insufficient assessment of future loss probabilities, which in turn could cause the Guarantor to charge insufficient premiums to pay for future losses. In addition, the Guarantor operates in a highly competitive environment, which may limit its ability to charge an adequate premium for the risk. This in turn will impact the Guarantor's ability to cover future claims and other expenses from premium income, potentially leading to the Guarantor recording a loss in any one financial year.

If actual losses exceed the Guarantor's estimated loss reserves, the Guarantor's net income and capital position will be reduced.

The Guarantor's success depends upon its ability to accurately assess the assumed risks associated with the businesses that it reinsures. In accordance with applicable law and actuarial best practice, the Guarantor maintains reserves arising from its reinsurance operations. These include reserves in connection with reinsurance contract liabilities for outstanding claims and unearned premium reserves to cover the Guarantor's estimated liability for both reported and unreported claims at a level that represents the Guarantor's best estimate of ultimate loss and loss adjustment expenses.

Additional claims may emerge due to late reporting by cedants; reported claims may be under-reserved due to incomplete loss information or an increase in the cost of settlement leading to an increase in overall cost. To mitigate the risk, the Guarantor closely monitors loss trends, uses benchmark and industry data, and retains services of independent actuarial firms.

---

8 Source: 黃俊玲,'海力士大火估損9億美元 恐成國內最大保險理賠案', *Hexun* (online, 20 December 2013) <http://insurance.hexun.com/2013-12-20/160749543.html>.

9 Source: Swiss Re Institute, 'Natural catastrophes and man-made disasters in 2015: Asia suffers substantial losses' (31 March 2016) *sigma* 1/2016, 5 <https://www.swissre.com/institute/research/sigma-research/sigma-2015-02.html>.

To the extent reserves are insufficient to cover outstanding claims or claim adjustment expenses, the Guarantor would be required to add to these reserves and incur a charge to its earnings. In addition, there may be regulatory and/or legislative changes that impact the Guarantor's required reserve levels which the Guarantor cannot anticipate and that may render its reserves insufficient. Such an insufficiency in reserves could have a material adverse effect on the Guarantor's results of operations and ability to underwrite future business.

For a further discussion on the Guarantor's reserving policy, see "*Description of the Guarantor – Reserving*".

If the Guarantor fails to identify, assess and manage emerging risks in a timely manner, the Guarantor's business, results of operations, financial condition and prospects could be adversely impacted.

In an ever-changing environment, the Guarantor is exposed to emerging risks (i.e. risks which have not been fully identified or recognised yet) that will impact the run-off results from assumed past liabilities. Examples of such emerging risks include the risks associated with cyber security, climate change and the geopolitical environment. While underwriters and claims personnel maintain a constant dialogue with markets, experts and relevant stakeholders and monitor trends in order to identify, assess and manage emerging risks and their potential impact early on, emerging risks are complex and inherently uncertain. Unlike other types of risks, past experience may not be a reliable guide to the future potential impact of emerging risks and the lack of historical data makes it difficult to accurately quantify and predict the trajectory of emerging risks. Even if a risk has been identified and thoroughly assessed, the increasing interconnection between risks and their flow-on effects and the difficulty in predicting the timing and scope of their impact, may in turn hinder timely risk mitigation and management. If the Guarantor fails to identify, assess and manage emerging risks in a timely manner, the Guarantor's business, results of operations, financial condition and prospects could be adversely impacted.

Insured benefits from the Guarantor's L&H business may be higher than expected.

As part of the L&H business, the Guarantor assumes biometric and customer behaviour risk. Exceptional one-off events, such as a pandemic, may lead to a short-term decline in the value of the portfolio. An increase in life expectancy of policyholders (i.e. longevity) may translate into higher than expected pay-out ratios than what the Guarantor originally accounted for. Inversely, an increase in mortality may lead to a change in the actuarial assumptions affecting the value of the life portfolio. Changes in the frequency in which a disease appears in an insured population or increases in the cost of treatment influence the value of the health portfolio.

The Guarantor manages short-term event scenarios and has defined limits for the number of loss per life and for the number of lives that it is willing to assume in case of a catastrophic event. In excess of those limits, reinsurance retrocession is purchased by the Guarantor to ensure sufficient capacity. The underlying actuarial assumptions and rating rules are defined by an appointed actuary and reviewed from time to time. However, higher than expected benefit pay-outs or reserve adjustments may adversely impact the financial results of any financial year and impact the Guarantor's earnings or limit the funds available to make future payments, including to repay the Securities.

Any failure of the Guarantor's risk management procedures and models to identify or anticipate future risks could have a material adverse effect on its business, financial condition, results of operations and liquidity and could create a risk of their own.

The Guarantor continually reviews its risk management policies and procedures and will continue to do so in the future. Many of its methods of managing risk and exposures are based upon observed historical market behaviour and statistic-based historical models. As a result, these methods may not predict future exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend on the evaluation of information regarding markets, clients, catastrophe occurrence, or other matters that are publicly available or otherwise accessible to the Guarantor. This information may not always be accurate, complete, up-to-date or properly evaluated. The Guarantor's risk management methods reflect certain assumptions about the degrees of correlation or lack thereof among prices of various asset classes or other market indicators. In times of market turmoil or other unforeseen circumstances, similar to those that occurred in 2001 after 9/11, during the financial crisis in 2008 and 2009 and during the outbreak of COVID-19 in 2020, previously uncorrelated indicators may become correlated, or previously correlated indicators may move in different directions. These types of market movements may limit the effectiveness of the Guarantor's risk management methods.

Failure (or the perception that the Guarantor has failed) to develop, implement, monitor and, when necessary, pre-emptively upgrade to address evolving risks, its risk management policies and procedures could, at the very least, give rise to reputational issues and have an adverse impact on the Guarantor's ratings (to the extent that any future unexpected loss does not fit within its stated tolerance for risk or is not considered by the rating agencies to be manageable compared to underlying earnings). Risks that the Guarantor fails to anticipate and/or adequately address, could have a material adverse effect on its business, financial condition, results of operations and liquidity.

The Guarantor utilises various models to manage its risks which may prove insufficient or create a risk of their own.

Accurate quantification of major risks at different levels allows the Guarantor's management and its board to make correct strategic and business decisions. Different models have been developed by the Guarantor to meet a variety of needs from different stakeholders. The Guarantor has built an Economic Capital Model ("**ECM**") and uses vendors' models for the assessment of risk. Actuarial models are at the basis of pricing and reserving in both life and non-life reinsurance business. However, models are not an exact replica of the real world and as they may also be subject to uncertainties, limitations or technical defects, the reliance on such models may create a risk of their own. The Guarantor cannot be certain that models it uses or their applications will continue to operate as intended.

Scenario analysis and stress testing are useful ways to complement these models and provide a more holistic picture of the Group's risk profile. While these methods reduce the reliance on model outputs, there is a chance that risk limits or risk appetite will be exceeded because of losses from a single source of risk or multiple sources of risk which were inadequately reflected in the models used. Such an occurrence may have a negative impact on the results of any financial year, and in turn, impact the Guarantor's ability to make future payments, including repayment of the Securities.

Failure (or the perception that the Guarantor has failed) to develop, implement, monitor and, when necessary, pre-emptively upgrade to address evolving risks, its risk management models, policies and procedures, could have an adverse impact on the Guarantor's business, financial condition, results of operations and liquidity.

The Guarantor's ability to generate and grow its business is dependent on its credit rating.

The Guarantor is currently rated "A3" by Moody's, with rating outlook being stable, and "A-" by A.M. Best, a U.S. based rating agency which provides rating services for the insurance industry. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency. The Guarantor's ratings and its ability to potentially obtain additional ratings from other rating agencies or a higher rating over time is critical to the Guarantor's ability to attract business opportunities. The willingness of cedants to offer business to the Guarantor is dependent on its good financial standing as reflected in the Guarantor's ratings. The loss of major clients, the inability to renew existing business or the lack of new business opportunities following a rating downgrade below the current rating levels would have a significant impact on the Guarantor's ability to generate future positive cash flows and therefore impact its ability to service existing liabilities, including repayment of the Securities.

The Guarantor's current ratings could be under threat if its financial condition were to deteriorate following a major loss or if the Guarantor fails to maintain capitalisation commensurate to its risk profile. The Guarantor uses advanced risk management techniques, including ECM, to monitor its risk position and capital adequacy. In addition, the Guarantor buys retrocession to protect its capital position and may from time to time utilise hedging instruments to limit the volatility of its investment returns.

The Guarantor is regulated by the IA and is subject to laws and regulations in the countries in which it operates. Any punitive action by a regulator may impact the reputation of the Guarantor and its ability to do business.

The Guarantor, whose operations are headquartered in Hong Kong, is subject to Hong Kong laws and regulations and regulated by the IA. In addition, the Guarantor's subsidiary in Zurich, Switzerland, Peak Reinsurance AG, received approval in December 2016 from the Swiss Financial Market Authority, FINMA, to operate P&C reinsurance business. Peak Reinsurance AG was incorporated in September 2016 and was authorised to accept P&C reinsurance business from January 2017. While the Guarantor complies with the laws and regulations of Hong Kong and – as far as the subsidiary is concerned – of Switzerland, there is a risk that the Guarantor finds itself in breach and trigger regulatory action. Examples could be the loss of solvency capital following a financial loss, the interference from shareholders or improper behaviour by a manager. The Guarantor manages such risks through its risk, compliance and legal functions, however, any regulatory action may damage the Guarantor's reputation with a negative impact on its ability to retain existing or generate new business, leading to a loss of funds and future income to service its obligations, including the Securities. There is a further risk that as the Guarantor expands into new markets, it creates new exposure to the rules and regulations of those markets. The Guarantor's Labuan branch obtained a licence from the Labuan Financial Services Authority to conduct general reinsurance business on 1 July 2017. The Guarantor was also approved as an authorised reinsurer in Singapore in June 2017 and established a representative office in Tokyo in 2018. In April 2020, as part of the Guarantor's plan to build its ILS capabilities, the Guarantor acquired Bermuda-based Lutece Holdings Ltd. (renamed as Peak Capital Holdings Ltd.) together with its subsidiaries including Lutece Investment Management Ltd. (renamed as Peak Capital Ltd.). While these developments allow the Guarantor to expand and grow its business in different regions and lines of reinsurance business, this expansion also means the Guarantor will be exposed to the rules and regulations governing insurance business in these jurisdictions. The Guarantor offers reinsurance protection to cedants in approximately 73 countries. While most countries allow third country reinsurers to operate in their territory, some have imposed or will impose restrictions on reinsurers which are neither domiciled nor presented by a subsidiary inside their jurisdiction. Any inadvertent breach of host country regulations or any additional hurdles for doing business may negatively affect the Guarantor's ability to generate attractive business and therefore negatively impacting its earnings potential.

The Guarantor may require additional capital in the future, which may not be available or may only be available on unfavourable terms.

The Guarantor's future capital requirements depend on many factors, including but not limited to regulatory requirements, the Guarantor's ability to underwrite new business successfully, the frequency and severity of catastrophic events, and the Guarantor's ability to establish premium rates and reserves at levels sufficient to cover losses. The Guarantor may need to raise additional funds through financings or curtail its growth and reduce its assets. Any equity or debt financing, if available at all, may only be on terms that are not favourable to the Guarantor. Disruption to the financial markets may limit the Guarantor's ability to access capital required to operate its business, and the Guarantor may be forced to delay raising capital or bear a higher cost of capital, which could decrease its profitability and significantly reduce its financial flexibility. In addition, if the Guarantor experiences a credit rating downgrade, withdrawal or negative watch/outlook in the future, the Guarantor could incur higher borrowing costs and may have more limited access to raising capital. If the Guarantor cannot obtain adequate capital on favourable terms or at all, its business, operating results and financial condition could be adversely affected.

Market risk may adversely change the financial condition of the Guarantor.

The Guarantor invests its capital and the premiums which it receives from customers and, consequently, investment results comprise a substantial part of its income. The Guarantor's investments are exposed to market risk (i.e. the risk of a price change in the capital markets), as further discussed below, which can be equities, fixed income (including bond funds) or properties.

The Guarantor invests a portion of its portfolio in common stock and exchange traded funds, which exposes the portfolio to the fluctuations of equity markets. In times of economic weakness, the market value and liquidity of its assets may decline and impact the Guarantor's net income and capital.

The Guarantor's fixed income portfolio is primarily invested in high quality, investment grade securities of limited duration. This portfolio is sensitive to changes in interest rates and risk spreads. Interest rates can be impacted by many factors, including fiscal and monetary policies in major economies, inflation, pandemics and economic and political factors outside of the Guarantor's control. In a declining interest rate environment, the Guarantor will be required to (re-)invest funds at a lower rate, which would have a negative impact on future investment income. In a rising interest rate environment, the market value of the Guarantor's fixed income portfolio may decline.

Interest rate changes can have a potential impact on the life business portfolio. In pricing a life reinsurance transaction, the actuary makes an assumption on the risk free rate for the discounting of future values. If this assumption changes due to changes in interest rates, this may impact the value of mathematical reserves, with an impact on the valuation of liabilities on the balance sheet.

The property portfolio of the Guarantor is exposed to changes in the valuation of real estate, which can depend on, among other factors, the economic environment, occupation rates and rental income. Any significant change in the market value of invested property may trigger a corresponding correction on the balance sheet valuation reducing available income and capital.

The Guarantor has implemented what it believes to be prudent risk management and investment allocation and selection processes. To reduce equity portfolio volatility, hedging options and re-balancing strategies may be used from time to time. However, it should be understood that the Guarantor is exposed to significant market risk which could have adverse implications on future income.

Credit risk may impact the Guarantor's investment and reinsurance portfolios.

The Guarantor assumes credit risk through its underwriting of credit reinsuring through retrocessionaires and through counterparty risk from investments into corporate and government bonds.

In its relatively small credit reinsurance portfolio, the Guarantor reinsures, among other things, the promise by a guarantor to pay one party (the obligee) a certain amount if a second party (the principal) fails to meet a certain obligation, which can be a payment or the fulfilment of a contract, and as a result, the Guarantor bears a counterparty risk on the principal, which is being monitored on a name, industry and country basis.

The Guarantor uses reinsurance (so called retrocession in the case of the Guarantor being a reinsurer) to manage its risk exposures and protect its reinsurance portfolio against major event shocks or earnings deterioration through the retrocession process. The Guarantor only utilises retrocession counterparties of a minimum A- rating quality or requires collateral to reduce credit risk. However, in case of a major shock loss to the entire reinsurance industry, the Guarantor may face difficulties in collecting outstanding receivables from its retrocession counterparties, which would impact the earnings or the net valuations of reinsurance receivable (assets) of any financial year with consequences on the Guarantor's ability to service its debt, including the Securities.

As part of its investment activities, the Guarantor invests in corporate and sovereign bonds, both of which are subject to default risk. While the Guarantor employs prudence and good care in selecting its counterparties, and while the Guarantor uses sound risk management standards to manage its counterparty credit risk from these investments, the financial crisis has shown that sudden and unforeseen changes can cause a deterioration in the bond issuer's ability or willingness to repay principal or to pay interest. The default of any bond will have an impact on the market valuation of the security and negatively impact the income in the applicable financial year with consequences to the Guarantor's ability to fulfil its obligations, including its obligations under the Securities.

The Guarantor is exposed to credit risk relating to its reinsurance brokers and cedants.

In accordance with industry practice, the Guarantor may pay amounts owed under its policies to brokers, which in turn are paid to a ceding insurer. In some jurisdictions, if a broker fails to make such an onward payment, the Guarantor might remain liable to the relevant ceding insurer for the deficiency. Conversely, a ceding insurer may pay premiums to the broker for onward payment to the Guarantor in respect of reinsurance policies issued by the Guarantor. In certain jurisdictions, these premiums are considered to have been paid to the Guarantor at the time that payment is made to the broker, and the ceding insurer is no longer liable to the Guarantor for those amounts, whether or not the Guarantor has actually received the premiums. The Guarantor may not be able to collect all premiums receivable due from any particular broker at any given time. The Guarantor also assumes credit risk by underwriting business on a funds-withheld basis and, under such arrangements, the cedant insurer retains the premium they would otherwise pay to the Guarantor to cover future loss payments.

Foreign currency fluctuations may reduce the Guarantor's net income and capital levels.

The Guarantor underwrites risks originating from many parts of the world and, as such, it is potentially subject to claims from different countries, which in most cases will need to be met in the currencies of the countries in which such claims arise. The Guarantor holds deposits in various foreign currencies as a hedge against potential underwriting liabilities on claims exposure. The Guarantor's principal exposures include Hong Kong dollar, RMB, Yen and the Euro. Assets and liabilities denominated in foreign currencies are exposed to changes in currency exchange rates. The Guarantor's reporting currency is USD, and exchange rate fluctuations relative to the USD may materially impact the Guarantor's results and financial position. In addition, the value of the USD may fluctuate due to changes in the US government's policies and depends to a large extent on U.S. domestic and international economic and political developments, as well as global events and supply and demand in the global market. The Guarantor employs various strategies (including hedging) to manage its exposure to foreign currency exchange risk. To the extent that these exposures are not fully hedged or the hedges are ineffective, the Guarantor's results or equity may be reduced by fluctuations in foreign currency exchange rates.

The Guarantor is exposed to inflation.

Inflation may impact the Guarantor in various ways, including higher costs of indemnification after a claim and higher treatment costs for bodily injuries caused by an accident or in case of illness. Inflation can negatively impact the profitability of the reinsurance portfolio if not properly anticipated at the time of pricing. For some reinsurance products with long periods between the actual accident and the final claim, settlement risk can be mitigated through reinsurance techniques. However, these cannot be imposed in all markets.

Inflationary conditions may affect the Guarantor's investment portfolio through the pressure on interest rates. Higher interest rates would lead to reduced market valuation of an incumbent fixed income portfolio, directly influencing results in the applicable financial year. In reverse, deflationary conditions may result in lower interest rates with consequences to the future income from re-invested assets.

The Guarantor monitors the principal reinsurance and investment markets for inflationary or deflationary tendencies. It should, nevertheless, be understood that the onset, duration and severity of inflationary or deflationary periods cannot be estimated with certainty.

The Guarantor may have to realise invested assets at unfavourable terms to meet liquidity requirements following a major claim.

In case of a major loss, the Guarantor will need to have the liquidity in order to pay claims in a timely manner. The Guarantor monitors its liquidity position and constantly keeps a minimum of 5 per cent. of its shareholder and policyholder funds in cash. In addition, most equity and fixed income instruments are traded in public exchanges in major financial hubs and can be liquidated easily. However, the Guarantor may find itself in a position of having to liquidate a non-liquid investment at unfavourable terms and conditions with negative impact on investment income. The need to invest in highly liquid instruments may limit its ability to maximise investment returns to investors.

Failure to maintain the value of its brand or the loss of a number of major clients could harm the Guarantor's global competitive advantage, results of operations and strategy.

The Guarantor depends on the continued strength and recognition of its brand, including in high-growth markets, as competition intensifies. The Guarantor's brand could be harmed if its public image or reputation were to be tarnished by negative publicity, whether or not true, about it or its industry in general, or by a negative perception of its short-term or long-term financial prospects. While the Guarantor believes that it is not currently materially dependent on business from any one client, its reputation in its chosen markets would also suffer from the loss of major clients and would create a knock-on impact for its financial conditions and consolidated results.

Maintaining, promoting and positioning the Guarantor's brand will depend largely on its ability, as well as the ability of the other members of the Group, to provide consistent, high quality products and services to their clients around the world. Failure to maintain its brand could adversely affect the Guarantor's competitive advantage, results of operations and strategy.

Operational risks, including human or systems failures, are inherent in the Guarantor's business.

Operational risks and losses can result from many sources, including the inability to recruit or retain talent, fraud and errors by employees, failure to document transactions properly, information technology failures or the inability to access premises or vital documents. While the Guarantor uses technology to analyse its business, the generation and assessment of the reinsurance business is highly dependent on the expertise, experience and quality of its staff. The Guarantor has built a strong team culture with low staff turnover. The Guarantor has demonstrated its ability to attract and retain talent from around the world and its employees currently represent 17 different nationalities. Its ability to continue growing and maintain a high level of expertise and market recognition depends on its ongoing capability to maintain a high standard. The formation of new reinsurance companies in China and across the region represents a potential threat to staff retention and could put pressure on remuneration levels with negative implications on the Guarantor's future profitability.

The Guarantor manages its operations to a high degree of efficiency, however, if key processes are understaffed, this may in turn lead to employee frustration and loss of talent. Careful succession planning, talent management and staff motivation techniques are being used to mitigate the risk.

The failure to properly record a transaction may lead to inadvertent payout of claims or disagreements with customers, which ultimately leads to the loss of a client. Lack of oversight over limits and authorisation levels can overexpose the Guarantor to additional risks.

The realisation of operational risk from a breakdown of internal processes to human resource or information technology issues may lead to reputational risk, which damages the good standing of the Group with customers and other stakeholders, potentially leading to a loss of business or profitability.

The loss of executive officers and key personnel could adversely affect the Guarantor's business and reputation.

The Guarantor's ability to execute its business strategy is dependent on its ability to attract and retain a staff of qualified executive officers and other key personnel. Their skills, experience and knowledge of the reinsurance industry constitute important competitive strengths. If some or all of these managers and/or key personnel leave their positions, and even if the Guarantor were able to find individuals with suitable skills to replace them, its operations could be adversely affected.

Cybersecurity events could disrupt the Guarantor's business and result in the loss of critical and confidential information.

The Guarantor is dependent upon the effective functioning and availability of its information technology and application systems platforms, which include software programs such as catastrophe models and analytic and modelling systems. The Guarantor relies on the security of such platforms for the secure processing, storage and transmission of confidential information, including client information. Examples of significant cybersecurity events are unauthorised access, computer viruses, malware or other malicious code or cyber-attacks, catastrophic events, system failures and disruptions and other events that could have security consequences (each, a "**Cybersecurity Event**"). A Cybersecurity Event could materially impact the Guarantor's ability to adequately price products and services, establish reserves, provide efficient and secure services to its clients, brokers, vendors and to communicate with regulators, value its investments and report timely and accurately on its financial results. Although the Guarantor has implemented controls and has taken protective measures to reduce the risk of Cybersecurity Events, the Guarantor cannot reasonably anticipate or prevent rapidly evolving types of cyber-attacks and such measures may be insufficient to prevent a Cybersecurity Event. Cybersecurity Events could expose the Guarantor to a risk of loss or misuse of its information, litigation, reputational damage, violations of applicable privacy and other laws, fines, penalties or losses that are either not insured against or not fully covered by insurance maintained. The Guarantor may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities.

The Guarantor may have difficulty in executing mergers and acquisitions opportunities, which could have a material adverse effect on its business, financial condition and results of operations.

The Group has carried out, and may from time to time continue to carry out, acquisitions (including acquiring additional stakes in entities it already has an investment in) to expand and consolidate its lines of business and support its strategy. For example, in the future, the Guarantor may further increase its existing 50 per cent. stake in NAGICO in order to take advantage of the growth opportunities in the Caribbean and to support the Guarantor's strategy of diversification. However, there are significant risks and uncertainties associated with mergers and acquisitions. These opportunities present a range of risks, including the risk that integration difficulties or a significant decline in asset valuations or cash flows may cause the Guarantor not to realise expected benefits from the transactions, which may affect the Guarantor's results, including adversely impacting the carrying value of the acquisition premium or goodwill. Difficulties in integrating acquired operations could have an adverse effect on the Guarantor for an undetermined period after consummation of an acquisition. In particular, acquisitions may result in business disruptions that cause the Guarantor to lose customers or cause customers to move their business to competing institutions. It is possible that the integration process related to acquisitions could result in the disruption of the Guarantor's ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect its ability to maintain relationships with clients and other counterparties. The loss of key employees in connection with an acquisition could adversely affect the Guarantor's ability to successfully conduct its business.

Interim financial information of the Group contained in this Offering Circular has not been audited.

This Offering Circular contains the Group's unaudited interim condensed consolidated financial information as at and for the six months ended 30 June 2020 (which include the comparative financial information as at and for the six months ended 30 June 2019). Such unaudited interim condensed consolidated financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit. Potential investors should exercise caution when using such data to evaluate the Group's financial condition, operations or results of operations, which should not be taken as an indication of the expected financial condition, operations or results of operations of the Group for the relevant full financial year.

Risks Relating to the Reinsurance Industry

The Guarantor's profitability is affected by the cyclical nature of the reinsurance industry.

Historically, the reinsurance industry has experienced significant fluctuations in operating results due to competition, levels of available capacity, trends in cash flows and losses, general economic conditions and other factors. Demand for reinsurance is influenced significantly by underwriting results of primary insurers, including catastrophe losses, and prevailing general economic conditions. The supply of reinsurance is related directly to prevailing prices and levels of capacity that, in turn, may fluctuate in response to changes in rates of return on investments being realised in the reinsurance industry. If any of these factors were to result in a decline in the demand for reinsurance or an overall increase in reinsurance capacity, the Guarantor's profitability could be impacted. For example, from 2012 to 2017, the P&C reinsurance market has experienced a generally softening market cycle, with increased competition, surplus underwriting capacity, deteriorating rates and less favourable terms and conditions, all having an impact on the Guarantor's decision in underwriting business.

The Guarantor operates in a highly competitive environment.

In the property and casualty business, reinsurance contracts are underwritten on an annual basis. As a result, the entire portfolio is turned over every 12 months, which exposes reinsurers' results to high levels of competition. In this market, the Guarantor competes with European, United States and Bermuda-based international reinsurance companies, as well as some of the regional companies. The Guarantor also competes with new companies in the reinsurance market, as well as newly consolidated entities that may try to use their enhanced market power to obtain a larger market share through increased line sizes.

Competition in the types of reinsurance that the Guarantor underwrites is based on many factors, including the perceived and relative financial strength, pricing and other terms and conditions, services provided, ratings assigned by independent rating agencies, speed of claims payment, geographic scope of business, client and broker relationships, reputation and experience in the lines of business to be underwritten. If competitive pressures reduce the Guarantor's prices, it may cause the Guarantor to underwrite less business. If competitive pressures lead to a softening of treaty terms and conditions, the Guarantor may inadvertently assume risks which were neither priced for nor monitored.

Further, ILS, derivative and other non-traditional risk transfer mechanisms and vehicles are being developed and offered by other parties, which could impact the demand for traditional reinsurance. Several new, proposed or potential industry or legislative developments could further affect growth in the Guarantor's industry. Re-nationalisation of previously open markets limit the amount of premiums ceded to international players. Such trends could cause the demand for reinsurance to fall or the expense of client acquisition and retention to increase, either of which could have a material adverse effect on the Guarantor's growth and profitability.

All of the above factors may adversely affect the Guarantor's profitability and results of operations in future periods, the impact of which may be material, and may in turn adversely affect the Guarantor's ability to successfully execute its strategy as a global diversified reinsurance company. For a further discussion on the Guarantor's competition, see "*Description of the Guarantor – Competition*".

Legal and Regulatory Risks

Political, regulatory, governmental and industry initiatives could adversely affect the Guarantor's business.

The insurance and reinsurance industry is a highly regulated industry. After a period of deregulation, in recent years, the insurance and reinsurance industries have been the focus of increased regulatory scrutiny as regulators in a number of jurisdictions in which the Guarantor operates have conducted inquiries and investigations into the products and practices of the financial services industries. It is difficult to predict what products, practices or parties could come under future regulatory review.

In Hong Kong, the Financial Institutions (Resolutions) Ordinance (the "**FI(R)O**") was passed by the Legislative Council on 22 June 2016 and the FI(R)O came into operation on 7 July 2017. The FI(R)O designates the IA as the resolution authority in relation to insurance sector entities in Hong Kong. The IA is the insurance regulator independent of the government. The FI(R)O provides for, among other things, the establishment of a resolution regime for authorised institutions, global systemically important insurers and other financial institutions and authorised insurers in Hong Kong which are designated as a "within scope" entity (which may, in the future, include the Guarantor). The FI(R)O empowers the relevant resolution authority (which, in the case of authorised insurers, is the IA) to, amongst other things, prescribe loss-absorbing capacity requirements and make rules for the stabilisation, resolution and continued operation through resolution of a within-scope entity. As at the date of this Offering Circular, the Guarantor is not an "insurance sector entity" as defined in FI(R)O.

In addition, the Guarantor is subject to regulatory oversight by the IA under the Insurance Ordinance (Cap. 41) of Hong Kong (the "**HKIO**"). The Guarantor and its reinsurance operations are subject to laws and regulations in Hong Kong which relate to the authorisation to transact certain lines of business, capital and surplus requirements, investment and underwriting limitations, transactions with affiliates, changes in control and a variety of other financial and non-financial components of the Guarantor's business. The Guarantor's reinsurance businesses in Hong Kong and in other jurisdictions are subject to varying degrees of regulation and supervision, and require, among other things, maintenance of minimum levels of statutory capital (including at levels which may be above the statutory minimum requirements), surplus and liquidity, solvency standards and periodic examinations of subsidiaries' financial condition. Any failure by the Guarantor to comply with such requirements may have a material adverse effect on the Guarantor's ability to comply with its obligations under the Securities or on the Group's business, financial condition and results of operations. Offering reinsurance protection to clients in approximately 73 markets exposes the Guarantor and its employees to regulatory or other legal actions if the Guarantor fails to comply with any applicable laws, rules and regulations and international prudential frameworks, including as a result of changes to rules and regulations or the interpretation thereof by relevant regulators, or if, in the view of any regulator or government body, the Guarantor or an employee of the Guarantor acts in an improper way. These actions can result in fines, suspension of the Group's business licences, penalties, prohibitions, restrictions on the Guarantor's business activities or, in extreme cases, business licence revocation, each of which would have a material adverse effect on the Group's business, financial condition and results of operations.

The Guarantor believes it is likely that there will continue to be increased regulation of, and other forms of, government participation (including by the IA) in its industry in the future, which could adversely affect the Guarantor's business by, among other things:

- further restricting the Guarantor's operational or capital flexibility;

- regulating the terms of reinsurance policies; or
- disproportionately benefiting the companies domiciled in one country over those domiciled in another.

It is not possible to predict all future impacts of these types of changes but they could affect the way in which the Guarantor conducts and manages its capital, and may require the Guarantor to satisfy increased capital requirements, any of which in turn could affect the Guarantor's results of operations, financial condition and liquidity.

The Guarantor is unable to predict the effect that governmental actions for the purpose of stabilising the financial markets will have on such markets generally or on the Guarantor in particular.

Because of disruptions in financial markets in recent years, some authorities are considering enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory authority in new and more robust ways, and new regulators could become authorised to oversee parts of the Guarantor's business.

Compliance with any new laws and regulations may result in additional costs which may adversely impact the Guarantor's results of operations, financial condition and liquidity. However, at this time, it is not possible to predict with any degree of certainty whether any other proposed legislation, rules or regulatory changes will be adopted or what impact, if any, such legislation, rules or changes could have on the Guarantor's business, financial condition or results of operations.

Legal and enforcement activities relating to the insurance industry could affect the Guarantor's business and its industry.

In addition to increases in the level of regulatory investigations and proceedings in respect of laws, rules and regulations applicable specifically to the financial services industry, there has been an increase in civil and criminal investigations and proceedings in connection with broader business conduct rules. These include laws, rules and regulations in respect, among others, of antitrust, market abuse, bribery, money laundering and trade sanctions (also known as international trade controls). The insurance industry has also experienced substantial volatility because of litigation, investigations and regulatory activity by various insurance, governmental and enforcement authorities concerning certain practices within the insurance industry. These practices include the accounting treatment for finite reinsurance or other non-traditional or loss mitigation insurance and reinsurance products. The Guarantor does not believe that it has violated the business conduct rules or any other laws, rules and regulations, but it is possible that it could be subject to risks arising from alleged or actual violations of any of the foregoing.

Investigations have resulted in changes in the insurance and reinsurance markets and industry business practices. The consequences of future investigations could include, for example, criminal or civil actions by regulators or lawsuits arising from practices under review, changes in the scope and nature of regulatory oversight of the insurance and reinsurance industries, changes to applicable accounting rules, adoption of new reporting rules, restatement of financial statements, changes to the range of products that are available and a reduction in the use of certain products, changes in the criteria used by ratings agencies and changes to practices in respect of a range of products by both providers and users of products. Investigations can also adversely impact the levels of business, and the stock prices, of industry participants or the Guarantor's counterparties. Any of the foregoing could adversely impact the Guarantor's business, financial condition and results of its operations. While at this time none of these changes have caused an adverse effect on the Guarantor's business, the Guarantor is unable to predict the potential effects, if any, that future investigations may have upon the Guarantor's industry.

As noted above, because the Guarantor frequently assumes the credit risk of counterparties with whom the Guarantor does business throughout the Guarantor's reinsurance operations, the Guarantor's results of operations could be adversely affected if the credit quality of these counterparties is severely impacted by investigations in the insurance industry or by changes to industry practices. In addition, the insurance industry is also affected by political, judicial and legal developments that may create new and expanded theories of liability, which may result in unexpected claim frequency, severity and delays or cancellations of products and services the Guarantor provides, which could adversely affect its business.

The Guarantor may be involved in legal and other proceedings from time to time, and it may face damage to its reputation or legal liability as a result.

In the ordinary course of business, the Guarantor may be involved in lawsuits, arbitrations and/or other formal and informal dispute resolution procedures, the outcomes of which will determine its rights and obligations under insurance, reinsurance and other contractual agreements. From time to time, the Guarantor may institute, or be named as a defendant in, legal proceedings, and it may be a claimant or respondent in arbitration proceedings. These proceedings could involve coverage or other disputes with ceding companies, disputes with parties to which the Guarantor transfers risk under reinsurance arrangements, disputes with other counterparties or other matters. The Guarantor may also be involved, from time to time, in investigations and regulatory proceedings, certain of which could result in adverse judgments, settlements, fines and other outcomes. The Guarantor could also be subject to litigation risks arising from potential employee misconduct, including non-compliance with internal policies and procedures.

The Guarantor cannot predict the outcome of individual legal actions. It may settle litigation or regulatory proceedings prior to a final judgment or determination of liability. The Guarantor may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when it believes that it has a valid defence to liability. The Guarantor may also do so when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the Guarantor may, for similar reasons, reimburse counterparties for their losses even in situations where it does not believe that it is legally compelled to do so. The financial impact of legal risks might be considerable but may be hard or impossible to estimate and to quantify, so that amounts eventually paid may exceed the amount of reserves set aside to cover such risks. There is a possibility that substantial legal liability could materially adversely affect the Guarantor's business, financial condition or results of operations or could cause significant reputational harm, which could seriously harm its business.

The Guarantor's international business is subject to applicable laws and regulations relating to sanctions and foreign corrupt practices, the violation of which could adversely affect the Guarantor's operations.

The Guarantor must comply with applicable economic sanctions and anti-bribery laws and regulations of Hong Kong and the United Nations as well as other applicable economic sanctions and anti-bribery laws and regulations of those jurisdictions in which the Guarantor operates. Although the Guarantor has policies and controls in place that are designed to ensure compliance with these laws and regulations, it is possible that an employee or intermediary could fail to comply with applicable laws and regulations. In such an event, the Guarantor could be exposed to civil penalties, criminal penalties and other sanctions, including fines or other punitive actions. In addition, such violations could damage the Guarantor's business and/or the Guarantor's reputation. Such criminal or civil sanctions, penalties, other sanctions, and damage to the Guarantor's business and/or reputation could have a material adverse effect on the Guarantor's financial condition and results of operations.

Changes in tax legislation and other circumstances that affect tax calculations could adversely affect the Guarantor.

Changes in tax laws and/or the conclusion of new comprehensive double taxation agreements or changes to existing comprehensive double taxation agreements, changes in the interpretation of tax laws or tax regulations in jurisdictions in which the Guarantor does business, or withdrawals of tax rulings in jurisdictions that have issued such rulings to the Guarantor, could increase the level of taxes the Guarantor pays. Likewise, changes in tax laws and/or the conclusion of new comprehensive double taxation agreements or changes to existing comprehensive double taxation agreements, changes in the interpretation of tax laws or tax regulations in jurisdictions relevant to the Guarantor's clients could adversely affect the attractiveness of some of the Guarantor's products for such clients. Changes in corporate tax rates can also affect the value of deferred tax assets and deferred tax liabilities, and the value of deferred tax assets could be impacted by future earnings levels as well as other factors that impact underlying assumptions.

More specifically, the Guarantor also derives benefits from a preferential tax regime in Hong Kong. For business reinsurance activities carried out in Hong Kong, the Guarantor is subject to Hong Kong profits tax at 8.25 per cent., which is half of the prevailing Hong Kong profits tax rate (i.e. 16.5 per cent.) on the assessable profit from such activities. Hong Kong operates a territorial basis of taxation. In general, non-capital profits sourced in Hong Kong should be subject to Hong Kong profits tax. Under the territorial basis of taxation, foreign-sourced income is outside the scope of Hong Kong profits tax. Income is also not subject to Hong Kong profits tax to the extent that it is capital in nature. Any change in taxation legislation or its scope or interpretation, including relating to the classification of income and capital gains taxes in Hong Kong and/or the conclusion of new comprehensive double taxation agreements or changes to existing comprehensive double taxation agreements, changes to existing preferential tax regime (e.g. a more stringent requirement in substance), could have a material adverse effect on the Guarantor's financial condition and results of operations.

Investors should consult and rely on their own independent tax advisors in relation to any tax consequences or tax considerations in respect of investing in the Securities.

The implementation of IFRS 17 and IFRS 9 may lead to higher volatility in the financial results of the Guarantor and the full impact of these standards may not be known until their implementation is complete.

IFRS 9 (Financial Instruments) and IFRS 17 (Insurance Contracts) are the primary standards intended for insurance companies in the future, with the carrying value of financial assets reflecting IFRS 9 principles and the carrying value of insurance contract liabilities reflecting IFRS 17 principles. Although IFRS 9 replaced IAS 39 with effect from 1 January 2018, insurers meeting specific criteria are eligible to defer its application until 1 January 2023. IFRS 17 will become effective from 1 January 2023. The Guarantor intends to adopt IFRS 17 and IFRS 9 simultaneously in order to ensure consistent alignment of valuation principles for assets and liabilities. Concurrent adoption of these two standards is widely expected for insurers that meet the International Accounting Standards Board's eligibility criteria. Until then, the Guarantor will continue to use the existing standards, namely IFRS 4 and IAS 39 for liabilities and assets, respectively.

In relation to IFRS 9, the main areas of change which are expected to have the most significant impact on the financial results of insurance companies (including the Guarantor) are:

- the requirements around the classification and measurement of financial assets; and
- the introduction of a new impairment model based on expected credit losses rather than incurred losses.

Whilst IFRS 9 will not affect the overall financial results of the Guarantor, both changes may increase overall volatility in the Guarantor's financial results, with the latter change having a short term impact as it may result in earlier recognition of credit losses.

Similarly, the introduction of IFRS 17 could result in greater volatility in the financial results of insurance companies (including the Guarantor) because of, amongst other changes, the asymmetric treatment of onerous contracts (i.e. losses are recognised immediately whereas the release of profit from the remaining contracts is amortised); and because IFRS 17 places a requirement on companies to update fulfilment cash flows at each reporting date using current estimates of the amount, timing and uncertainty of cash flows and discount rates. In particular, for long term underwriters, this latter aspect will mean more frequent marking-to-market. However, it is expected that short term insurance contracts, which form the bulk of the Guarantor's business, will be less impacted by the adoption of IFRS 17, compared to longer term insurance contracts and life insurance contracts.

The Guarantor is in the process of assessing the financial and operational implications of IFRS 9 and IFRS 17 and is developing various tools, systems and processes to ensure the smooth implementation of the two standards. However, any unforeseen events in relation to the adoption of IFRS 17 in Hong Kong, such as any deviation from the final guidelines for IFRS 17, may lead to unexpected adverse effects on the Guarantor's financial results.

Risks Relating to the Guarantee and the Securities

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

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are complex investment securities. Sophisticated institutional investors generally do not purchase complex investment securities as stand-alone investments. They purchase complex investment securities as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

The Issuer is dependent on the business and financial condition of the Guarantor and its subsidiaries and other Group entities to make payments under the Securities.

The Issuer is a wholly-owned subsidiary of the Guarantor formed for the primary purpose of acting as a financing subsidiary of the Guarantor and will on-lend all or part of the proceeds from the issue of the Securities to the Guarantor and its subsidiaries and other Group entities. The Issuer's ability to make payments under the Securities depends on timely payments under such on-lent loans and the availability of funds from the Guarantor and its subsidiaries and other Group entities. In the event that the Guarantor and its subsidiaries or other Group entities do not make such payments due to limitation in such loans or other agreements, lack of available cash flow or other factors, the Issuer's ability to make payments under the Securities could be adversely affected.

The Issuer is a special purpose vehicle and the obligations of the Guarantor under the Guarantee are structurally subordinated to the liabilities and obligations of the Guarantor's subsidiaries and other Group entities.

The Issuer is a special purpose vehicle with no substantive assets that has been incorporated to issue the Securities. Accordingly, the Issuer has limited assets to meet its obligations under the Securities and its ability to make payments in respect of the Securities depends largely on the provision of funds from the Guarantor or other entities in the Group. In addition to its own operations, the Guarantor is also a holding company that operates through its subsidiaries and other Group entities. As a result, (i) the Guarantor's obligations under the Guarantee will be effectively subordinated to all existing and future obligations of the existing or future Group entities and (ii) all claims of creditors of the existing or future subsidiaries or other Group entities, including trade creditors, lenders and all other creditors, and rights of holders of preferred shares of such entities (if any) will have priority as to the assets of such entities over the Guarantor's claims and those of its creditors, including the holders of Securities.

The Securities are perpetual securities and investors have no right to require redemption.

The Securities are perpetual and have no maturity date. The Issuer is under no obligation to redeem the Securities at any time and the Securities can only be disposed of by sale. Holders who wish to sell their Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities. Therefore, Holders should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

The Distribution Rate will be reset on the First Call Date, the Second Reset Date and each Reset Date thereafter, which may affect the market value of the Securities.

The Distribution Rate applicable to the Securities will initially be 5.35 per cent. per annum from, and including, the Issue Date, to, but excluding, the First Call Date. However, the Distribution Rate will be reset on the First Call Date, the Second Reset Date and each Reset Date thereafter, as described in the Terms and Conditions. In respect of the period from, and including, the First Call Date to, but excluding, the Second Reset Date, the Distribution Rate shall be equal to the sum of (a) the Treasury Rate (as defined in the Terms and Conditions) and (b) the initial spread of 5.011 per cent. In respect of the period from, and including, the Second Reset Date to, but excluding the Reset Date falling immediately after the Second Reset Date, and, from, and including, each Reset Date falling after the Second Reset Date to, but excluding, the immediately following Reset Date, the Distribution Rate shall be equal to the sum of (a) the Treasury Rate, (b) the initial spread of 5.011 per cent. and (c) a margin of 1.00 per cent. per annum. As a result, the applicable Distribution Rate following the First Call Date, the Second Reset Date and any Reset Date thereafter could be less than the Distribution Rate that applied previously under the Terms and Conditions, which could affect the amount of any Distribution payments under the Securities and therefore the market value of an investment in the Securities.

The Securities and the Guarantee are subordinated obligations.

The obligations of the Issuer under the Securities and of the Guarantor under the Guarantee will constitute unsecured and subordinated obligations of the Issuer and the Guarantor. Subject to the insolvency laws of the British Virgin Islands and other applicable laws, in the event of the Winding-Up (as defined in the Terms and Conditions) of the Issuer, the rights of the holders to receive payments in respect of the Securities will rank senior to the holders of all Junior Obligations (as defined in the Terms and Conditions) of the Issuer and equally with the holders of all Parity Obligations (as defined in the Terms and Conditions) of the Issuer, but junior to the claims of all unsubordinated creditors of the Issuer (including its Policy Holders (as defined in the Terms and Conditions)) and all creditors of the Issuer whose claims are stated to rank senior to the Securities or rank senior to the Securities by operation of law or contract. Upon the Winding-Up of the Issuer, holders of the Securities can enforce the obligations of the Guarantor under the Guarantee, but, subject to the insolvency laws of Hong Kong and other applicable laws, in the event of the Winding-Up of the Guarantor, the rights and claims of holders of the Guarantee will rank senior to the holders of all Junior Obligations of the Guarantor, equally with the holders of all Parity Obligations of the Guarantor, but be subordinated to the claims of all unsubordinated creditors of the Guarantor (including its Policy Holders) and all creditors of the Guarantor whose claims are stated to rank senior to the Securities or rank senior to the Securities by operation of law or contract.

In the event of a shortfall of funds or a Winding-Up, there is a real risk that an investor in the Securities will lose all or some of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Securities.

The Issuer and the Guarantor may raise other capital which affects the price of the Securities.

The Issuer and the Guarantor may raise additional capital through the issue of other securities or other means. There is no restriction, contractual or otherwise, on the amount of securities or other liabilities which the Issuer and the Guarantor may issue or incur and which rank senior to, or *pari passu* with, the Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders of Securities on a Winding-Up of the Issuer and/or the Guarantor, and may increase the likelihood of a deferral of Distribution under the Securities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Securities and/or the ability of Holders to sell their Securities.

Holders may not receive Distribution payments if the Issuer elects to defer Distribution payments.

The Issuer may, at its sole discretion, elect to defer any scheduled Distributions or Arrears of Distribution on the Securities for any period of time unless a Compulsory Distribution Payment Event (as defined in the Terms and Conditions) has occurred. Save as aforesaid, the Issuer is not subject to any limits as to the number of times Distributions or Arrears of Distribution can be deferred. Although Arrears of Distributions following a deferral are cumulative, the Issuer may defer their payment for an indefinite period of time by delivering the relevant deferral election notices to Holders of the Securities, the Trustee and the Principal Paying Agent. Pursuant to the Terms and Conditions, the Issuer shall satisfy any outstanding Arrears of Distribution and any Additional Distribution Amount (each as defined in the Terms and Conditions) (in whole but not in part) on the earliest of the occurrence of certain events, including on the next Distribution Payment Date following the occurrence of a Compulsory Distribution Payment Event or a breach of Condition 6.6(e).

Any deferral of Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distribution deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's and the Guarantor's financial condition.

The Securities may be redeemed at the Issuer's option on a date falling five calendar years from the date of issue of the Securities and every six months thereafter or upon the occurrence of certain other events.

The Securities are redeemable at the option of the Issuer on the First Call Date and on any Distribution Payment Date thereafter at their principal amount together with any Distribution accrued to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).

In addition, the Issuer also has the right to redeem the Securities upon the occurrence of (a) a Gross-up Event, (b) an Equity Credit Classification Event, (c) an Accounting Event, (d) a Regulatory Event or (e) if the aggregate principal amount of the Securities outstanding is less than 20 per cent. of the aggregate principal amount of the Securities originally issued.

However, prior to any such redemption, the Issuer or the Guarantor must obtain the prior written approval of the Insurance Regulator to the extent such approval is then required, as described in "*Terms and Conditions of the Securities-Redemption and Purchase*" (the "**Redemption and Purchase Condition**").

The date on which the Issuer elects to redeem the Securities may not accord with the preference of individual Holders. This may be disadvantageous to the Holders in light of market conditions or the individual circumstances of the Holder of the Securities. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

There may be further amendments, clarifications or changes in the equity credit criteria, guidelines or methodology of the Agencies, which could constitute an Equity Credit Classification Event.

The Issuer may also have the right to redeem (subject to the Redemption and Purchase Condition) the Securities upon the occurrence of an amendment, clarification or change which has occurred or will occur in the equity credit criteria, guidelines or methodology of any Rating Agency (as defined in "*Terms and Conditions of the Securities – Redemption and Purchase*"), requested from time to time by the Issuer to grant an equity classification to the Securities, if such amendment, clarification or change results or will result in a lower equity credit for the Securities than the equity credit assigned by such rating agency on the Issue Date (in the case of A.M. Best and Moody's) or the date on which the equity credit is first assigned (in the case of any other Rating Agency or Rating Agencies) (an "**Equity Credit Classification Event**"), provided that any such amendment, clarification or change (including any plan therefor) has not been proposed, circulated or been open for comment on or prior to the Issue Date. There can be no assurance that A.M. Best, Moody's or any other Rating Agency will not propose further amendments, clarifications or changes in the equity credit criteria, guidelines or methodology which results or will result in a lower equity credit for the Securities than the equity credit assigned by such rating agency on the Issue Date (in the case of A.M. Best and Moody's) or the date on which the equity credit is first assigned (in the case of any other Rating Agency or Rating Agencies), and would constitute an Equity Credit Classification Event.

There are limited remedies for non-payment under the Securities and the Guarantee.

Any scheduled Distribution will not be due if the Issuer elects to defer that Distribution pursuant to the Terms and Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute Winding-Up proceedings is limited to circumstances where payment has become due and is unpaid and the Issuer fails to make the payment when due. The only remedy against the Issuer available to the Trustee or (where the Trustee has failed to proceed against the Issuer as provided in the Terms and Conditions) any Holder of Securities for recovery of amounts in respect of the Securities following the occurrence of a payment default after any sum becomes due in respect of the Securities will be instituting Winding-Up proceedings and/or proving and/or claiming in Winding-Up in respect of any of the Issuer's payment obligations arising from the Securities and the Trust Deed. Holders can look to the

Guarantor only upon the Winding-Up of the Issuer, and the right to institute Winding-Up proceedings and/or proving and/or claiming in Winding-Up in respect of any of the Issuer's payment obligations arising from the Securities and the Trust Deed is limited to circumstances provided by applicable law.

The Securities contain provisions regarding meetings, modification, waivers and substitution which may affect the rights of Holders.

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

The Terms and Conditions also provide that the Trustee may agree, without the consent of Holders, to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Terms and Conditions or any of the provisions of the Trust Deed (other than in respect of a Reserved Matter (as defined in the Trust Deed)) or any of the provisions of the Deed of Guarantee or the Agency Agreement, or may agree, without any such consent, to any modification which, in its opinion, is not materially prejudicial to Holders, is of a formal, minor or technical nature or is made to correct a manifest error or may determine, without any such consent as aforesaid, that an Enforcement Event shall not be treated as such.

The Terms and Conditions also provide that if a Special Event has occurred and is continuing, then the Issuer may, without the consent of Holders, subject to certain restrictions as set out in the Terms and Conditions and to having satisfied the Trustee that Condition 13.3 of the Terms and Conditions has been satisfied as to certain matters and giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16 of the Terms and Conditions, the Holders (which notice shall be irrevocable), (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities (as defined in the Terms and Conditions).

Changes in accounting standards may impact the Guarantor's financial condition or the characterisation of the Securities.

The HKICPA is continuing its policy of issuing HKFRS and interpretations which fully converge with IFRS. HKICPA has issued and may in the future issue more new and revised standards and interpretations, including those required to conform with standards and interpretations issued from time to time by the IASB.

Such factors may require adoption of new accounting policies. There can be no assurance that the adoption of new accounting policies or new HKFRS will not have a significant impact on HKCG's financial condition and results of operations. In addition, any change or amendment to, or any change or amendment to any interpretation of, HKFRS may result in the reclassification of the Securities such that the Securities must not or must no longer be recorded as "equity" of the Guarantor, and will give the Issuer the right to elect to redeem the Securities. See "– *The Securities may be redeemed at the Issuer's option on a date falling five calendar years from the date of issue of the Securities and every six months thereafter or the occurrence of certain other events*".

The insolvency laws of Hong Kong, the British Virgin Islands and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Securities are familiar.

As the Guarantor is incorporated under the laws of Hong Kong and the Issuer is incorporated in the British Virgin Islands, any insolvency proceeding relating to the Guarantor or the Issuer would likely involve Hong Kong or British Virgin Islands insolvency laws, respectively; the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Securities are familiar. No assurance can be given that any deferred distributions would constitute a claim under applicable insolvency laws of Hong Kong or the British Virgin Islands with the same ranking as would be afforded to such deferred Distributions in other jurisdictions.

An active trading market for the Securities may not develop.

The Securities are a new issue of securities for which there is currently no trading market. Application has been made to list the Securities as selectively marketed securities on the Hong Kong Stock Exchange. No assurance can be given that an active trading market for the Securities will develop or as to the liquidity or sustainability of any such market, the ability of Holders to sell their Securities or the price at which Holders will be able to sell their Securities. The Joint Lead Managers are not obliged to make a market in the Securities and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers.

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

The price and trading volume of the Securities may be highly volatile. Factors such as variations in the Issuer's and the Guarantor's revenues, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Securities to change. Any such developments may result in large and sudden changes in the volume and price at which the Securities will trade. There is no assurance that these developments will not occur in the future.

The Guarantor's credit rating may decline.

There is a risk that the Guarantor's credit rating may change as a result of changes in its operating performance or capital structure, or for some other reason. No assurance can be given that a credit rating will remain for any given period of time or that a credit rating will not be lowered or withdrawn by the relevant rating agency if, in its judgement, circumstances in the future so warrant or if a different methodology is applied to derive such credit ratings. Any lowering or withdrawal of the Guarantor's credit rating could, notwithstanding that it is not a rating of the Securities, adversely impact the market price and the liquidity of the Securities.

The reporting and disclosure standards applicable to the Guarantor may differ significantly from those applicable to companies with equity securities listed on a stock exchange.

Shares in the Guarantor are not listed on any stock exchange. As a result, the Guarantor is not bound by any continuing obligations similar to those imposed on companies with equity securities listed on the Hong Kong Stock Exchange or on other stock exchanges.

Further, the Guarantor is not bound by any continuing obligation as regards publication of non-public price sensitive information, major transactions/very substantial transactions or connected transactions, nor is it subject to any code as regards corporate governance.

Although the Guarantor will be required to comply with the continuing obligations of the Hong Kong Stock Exchange pursuant to the listing of the Securities on such exchange, the Guarantor cannot provide any assurance that the level of publicly available information in relation to the Guarantor or the Group, or the information disclosed by the Guarantor on an ongoing basis, will be equivalent to that available or disclosed in relation to companies with equity securities listed on the Hong Kong Stock Exchange or on other stock exchanges.

Integral multiples of less than the specified denomination.

The denominations of the Securities are U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Therefore, it is possible that the Securities may be traded in amounts in excess of U.S.$200,000 that are not integral multiples of U.S.$200,000. In such a case, a Holder who, as a result of trading such amounts, holds a principal amount of less than U.S.$200,000 will not receive a definitive certificate in respect of such holding of Securities (should definitive certificates be printed) and would need to purchase a principal amount of Securities such that it holds an amount equal to one or more denominations. If definitive certificates are issued, Holders should be aware that Securities with aggregate principal amounts that are not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

USE OF PROCEEDS

The net proceeds from the issue of the Securities will be used by the Guarantor for strengthening capital and general corporate purposes.

TERMS AND CONDITIONS OF THE SECURITIES

The following is the text of the Terms and Conditions of the Securities which (subject to completion and modification and excluding italicised text) will be endorsed on each of the Securities in definitive form:

The U.S.$250,000,000 Perpetual Subordinated Guaranteed Capital Securities (the "**Securities**" which expression shall in these Conditions, unless the context otherwise requires, include any further securities issued pursuant to Condition 15 and forming a single series with the Securities) of Peak Re (BVI) Holding Limited (the "**Issuer**") and guaranteed by Peak Reinsurance Company Limited (the "**Guarantor**") pursuant to a deed of guarantee dated 28 October 2020 (the "**Deed of Guarantee**") are constituted by a Trust Deed (the "**Trust Deed**") dated 28 October 2020 made between the Issuer, the Guarantor and The Hongkong and Shanghai Banking Corporation Limited (the "**Trustee**" which expression shall include its successor(s)) as trustee for the holders of the Securities (the "**Holders**").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed and the Deed of Guarantee. Copies of the Deed of Guarantee, the Trust Deed and the Agency Agreement dated 28 October 2020 (the "**Agency Agreement**") made between the Issuer, the Guarantor, the Trustee, The Hongkong and Shanghai Banking Corporation Limited as principal paying agent (the "**Principal Paying Agent**", which expression shall include its successor(s)) and calculation agent (the "**Calculation Agent**", which expression shall include its successor(s)) and The Hongkong and Shanghai Banking Corporation Limited (the "**Registrar**", which expression shall include its successor(s)) and transfer agent (the "**Transfer Agent**", which expression shall include its successor(s)) (i) are available for inspection during normal business hours with prior written notice and satisfactory proof of holding by the Holders from the principal office for the time being of the Principal Paying Agent, or (ii) may be provided by email to such holder requesting copies of such documents, subject to the Principal Paying Agent being supplied by the Issuer with copies of such documents. References herein to "**Agents**" are to the Registrar, the Principal Paying Agent, the Calculation Agent, the Transfer Agent and the other paying agents ("**Paying Agents**") appointed from time to time in connection with the Securities, and any reference to an "**Agent**" is to any of them. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Deed of Guarantee and the Trust Deed and the provisions of the Agency Agreement applicable to them.

1. FORM, SPECIFIED DENOMINATION AND TITLE

1.1 Form and Denomination

The Securities are issued in registered form in amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (referred to as the "**principal amount**" of a Security). A certificate (each a "**Certificate**") will be issued to each Holder in respect of its registered holding of Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Holders which the Issuer will procure to be kept by the Registrar and at the registered office of the Issuer. For the avoidance of doubt, any reference in these Conditions to the principal amount in respect of the Securities shall refer to the outstanding principal amount of the Securities at the relevant time.

The Securities are not issuable in bearer form.

1.2 Title

Title to the Securities passes only by registration in the register of Holders. The Holder of any Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Holder. In these Conditions, "**Holder**" means the person in whose name a Security is registered in the register of Holders (the "**Register**").

2. TRANSFERS OF SECURITIES AND ISSUE OF CERTIFICATES

2.1 Transfers

A Security may be transferred by depositing the Certificate issued in respect of that Security, with the form of transfer on the back of the Certificate duly completed and signed, at the specified office of the Registrar or any of the Agents.

2.2 Delivery of New Certificates

Each new Certificate to be issued upon transfer of Securities will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the Holder entitled to the Security to the address specified in the form of transfer.

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

Where some but not all of the Securities in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Securities not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the Holder of the Securities not so transferred to the address of such Holder appearing on the register of Holders or as specified in the form of transfer.

2.3 Formalities Free of Charge

Registration of transfer of Securities will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Holder may require the transfer of a Security to be registered during the period of 15 days ending on (and including) the due date for any payment of sums in respect of that Security.

2.5 Regulations

All transfers of Securities and entries on the register of Holders will be made subject to the detailed regulations concerning transfer of Securities scheduled to the Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Holder who requests one.

3. STATUS AND RANKING OF CLAIMS

3.1 Status

The Securities constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* without any preference or priority of payment among themselves. The rights and claims of the Holders in respect of the Securities are subordinated as provided in this Condition 3. Any payments obligation of the Issuer in respect of the fees and expenses of the Trustee under the Trust Deed shall not be subordinated.

3.2 Subordination

Subject to the insolvency laws of the British Virgin Islands and other applicable laws, in the event of a Winding-Up of the Issuer, the rights of the Holders to payment of principal, premium and Distributions on the Securities, and any other obligations in respect of the Securities, shall rank, (i) subordinate and junior in right of payment to, and of all claims of, all unsubordinated creditors of the Issuer (including its Policy Holders) and all creditors of the Issuer whose claims are stated to rank senior to the Securities or rank senior to the Securities by operation of law or contract, (ii) *pari passu* in right of payment to, and of all claims of, the holders of Parity Obligations and (iii) senior in right of payment to, and of all claims of, the holders of Junior Obligations, in each case in the manner provided in the Trust Deed.

3.3 Set-off

Subject to applicable laws, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Securities, and each Holder shall, by virtue of his holding of any Securities, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Issuer. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Issuer in respect of, or arising under or in connection with, the Securities is discharged by set-off, such Holder shall, subject to applicable laws, immediately pay an amount equal to the amount of such discharge to the Issuer (or, in the event of its Winding-Up or administration, the liquidator or, as appropriate, administrator of the Issuer) and, until such time as payment is made, shall hold such amount in trust for the Issuer (or the liquidator or, as appropriate, administrator of the Issuer) and accordingly any such discharge shall be deemed not to have taken place.

4. GUARANTEE

4.1 Guarantee

The Guarantor has in the Deed of Guarantee irrevocably and unconditionally guaranteed on a subordinated basis the due payment of all sums expressed to be payable by the Issuer under the Securities and the Trust Deed. The obligations of the Guarantor in that respect (the **Guarantee**) are contained in the Deed of Guarantee, including, but not limited to, an undertaking from the Guarantor that for so long as any of the Securities remains outstanding, the Issuer shall at all times remain a wholly-owned Subsidiary of the Guarantor, whether directly or indirectly.

4.2 Status of the Guarantee

The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsecured and subordinated obligations of the Guarantor. The rights and claims of the Holders in respect of the Guarantee are subordinated as provided in this Condition 4. Any payments obligation of the Guarantor in respect of the fees and expenses of the Trustee under the Trust Deed shall not be subordinated.

4.3 Subordination

Subject to the insolvency laws of the Hong Kong and other applicable laws, in the event of a Winding-Up of the Guarantor, the rights of the Holders to payment of principal, premium and Distributions on the Securities, and any other obligations in respect of the Securities, shall rank (i) subordinate and junior in right of payment to, and of all claims of, all unsubordinated creditors of the Guarantor (including its Policy Holders) and all creditors of the Guarantor whose claims are stated to rank senior to the Securities or rank senior to the Securities by operation of law or contract, (ii) *pari passu* in right of payment to, and of all claims of, the holders of Parity Obligations and (iii) senior in right of payment to, and of all claims of, the holders of Junior Obligations, in each case in the manner provided in the Trust Deed.

4.4 Set-off

Subject to applicable laws, no Holder may exercise, claim or plead any right of set-off, deduction, withholding or retention in respect of any amount owed to it by the Guarantor in respect of, or arising under or in connection with, the Guarantee, and each Holder shall, by virtue of his holding of any Securities, be deemed to have waived all such rights of set-off, deduction, withholding or retention against the Guarantor. Notwithstanding the preceding sentence, if any of the amounts owing to any Holder by the Guarantor in respect of, or arising under or in connection with, the Guarantee is discharged by set-off, such Holder shall, subject to applicable laws, immediately pay an amount equal to the amount of such discharge to the Guarantor (or, in the event of its Winding-Up or administration, the liquidator or, as appropriate, administrator of the Guarantor) and, until such time as payment is made, shall hold such amount in trust for the Guarantor (or the liquidator or, as appropriate, administrator of the Guarantor) and, accordingly, any such discharge shall be deemed not to have taken place.

5. COVENANTS

5.1 Provision of Financial Information

So long as any Security remains outstanding, the Guarantor shall prepare and supply to the Trustee within 180 days after the end of each financial year (which is, at the Issue Date, 31 December of each year) the audited consolidated financial statements of the Guarantor (including but not limited to the balance sheet, income statement, cash flow statement and statement of changes in owner's equity, together with accompanying notes), prepared in accordance with HKFRS, together with the relevant audit report thereto for and as at the last financial year.

Such financial information shall be available for inspection by the Holders during normal business hours on prior written request from the registered office of the Principal Paying Agent.

5.2 Notification to NDRC

The Guarantor undertakes to file or cause to be filed with the National Development and Reform Commission of the PRC or its local counterparts (the "**NDRC**") the requisite information and documents within ten PRC Business Days after the Issue Date in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**").

The Guarantor shall within fifteen PRC Business Days after submission of such NDRC Post-issue Filing (i) provide the Trustee with a certificate in English (in substantially the form set forth in the Trust Deed) signed by any Authorised Signatory of the Guarantor confirming the submission of the NDRC Post-issue Filing and (ii) give notice to the Holders in accordance with Condition 16 of the same. The Trustee shall have no obligation to monitor and ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to the Holders or any other person for not doing so.

6. DISTRIBUTIONS

6.1 Distributions

Subject to Condition 6.6, each Security shall entitle the Holder thereof to receive distributions ("**Distributions**" and each a "**Distribution**") from and including 28 October 2020 (the "**Issue Date**") at the applicable rate of distribution ("**Distribution Rate**") in accordance with the provisions of this Condition 6. Subject to Condition 6.6, Distributions shall be payable on the

Securities semi-annually in arrear on 28 April and 28 October in each year (each, a "**Distribution Payment Date**") with the first Distribution Payment Date falling on 28 April 2021 in respect of the period from, and including, the Issue Date to, but excluding, such first Distribution Payment Date.

6.2 Rate Distribution

(a) The Distribution Rate applicable to the Securities in respect of the period from, and including, the Issue Date to, but excluding, 28 October 2025 (the "**First Call Date**"), shall be 5.35 per cent. per annum (the "**Initial Distribution Rate**").

(b) In respect of the period from, and including, the First Call Date to, but excluding, the Reset Date falling immediately after the First Call Date (the "**Second Reset Date**"), the rate of distribution applicable to the Securities shall be the First Relevant Reset Distribution Rate.

(c) In respect of the period (A) from, and including, the Second Reset Date to, but excluding, the Reset Date falling immediately after the Second Reset Date, and (B) from, and including, each Reset Date falling after the Second Reset Date to, but excluding, the immediately following Reset Date, the rate of distribution applicable to the Securities shall be the Relevant Reset Distribution Rate.

If a Distribution is required to be paid in respect of a Security on any date other than a Distribution Payment Date, it shall be calculated by applying the Distribution Rate to the Calculation Amount, multiplying the product by the Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the principal amount of such Security divided by the Calculation Amount, where "**Calculation Amount**" means U.S.$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30- day months).

Distributions payable under this Condition 6 will be paid in accordance with Condition 8.

6.3 Calculation of Distribution

The Calculation Agent will, on each Reset Determination Date, calculate the Relevant Reset Distribution Rate payable in respect of each Security. The Calculation Agent will notify the Relevant Reset Distribution Rate determined by it to the Trustee, the Paying Agents and the Issuer as soon as practicable after the relevant Reset Date. The Issuer shall notify the Trustee, the Calculation Agent and the Paying Agent if the HKSE requires notice thereof to be given to the Holders, and instruct the Paying Agents to give notice to the Holders in accordance with Condition 16.

6.4 Notifications, etc. to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of these Conditions, whether by the Reference Treasury Dealers (or any of them) or the Calculation Agent or the Trustee (or its agent) will (in the absence of manifest error) be binding upon the Issuer, the Guarantor, the Trustee, the Calculation Agent, the Registrar, the Paying Agents and all Holders and, subject to the Trust Deed and the Agency Agreement no liability to the Issuer, the Guarantor, the Trustee or the Holders will attach to the Calculation Agent or the Trustee (or its agent) in connection with the exercise or non-exercise by any of them of their powers, duties and discretions pursuant to such provisions.

6.5 Distribution Accrual

Unless otherwise provided for in these Conditions, each Security will cease to confer the right to receive any Distributions from the due date for redemption unless, upon due presentation, payment of the full amount due is improperly withheld or refused. In such latter event, the right to a Distribution will continue to accrue at the applicable Distribution Rate (after as well as before any judgment) up to but excluding whichever is the earlier of (a) the date on which all sums due in respect of the Securities are received by or on behalf of the relevant Holder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Holders that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Holders under these Conditions).

6.6 Distribution Deferral

(a) Deferral Election

The Issuer may, at its sole discretion, elect to defer (in whole or in part) any Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice (a "**Deferral Election Notice**") to the Holders (in accordance with Condition 16) and the Trustee and the Principal Paying Agent not more than ten nor less than five business days prior to a scheduled Distribution Payment Date unless a Compulsory Distribution Payment Event has occurred (a "**Deferral Election Event**"). Any partial payment of outstanding Distributions (including any Arrears of Distribution and any Additional Distribution Amount) by the Issuer shall be shared by the Holders of all outstanding Securities on a *pro rata* basis.

(b) No Obligation to Pay

The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if it validly elects not to do so in accordance with Condition 6.6(a).

(c) Requirements as to Notice

Each Deferral Election Notice shall be accompanied, in the case of the notice to the Trustee and the Principal Paying Agent, by a certificate in the form attached as Schedule 5 to the Trust Deed signed by an Authorised Signatory of the Issuer confirming that no Compulsory Distribution Payment Event has occurred. The Trustee shall be entitled to accept such certificate as sufficient evidence of the occurrence of a Deferral Election Event in which event it shall be conclusive and binding on the Holders.

(d) Cumulative Deferral

Any Distribution deferred pursuant to this Condition 6.6 shall remain outstanding in full and constitute "**Arrears of Distribution**". The Issuer may, at its sole discretion, elect (in the circumstances set out in Condition 6.6(a)) to defer further any Arrears of Distribution by complying with the foregoing notice requirement applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution can or shall be deferred pursuant to this Condition 6.6 except that Condition 6.6(e) shall be complied with until all outstanding Arrears of Distribution have been paid in full.

Each amount of Arrears of Distribution shall bear Distribution as if it constituted the principal of the Securities at the prevailing Distribution Rate and the amount of such Distribution (the "**Additional Distribution Amount**") with respect to Arrears of Distribution shall be due and payable pursuant to this Condition 6 and shall be calculated by applying the applicable Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the foregoing provisions of this Condition 6. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added (for the purpose of calculating the

Additional Distribution Amount accruing thereafter) to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

(e) Restrictions in the Case of Deferral

If, on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full, each of the Issuer and the Guarantor shall not, and shall procure that none of their Subsidiaries will:

(i) declare or pay any discretionary dividends or discretionary distributions or make any other discretionary payment, and will procure that no discretionary dividend, discretionary distribution or other discretionary payment is made, on any of the Junior Obligations or Parity Obligations of the Issuer or the Guarantor save that such restriction shall not apply to payments in respect of (A) any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Issuer or the Guarantor; or (B) any of the Parity Obligations of the Issuer or the Guarantor made on a *pro rata* basis with payment on the Securities; or

(ii) redeem, reduce, cancel, buy-back or acquire at its discretion, for any consideration any of the Junior Obligations or Parity Obligations of the Issuer or the Guarantor other than (A) a repurchase or other acquisition of securities in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants of the Issuer or the Guarantor; (B) as a result of the exchange or conversion of the Parity Obligations of the Issuer or the Guarantor for the Junior Obligations of the Issuer or the Guarantor, as the case may be; or (C) in relation to Parity Obligations of the Issuer or the Guarantor, where such redemption, reduction, cancellation, buy-back or acquisition in made on a *pro-rata* basis with a *pro-rata* purchase of Securities,

in each case, unless and until (X) the Issuer or the Guarantor, as the case may be, has satisfied in full all outstanding Arrears of Distribution and Additional Distribution Amounts or (Y) the Issuer, the Guarantor or the relevant Subsidiary of the Issuer or the Guarantor is permitted to do so by an Extraordinary Resolution of the Holders.

(f) Satisfaction of Arrears of Distribution by Payment

The Issuer:

(i) may satisfy any Arrears of Distribution (in whole or in part) at any time by giving notice of such election to the Holders (in accordance with Condition 16), the Trustee and the Principal Paying Agent not more than ten nor less than five business days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution and all Additional Distribution Amounts on the payment date specified in such notice); and

(ii) in any event shall satisfy any outstanding Arrears of Distribution and any Additional Distribution Amount (in whole but not in part) on the earliest of:

(A) the date of redemption of the Securities in accordance with the redemption events set out in Conditions 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7;

(B) the next Distribution Payment Date following the occurrence of a Compulsory Distribution Payment Event or a breach of Condition 6.6(e);

(C) the date on which an order is made or an effective resolution is passed for Winding-Up of the Issuer or the Guarantor; and

(D) the date of any substitution or variation in accordance with Condition 13.3.

Any partial payment of outstanding Arrears of Distribution and any Additional Distribution Amount by the Issuer shall be shared by the Holders of all outstanding Securities on a *pro rata* basis.

(g) No Default

Notwithstanding any other provision in these Conditions, the Deed of Guarantee or in the Trust Deed, the deferral of any Distribution payment (including any Arrears of Distribution and Additional Distribution Amount) in accordance with this Condition 6.6 shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 10) on the part of the Issuer under the Securities or the Guarantor under the Guarantee or for any other purpose.

7. REDEMPTION AND PURCHASE

7.1 No Fixed Redemption Date

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 3 and Condition 4 and without prejudice to Condition 10) only have the right to redeem or purchase them, subject to the Redemption and Purchase Condition, in accordance with the following provisions of this Condition 7.

7.2 Redemption at the Option of the Issuer

Subject to satisfaction of the Redemption and Purchase Condition, the Issuer may at its sole discretion, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities on the First Call Date and on any Distribution Payment Date thereafter. On expiry of such notice, the Issuer shall be bound to redeem the Securities on the First Call Date or relevant Distribution Payment Date thereafter at their principal amount together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount).

7.3 Redemption for Taxation Reasons

Subject to satisfaction of the Redemption and Purchase Condition, the Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders at their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if (a) the Issuer or the Guarantor, as the case may be, informs the Trustee prior to the giving of such notice that the Issuer or the Guarantor has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction (as defined in Condition 19), or any change in the official application or interpretation of such laws or regulations, which change or amendment becomes effective on or after 20 October 2020, and (b) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it (a "**Gross-Up Event**"). Prior to the publication of any notice of redemption pursuant to this Condition 7.3, the Issuer or the Guarantor, as the case may be, shall deliver to the Trustee (i) a certificate signed by an Authorised Signatory of the Issuer or the Guarantor, as the case may be, stating that the obligation referred to in (a) above cannot be avoided by the Issuer or, as the case may be, the Guarantor, taking reasonable measures available to it; and (ii) an opinion, in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised international standing to the effect that the Issuer or, as the case may be, the Guarantor, has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment; and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (a) and (b) above, in which event it shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 7.3, the Issuer shall be bound to redeem the Securities in accordance with this Condition 7.3, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such Additional Tax Amounts were a payment in respect of the Securities then payable.

7.4 Redemption Upon an Equity Credit Classification Event

Subject to satisfaction of the Redemption and Purchase Condition, the Issuer may at its sole discretion, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities at (a) 101 per cent. of their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs prior to the First Call Date or (b) their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after the First Call Date, if, before giving such notice, the Guarantor provides notification to the Trustee that an amendment, clarification or change has occurred or will occur in the equity credit criteria, guidelines or methodology of A.M. Best, Moody's or any other rating agency of equivalent international standing and, in each case, any of their respective successors to the rating business thereof (each, a "**Rating Agency**", and together, "**Rating Agencies**") requested from time to time by the Issuer to grant an equity classification to the Securities, which amendment, clarification or change results or will result in a lower equity credit for the Securities than the equity credit assigned by such rating agency immediately before that relevant amendment, clarification or change (an "**Equity Credit Classification Event**"), provided that any such amendment, clarification or change (including any plan therefor) has not been proposed, circulated or been open for comment on or prior to the Issue Date.

Prior to the publication of any notice of redemption pursuant to this Condition 7.4, the Guarantor shall deliver or procure that there is delivered to the Trustee a certificate signed by an Authorised Signatory of the Guarantor stating that the circumstances referred to above prevail and setting out the details of such circumstances.

The Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 7.4, the Issuer shall be bound to redeem the Securities in accordance with this Condition 7.4, provided that such date for redemption shall be no earlier than the last business day before the date on which the Securities will no longer be eligible for the same or higher category of equity credit.

7.5 Redemption for Accounting Reasons

Subject to satisfaction of the Redemption and Purchase Condition, the Issuer may at its sole discretion, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities at (a) 101 per cent. of their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs prior to the First Call Date or (b) their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after the First Call Date, if, before giving such notice, the Guarantor notifies the Trustee that a change or amendment to, or a change or amendment to any interpretation of, HKFRS or any other internationally generally accepted accounting standards that the Guarantor has adopted for the purpose of the Guarantor's consolidated financial statements (the "**Relevant Accounting**

Standards"), has occurred or will occur, which change or amendment results or will result in the Securities, in whole or in part, not being permitted to be recorded as "equity" of the Guarantor in the consolidated financial statements of the Guarantor pursuant to the Relevant Accounting Standards (an "**Accounting Event**").

Prior to the publication of any notice of redemption pursuant to this Condition 7.5, the Guarantor shall deliver or procure that there is delivered to the Trustee:

(a) a certificate, signed by an Authorised Signatory of the Guarantor, stating that the circumstances referred to above prevail and setting out the details of such circumstances; and

(b) an opinion, in form and substance satisfactory to the Trustee, of the Guarantor's independent auditors or of a recognised accountancy firm of international standing stating that the circumstances referred to above prevail and the date on which the relevant change or amendment to the Relevant Accounting Standards is due to take effect.

The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Holders.

Upon the expiry of any such notice as is referred to in this Condition 7.5, the Issuer shall be bound to redeem the Securities in accordance with this Condition 7.5, provided that such date for redemption shall be no earlier than the last business day before the date on which the Securities are no longer permitted to be recorded as "equity" of the Guarantor pursuant to the Relevant Accounting Standards.

7.6 Redemption Upon a Regulatory Event

Subject to satisfaction of the Redemption and Purchase Condition, the Issuer may at its sole discretion, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities at (a) 101 per cent. of their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs prior to the First Call Date or (b) their principal amount (together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount)) if such redemption occurs on or after the First Call Date, if a Regulatory Event occurs after the Issue Date.

Prior to the publication of any notice of redemption pursuant to this Condition 7.6, the Guarantor shall deliver or procure that there is delivered to the Trustee:

(a) a certificate, signed by an Authorised Signatory of the Guarantor, stating that the circumstances referred to above prevail and setting out the details of such circumstances; and

(b) an opinion, in form and substance satisfactory to the Trustee, of the Guarantor's counsel of international repute stating that a Regulatory Event with respect to the Securities has occurred.

The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Holders.

Upon expiry of any such notice as is referred to in this Condition 7.6, the Issuer shall be bound to redeem the Securities in accordance with this Condition 7.6, provided that no notice of redemption with respect to a Regulatory Event shall be given earlier than 90 days prior to (i) (in the case of paragraph (a) of the definition of Regulatory Event) the date on which the Relevant Rules are adopted by the Insurance Regulator and (ii) (in the case of paragraph (b) of the definition of Regulatory Event) the earliest date on which the relevant change to law or regulation or interpretation of the regulatory capital requirements is due to take effect.

7.7 Redemption in the Case of Minimal Outstanding Amount

Subject to the Redemption and Purchase Condition, the Issuer may, at any time, on giving not more than 60 nor less than 30 days' irrevocable notice to the Trustee and the Holders, redeem all but not some only of the Securities at their principal amount, together with any Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if, immediately before giving such notice, the aggregate principal amount of the Securities outstanding is less than 20 per cent. of the aggregate principal amount of the Securities originally issued. Upon expiry of any such notice as is referred to in this Condition 7.7, the Issuer shall be bound to redeem the Securities in accordance with this Condition 7.7.

7.8 No Other Redemption

The Issuer shall not be entitled to redeem the Securities and neither the Issuer nor the Guarantor shall have any obligation to make any payment of principal in respect of the Securities otherwise than as provided in Conditions 7.2 to 7.7 inclusive.

7.9 Purchase

Subject to satisfaction of the Redemption and Purchase Condition, the Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Securities in the open market or otherwise at any price.

7.10 Cancellation

All Certificates representing Securities purchased by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries may be surrendered for cancellation to the Registrar and, upon any such surrender thereof, all such Securities shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Securities shall be discharged immediately upon cancellation of the relevant Certificates.

7.11 Redemption and Purchase Condition

Notwithstanding any other provisions in these Conditions:

(a) the Issuer or as the case may be, the Guarantor, shall not redeem or repurchase any of the Securities and the Issuer, the Guarantor or any of their respective Subsidiaries shall not repurchase any of the Securities unless the prior written consent of the Insurance Regulator shall have been obtained;

(b) no Security shall be redeemed before the First Call Date unless such relevant Securities shall be replaced in full before or upon redemption by a new issuance of securities of the same or higher quality, as determined by the Insurance Regulator; and

(c) any right of redemption under Condition 7 shall not apply to the extent it would cause the Securities not to be recognised by the Insurance Regulator as regulatory capital (in whole or in part) (including, but not limited to, classification as Tier 1 Capital Securities or Tier 2 Capital Securities under the Relevant Rules then applicable) of the Guarantor,

provided however, that, if from time to time, Condition 7.11(a) or (b) is not a requirement imposed by the Insurance Regulator under the Relevant Rules or otherwise, then such Condition shall not apply (together, the "**Redemption and Purchase Condition**").

7.12 No Duty to Monitor

Neither the Trustee nor the Agents shall have any duty to monitor the occurrence of any redemption event under this Condition

8. PAYMENTS

8.1 Method of Payment

(a) Payments of principal shall be made (subject to surrender of the relevant Certificates at the specified office of any Paying Agent or of the Registrar if no further payment falls to be made in respect of the Securities represented by such Certificates) in the manner provided in paragraph (b) below.

(b) Distributions on each Security shall be paid to the person shown as the Holder on the Register at the close of business on the 15th business day before the due date for payment thereof (the "**Record Date**"). Payments of Distributions on each Security shall be made by transfer to an account in US dollars maintained by the payee with a bank in New York City.

(c) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Holder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of a Distribution being paid is less than the amount then due, the Registrar will annotate the Register with the amount of the Distribution so paid.

*So long as the Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the Holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

8.2 Payments Subject to Applicable Laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 9 and any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Holders in respect of such payments.

8.3 Payment Initiation

Where payment is to be made by transfer to an account, payment instructions (for value the due date, or if that is not a business day, for value the first following day which is a business day) will be initiated on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Paying Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

8.4 Appointment of Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Agent and to appoint additional or other Agents, provided that:

(a) there will at all times be a Principal Paying Agent and a Calculation Agent;

(b) there will at all times be a Registrar which will maintain the registrar of Holders outside Hong Kong and the United Kingdom; and

(c) so long as the Securities are listed on the Stock Exchange of Hong Kong Limited and if the Stock Exchange of Hong Kong Limited so requires, there will be a Paying Agent and Transfer Agent with a specified office in Hong Kong.

Notice of any such change or any change of any specified office shall promptly be given to the Holders in accordance with Condition 16.

8.5 Delay in Payment

Holders will not be entitled to any Distribution or other payment for any delay after the due date in receiving the amount due on a Security if the due date is not a business day, if the Holder is late in surrendering or cannot surrender its Certificate (if required to do so).

8.6 Non-Business Days

If any date for payment in respect of any Security is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any Distribution or other sum in respect of such postponed payment.

9. TAXATION

9.1 Payment without Withholding

All payments of principal, premium (if any) and Distributions (including any Arrears of Distribution or any Additional Distribution Amount) by or on behalf of the Issuer in respect of the Securities and the Guarantor in respect of the Guarantee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of any of the Relevant Jurisdictions, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts ("**Additional Tax Amounts**") as may be necessary in order that the net amounts received by the Holders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Securities in the absence of the withholding or deduction; except that no Additional Tax Amounts shall be payable in relation to any payment in respect of any Securities:

(a) to a Holder (or a third party on behalf of a Holder) who is liable to the Taxes in respect of the Securities by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Securities; or

(b) if the Certificate in respect of such Securities is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a Holder would have been entitled to Additional Tax Amounts on presenting the same for payment on the last day of the period of 30 days assuming (whether or not such is in fact the case) that day to have been a business day).

9.2 Additional Tax Amounts

Any reference in these Conditions to principal, Distribution, Arrears of Distribution or Additional Distribution Amount shall be deemed to include any Additional Tax Amounts in respect of such principal, Distribution, Arrears of Distribution or Additional Distribution Amount (as the case may be) which may be payable under this Condition 9 or any undertaking given in addition to or in substitution of this Condition 9 pursuant to the Trust Deed.

10. NON-PAYMENT

10.1 Non-Payment When Due

Notwithstanding any of the provisions below in this Condition 10, the right to institute proceedings for Winding-Up is limited to circumstances where payment has become due and is unpaid. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution in accordance with Condition 6.6. In addition, nothing in this Condition 10, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any of its directors, officers, employees or agents to claim from or to otherwise take any action against the Issuer or the Guarantor in respect of any costs, charges, fees, expenses or liabilities incurred by such party pursuant to or in connection with the Trust Deed or the Securities.

10.2 Proceedings for Winding-Up

If (a) an order is made or an effective resolution is passed for the Winding-Up of the Issuer or the Guarantor, or (b) the Issuer shall not make payment in respect of the Securities or the Guarantor shall not make payment in respect of the Guarantee for a period of ten days or more after the date on which such payment is due, the Issuer or, as the case may be, the Guarantor shall be deemed to be in default under the Trust Deed, the Securities and, in the case of the Guarantor, the Guarantee, and the Trustee may, subject to the provisions of Condition 10.4, institute proceedings for the Winding-Up of the Issuer and/or the Guarantor and/or prove in the Winding-Up of the Issuer and/or the Guarantor and/or claim in the liquidation of the Issuer and/or the Guarantor for such payment.

10.3 Enforcement

Without prejudice to Condition 10.2 but subject to the provisions of Condition 10.4, the Trustee may at its discretion and without notice to the Issuer or the Guarantor institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce any term or condition binding on the Issuer and/or the Guarantor under the Trust Deed, the Deed of Guarantee or the Securities (other than any payment obligation of the Issuer or the Guarantor under or arising from the Securities, or the Trust Deed or the Deed of Guarantee (other than any payments obligation of the Issuer or the Guarantor in respect of the fees or expenses of the Trustee under the Trust Deed), including, without limitation, payment of any principal or Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities or the Guarantee, including any damages awarded for breach of any obligations) and in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

10.4 Entitlement of Trustee

The Trustee shall not be obliged to take any of the actions referred to in Condition 10.2 or 10.3 above against the Issuer and/or the Guarantor to enforce the terms of the Trust Deed, the Deed of Guarantee or the Securities unless (a) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least one-quarter in principal amount of the Securities then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

10.5 Right of Holders

No Holder shall be entitled to proceed directly against the Issuer or the Guarantor or to institute proceedings for the Winding-Up or claim in the liquidation of the Issuer and/or the Guarantor or to prove in such Winding-Up unless the Trustee, having become so bound to proceed, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder shall have only such rights against the Issuer and/or the Guarantor as those which the Trustee is entitled to exercise as set out in this Condition 10.

10.6 Extent of Holders' Remedy

No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 10, shall be available to the Trustee or the Holders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or the Deed of Guarantee or in respect of any breach by the Issuer or the Guarantor of any of its other obligations under or in respect of the Securities or under the Trust Deed or the Deed of Guarantee.

10.7 Trustee May Refrain

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction and the Trustee is not indemnified or pre-funded to its satisfaction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

11. PRESCRIPTION

Claims against the Issuer and the Guarantor for payment in respect of the Securities shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of Distributions) from the appropriate Relevant Date in respect of them.

12. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. MEETINGS OF HOLDERS, MODIFICATION, SUBSTITUTION OR VARIATION AND ENTITLEMENT OF TRUSTEE

13.1 Meetings of Holders

The Trust Deed contains provisions for convening meetings (including by way of conference call) of the Holders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Deed of Guarantee, the Trust Deed or the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Securities for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Securities held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and the Deed of Guarantee and certain of the provisions of the Trust Deed, including consideration of proposals, *inter alia*, (a) to modify the dates for redemption of the Securities or the dates on which Distributions (including any Arrears of Distribution or Additional Distribution Amounts) are payable in respect of the Securities, (b) to reduce or cancel the principal amount of, or Distributions (including any Arrears of Distribution or Additional Distribution Amounts) on or to vary the method of calculating the Distribution Rate or to reduce the Distribution Rate on, the Securities, (c) to change the currency of payment of the Securities, (d) to amend the subordination provisions of the Trust Deed and/or Conditions and/or the Deed of Guarantee, (e) to modify or cancel the Guarantee, (f) to modify the provisions concerning the quorum required at any meeting of Holders or the majority required to pass an Extraordinary Resolution, or (g) to alter this proviso (each a "**Reserved Matter**"), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one quarter, of the principal amount of the Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Holders will be binding on all Holders, whether or not they are present at the meeting and whether or not they voted on the Extraordinary Resolution.

In addition, (i) a resolution in writing signed by or on behalf of Holders holding not less than three-fourths in principal amount of the Securities outstanding and who for the time being are entitled to receive notice of a meeting of Holders under the Trust Deed (a "**Written Resolution**") and (ii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the Holders of not less than three-fourths in principal amount of the Securities for the time being outstanding (an "**Electronic Consent**") , shall, in each case for all purposes, take effect as if it were an Extraordinary Resolution. A Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders. A Written Resolution and/or Electronic Consent will be binding on all Holders whether or not they participated in such Written Resolution and/or Electronic Consent, as the case may be.

13.2 Modification, Waiver, Authorisation and Determination

The Trustee may (but shall not be obliged to) agree, without the consent of the Holders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Deed of Guarantee, the Trust Deed or the Agency Agreement (other than in respect of a Reserved Matter), or may agree, without any such consent as aforesaid, to any modification which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Holders, or may determine, without any such consent as aforesaid, that an Enforcement Event shall not be treated as such. The Trustee may also agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error. Any such modification, waiver or authorisation shall be binding on the Holders and, unless the Trustee agrees otherwise, such modification shall be notified to the Holders as soon as practicable thereafter in accordance with Condition 16.

13.3 Substitution or Variation

If a Special Event has occurred and is continuing, then the Issuer may at its sole discretion, subject to Condition 6 (without any requirement for the consent or approval of the Holders but subject to the Redemption and Purchase Condition) and subject to it having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of this Condition 13.3 have been complied with, and having given not less than 30 nor more than 60 days' irrevocable notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 16, the Holders, at any time either (a) substitute all, but not some only, of the Securities for, or (b) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 13.3 and subject to the receipt by it of the certificate of an Authorised Signatory of the Guarantor referred to in subclause 10(t) of the Trust Deed) agree to such substitution or variation. Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 13.3.

In connection therewith, any outstanding Arrears of Distribution (including any Additional Distribution Amount) shall be satisfied in full in accordance with the provisions of Condition 6.6(f).

In connection with any substitution or variation in accordance with this Condition 13.3, the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

Any such substitution or variation in accordance with the foregoing provisions shall not be permitted if any such substitution or variation would itself give rise to a Special Event with respect to the Securities or the Qualifying Securities.

This Condition 13.3 shall not require the Trustee to participate in, or assist with, or enter into any documents or deeds in connection with, any such substitution or variation if the substitution or variation, or the securities into which the Securities are to be substituted, or if the assistance with such substitution or variation, or the entry into of any documents or deeds, would impose, in the Trustee's opinion, more onerous obligations upon it, expose it to liabilities or reduce its protections.

This Condition 13.3 shall not apply to the extent such application would cause the Securities not to be recognised by the Insurance Regulator as regulatory capital (in whole or in part) (including, but not limited to, classification as Tier 1 Capital Securities or Tier 2 Capital Securities under the Relevant Rules then applicable) of the Guarantor.

13.4 Entitlement of the Trustee

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, determination, authorisation or substitution), the Trustee shall have regard to the general interests of the Holders as a class but shall not have regard to any interests arising from circumstances particular to individual Holders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Holders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Holder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Holders except to the extent already provided for in Condition 9 and/or any undertaking given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

14. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER AND THE GUARANTOR

14.1 Indemnification and Protection of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer, the Guarantor and the Holders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances and (iii) to be paid its costs and expenses in priority to the claims of the Holders. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst case scenario and (ii) to require that any indemnity or security given to it by the Holders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

14.2 Trustee Contracting with the Issuer and the Guarantor

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or the Guarantor and/or any of the Guarantor's other Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor and/or any of the Guarantor's other Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Holders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

15. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Holders to create and issue further securities either (a) ranking *pari passu* in all respects with the Securities and having the same terms and conditions as the Securities in all respects (or in all respects save for the Issue Date, the first Distribution paid thereon, the date of the first payment of distribution and the NDRC Post-issue Filing) and so that the same shall be consolidated and form a single series with the outstanding securities of any series (including the Securities) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as the Issuer may determine at the time of the issue. Any further securities which are to form a single series with the outstanding securities of any series (including the Securities) constituted by the Trust Deed or any supplemental deed shall, and any other further securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Holders and the holders of securities of other series in certain circumstances where the Trustee so decides.

16. NOTICES

All notices to the Holders will be valid if mailed to them at their respective addresses in the Register or published in a leading newspaper having general circulation in Hong Kong. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed.

So long as the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, notices to Holders shall be given by delivery of the relevant notice to Euroclear or Clearstream for communication by it to the entitled accountholders in substitution for notification as required by the Conditions.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Security, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing Law

The Trust Deed, the Securities, the Deed of Guarantee and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, except that (a) Clause 10 of the Deed of Guarantee and Condition 4.3 are governed by, and shall be construed in accordance with, Hong Kong law; (b) Clause 5.2 of the Trust Deed and Condition 3.2 are governed by, and shall be construed in accordance with, the laws of the British Virgin Islands.

18.2 Submission to Jurisdiction

(a) Subject to Condition 18.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Deed of Guarantee, the Trust Deed and/or the Securities, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Deed of Guarantee, the Trust Deed and/or the Securities, (a "**Dispute**") and accordingly each of the Issuer and the Guarantor in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

(b) For the purposes of this Condition 18.2, each of the Issuer and the Guarantor waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(c) To the extent allowed by law, the Trustee and the Holders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

18.3 Appointment of Process Agent

Each of the Issuer and the Guarantor has, in the Trust Deed, irrevocably and unconditionally appoints Hackwood Secretaries Limited at its registered office at One Silk Street, London EC2Y 8HQ, England as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Hackwood Secretaries Limited being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. Each of the Issuer and the Guarantor agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

19. CURRENCY INDEMNITY

U.S. dollar is the sole currency of account and payment for all sums payable by the Issuer or, as the case may be, the Guarantor under or in connection with the Securities, the Deed of Guarantee, the Trust Deed and the Agency Agreement, including damages. Any amount received or recovered in a currency other than U.S. dollar (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, the Guarantor or otherwise) by any Holder in respect of any sum expressed to be due to it from the Issuer or the Guarantor will only constitute a discharge to the Issuer or the Guarantor to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Security, the Deed of Guarantee, the Trust Deed or the Agency Agreement, the Issuer and the Guarantor will indemnify such recipient and the Trustee against any loss sustained by it as a result. In any event, the Issuer and the Guarantor will indemnify the recipient and the Trustee against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Holder or the Trustee, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Holder and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Security, the Deed of Guarantee, the Trust Deed, the Agency Agreement or any other judgment or order.

20. DEFINITIONS

In these Conditions:

"**Accounting Event**" has the meaning set out in Condition 7.5;

"**Additional Distribution Amount**" has the meaning set out in Condition 6.6(d);

"**Additional Tax Amounts**" has the meaning set out in Condition 9.1;

"**A.M. Best"** means A.M. Best Company, Inc. or any of its subsidiaries and their successors;

"**Arrears of Distribution**" has the meaning set out in Condition 6.6(d);

"**Authorised Signatory"** means any signatory of the Issuer or the Guarantor, from time to time authorised by its board of Directors as specified in a certificate provided to the Trustee and signed by one Director of the Issuer or the Guarantor from time to time, as the case may be, in connection with this Trust Deed, the Agency Agreement, the Deed of Guarantee, the Securities or any other agreement or document relating to the transaction herein or therein contemplated. The Trustee shall be entitled to assume that the persons specified in the most recent certificate received by it are and continue to be Authorised Signatories, until notified to the contrary by the Issuer or the Guarantor (as applicable);

"**business day**" means:

(a) in respect of Condition 2.2, a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be);

(b) in respect of Condition 6, any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in Hong Kong and London;

(c) in respect of Condition 7, Condition 8 and Condition 9, a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar and the Principal Paying Agent is located and, in the case of presentation of a Certificate, in the place in which the Certificate is presented and where payment is to be made by transfer to an account maintained with a bank in New York City, on which foreign exchange transactions may be carried on in US dollars in New York City; and

(d) in respect of the Reference Treasury Dealer Quotations, any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City and London;

"**Calculation Amount**" has the meaning set out in Condition 6.2;

"**Certificates**" has the meaning set out in Condition 1;

"**Comparable Treasury Issue**" means the U.S. Treasury security selected by an independent investment bank or the Issuer and notified by the Issuer to the Calculation Agent as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years;

"**Comparable Treasury Price**" means:

(a) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third New York business day preceding the relevant Reset Date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or

(b) if such release (or any successor release) is not published or does not contain such prices on such New York business day, (i) the average of the Reference Treasury Dealer Quotations for the relevant Reset Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (ii) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations,

if the Comparable Treasury Price cannot be determined in accordance with the above provisions, the Treasury Rate as at the last preceding Reset Date;

"**Compulsory Distribution Payment Event**" means circumstances in which during the 6 month period ending on the day before the relevant scheduled Distribution Payment Date either or both of the following have occurred:

(a) a discretionary dividend, discretionary distribution or other discretionary payment has been paid by the Issuer, the Guarantor or any of their respective Subsidiaries on or in respect of any of the Junior Obligations or the Parity Obligations of the Issuer or the Guarantor other than a dividend, distribution or other payment in respect of (i) an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants of the Issuer or the Guarantor; or (ii) any Parity Obligations of the Issuer or the Guarantor made on a *pro rata* basis with payment of the Securities; or

(b) the Issuer, the Guarantor or any of their respective Subsidiaries has at its discretion repurchased, redeemed or otherwise acquired any of the Junior Obligations or the Parity Obligations of the Issuer or the Guarantor other than (i) in respect of a repurchase, redemption or other acquisition of the Parity Obligations of the Issuer or the Guarantor made on a *pro rata* basis with a purchase of the Securities; (ii) in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants of the Issuer or the Guarantor; or (ii) as a result of the exchange or conversion of the Parity Obligations of the Issuer or the Guarantor for the Junior Obligations of the Issuer or the Guarantor, as the case may be;

"**Day Count Fraction**" has the meaning set out in Condition 6.2;

"**Deferral Election Event**" has the meaning set out in Condition 6.6(a);

"**Deferral Election Notice**" has the meaning set out in Condition 6.6(a);

"**Distribution**" has the meaning set out in Condition 6.1;

"**Distribution Payment Date**" has the meaning set out in Condition 6.1;

"**Distribution Rate**" has the meaning set out in Condition 6.1;

"**Equity Credit Classification Event**" has the meaning set out in Condition 7.4;

"**Extraordinary Resolution**" means a resolution passed (i) at a meeting duly convened and held in accordance with the Trust Deed by a majority of at least 75 per cent. of the votes cast, (ii) by a Written Resolution or (iii) by an Electronic Consent;

"**First Call Date**" has the meaning set out in Condition 6.2(a);

"**First Relevant Reset Distribution Rate**" means a rate of interest expressed as a percentage per annum equal to the sum of (a) the Treasury Rate, and (b) the initial spread of 5.011 per cent.;

"**Gross-Up Event**" has the meaning set out in Condition 7.3;

"**Guarantee**" has the meaning set out in Condition 4.1;

"**HKFRS**" means the Hong Kong Financial Reporting Standards;

"**Holder**" has the meaning set out in Condition 1.2;

"**Hong Kong**" means the Hong Kong Special Administrative Region;

"**Initial Distribution Rate**" has the meaning set out in Condition 6.2(a);

"**Initial Spread**" means 5.011 per cent. per annum;

"**Insurance Regulator**" means the Insurance Authority of Hong Kong or any successor authority charged with the primary prudential supervision of the Guarantor;

"**Issue Date**" has the meaning set out in Condition 6.1;

"**Junior Obligations**" means (i) any ordinary share of the Issuer, or as the case may be, the Guarantor; (ii) any Tier 1 Capital Securities of the Issuer or as the case may be, the Guarantor (if applicable); or (iii) any class of the Issuer or the Guarantor's share capital and any other instrument or security (including preference shares or preferred units) issued, entered into or guaranteed by the Issuer or, as the case may be, the Guarantor which ranks or is expressed to rank, by its terms or by operation of law, junior to the Securities;

"**Moody's**" means Moody's Investors Service, Inc. or any of its subsidiaries and their successors;

"**Parity Obligations**" means any instrument or security issued, entered into or guaranteed by the Issuer or, as the case may be, the Guarantor (i) which ranks or is expressed to rank, by its terms or by operation of law, *pari passu* with the Securities or (ii) which constitutes Tier 2 Capital Securities of the Issuer or the Guarantor;

"**Policy Holder**" shall have the meaning ascribed to it in the Insurance Ordinance (Cap. 41) of Hong Kong or its successor legislation, as amended or supplemented from time to time;

"**PRC**" means the People's Republic of China, which, solely for the purposes of these Conditions, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan, the Republic of China;

"**PRC Business Day**" means a day (other than a Saturday or Sunday or a public holiday) on which commercial banks are open for business in the PRC;

"**Qualifying Securities**" means securities that:

(a) have terms not materially less favourable to an investor than the terms of the Securities (as reasonably determined by the Guarantor and an independent investment bank, and provided that a certification to such effect (and confirming that the conditions set out in (i) to (iv) below have been satisfied) signed by an Authorised Signatory of the Guarantor and from an independent investment bank, shall have been delivered to the Trustee prior to the substitution or variation of the relevant Securities upon which certificate the Trustee shall rely absolutely and shall be binding on the Holders), provided that:

    (i) they are issued by the Guarantor, the Issuer or any wholly owned direct or indirect Subsidiary of the Guarantor;

    (ii) they are unconditionally and irrevocably guaranteed by the Guarantor where not issued by the Guarantor;

    (iii) they (or, as appropriate, the guarantee as aforesaid) shall rank *pari passu* with the Securities on a Winding-Up, shall preserve the Holders' rights to any Arrears of Distribution, any Additional Distribution Amount and any other payment that has accrued with respect to the Securities, and shall contain terms which provide at least for the same Distribution Rate, subsequent Distribution Payment Dates and redemption events, from time to time applying to the Securities; and other terms of such securities are substantially identical (as reasonably determined by the Guarantor and an independent investment bank) to the Securities and, other than in the case of an Equity Credit Classification Event, have an equity content or credit that is the same or better than the equity credit assigned to the Securities before the substitution or variation, save for any modifications to such terms that are required to be made to avoid or resolve the occurrence of an Accounting Event, an Equity Credit Classification Event, a Regulatory Event or, as the case may be, a Gross Up Event; and

    (iv) they shall not contain loss absorbing provisions, such as principal write-offs, write-downs or conversion to equity (which, for the avoidance of doubt, does not include any provision dealing with statutory bail-in);

(b) have been, or will be on issue be, assigned at least the same rating as that assigned by all relevant Rating Agencies where the Securities were so rated (other than unsolicited ratings) prior to Substitution or Variation as provided in Condition 13.3; and

(c) are listed on The Stock Exchange of Hong Kong Limited or another securities exchange of international standing regularly used for the listing and quoting of debt securities offered and traded in the international markets;

"**Rating Agency**" has the meaning set out in Condition 7.4;

"**Record Date**" has the meaning set out in Condition 8.1(b);

"**Reference Treasury Dealer**" means each of any three investment banks of recognised standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Issuer or the Guarantor (at the expense of the Issuer, failing which the Guarantor) and approved in writing by the Trustee;

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer and any Reset Date, the average as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third business day (as defined in Condition 20) preceding such Reset Date and notified in writing by the Issuer to the Calculation Agent;

"**Register**" has the meaning set out in Condition 1.2;

"**Regulatory Event**" is deemed to have occurred if, as a result of any change of law, regulation or guidelines or interpretation thereof, which change becomes effective (or in the case of a change in the application or official interpretation, occurs or is being announced) after the Issue Date, the Securities are or would no longer be recognised by the Insurance Regulator as regulatory capital (in whole or in part) (including, but not limited to, classification as Tier 1 Capital Securities or Tier 2 Capital Securities under the Relevant Rules then applicable) of the Guarantor (other than as a result of any discounting or amortisation requirements as to the eligibility of the Securities for such inclusion pursuant to the relevant law and regulation then in force, or non-qualification solely by virtue of the Guarantor already having on issue securities with an aggregate principal amount up to or in excess of the limit of such type of securities as permitted from time to time by the Insurance Regulator);

"**Relevant Accounting Standards**" has the meaning set out in Condition 7.5;

"**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by an Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Holders by the Issuer in accordance with Condition 16;

"**Relevant Jurisdiction**" means the British Virgin Islands or Hong Kong or any political subdivision or any authority therein or thereof having power to tax to which the Issuer or the Guarantor becomes subject in respect of payments made by it of any sums due in respect of the Securities;

"**Relevant Reset Distribution Rate**" means a rate of interest expressed as a percentage per annum equal to the sum of (a) the Treasury Rate, (b) the initial spread of 5.011 per cent. and (c) a margin of 1.00 per cent. per annum;

"**Relevant Rules**" means the rules under risk-based capital framework adopted, or to be adopted from time to time, by the Insurance Regulator providing for non-equity instruments to be included within the regulatory capital calculations for insurance companies or controlling companies which rules are, in each case, applicable to the Guarantor, or any successor or equivalent rules or legislation;

"**Reset Date**" means the First Call Date and each day falling every five calendar years after the First Call Date;

"**Reset Determination Date**" means the second Hong Kong business day before the commencement of the Reset Period for which the Relevant Reset Distribution Rate will apply;

"**Reset Period**" means the period beginning on and including the First Call Date and ending on but excluding the following Reset Date, and each successive period beginning on and including a Reset Date and ending on but excluding the next succeeding Reset Date;

"**Second Reset Date**" shall have the meaning ascribed to it in Condition 6.2;

"**Special Event**" means a Gross-Up Event, an Accounting Event, a Regulatory Event, an Equity Credit Classification Event or any combination of the foregoing;

"**Subsidiary**" means, in relation to the Issuer or the Guarantor, any company (a) in which the Issuer or as the case may be, the Guarantor holds a majority of the voting rights or (b) of which the Issuer or, as the case may be, the Guarantor is a member and has the right to appoint or remove a majority of the board of directors or (c) of which the Issuer or as the case may be, the Guarantor is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer or as the case may be, the Guarantor;

"**Tier 1 Capital Securities**" means any security or guarantee issued by the Issuer or Guarantor that has been recognised by the Insurance Regulator as Tier 1 capital (or its equivalent) of the Issuer or the Guarantor in writing under Relevant Rules (if applicable);

"**Tier 2 Capital Securities**" means any security or guarantee issued by the Issuer or Guarantor that has been recognised by the Insurance Regulator as Tier 2 capital (or its equivalent) of the Issuer or the Guarantor in writing under Relevant Rules (if applicable);

"**Treasury Rate**" means the rate notified by the Calculation Agent to the Issuer and the Holders (in accordance with Condition 16 (Notices)) in per cent. per annum equal to the yield, that represents the average for the week ending two New York business days prior to each Reset Date for calculating the Relevant Reset Distribution Rate under Condition 6.2(b), derived from the most recently published statistical release designated "H.15" (weblink: http://www.federalreserve.gov/releases/h15/) or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded US Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity corresponding to the Comparable Treasury Issue. If such release (or any successor release) is not published during the week preceding the relevant date for calculation or does not contain such yields, "**Treasury Rate**" means the rate in per cent. per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the applicable Reset Date under Condition 6.2(b); and

"**Winding-Up**" means, with respect to the Issuer or, as the case may be, the Guarantor, a final and effective order or resolution by a competent authority in the respective jurisdiction of the Issuer or, as the case may be, the Guarantor for the winding up, liquidation or similar proceedings in respect of the Issuer or, as the case may be, the Guarantor.

THE GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Securities in respect of which they are issued whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in the paragraphs below.

The Securities will be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary on behalf of Euroclear and Clearstream, Luxembourg.

Under the Global Certificate, the Issuer, for value received, will promise to pay such principal, premium (if any) and Distributions (including any Arrears of Distribution and any Additional Distribution Amount) on the Securities to the holder of the Securities on such date or dates as the same may become payable in accordance with the Terms and Conditions of the Securities.

The Global Certificate will become exchangeable for individual Certificates in definitive form if the Securities represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg (or the Alternative Clearing System) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

On or after any Exchange Date, the holder of the Global Certificate may surrender the Global Certificate or, in the case of exchange in part, present it for endorsement to or to the order of the Principal Paying Agent. "**Exchange Date**" means a day falling not less than 30 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System, are located.

In exchange for the Global Certificate, or on endorsement in respect of the part thereof to be exchanged, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Certificates, security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. Such Definitive Certificates shall be registered in such names as the holder shall direct in writing.

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

Securityholder

Subject as provided in the Trust Deed, each person who is for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg as entitled to a particular principal amount of the Securities represented by the Global Certificate (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Securities standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the holder of such principal amount of such Securities for all purposes other than with respect to payments of principal, premium (if any) and distribution on the Securities for which purpose the registered holder of the Global Certificate shall be deemed to be the holder of such principal amount of the Securities in accordance with and subject to the terms of the Global Certificate and the Trust Deed.

Cancellation

Cancellation of any Security represented by the Global Certificate which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the Securities in the Register and on presentation of the Global Certificate to or to the order of the Principal Paying Agent for annotation (for information only) of the appropriate schedule to the Global Certificate.

Payments

Payments of principal, premium (if any) and Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of Securities evidenced by the Global Certificate held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear and Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures and will be made without presentation for endorsement by the Principal Paying Agent or such other Paying Agent and, if no further payment falls to be made in respect of the Securities, against presentation and surrender of the Global Certificate to or to the order of the Principal Paying Agent or to the order of such other Paying Agent as shall have been notified to the relevant Holders for such purpose.

The Issuer, for value received, will promise to pay to the Holder represented by the Global Certificate upon presentation and (when no further payment is due in respect of the Securities represented by the Global Certificate) surrender of the Global Certificate on the first Distribution Payment Date or relevant Distribution Payment Date (or on such earlier date as the amount payable upon redemption under the Terms and Conditions may become repayable in accordance with the Terms and Conditions) the amount payable upon redemption under the Conditions in respect of the Securities represented by the Global Certificate and to pay Distribution (including any Arrears of Distributions and any Additional Distribution Amount) in respect of such Securities from and including 28 October 2020 in arrear at the rates, in the amounts and on the dates for payment, in accordance with the method of calculation provided for in the Terms and Conditions, save that the calculation is made in respect of the total aggregate amount of the Securities represented by the Global Certificate together with such other sums and additional amounts (if any) as may be payable under the Terms and Conditions, in accordance with the Terms and Conditions.

Each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date of payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

Notices

So long as all the Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System, notices to Holders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders entitled to an interest in the Securities in substitution for notification as required by the Conditions. Any such notice shall be deemed to have been given to the Holders on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Transfers

Transfers of interests in the Securities will be effected through the records of Euroclear and Clearstream, Luxembourg (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (or any Alternative Clearing System) and their respective direct and indirect participants.

Where the holding of Securities represented by the Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Register that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

Meetings

For the purpose of any meeting of Holders (including by way of conference call), the holder of the Securities represented by the Global Certificate shall be entitled to one vote in respect of each U.S.$1,000 of the Securities.

DESCRIPTION OF THE ISSUER

The Issuer, incorporated in the British Virgin Islands on 26 September 2016 with company number 1924306, is a wholly-owned subsidiary of the Guarantor. The Issuer was established for the sole purpose of issuing the Securities. The registered office of the Issuer is at Ritter House, Wickhams Cay II, Road Town, Tortola VG 1110, British Virgin Islands.

The Issuer is not required by the laws of the British Virgin Islands to publish interim or annual accounts. The Issuer has not published, and does not propose to publish, any of its accounts.

The Issuer will be managed in accordance with its memorandum and articles of association and the laws of the British Virgin Islands.

As at the date of this Offering Circular, the Issuer has no subsidiaries and the directors of the Issuer are Kaihong Chen and Wing Wong. The business address of the directors of the Issuer is at Rooms 6501-06 and 6509-13, The Center, 99 Queen's Road Central, Central, Hong Kong.

As at the date of this Offering Circular, there are no potential conflicts of interest between any duties of the directors of the Issuer and their private interests and/or other duties.

CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets out, on a consolidated basis, the capitalisation and indebtedness of the Guarantor as at 30 June 2020 on an actual basis and as adjusted to give effect to the issue of the Securities and aggregate principal amount of the Securities.

The following table should be read in conjunction with the Guarantor's consolidated financial statements as at and for the six months ended 30 June 2020, including the notes thereto, which have been included elsewhere in this Offering Circular.

	As at 30 June 2020	
	Actual	**As Adjusted**
	U.S.$ *(Unaudited)*	*U.S.$* *(Unaudited)*
Total borrowings	–	–
Equity		
Share capital	786,720,714	786,720,714
Reserves	320,869,035	320,869,035
Securities to be issued	–	250,000,000
Total equity	**1,107,589,749**	**1,357,589,749**
Total capitalisation[(1)]	**1,107,589,749**	**1,357,589,749**

Note:

(1) Total capitalisation represents total borrowings and total equity.

Except as otherwise disclosed herein, there has been no material change in the total capitalisation and indebtedness of the Guarantor since 30 June 2020 up to the date of this Offering Circular.

DESCRIPTION OF THE GUARANTOR

The Guarantor, incorporated in 2010 and commenced operation in late 2012, is a global reinsurance company and authorised by the IA and headquartered in Hong Kong. The Guarantor is one of the few locally established reinsurance companies in the Asia Pacific region to underwrite both P&C and L&H reinsurance. The Guarantor is rated "A3 (stable)" by Moody's and "A- (stable)" by A.M. Best and was named amongst the top 30 global reinsurers in terms of net written premiums in the S&P Top 40 Global Reinsurance Groups 2020. The Guarantor was named "Asian Reinsurer of the Year" by the Asian Banking and Finance Magazine for five consecutive years since 2016.

The Guarantor has established an Asia-focused but globally diversified business over the years by gradually diversifying its exposure outside of the Asia Pacific region, and across several lines of business. It now offers reinsurance capacity to clients across the Asia Pacific, the Americas as well as the EMEA. In 2015, to enhance its proximity and offerings to European clients, the Guarantor opened a branch office in Zurich, Switzerland, and in December 2016, the Guarantor's subsidiary in Zurich, Switzerland, Peak Reinsurance AG, received a licence from FINMA to operate P&C reinsurance business from January 2017. Peak Reinsurance AG was incorporated in September 2016 and authorised to accept P&C reinsurance business from January 2017. In August 2016, the Guarantor completed a strategic investment to acquire a 50 per cent. stake in the Caribbean insurer, NAGICO Holdings Limited. In June 2017, the Guarantor received authorisation from the Monetary Authority of Singapore as a life and general reinsurer in Singapore. On 1 July 2017, the Guarantor was granted a licence by the Labuan Financial Services Authority to conduct general reinsurance business through its newly established Labuan branch in Malaysia. In addition, the Guarantor established a representative office in Tokyo in 2018 to further support its business growth and development in Japan. In December 2018, the Guarantor launched the first reinsurance sidecar transaction in Asia via a new Bermuda-domiciled special purpose insurer, Lion Rock Re Ltd. In April 2020, as part of the Guarantor's plan to build its ILS platform to enhance its capital capabilities and secure a stable stream of low risk income, the Guarantor acquired Lutece Holdings Ltd., a Bermuda-based ILS investment specialist (renamed as Peak Capital Holdings Ltd) and its subsidiaries, including Lutece Investment Management Ltd. (renamed as Peak Capital Ltd.). The Guarantor believes that its growing global platform provides it with enhanced strategic and financial flexibility, enabling it to leverage its risk management and reinsurance capabilities across a wider range of businesses and hedge against market conditions.

The Guarantor also invests assets which it generates through its reinsurance activities and maintains a diversified investment portfolio that is mainly composed of fixed income (including bond funds), equities and cash, with limited real estate and private equity investments as well.

For the financial years ended 31 December 2018 and 31 December 2019 and for the six months ended 30 June 2019 and 30 June 2020, the Guarantor had GWP of U.S.$1.4 billion, U.S.$1.7 billion, U.S.$815.9 million and U.S.$855.9 million, respectively. For the financial years ended 31 December 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Guarantor generated underwriting losses of U.S.$34.4 million, U.S.$14.1 million, U.S.$29.1 million and underwriting profit of U.S.$12.9 million, respectively[10]. The Guarantor has also achieved highly stable underwriting results, with technical combined ratios[11] of 105 per cent., 98 per cent. and 97 per cent. for the financial years ended 31 December 2017, 2018 and 2019, respectively. The Guarantor's technical combined ratio for the six months ended 30 June 2019 and 2020 was 101 per cent. and 93 per cent., respectively. For the financial year ended 31 December 2019, it had an overall (both P&C and L&H) administrative expense ratio of 3.4 per cent. In addition, for the financial years ended 31 December 2018 and 31 December 2019 and for the six months ended 30 June 2019 and 30 June 2020, it had U.S.$42.0 million, U.S.$54.8 million, U.S.$32.9 million and U.S.$4.6 million, respectively, in investment income[12], and as at 31 December 2019 its total assets was U.S.$4.4 billion and its total shareholder equity was U.S.$1.1 billion.

---

10 Underwriting profit/(loss) for the year/period is the sum of net reinsurance contracts earned premiums revenue, commission income, net claims incurred, commission expense and administration expenses.

11 Calculated as the sum of P&C net claims incurred and P&C net commissions expenses, divided by P&C net reinsurance contracts earned premiums revenue.

12 Investment income includes share of profit of associates (excluding NAGICO) and share of profit of joint venture.

The Guarantor is indirectly owned by Fosun International Limited ("**Fosun International**"), one of the largest Chinese private investors and a company listed on the Main Board of the Hong Kong Stock Exchange (00656.HK), and Prudential Financial, Inc. ("**PFI**"). Fosun International's and PFI's ownership in the Guarantor is approximately 86.51 per cent. and 13.05 per cent., respectively, with members of the Guarantor's senior management collectively holding approximately 0.44 per cent., as at 30 June 2020.

History

The Guarantor was incorporated in 2010 with the aim of capitalising on the rapid growth of insurance in the Asia Pacific region and creating a world-class reinsurer that understands and caters to the needs of Asian clients. In December 2012, it raised initial capital in the amount of U.S.$550 million, 85.1 per cent. of which was contributed by Fosun, with the remaining 14.9 per cent. having been contributed by the International Finance Corporation ("**IFC**"). In August 2016, Fosun International increased its investment in the Guarantor by U.S.$100 million (thereby increasing its ownership in the Guarantor to 86.9 per cent.) to further support the Guarantor's future growth. In April 2018, a wholly-owned subsidiary of PFI injected approximately U.S.$137 million into the Guarantor via Peak Reinsurance Holdings Limited for a 13.1 per cent. stake. In the lead up to the PFI transaction, IFC sold its shares to Fosun International in view of IFC's continuing focus on emerging markets and the Guarantor's emergence as a globally diversified reinsurer with substantial developed market exposure. As a result, in April 2018, Fosun International and PFI indirectly held 86.9 per cent. and 13.1 per cent., respectively, in the Guarantor. As at 30 June 2020, Fosun International and PFI indirectly hold 86.51 per cent. and 13.05 per cent., respectively, in the Guarantor.

In 2014, the Guarantor obtained a long-term reinsurance licence (Class A: life and annuity business), and it broadened its P&C lines to include credit and surety businesses. The Guarantor had initially sought to capture rising reinsurance demand within Asia Pacific with a strong focus on China, Australia, Korea, Japan and South East Asia and following a successful first year of operations in Asia Pacific, the Guarantor decided to expand its operations internationally and accelerate its plans to develop a global portfolio.

In 2016, the Guarantor's subsidiary in Zurich, Switzerland, Peak Reinsurance AG, received a licence from the FINMA to operate P&C reinsurance business from January 2017. Peak Reinsurance AG was incorporated in September 2016 and was authorised to accept P&C reinsurance business from January 2017. In August 2016, the Guarantor completed a strategic investment to acquire a 50 per cent. stake in the Caribbean insurer, NAGICO. During the course of 2016, the Guarantor also obtained a licence from the IA to write aviation business, thereby becoming fully licensed to write all lines of P&C reinsurance. In June 2017, the Guarantor received authorisation from the Monetary Authority of Singapore as a life and general reinsurer in Singapore. On 1 July 2017, the Guarantor was granted a licence by the Labuan Financial Services Authority to conduct general reinsurance business through its newly established Labuan branch in Malaysia. In 2018, the Guarantor established a representative office in Japan and announced the appointment of Mr. Satoshi Ichihara as the Chief Representative in Japan. In December 2018, the Guarantor launched the first reinsurance sidecar transaction in Asia via a new Bermuda-domiciled special purpose insurer, Lion Rock Re Ltd.. The Guarantor raised U.S.$75 million in its debut into the ILS market to provide collateralised retrocession for part of the Guarantor's global property catastrophe risk portfolio whilst also offering investors with the opportunity to access the unique and high-quality portfolio of the Guarantor's reinsurance business. In January 2020, the Guarantor successfully renewed and upsized Lion Rock Re to U.S.$77 million. In April 2020, as part of the Guarantor's plan to build its ILS capability as a way to diversify and secure a stable stream of income source and capture additional ILS market opportunities, the Guarantor acquired Bermuda-based Lutece Holdings Ltd. (renamed as Peak Capital Holdings Ltd.) together with its subsidiaries including Lutece Investment Management Ltd. (renamed as Peak Capital Ltd.).

Competitive Strengths

Diversified global business with differentiated access and expertise in Asia

The Guarantor was established to support the reinsurance needs of emerging, middle class markets in Asia and around the globe. As a privately-owned, Asia-based global reinsurer, the Guarantor believes it is well positioned to take advantage of the high growth markets across Asia for both life and non-life reinsurance products due to low insurance penetration, as well as to compete and capture significant market opportunities on a global basis. In 2019, the non-life insurance penetration (as measured by premiums as a percentage of gross domestic product) in Asia was only two per cent., compared to eight per cent. in North America and three per cent. in Europe[13]. The reinsurance market is large, with the top 40 players in the global reinsurance market contributing U.S.$247 billion in net reinsurance premiums in 2019[14], and Asia-based reinsurers accounting for approximately 14 per cent. of net reinsurance premiums. The Guarantor believes the more mature, sophisticated markets provide reinsurers access to large and diverse risk pools, while emerging middle class markets, including a large part of Asia, present significant long-term growth opportunities.

The Guarantor has built a global presence with hubs in key locations to access business in markets across the globe, and diversify its sources of risks. The Guarantor's business is anchored in Asia but has also developed a complementary global portfolio, with 35 per cent. in Mainland China, 24 per cent. in the Americas, 11 per cent. in Korea, 11 per cent. in Europe, 10 per cent. in Japan and 9 per cent. in other jurisdictions based on GWP for the six months ended 30 June 2020, including P&C and L&H. Its headquarter in Hong Kong provide access to the Mainland China reinsurance market, while maintaining strategic proximity to other markets in Asia. The Hong Kong domicile also allows the Guarantor to provide a more attractive product offering to customers in China through favourable capital treatment via EAFA, which was most recently extended until 30 June 2021. The Guarantor's Solvency II compliant Zurich subsidiary enables it to provide P&C reinsurance services and solutions to Western Europe. The Guarantor accesses markets in North America and Asia through its branch, representative office and subsidiary. Its Hong Kong headquarter also allow it to attract international talent and grow efficiently in a favourable tax environment.

The Guarantor underwrites a well-diversified portfolio of risks which allows it to sustain growth and profitability across market cycles while expanding its capital base. It seeks to maintain a balanced portfolio and operates a low volatility underwriting model focusing on traditional risks and proportional treaties which tend to provide stable, relatively predictable underwriting results over a market cycle. It was established as a P&C reinsurer, and in 2014 expanded its solutions offering to include L&H lines to capture the growing needs of L&H insurers in Asia. The Guarantor's P&C business is mostly short tail but it is prudently growing longer tail lines. In addition, about 88 per cent. of its GWP for the year ended 31 December 2019 was proportional treaty business which provides stable and relatively predictable underwriting results.

---

[13] Source: Swiss Re Sigma. Europe refers to advanced EMEA as defined by Swiss Re.
[14] Source: S&P Global. Top 40 Global Reinsurance and Reinsurers By Country: 2020.

The Guarantor has established itself as a leader in the emerging Asia ILS market through the issuance of Asia's first reinsurance sidecars, and the establishment of Peak Capital by way of acquisition. It has established a reputation for structuring high quality securities which provide healthy, diversified returns, which are largely uncorrelated to financial markets. The ILS business allows the Guarantor to generate a growing stream of low-risk fee income by leveraging its leading expertise in Asia risk. In addition, it provides the Guarantor with an additional avenue to optimise its portfolio of risks and deepen its gross underwriting capacity.

Differentiated underwriting capabilities

The Guarantor has achieved consistently strong underwriting performance by taking a differentiated approach to underwriting. It adopts a formalised, collaborative underwriting process which incorporates inputs from underwriting, markets and analytics teams, and leverages its superior access to profitable business in diverse markets and utilises advanced, data-driven analytics.

Formalised, Collaborative Underwriting Process

The Guarantor has formalised a collaborative process, with every underwriting decision based upon qualitative and quantitative inputs from each of the underwriting, markets and analytics teams to provide an unbiased, comprehensive view of each transaction. As a result of its holistic and conservative approach, the Guarantor has produced stable P&C technical combined ratios[15] (excluding the impact of extraordinary losses[16]) in the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020 of 94 per cent., 94 per cent., 93 per cent., 98 per cent. and 91 per cent., respectively.

The Guarantor has assembled a seasoned team of high calibre underwriters with diverse, global experience, unique insights across multiple lines of business and markets, and has a proven track record of underwriting profitable business. Underwriters underwrite reinsurance business across lines of business and geographies to maximise operating effectiveness, and collective insights of underwriters are fundamental to developing tailored and efficient risk transfer solutions for clients. The Guarantor's underwriters work closely with its markets team and professional intermediaries to develop insightful, comprehensive and sustainable solutions to clients. Underwriters collaborate with risk and capital management teams at each stage of the underwriting process to ensure the Guarantor's risk and capital requirements are met.

Superior Access to Profitable Business

The Guarantor accesses profitable businesses and manages client relationships through its markets team, which is staffed by seasoned professionals with over 15 years of reinsurance experience on average. In addition to differentiated access to key clients and relationships in their respective regions, the Guarantor's market professionals have deep underwriting expertise across multiple lines of business and work closely with the underwriting and analytics teams to develop unique solutions to address the challenges of clients in each market. It has organically grown its presence to 560 clients in approximately 73 markets as at 31 December 2019 by focusing on establishing enduring and long-term relationships with high quality customers, and providing innovative and forward-looking solutions, tailored to suit the customers' needs. As a result, it has managed to achieve a robust client retention ratio of 94.5 per cent. (representing the percentage of clients that renewed in 2019) for the year ended 31 December 2019.

---

15 Calculated as the sum of P&C net claims incurred and P&C net commissions expenses, divided by P&C net reinsurance contracts earned premiums revenue.

16 Extraordinary losses include losses incurred from severe catastrophe events, which had an adverse effect on the global reinsurance industry, and are deemed to be highly rare occurrences. The Guarantor incurred losses of U.S.$77 million, U.S.$39 million, U.S.$41 million, U.S.$15 million and U.S.$12 million, for the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2019 and 2020, respectively.

Advanced, Data-Driven Analytics

The Guarantor's underwriting strategy is based on robust, vigorous, analytics-supported risk selection.

It has developed a strong set of analytic capabilities driven by a solid team of data, actuarial and analytics professionals, with aggregate industry experience of over 60 years. The team has developed a proprietary set of methodologies and models to provide comprehensive analytics support to the underwriting team in pricing and risk analysis, including a bespoke real-time risk accumulation tracking system as well as an economic capital model. In order to analyse catastrophe risks, the Guarantor supplements its proprietary infrastructure by licensing comprehensive catastrophe modelling technology from external vendors which have access to larger, global, proprietary databases.

Agile, lean and cost-efficient business

The Guarantor adopts a centralised operating model, with most of its staff located in its headquarter in Hong Kong. It has a centralised underwriting centre in Hong Kong, and utilises its Zurich subsidiary and representative office in Japan to extend its access to clients in respective regions. In April 2020, it established the headquarter of its ILS platform, Peak Capital, by way of acquisition in Bermuda. The Guarantor has a Labuan branch and is registered with the Monetary Authority of Singapore as an authorised reinsurer but has no local physical office in either Labuan or Singapore. It adopts a simple and flat organisation culture to minimise unnecessary overlap and administration, and enhance its decision-making cycle. The Guarantor also leverages technology to enhance the efficiency and effectiveness of its operations. This efficient operating model allows the Guarantor to benefit from economies of scale, as it continues to expand its global operations. The Guarantor has a track record of strong cost management as exhibited by its expense ratio[17] which has steadily declined between 2017 and 2019 – the expense ratio was 3.5 per cent., 3.6 per cent. and 3.4 per cent., in the years ended 31 December 2017, 2018 and 2019, respectively. The decline in the expense ratio has also been driven by the Guarantor's highly skilled and productive staff capable of operating across markets and lines of business. The Guarantor had an average premium per headcount of U.S.$15 million in 2017 and U.S.$17 million in 2019 and achieved a CAGR of 6.6 per cent. for the period from 2017 to 2019.

Track record of strong financial performance

The Guarantor's GWP has grown from U.S.$103.2 million in 2013 to approximately U.S.$1.7 billion in 2019 (a compound annual growth rate of 59.0 per cent.). During the same period, it grew shareholders' equity from U.S.$652.7 million to approximately U.S.$1.1 billion (a compound annual growth rate of 9.0 per cent.). It has managed to produce an after-tax profit every year since its first full year of operations in 2013, despite significant reinsurance industry headwinds including an extended period of soft pricing, as well as severe catastrophe activity. The Guarantor has continued to produce strong underwriting results, delivering a P&C technical underwriting profit (before the impact of extraordinary losses and administrative expenses) of U.S.$42.2 million, U.S.$55.1 million and U.S.$73.0 million in the financial years ended 31 December 2017, 2018 and 2019, respectively. Over the same period, the Guarantor also generated strong growth in accumulated float (net cashflow generated from reinsurance business) at a CAGR of 24.3 per cent. (2017: U.S.$670.8 million; 2018: U.S.$786.4 million; and 2019: U.S.$1,036.4 million). For the six months ended 30 June 2019 and 2020, the Guarantor grew accumulated float by 26 per cent. (for the six months ended 30 June 2019: U.S.$842.3 million; and for the six months ended 30 June 2020: U.S.$1,061.5 million). The Guarantor maintains a prudent investment management strategy which emphasises the maintenance of a diversified portfolio of high quality assets with relatively short duration, which produces regular and predictable income, while protecting against downside risks, and maintaining sufficient liquidity.

[17] Calculated as administrative expenses divided by net reinsurance contracts earned premiums revenue.

Strong capital position and prudent risk management practice

As at 30 June 2020, the Guarantor has had zero debt on its balance sheet, high liquidity ratio (liquid assets to net technical reserves) of 78.7 per cent. and an IA solvency ratio of 358 per cent., well in excess of the statutory minimum requirement of 200 per cent applicable to general reinsurers regulated by the IA and insurance companies at a consolidated level regulated by the IA. The Guarantor has in place a comprehensive ERM framework and infrastructure to manage its risk profile across exposures – reinsurance underwriting, operations and financial markets, to meet its strategic objectives. As part of its prudent approach to risk management, the Guarantor maintains sufficient liquidity to meet its claims liabilities in a stress scenario. For the year ended 31 December 2019, the Guarantor maintained a modest operating leverage of 109 per cent.[18]. The Guarantor employs a self-developed risk-based economic capital model, together with regulatory and rating agency capital models with stress tests to ensure the company is sufficiently capitalised at all times. The Guarantor's strong capital position is evidenced by its "A3 (stable)" rating from Moody's and "A- (stable)" rating from A.M. Best. The Guarantor also uses adequate retrocession protection to protect its balance sheet and financial performance. As a result, the Guarantor has managed to compound the growth of retained earnings and shareholders' equity since inception, further strengthening its financial flexibility.

High quality, diversified and liquid investment portfolio

As at 31 December 2019 and 30 June 2020, the Guarantor had AUM of U.S.$2.0 billion[19] and U.S.$2.0 billion[19], respectively, and the AUM of the Guarantor has grown by a CAGR of 16.4 per cent. between 2017 and 2019. It has in place a robust strategic asset allocation strategy which emphasises the achievement of consistent risk-adjusted returns over the market cycle. The Guarantor maintains a diversified, high quality and liquid investment portfolio, with a strong cash holding, which provides it with the flexibility to adapt to market conditions. As at 30 June 2020, the allocation of the investment portfolio by asset class was as follows: 69 per cent. in fixed income (including bond funds), 15 per cent. in cash, 10 per cent. in equities, 4 per cent. in real estate, and 2 per cent. in private equity and others. Its fixed income assets are diversified across sectors and issuers, and carried an average rating of BBB+ as at 30 June 2020. With its prudent investment strategy, the Guarantor has produced return on average investment of 8.0 per cent.[19], 2.7 per cent.[19] and 3.0 per cent.[19] in the financial years ended 31 December 2017, 2018 and 2019, respectively, despite the challenges caused by depressed interest rates globally.

Experienced management with a best-in-class team

The Guarantor is a leading reinsurer with in-depth local knowledge and experience and is managed by a team of executives with a wealth of experience in the global and regional reinsurance markets. Its seasoned leadership team has more than 20 years' experience on average with the world's top reinsurers and reinsurance brokers such as Swiss Re Ltd, Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft (Munich Re), Lloyd's of London, Jardine Lloyd Thompson Group plc and Aon plc. The Guarantor has successfully recruited and retained a diverse team of seasoned and talented professionals which comprise individuals of 17 nationalities, who collectively speak 25 languages and have diverse experience across multiple geographies – on average, each employee has over 15 years of industry experience.

Business Strategies

The Guarantor's business involves assessing and assuming risk for an appropriate return. The Guarantor creates value through its ability to understand, evaluate, diversify and distribute risk. Its strategy is founded on a capital-based risk appetite and the selected risks that the Guarantor believes will allow it to meet its goals for appropriate profitability and risk management within that appetite. The Guarantor's key strategies are outlined below.

---

[18] Calculated as P&C net written premiums in the financial year ended 31 December 2019 divided by total equity as at 31 December 2019.

[19] Excluding investments in and share of profit of NAGICO.

Establish leadership position as a global reinsurer with strong Asia foothold

The Guarantor seeks to expand its relationships with high quality brokers and clients in Asia, enhance its engagement with existing clients, and increase its leading positions on existing business lines. By deepening its coverage of the Asia reinsurance market, it will be able to access more attractive business, and exert greater control over pricing, deal economics and contract terms. It seeks to achieve these goals by leveraging its solid track record and reputation, introducing new, innovative products, and increasing its participation in existing reinsurance treaties. The Guarantor also seeks to continue its strategy of disciplined, profitable expansion outside of Asia by increasing its product offerings and focusing on building new, high quality, sustainable client relationships in the Americas and EMEA. The Guarantor has built a solid reputation as an innovative reinsurer, and seeks to leverage this advantage to sustain its growth momentum and differentiate itself as a leading global reinsurer.

Further diversify across markets and product offerings

The Guarantor intends to continue diversifying its portfolio of reinsurance to diversify its earnings stream and to provide access to risks that position the Guarantor for future growth. The Guarantor believes its market research and analysis capability is a key competitive advantage, which it intends to leverage in order to develop unique, non-commoditised, higher-margin solutions for its clients. The Guarantor also seeks to continue the prudent expansion of its L&H reinsurance business in Asia and global markets, and its structured solutions business to diversify its portfolio of risks. The Guarantor believes that both geographic and product diversification will enhance its competitive advantage, which would help increase return per unit of risk, provide access to risk worldwide and reduce the overall volatility of results.

Optimise long-term risk-adjusted returns while maintaining sufficient solvency and liquidity

The Guarantor seeks to optimise its return over the reinsurance cycle, while maintaining sufficient liquidity to meet its claims obligations. It adopts a comprehensive, real-time approach towards tracking and managing its portfolio of exposures, supported by a robust and prudent retrocession strategy. In addition, it utilises a proprietary internal economic model to assess its risk capital requirements and support the optimisation of its risk appetite and reinsurance portfolio. The Guarantor will continue to develop and fine tune its risk exposure, and capital structure to sustain superior, risk-adjusted returns across the market cycle. This will be supported by the Guarantor's investments into talent and technology for its underwriting. Also, the Guarantor will continue to adopt a prudent approach to capital management, and seek to maintain a solvency level in excess of regulatory requirements, and a leverage ratio commensurate to its rating and similar to global peers.

Establish leadership in Asia ILS

The Guarantor seeks to grow its scale in ILS and establish itself as the leader in the Asia ILS market. The Asia ILS market remains relatively underdeveloped and the Guarantor plans to continue to be the leader in introducing ILS products in the Asia market. On the other hand, there has been growing interest by global investors in Asian risks, whilst lacking high quality instruments to meet that demand. As an expert in Asian risks with existing local network to both cedants and investors, the Guarantor believes that it is well positioned to take advantage of the market opportunity, and to accelerate the growth of its fee income from ILS business. The Guarantor seeks to accelerate the development of bespoke ILS products in order to engage global investors, and provide cedants and investors with unique investment solutions. The Guarantor intends to continue to use ILS, including but not limited to, reinsurance sidecar, to attract third-party capital to support its business growth and allow it to underwrite larger and more attractive risks. In addition, the Guarantor plans to grow its ILS fund management business through Peak Capital, which generates low risk asset management fee income for the Guarantor.

Enhance operational efficiency through rigorous expense management

Strong underwriting must be complemented with prudent financial management, careful reserving, strong asset management and efficient back-office support in order to achieve the Guarantor's targeted returns. The Guarantor has managed to achieve an industry leading expense ratio through rigorous expense management, which enables it to effectively compete with its larger global peers. As the business grows in scale and complexity, the Guarantor seeks to maintain its low-cost advantage through rigorous expense management, adopting a prudent product and market expansion strategy, and focusing on utilising technology to continuously improve operating efficiency.

Optimise investment portfolio through further diversification

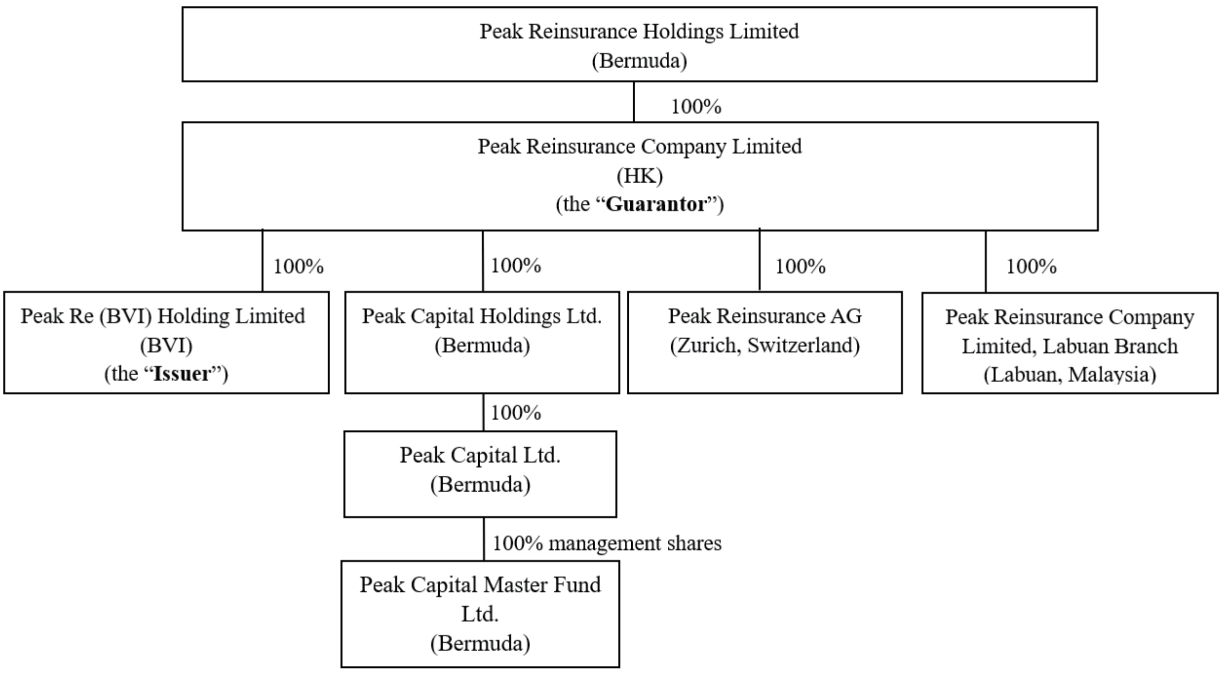
The Guarantor seeks to optimise its investment portfolio through further diversification with the objective of achieving stable and strong risk adjusted return. It has implemented a robust asset allocation strategy which has shown a track record of downside protection for its assets, most notably during the first half of 2020, where the impact to the portfolio was within its modelled scenarios. The Guarantor seeks to continue to expand its investment management capabilities by enhancing in-house research and execution capability, while opportunistically participating in bespoke opportunities in the market which meet its comprehensive investment limits.

Focus on sustaining entrepreneurial culture and effective talent management

The Guarantor has managed to build a robust, world-class franchise since its establishment. It has placed strong emphasis on recruiting, retaining and empowering the best talents in the market, and has managed to instil an entrepreneurial culture in the organisation to foster an innovative and solutions-based approach towards operating. The Guarantor believes that its culture and talent are significant competitive advantages. The Guarantor will seek to recruit talents based on their track record, and how they fit within the Guarantor's organisation, in order to support the Guarantor's strategic growth objectives.

Group structure

The following chart is a simplified presentation of the structure of the Group as at 30 June 2020.



Reinsurance Operations

By combining its local expertise with international experience, the Guarantor offers both P&C and L&H reinsurance products and services globally, seeking to tailor risk transfer and capital management solutions to best fit clients' needs.

General

As at 31 December 2019, the Guarantor provides reinsurance to ceding companies (primary insurers, cedants or reinsurers) to more than 560 clients across approximately 73 markets. The Guarantor offers reinsurance primarily on a proportional or non-proportional basis through treaties or, in limited instances, through facultative reinsurance agreements.

In a proportional (or quota share) treaty reinsurance agreement, the reinsurer assumes a proportional share of the original premiums and losses incurred by the cedant. The reinsurer pays the ceding company a commission, which is generally based on the ceding company's cost of acquiring the business being reinsured (including commissions, premium taxes, assessments and miscellaneous administrative expenses) and may also include profit linked elements.

In a non-proportional (or excess of loss) treaty reinsurance agreement, the reinsurer indemnifies the ceding company against all or a specified portion of losses on underlying insurance policies in excess of a specified amount, which is called a retention or attachment point. Non-proportional business is written in layers and a reinsurer or group of reinsurers accepts a band of coverage up to a specified amount. The total coverage purchased by the cedant is referred to as a program and is typically placed with reinsurers in pre-negotiated layers. Any liability exceeding the upper limit of the program reverts to the ceding company.

In a facultative (proportional or non-proportional) reinsurance agreement, the reinsurer assumes individual risks. The reinsurer separately rates and underwrites each risk rather than assuming all or a portion of a class of risks as in the case of treaty reinsurance.

The following table sets forth the Guarantor's GWP by line of business for the financial years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020.

	Financial year ended				For the six months ended 30 June			
	2018		2019		2019		2020	
	U.S.$	*per cent.*	*U.S.$*	*per cent.*	*U.S.$*	*per cent.*	*U.S.$*	*per cent.*
Property damage	638,956,339	46.2	848,866,917	51.0	412,608,182	50.6	385,808,752	45.1
Motor vehicle	315,243,653	22.8	211,955,423	12.7	112,216,524	13.8	153,748,419	18.0
General liability	160,026,919	11.6	166,326,893	10.0	80,240,127	9.8	128,331,495	15.0
Pecuniary loss	126,298,870	9.1	142,968,431	8.6	85,488,638	10.5	84,179,944	9.8
Accident and health	52,413,116	3.8	141,789,163	8.5	65,593,164	8.0	59,891,667	7.0
Goods in transit	4,526,922	0.3	4,400,577	0.3	1,718,429	0.2	2,500,183	0.3
Aircraft, damage and liability	3,878,688	0.3	4,802,706	0.3	1,957,904	0.2	(555,406)	–0.1
Ships, damage and liability	11,948,561	0.9	9,899,574	0.6	4,416,268	0.5	7,288,472	0.9
Life	68,598,260	5.0	133,580,807	8.0	51,651,022	6.3	34,685,904	4.1
	1,381,891,328	**100.0**	**1,664,590,491**	**100.0**	**815,890,258**	**100.0**	**855,879,430**	**100.0**

The Guarantor continues to expand its business while maintaining a diversified portfolio in terms of business lines and geographies. For the year ended 31 December 2019, most business lines grew in volume as a result of the Guarantor's efforts in deepening relationships with existing clients and at the same time expanding its client coverage in existing and new markets. For example, the Guarantor had increased the volume of property damage business in its portfolio from U.S.$639.0 million in 2018 to U.S.$848.9 million in 2019. Meanwhile, the Guarantor actively manages its exposure by reducing certain lines where pricing is not adequate or terms of business are not as favourable. For example, the Guarantor had reduced the share of motor vehicle business in its portfolio from U.S.$315.2 million for the year ended 31 December 2018 to U.S.$212.0 million for the year ended 31 December 2019. For the six months ended 30 June 2019, motor vehicle business represented U.S.$112.2 million of the Guarantor's portfolio compared with U.S.$153.7 million for the six months ended 2020.

GWP by geographical split (all – including P&C and L&H):

	Financial year ended				For the six months ended 30 June			
	2018		2019		2019		2020	
	U.S.$'000,000	*per cent.*	*U.S.$'000,000*	*per cent.*	*U.S.$'000,000*	*per cent.*	*U.S.$'000,000*	*per cent.*
China	360.2	26.1	625.5	37.6	314.4	38.5	300.8	35.1
Americas	278.8	20.2	368.9	22.2	171.5	21.0	201.9	23.6
Europe	228.8	16.6	131.8	7.9	71.4	8.7	97.0	11.3
Korea	204.7	14.8	232.4	14.0	121.3	14.9	96.7	11.3
Australia and New Zealand	91.1	6.6	65.6	3.9	37.5	4.6	11.8	1.4
Japan	61.4	4.4	81.0	4.9	31.0	3.8	84.0	9.8
Others	156.8	11.3	159.3	9.6	68.7	8.4	63.6	7.4
Total	**1,381.9**	**100.0**	**1,664.6**	**100.0**	**815.9**	**100.0**	**855.9**	**100.0**

As mentioned above, the Guarantor continues to diversify its business, including geographic exposure. For example, the Guarantor had increased the share of the business from the Americas in its portfolio from 20.2 per cent. for the year ended 31 December 2018 to 22.2 per cent. for the year ended 31 December 2019. As a result of increased growth and diversification, the Europe business, which formed a larger part of the Guarantor's business in earlier years, decreased from 16.6 per cent. for the year ended 31 December 2018 to 7.9 per cent. for the year ended 31 December 2019. On the other hand, the Guarantor's business from Americas and Japan increased from 21.0 per cent. and 3.8 per cent., respectively, for the six months ended 30 June 2019, to 23.6 per cent. and 9.8 per cent., respectively, for the six months ended 30 June 2020. Increased growth and diversification of the Guarantor's business also resulted in proportional changes to its business in Greater China and Australia and New Zealand. In addition, the Guarantor completed its first full year of business in the Indian market in 2018. The Guarantor was successful in writing various lines, including personal accident and agriculture, and its ambitions of developing its business in India gained additional support in 2018 with the signing of a double taxation agreement between Hong Kong and India, which has allowed the Guarantor to write business from Hong Kong cost efficiently.

Property and Casualty (P&C)

The Guarantor conducts its global P&C business through its Hong Kong headquarters, with access to clients through subsidiaries in Zurich in Switzerland, Bermuda, Labuan branch and Japan representative office. The Guarantor is also authorised by the Monetary Authority of Singapore as a life and general reinsurer in Singapore. The Guarantor's P&C business consists of eight main product sectors, namely: property damage; motor vehicle; general liability; pecuniary loss; accident and health; goods in transit; aircraft, damage and liability; and ships, damage and liability. For the financial year ended 31 December 2019, these product sectors represented 55.4 per cent., 13.8 per cent., 10.9 per cent., 9.3 per cent., 9.3 per cent., 0.3 per cent., 0.3 per cent. and 0.7 per cent. of P&C GWP, respectively.

Property damage – The Guarantor provides reinsurance for (i) financial losses related to the destruction of, or damage to, property or goods during a specified period, (ii) comprehensive property insurance related to claims arising from products coverage, completed operations coverage, premise and operations coverage and independent contracts coverage, and (iii) engineering projects throughout the world. The reinsurance is offered on both a proportional basis and non-proportional basis principally through treaty arrangements.

Motor vehicle – The Guarantor's motor business includes reinsurance coverage for third party liability, personal injury and property damage risks arising from both passenger and commercial fleet automobile coverage written by cedants. The reinsurance is offered on both a proportional basis and non-proportional basis primarily through treaty arrangements.

General liability – The Guarantor's general liability business includes reinsurance coverage for third party property damage and bodily injury purchased on a voluntary basis and for certain statutory or legal liability coverages, such as worker's compensation and operation/premises commercial liability, with the exceptions of accidents or risks relating to motor vehicle liability, aircraft liability or liability for marine hull.

Pecuniary loss – The Guarantor provides reinsurance coverage for loss as a result of a third party's insolvency or failure to pay their debts when due. This business line also encompasses reinsurance coverage for loss arising from the performance of guarantees and providing insurance in relation to contracts for fidelity bonds, performance bonds, administration bonds, bail bonds, custom bonds or similar contracts of guarantee. In addition, the Guarantor also provides limited reinsurance coverage for loss resulting from business interruption or reduction of scope of business which are written additionally in associates with the perils cover under certain comprehensive/commercial property package policies.

Accident and health – The Guarantor provides reinsurance on both a proportional basis and non-proportional basis primarily through treaty arrangements.

Goods in transit – The Guarantor provides reinsurance against loss or damage to merchandise, baggage and all other goods in transit, irrespective of the form of transport.

Aircraft, damage and liability – The Guarantor provides reinsurance coverage for hull damage and liability with highly restrained risk appetites through specialised channels.

Ships, damage and liability – The Guarantor provides reinsurance on vessels used on the sea or on inland bodies of water, as well as machinery, tackle, furniture and equipment on such vessels. This business line also includes offering reinsurance against damage arising out of or in connection with the use of vessels on the sea or inland bodies of water, including third-party risks and carrier's liability.

Underwriting model

The Guarantor's P&C reinsurance business model brings together experienced market practitioners from market underwriting, product underwriting and analytics into a holistic and comprehensive geometric risk selection and evaluation process. The three functions collaborate and evaluate whether in binding each risk this ethos recognises that underwriting is a forward-looking discipline based on an accurate interpretation of historical data, technical structuring and market context.

The Guarantor approaches P&C underwriting holistically, and each reinsurance contract written is analysed and assessed by a variety of different measurements, including client selection, product understanding and risk quantification. In evaluating clients, the Guarantor listens to its clients' needs and analyses the economics of the ceding company, its reputation, risk appetite and the likelihood of establishing a long-term relationship. The Guarantor's product underwriting team consists of high quality underwriters who have proven track records in their respective specialties. The Guarantor applies strong and consistent underwriting processes, utilising clear value threshold and approval rules (e.g., all property coverage over U.S.$20 million and all non-property coverage over U.S.$15 million require CEO approval) to deliver consistent, reliable and robust capacity to its clients and partners. When quantifying risk, the Guarantor utilises a prudent approach to risk assessment and pricing, with an emphasis on appropriate modelling for different perils from different regions. Model results are consolidated which provide an independent view of risk assessment for underwriting consideration. In addition, the Guarantor's market research team develops research models and insights on individual markets covering regulation, performance, company performance and segmentation to facilitate a wide view of local, regional and global economic and risk landscapes.

Life and Health (L&H)

The Guarantor's L&H business commenced in 2015 after having received a long-term reinsurance licence from the IA in June 2014. The Guarantor's L&H reinsurance is offered on both a proportional basis and non-proportional basis primarily through treaty arrangements.

Individual Life – The Guarantor's individual life business is written either on a risk premium basis (reinsuring biometric risks such as death, disability and critical illness) or on a coinsurance basis (reinsuring both biometric and market risks). Individual life reinsurance cover is offered on a proportional basis through treaty arrangements.

Group Life – The Guarantor's group life business is written selectively on a risk premium basis, reinsuring biometric risks such as death, disability and critical illness. Group life reinsurance cover is offered on a proportional basis through both treaty and, for sizeable groups, facultative arrangements.

Medical – The Guarantor selectively writes both individual and group medical business on a reimbursement basis (meaning that the cedant must first pay losses out-of-pocket and then seek reimbursement for any covered loss from the reinsurer). Medical reinsurance cover is offered on a proportional basis through treaty arrangements.

Non-proportional arrangements – The Guarantor writes non-proportional business on a stop loss basis (that is, where the reinsurer assumes losses of the cedant in excess of a stated amount) through treaty arrangements on biometric risks such as death, disability, critical illness and medical reimbursement. Such business will only be undertaken when there is a history of credible claims and that the ceding company has credible claims administration.

Longevity – The Guarantor writes non-proportional longevity business on a stop loss basis through treaty arrangements in selected markets such as the Americas and Japan where there are credible historical experiences.

The underwriting process of the Guarantor's L&H business involves the full understanding of the ceding company's risk management capability, details of the product to be reinsured, pricing, medical underwriting and claims management reviews. The Guarantor considers the strategic fit and prospects for a long-term partnership and conducts a thorough actuarial pricing and profitability analysis for the entire duration of L&H proposed reinsurance submissions to assess profitability, underwriting limits and capital requirements over time (L&H business is often long-term in nature and durations can span 20 to 30 years or more).

Underwriting of L&H business is undertaken within well-defined limits. The Guarantor has set quantitative limits of exposure for all L&H lines on both a per person basis and on probable maximum loss ("**PML**") and exposure per business line and country/region basis.

Distribution

The Guarantor uses a variety of distribution channels depending on local market characteristics and customer needs, including brokers and the Guarantor's markets team. The Guarantor's business is generated predominantly through broker relationship, with approximately 71 per cent. of its business conducted via brokers for the financial year ended 31 December 2019. The Guarantor is not heavily dependent on any single broker relationship and, as at 30 June 2020, had approximately 125 broker relationships globally.

The Guarantor believes that this represents a low cost and efficient distribution model which provides not only in-depth insight on risk, pricing and market dynamics but also access and understanding to a diverse range of clients.

Claims Management

The Guarantor's P&C claims management department investigates, adjusts and resolves claims of various lines of the Guarantor's non-life reinsurance business and seeks opportunities to enhance the quality of the Guarantor's claims adjustment process. The Guarantor seeks to settle claims quickly. For the six months ended 30 June 2020, 73 per cent., 91 per cent. and 97 per cent. of claim settlements requested by cedants were remitted within three, five and ten business days, respectively, from the day all relevant information required for settlement was received from the cedant. In addition, the claims management team collaborates with primary insurers and independent loss adjusters at the early stages in the case of large-loss events.

NAGICO

In August 2016, the Guarantor completed its investment of a 50 per cent. stake in NAGICO, a leading Caribbean insurance group with operations in approximately 21 jurisdictions.

This strategic investment is intended to provide the Guarantor with an attractive return, given the growth prospects in the Caribbean region, and is in line with its strategy to diversify its business. The Guarantor has also been able to leverage the market experience gained by NAGICO through its more than 30 years of experience in the Central American insurance industry.

The Guarantor's investment into NAGICO has also provided NAGICO with the financial strength and underwriting capacity to capture attractive new growth opportunities throughout the Caribbean, and brought additional value to its brand as one of the strongest insurers throughout the Caribbean.

In the future, the Guarantor may further increase its stake in NAGICO in order to continue to capture the abundant growth opportunities in the Caribbean (particularly amongst its middle class population) and to support the Guarantor's strategy of diversification. However, currently no definitive sales and purchase agreement has been entered into with respect to any increase in the Guarantor's stake in NAGICO and the timing and other terms of such acquisition (if any) remain uncertain and subject to, amongst other things, market conditions and regulatory approvals.

Insurance Linked Securities (ILS)

The Guarantor leverages on its insurance linked securities business to manage capital and generate asset management fee income.

Insurance sidecar

Insurance sidecar is the establishment of special financial structure to allow investors to take on risks and benefits from specific books of an insurance or reinsurance company.

In December 2018, the Guarantor launched the first reinsurance sidecar transaction by an Asia-domiciled reinsurer via a new Bermuda-domiciled special purpose insurer, Lion Rock Re Ltd. The Guarantor raised U.S.$75 million in its debut into the ILS market to provide collateralised retrocession for part of the Guarantor's global property catastrophe risk portfolio whilst also offering investors the opportunity to access the unique and high-quality portfolio of the Guarantor's reinsurance business. In January 2020, the Guarantor successfully renewed and upsized Lion Rock Re Ltd. to U.S.$77 million.

ILS Asset Management

To build its ILS asset management platform, in April 2020, the Guarantor completed the 100 per cent. acquisition and rebranding of a Bermuda-based ILS investment specialist, Lutece Holdings Ltd. (renamed as Peak Capital Holdings Ltd.) and its subsidiaries including Lutece Investment Management Ltd. (renamed as Peak Capital Ltd.). The acquisition was completed as part of the Guarantor's plan to build its ILS asset management capability that will help to diversify its source of income by generating asset management fees.

Asset Management

Management of Investments

The Guarantor has a dedicated investment function which engages in the management of the investment assets purchased with its owned capital or funds generated from its reinsurance business. The Guarantor's principal investment objectives are to ensure funds are available to meet its reinsurance obligations and generate after-tax investment income while maintaining a diversified high quality investment portfolio. The Guarantor has adopted a dynamic asset allocation strategy and reviews allocations regularly with regard to capital adequacy, market conditions and risk appetite. Its investment principles follow value-based investing while adhering to internal risk management standards and regulatory requirements. The Guarantor has a set of internal investment policies and guidelines which sets out eligible asset classes and security types, together with investment limits in order to manage concentration risk, credit risk, currency risk, country risk, industry and sector risk, duration risk as well as liquidity risk. For the years ended 31 December 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Guarantor generated U.S.$42.0 million, U.S.$54.8 million, U.S.$32.9 million and U.S.$4.6 million, respectively, in investment income[20], representing a return on average investment of 2.7 per cent. (based on investable assets held of U.S.$1.7 billion as at 31 December 2018), 3.0 per cent. (based on investable assets held of U.S.$2.0 billion as at 31 December 2019), 1.9 per cent.[21] (based on investable assets held of U.S.$1.8 billion as at 30 June 2019) and 0.2 per cent.[21] (based on investable assets held of U.S.$2.0 billion as at 30 June 2020), respectively.

The Guarantor's investment portfolio is mainly composed of fixed income (including bond funds), equity and cash, with limited allocation into alternative investments such as real estate and private equity. The following table sets forth a breakdown of the Guarantor's investment asset portfolio by asset type as at the dates indicated.

	As at 31 December		As at 30 June
	2018	2019	2020
	(U.S.$)[1]	*(U.S.$)*[1]	*(U.S.$)*[1]
Fixed income (including bond funds)	1,101,193,253	1,443,467,320	1,375,199,975
Equities	292,957,185	195,820,641	195,089,745
Cash	195,075,304	273,561,737	299,310,133
Real estate	17,163,316	79,320,806	82,148,377
Private equity	46,456,076	37,853,365	37,853,365
Derivatives	(2,699,386)	201,258	201,258
Total investment assets	**1,650,145,748**	**2,030,225,127**	**1,989,802,853**

1 Excluding investment in NAGICO.

Fixed Income

The Guarantor has a globally diversified fixed income portfolio, which includes USD-denominated, Euro-denominated and RMB-denominated bonds, bond funds and loan and receivables. The Guarantor seeks to invest in bonds with a high-quality credit and a relatively short maturity tenor and maintains a well-diversified fixed income portfolio. As at 30 June 2020, the Guarantor's weighted average bond portfolio rating (of those debt securities that were rated) was BBB+, and the average modified duration was 2.6 years.

20 Investment income includes share of profit of associates (excluding NAGICO) and share of profit of joint venture.

21 Unannualised for the six months ended 30 June 2019 and 2020.

The following table sets forth a breakdown of the Guarantor's fixed income portfolio (excluding bond funds and derivatives) by credit rating agency designation, based on Standard & Poor's or equivalent as at the dates indicated. Bonds with a credit rating of AAA to BBB- are considered "investment grade".

	As at 31 December				As at 30 June	
	2018		2019		2020	
	U.S.$	*per cent.*	*U.S.$*	*per cent.*	*U.S.$*	*per cent.*
A- to AAA	518,349,839	47.1	582,390,832	53.8	502,788,731	50.1
BBB- to BBB+	417,894,226	37.9	400,433,766	37.0	390,506,254	38.9
B- to BB+	160,022,888	14.5	86,075,907	8.0	88,314,150	8.8
Others (Cs and unrated)	4,926,300	0.4	13,571,949	1.3	21,256,790	2.1
Total amount of bonds	**1,101,193,253**	**100.0**	**1,082,472,454**	**100.0**	**1,002,865,925**	**100.0**

The Guarantor maintains ongoing monitoring processes for its bonds and reviews its holdings to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances or industry or issuer specific concerns. The Guarantor actively manages its portfolio to minimise potential losses in the event of credit deterioration by taking necessary actions to control exposure limits in respect of country, sector and currency allocation, as well as setting credit exposure limits for single obligations.

Equities

The Guarantor's equity holdings consist of selected companies typically listed on major stock exchanges (most commonly in Hong Kong and the U.S.). When acquiring new equity securities, the Guarantor seeks companies with solid business fundamentals and sound business strategies that match the Guarantor's risk return appetite. Sector allocation is geared towards industries with a promising earnings outlook and a long-term growth horizon.

Cash

The Guarantor's cash holdings include cash held in banks and cash equivalents.

Real estate

The Guarantor's real estate holdings consist of primarily matured investment properties in major developed markets (mostly U.S. and Japan). The Guarantor seeks projects with stable regular income amid good locations and strong tenants. All projects have a clear exit strategy. As at 30 June 2020, the Guarantor reported a net asset value of U.S.$82.1 million of real estate investments.

Private equity

As at 30 June 2020, private equity comprised approximately two per cent. of the Guarantor's investment asset portfolio. In 2015, the Guarantor acquired its sole investment in private equity which is a minority stake in a pre-IPO company. The investment target is one of the largest refined oil distributors in mainland China and it also owns the largest convenience store network in mainland China. The fair value of the Guarantor's share in the pre-IPO company was U.S.$46.5 million and U.S.$37.9 million as at 31 December 2018 and 2019, respectively.

Derivatives

The Guarantor's internal investment guidelines allow for the use of derivatives for hedging purpose only. As at 30 June 2020, the Guarantor does not have any hedging instruments for investment purpose in place and the Guarantor tends to have natural hedging between assets and liabilities.

Risk Management

The Guarantor is in the business of creating value through the assumption of reinsurance risk and investment risk. Such business exposes the Guarantor to a wide range of risks. The risks include asset risks such as credit and market risk, insurance risks in the form of underwriting (premium) risk and reserving risk and business risk, which can be operational or strategic. The Guarantor manages these risks in a holistic way on the enterprise level based on a strong risk culture, as demonstrated by a clearly articulated policy for risk appetite and risk tolerance. The objective is to protect the Guarantor on a going concern basis and create value through optimising the risk return profile.

Good corporate governance creates value in the long run and is the basis of the Guarantor's risk management approach and fosters the confidence of investors, supervisors, clients and employees. Efficient practice between shareholders and senior management, open communication and transparent decision processes create the confidence of employees and the roots of a strong risk culture. In addition, the Guarantor has signed up to the United Nations Principles of Sustainable Insurance. The compliance with these sets of reference is controlled by the Chief Risk Officer (the "**CRO**") together with the Compliance Director and the Social and Environmental Officer.

The responsibility for corporate governance ultimately lies with the board of directors (the "**Board**") and its committees – Audit Committee (comprises one independent non-executive Director and two Directors who are employees of the Fosun group (the "**Fosun Group**") as at 30 June 2020, Investment Committee (comprises two independent non-executive Directors, two executive Directors and one Director who is an employee of the Fosun Group as at 30 June 2020), Risk Management and Compliance Committee (comprises three independent non-executive Directors, two executive Directors and one Director who is an employee of the Fosun Group as at 30 June 2020) and Nomination and Remuneration Committee (comprises two independent non-executive Directors and one Director who is an employee of the Fosun Group as at 30 June 2020). The work and responsibility of the committees is laid out in terms of reference, which have been approved by the Board. To support and guide management and employees in practising good corporate governance, the Guarantor has developed a Code of Conduct, a Social and Environmental Responsibility Guideline and an Anti-Money Laundering and Counter-Terrorist Financing Compliance Policy.

The Risk Management Organisation

The Board is responsible for defining risk profile, that is, the broad parameters the Guarantor considers in executing its business strategy in its chosen market space (the lines of business and markets in which the Guarantor wishes to operate), its risk appetite (the level of uncertainty the Guarantor is willing to assume given the corresponding reward associated with risk, which includes examining risk mitigation costs and the target returns on equity and on assets) and its risk tolerance (the stated amount of risk the Guarantor is willing and/or able to keep in executing its business strategy). In executing its responsibilities, the Board has established a Risk Management and Compliance Committee, whose members comprise, amongst others, three independent non-executive Directors and the Chief Executive Officer (the "**CEO**"). On a quarterly basis, the Risk Management and Compliance Committee receives and discusses a Risk Management and Compliance Committee Report from the CRO on the overall risk situation of the Guarantor, including mitigating actions and compliance issues. In addition, major changes to the operating environment, business development, acquisitions or events form part of the Risk Management and Compliance Committee Report.

The CRO has responsibility for assessing the various risks to which the Guarantor is exposed and the optimisation of the risk return profile of the Guarantor. The CRO has oversight of the Compliance Function and has operational responsibility for the Internal Audit function, which otherwise reports directly to the Board.

Enterprise Risk Management ("ERM")

The Guarantor is in the business of assuming, pooling and spreading risk. A thorough understanding of risk types, their characteristics and interdependencies, the sources of risks and their potential impact on the business is essential for the management to align strategy, risk and capital management.

The Guarantor utilises internal models to translate risk identification into management action and capital needs using common measurement (including using same methodology, time horizon, risk measure and level of confidence). It has built an economic capital model ("**ECM**") and also uses proprietary vendor models for the assessment of catastrophic, economic and markets risks. In addition, scenario analysis and stress testing are used to complement the models and provide a holistic picture of the risk profile evaluating the adequacy of current risk management and solvency position and the likelihood of remaining adequate in the future.

The risk management framework consists of three major components: (i) risk identification, assessment and control through a limits system; (ii) risk measurement and quantification; and (iii) risk monitoring and reporting and reduction.

Risk Appetite and Risk Tolerance

The pursuit of the Guarantor's strategic objectives and business opportunities inherently carries risk. Risk appetite provides a framework for the business to operate within clear boundaries on the types and degree of risk that the Guarantor is willing to accept for its shareholders in its strategic and business action. A well-articulated risk appetite is important in giving the stakeholders a clear expectation of how the Guarantor will operate from a risk taking perspective. The risk appetite is aligned to the Guarantor's risk philosophy and defines the standards and limits for capital, underwriting, investment and other risk drivers.

The Guarantor's risk appetite is established in order to maximise gains in accordance with appropriate risk-return levels, taking into account factors such as the avoidance of excessive underwriting volatility and appropriate limits on investment and catastrophe risks. The Guarantor's risk appetite is approved by the Board and the results of the Guarantor's assessment of capital at risk levels in relation to the risk appetite are reported to the Board on a periodic basis.

The Guarantor actively takes risks in both reinsurance and financial markets that are aligned with strategic objectives, provided that:

- it has the skills to manage and adequately control these risks;
- these risks are understood and can be adequately controlled; and
- they are properly priced.

The Guarantor avoid risks where:

- the return is less than its cost of capital, except for specific strategic reasons; or
- it is exposed to extreme potential outcomes.

The Guarantor looks to take reinsurance risks, including non-catastrophe and catastrophe risks, in the business in which it has strong knowledge. It has limited appetite in the investment risk on the liability side of the balance sheet. In managing its asset portfolio, the Guarantor leverages its dedicated investment function to analysis investment options, and follow a set of internal investment policies and guidelines which sets out eligible asset classes and security types, together with investment limits in order to manage concentration risk, credit risk, currency risk, country risk, industry and sector risk, duration risk as well as liquidity risk.

The Board has defined risk tolerance as the willingness to take risk to achieve an over the cycle return on equity in line with strategic targets. In pursuing this return, the Guarantor manages risk with the twin goal of mitigating excessive earnings volatility and preserving capital.

Risk Analysis and Evaluation

Identified risks are analysed to facilitate risk prioritisation to provide informed decisions about whether risks need to be controlled or mitigated. Existing systems/processes in place are also assessed to determine whether they are effective and to reveal gaps in existing internal control measures.

A combination of qualitative and quantitative techniques is used to measure and quantify material risks. Qualitative assessment is employed when risks do not lend themselves to quantification or when either sufficient credible data required for quantitative assessment is not practically available or obtaining or analysing data is not cost-effective. Quantitative assessment offers more precision in risk measurement. The methods used for measuring risks include Value Risk ("**VaR**"), Tail Value of Risk ("**TVaR**"), Probable Maximum Loss ("**PML**") and stress testing.

Functional units and the ERM team usually work together to determine whether and what treatment is needed for the identified and analysed risks. They evaluate options, assess their feasibility and consider the cost of these options against the benefits derived from it. The four risk treatment options are:

- *Avoidance* – exiting the activities giving the risk;
- *Reduction* – taking actions to reduce the impact and/or likelihood of the risk (for example, through better diversification on a product or geographical basis);
- *Sharing* – transferring a portion of the risk to reduce the impact/likelihood of the risk; and
- *Acceptance* – taking no action to affect the impact/likelihood of the risk.

Risk Reporting and Monitoring

Providing the right information to the right people at the right time leads to better identification and prioritisation of risks and opportunities, which in turn lead to better, more informed decision making. This makes it more likely that the business will achieve its objectives.

Monitoring is a key element of the risk management process. The Guarantor's changing and evolving environment means the source and context of risks, risk tolerance and risk controls may change over time. Given the diverse and dynamic nature of the reinsurance environment, it is important to be alert to emerging risks as well as monitoring known risks. Early-warning mechanisms also ensure that negative trends are identified in sufficient time for countermeasures to be taken. Appropriate and timely risk reporting and monitoring involves:

- providing transparency to the relevant stakeholders regarding the Guarantor's risk position and its compliance and internal control functions. In particular, any changes in the external and internal environment are closely monitored to allow for revisions in risk treatment and priorities and further risk initiatives are implemented following feedback from past events, changes and trends to allow for informed and effective decision making;
- enabling and facilitating the timely escalation of risk warnings and ensuring prompt remedial action and appropriate decision making in managing risks; and
- ensuring vigilance is maintained at all times to enforce compliance with risk control measures.

The Board's Risk Management and Compliance Committee

The Guarantor's CRO presents his findings to the Board's Risk Management Committee once every quarter, covering:

1. risk positions and limits;
2. risk profile and solvency/capital position;
3. integrated view of risks across the organisation; and
4. progress on risk initiatives and special cases.

Risk Profile and Discussion

The major risks of the Guarantor's P&C business arises from event shocks caused by natural or man-made catastrophic loss, premium deficiency and/or the risk of carrying insufficient reserves. To manage its exposures, the Guarantor relies upon diversification of its risk sources and risk limits. Diversification enables losses from one source becoming offset by profits from other risk sources so that the chance of overall loss exceeding the Guarantor's risk appetite is reduced. However, there remains a chance that in any one year multiple losses from multiple risk sources may occur, leading to a loss in that financial year. In addition, the Guarantor uses limits to minimise the chance of loss from a single source of risk or from multiple risk sources exceeding its risk appetite. However, there is a chance that the Guarantor's internal assessment of risk for a single source or for multiple sources proves insufficient resulting in the Guarantor's risk limits and risk appetite being exceeded.

Catastrophe Risk

The Guarantor defines catastrophe risk as the risk that the aggregate losses from natural or man-made perils materially exceed the net premiums that are received to cover such risks, and may result in operating and economic losses to the Guarantor. The Guarantor considers both catastrophe losses due to single large events as well as catastrophe losses that would occur from multiple (but potentially smaller) events in any year. These events can be caused by the forces of nature (such as windstorm, earthquake or flood) or by man (such as explosion or terrorism).

The Guarantor views its exposure to natural catastrophes as one of its largest underwriting risks. To manage this, the Guarantor has defined scenarios for flood, earthquake, typhoon, severe windstorm and wildfire across all underwriting regions. For each scenario an aggregate capacity has been allocated. Dependencies between scenarios – notably typhoons – are taken into consideration. A 200-year probable maximum loss is used to track both earthquakes and windstorms. The Guarantor leverages on third-party developed and sophisticated tools to model all treaties and employs professional analysts and underwriters to make decisions by interpreting modelling results. Coupled with the Guarantor's own expertise, the results are blended to provide a quantitative perspective of accumulated risks and the utilisation of allocated capacity. The Guarantor buys reinsurance (retrocession) to protect itself against major events or an accumulation of events. The amount of reinsurance bought and the structure of the reinsurance programme may change from year to year in view of optimising the risk return profile of the company.

Retrocession

The Guarantor selectively utilises a combination of retrocessional reinsurance agreements to reduce its exposure on certain reinsurance risks assumed and to mitigate the effect of any single major event or the frequency of medium-sized events on its results. Under such arrangements, the Guarantor cedes risks to effectively diversify its underwriting risks by reducing net liability on individual risks or catastrophic claims and to reduce volatility, protect its capital and earnings and provide capital relief. Specifically, the Guarantor's retrocession arrangements comprise of (i) programmes which cover loss from any major event (natural or man-made) and (ii) quota share retrocession (where a fixed percentage is reinsured) of a portion of its Asia business.

Retrocessionaires are selected by the Guarantor based on their financial condition and business practices, with stability, solvency and credit ratings being important criteria, together with input from the Risk Management Team. Stress tests are performed to ensure that retrocession programmes can achieve intended purposes under extreme scenarios. The Guarantor retrocedes reinsurance contracts to companies which have credit ratings of above "A-" assigned by A.M. Best or Standard & Poor's. If such retrocessionaires fail to meet this criterion, collateral is required to remove credit risks.

Premium and Reserve Risk

Premium risk is monitored prospectively and retrospectively. Prospective premium risk monitoring occurs at the time contracts are written. This is achieved through the use of proprietary tools which compare the Guarantor's view on premiums following the technical rating exercise (the "**technical rate**") with the prevailing price available in the market (the "**market rate**"). Over time, the market rate will fluctuate and may be above, or below, the Guarantor's technical rate due to the market cycle. The Guarantor monitors the gap between the market rate and the technical rate in order to discern potential under-pricing.

Following the decision to bind a policy, there is a risk that a higher level of claims is observed than was expected at the time that premium was determined. This is picked up in the quarterly reserving exercise, which includes a review of policy level loss ratios. Where there is a concern that the premium may be insufficient, this is reflected in booking a higher loss in the reserving process and, in this scenario, this will translate into a large reserve against policies written in the latest year.

Reserving risk arises due to unfavourable development in claims costs relative to the Guarantor's opening reserve level. This may be due to adverse claims experience on policies written in the current financial year or due to deterioration in the ultimate claims forecast against prior financial years.

Deteriorations in claims experience may arise through inadequate or unduly late contracts written in reporting by cedants, due to heavy catastrophe losses or in response to changes in the law, interest rates or excessive inflation. The Guarantor calculates its reserves in accordance with actuarial best practice and uses benchmark data and independent third-party review to support its assessment of reserve adequacy. Reserves are reviewed quarterly and monitored over time to recognise changes in trends.

Underwriting Risk – Life and Health

Underwriting risk in the L&H business is the risk of insured benefits payable being higher than what was expected. Of particular relevance are biometric risks (i.e. mortality or mobility) and customer behaviour risks (i.e. lapses, options and guarantees). Exceptional one-off events, such as a pandemic, can lead to a short-term decline in the value of the mortality part of the portfolio. Changes in biometrics or in customer behaviour are likely to have long-term effects that can lead to changes in the actuarial assumptions affecting the value of the portfolio. In addition, changes in morbidity or in cost of medical treatment could have more significant influence on the health portfolio, while mortality, longevity and disability changes are likely to affect the life book. The Guarantor manages short-term event scenarios and has established limits for the number of loss per life and numbers of lives in case of an event. In excess of these limits, reinsurance is bought to provide sufficient capacity. Actuarial assumptions and rating rules used are defined by the chief actuary and the life underwriter and are reviewed from time to time.

Market Risk

The Guarantor's investments are exposed to market risk (the risk of a price change in the capital market which can come from equities, interest rates, property or currency) and credit risk (the risk of a change in the financial situation of a counterparty).

The Guarantor's investment risk monitoring process includes introducing traditional asset/liability management practices, assessing the minimum weighted average credit quality of the fixed income (including bond funds) portfolio and regularly monitoring currency mismatch risk and duration/interest rate risks. The Guarantor also uses a traffic light system to facilitate the monitoring and communication of investment risk levels at country, currency and industry sector levels.

The largest risk to the Guarantor in relation to its investments arises from the volatility of its equity portfolio. The Guarantor follows an alpha investment strategy believing in long-term value creation through better stock selection. The Guarantor is prepared to accept a certain degree of movement in share-price from these investments in the short-term. For equities, the Guarantor uses a single issuer limit relative to the net asset value and monitors volatility using a traffic light system to ensure volatility is controlled within the set range on a weekly basis. Stress tests are performed on investment asset values arising from equity market shock, rising interest rates, widening in credit spread, property down cycles and devaluation of the RMB and Yen.

For its fixed income portfolio, the Guarantor is exposed to interest rate movements and changes in spread reflecting counterparty risk. The Guarantor tracks risks on a name, country and industry basis and considers cross balance sheet exposures from its credit and bond portfolios. If the Guarantor becomes overexposed to any one country, name or industry, the portfolio can be rebalanced or hedged.

Credit Risk

Credit risk represents the loss that the Guarantor would incur if a counterparty (including a borrower) or an issuer of securities or other instruments the Guarantor holds fails to perform under its contractual obligations to it, or upon a deterioration in the credit quality of borrowers or other third parties whose securities or other instruments the Guarantor holds. The Guarantor's exposure to credit risk principally arises through its investing, credit and bond and reinsurance ceding activities.

The Guarantor's credit risk management policy objectives are to improve its asset quality and minimise its concentration risk through a diversified, balanced and risk-weighted product portfolio. The Guarantor continually monitors and seeks to improve its credit risk-related policies and guidelines to reflect changing risks in its business. To measure and manage its credit exposures, the Guarantor uses a variety of tools on a daily basis, including assessment of counterparty risk. In addition, the Guarantor's credit management system monitors credit exposure to individual counterparties. In the ordinary course of business, the Guarantor may be subject to a concentration of credit risk to a particular counterparty, which the Guarantor may seek to manage through credit risk management policies setting exposure limits.

For example, the Guarantor has established and manages reinsurance cession limits for retrocessionaires in order to avoid excessive credit risk concentration based on external credit ratings, solvency capital and the Guarantor's internal risk analysis, which takes into account factors such as size, cash flows and financial ratios.

Foreign Exchange Risk

As a reinsurer who writes business in approximately 73 markets, the Guarantor is exposed to foreign exchange risk. To help mitigate this risk, the Guarantor has created an asset-liability management framework to match its assets and liabilities. However, the Guarantor faces constraints from the immaturity of the financial markets in some of the emerging markets in which it operates. Liabilities held in currencies of such markets cannot be matched in assets of the same currency due to the lack of investable assets (for example, in the Philippines or Vietnam) or capital market restrictions (for example, in South Korea). In these cases, the Guarantor would invest in USD as the functional currency. When deemed appropriate, the Guarantor employs hedging strategies to mitigate foreign exchange risk.

Liquidity Risk

Liquidity risk refers to the risk of loss that may arise as a result of insufficient funds due to an unexpected sudden change in cash flow. In case of a major loss, the Guarantor needs to have sufficient liquidity to pay claims in a timely manner to retain its main value proposition to ceding insurance companies. The Guarantor monitors its liquidity position and as a precautionary protection keeps at least five per cent. of its assets under management in cash. A repo facility has also been put in place to provide additional liquidity although the Guarantor has not made any drawdowns under this facility as at the date of this Offering Circular. The Guarantor's equity and fixed income instruments are mostly traded in public exchanges in Hong Kong or New York and can be easily liquidated.

Operational Risk

The Guarantor defines operational risk as the risk of loss from people, processes, systems and external events. The Guarantor tracks these risks using risk registers, which define the risk owner, describe the risk, define mitigating actions and quantify the residual risk. To help mitigate against these risks, the Guarantor utilises delegated authorities for underwriting and securities trading, which are documented and audited periodically. In addition, the Guarantor runs a "Disaster Recovery Process" at least once a year to test the resilience of its information technology systems and access to critical business information in case of a network disruption, loss of data or security breach. The Guarantor also provides training to staff on how to respond to an unforeseen external event such as fire in the office or inaccessibility of the office premises through a business continuity plan.

Reserving

The Guarantor is required to maintain reserves arising from its P&C and L&H reinsurance operations.

P&C business

P&C business refers to reinsurance provided to direct insurance companies that write property and casualty insurance. Insurance contract liabilities are established for the Guarantor's P&C business in respect of its outstanding claims exposures and allowances in respect of claims, which may arise from unexpired exposures at the reporting date. Collectively, these amounts cover the Guarantor's estimated liability for both reported and unreported claims at a level that represents the Guarantor's best estimate of ultimate loss and loss adjustment expenses.

P&C insurance liabilities represent estimates of future amounts needed to pay reported and not yet reported claims and related expenses arising from reinsured losses that have already occurred. Such estimates involve actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims and are based on facts and circumstances known at the time that the loss reserves are established. Consequently, actual claims, benefits and related expenses ultimately paid may differ from the estimates reflected in the reserves shown in the Guarantor's consolidated financial statements.

Details on each element of the P&C insurance contract liabilities in the financial statements are described below:

- **Reserves for outstanding claims** – Reserves for outstanding claims are comprised of two parts: an amount in respect of reported claims plus a forecast amount to cover incurred but not yet reported claims ("**IBNR**") at the reporting date.

  - *Reserves for reported claims*: generally, claims personnel at a ceding company establish case reserves that seek to ensure that it can meet the estimated ultimate cost of paying its reported claims. The case estimates produced by the ceding company are based on specifics of the claim and these are overlaid with a combination of internal and common industry best practices, methods and assumptions and the reserving practices/experience and knowledge of personnel at the ceding company regarding the nature and value of similar types of claims. The Guarantor generally establishes its reserve level for reported claims using the individual case estimate information submitted by its ceding companies.

  - *IBNR reserves*: IBNR reserves are established in addition to reported claims reserves. This provision in the financial statements covers claims where events giving rise to the claim have occurred at the reporting date but the claims have not yet been reported by the Guarantor's cedants, and are therefore not yet settled. IBNR reserves, like reserves for reported claims, are established with reference to reports and individual case estimate information provided by the Guarantor's ceding companies. The IBNR reserve in the financial statements also includes an allowance for any anticipated deficiency in the level of the reserves for reported claims advised by the Guarantor's cedants.

The claims reported by the Guarantor's cedants include the cost of loss-adjustment expenses incurred in the process of settling outstanding claims. As a result, the reported claims reserve and the IBNR reserve include implicit allowances for Allocated Loss Adjustment Expenses. Where the Guarantor needs to use its external legal counsel or loss adjusters to review a specific claim, this is booked internally as an explicit Allocated Loss Adjustment Expense. In line with actuarial best practice, an allowance for Unallocated Loss Adjustment Expenses (i.e. costs associated with settling claims that cannot be linked to a specific claim like claims staff overhead) is also calculated. For the avoidance of doubt, the explicit Allocated Loss Adjustment Expenses and Unallocated Loss Adjustment Expenses calculated by the actuarial team are embedded within the IBNR shown in the Guarantor's financial statements.

- **Reserves for unexpired exposures** – P&C reinsurance policies typically provide coverage for a one year period and may be written at any point during the year. Consequently, and consistent with all reinsurance companies, the Guarantor is exposed to claims on unexpired policies that occur after the reporting date. The Guarantor is required to maintain a balance sheet liability to cover these potential losses. In accordance with Hong Kong regulatory requirements, this amount is set equal to the unearned premium reserve ("**UPR**") – being the premium corresponding to the time period remaining on the Guarantor's reinsurance policies as at the reporting date. Where the UPR is deemed insufficient to cover the value of expected losses on unexpired exposures at the reporting date, an additional Premium Deficiency Reserve will be held to cover the expected shortfall.

In line with Hong Kong regulatory requirements, the Guarantor's P&C reserves for both outstanding claims and unexpired exposures at the reporting date are determined on an undiscounted basis.

For its P&C business, the Guarantor utilises a cautious reserves approach, recognising claims immediately and establishing additional reserves for large losses when necessary. The Guarantor uses a combination of reserve calculation methods where both standard actuarial methodologies are forecast alongside treaty-by-treaty analysis. In addition, when deemed appropriate, expert judgement is applied.

In the interests of risk management, the Guarantor retains Deloitte to provide an independent opinion of the liability valuation booked during the third and fourth quarters of each year. Deloitte's review is based on analysing the Guarantor's own data as well as a reinsurance peer-group dataset in order to benchmark the forecast reserves.

L&H business

For its L&H business, the Guarantor holds claims reserves, as well as unearned premium reserves for its risk premium business (Individual Life, Group Life and Medical business) and mathematical reserves for its coinsurance and longevity businesses.

- **Claims reserves** – this comprises reserves for outstanding and expected claims during the reporting period but not accounted for at the end of the reporting period. Outstanding claims are generally reported by the ceding company whereas for expected claims the Guarantor follows its own, more conservative, claims reserving practice.

- **Unearned premium reserve** – the Guarantor is required to maintain, as a balance sheet liability, an unearned premium reserve, which is the premium whose payment date belongs to the current year and whose applicable period has not yet commenced at the end of the reporting period.

- **Mathematical reserves** – the Guarantor holds mathematical reserves for its coinsurance business. Mathematical reserves are calculated using regulatory prescribed, or generally accepted actuarial principles and methodology.

In the interest of risk management, and given the short history of the L&H business, the Guarantor retains Deloitte to provide an independent opinion on the actuarial valuation at the end of each financial year, using their own industry data as benchmark.

Impact of COVID-19

The Guarantor believes that its overall exposure to any impact from COVID-19 will be limited and fall within its expected risk tolerance as set by its internal risk management framework. The Guarantor does not have material exposures in lines of business that are particularly affected by the COVID-19 pandemic, such as business interruption, event cancellation, travel insurance and worker compensation. At the same time, the loss ratio for certain lines of business (such as motor) may improve as a result of the implementation of COVID-19-related lockdowns imposed by governments across various parts of the world. In addition, centralised operations in Hong Kong have seen limited impact from the global pandemic. The Guarantor was able to maintain operation of its Hong Kong office and continue engaging with its clients globally.

In Asia, the industry has experienced multiple epidemics in the past 20 years, including Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS) and the human swine flu (also known as Influenza A (H1N1)) and, as such, it is in line with market practice that pandemics such as COVID-19 are already excluded from the terms of business of the Guarantor's main business lines.

In relation to its asset management business, the Guarantor expects that the impact of any losses resulting from COVID-19 can be adequately mitigated given the diversification of its investment portfolio, both in terms of asset type and geographical exposure. The Guarantor regularly conducts sensitivity analysis on its investments to monitor changes in the value of its investment portfolio as a result of movements in interest rates and credit ratings.

Capital Adequacy

A main focus for the Guarantor as part of its risk management is to maintain an adequate level of capital. The Guarantor's priority is to hold sufficient capital to (a) meet all of its obligations to cedants; (b) support its

"A3 (stable)" Moody's rating and "A- (stable)" A.M. Best rating; and (c) satisfy all regulatory requirements. The Guarantor closely monitors its capital needs and capital level through its expansion and throughout the reinsurance cycle and in times of volatility and turmoil in the domestic and global capital markets, and takes appropriate steps to increase or decrease the Guarantor's capital in order to achieve an appropriate balance of financial strength and profitability.

The Guarantor maintains assets in excess of liabilities to meet the solvency ratio requirements under Insurance Companies (Margin of Solvency) Regulations in Hong Kong and to support future growth. The Guarantor maintains a solvency ratio (defined as available capital (meaning total eligible net assets) divided by minimum required capital (meaning the relevant amount as set out in the Insurance Ordinance (Cap. 41) of Hong Kong (as amended, the "**HKIO**"))) well above the statutory requirement of 200 per cent. applicable to general reinsurers regulated by the IA and insurance companies at a consolidated level regulated by the IA. As at 31 December 2017, 2018 and 2019, and 30 June 2020, the Guarantor had a solvency ratio of 443 per cent., 429 per cent., 367 per cent. and 358 per cent., respectively.

Competition

The reinsurance business is highly competitive. As a composite international reinsurance company, the Guarantor competes with reinsurance companies in the regions in which it operates. The Guarantor believes that its major competitors are the European, United States and Bermuda-based international reinsurance companies, as well as some of the regional companies.

The Guarantor's competitors differ by location but generally include multi-national reinsurers and local reinsurers or state-owned insurers in Europe, the United States, Bermuda and in Asia. The Guarantor competes with other reinsurers and certain insurers, some of which have greater financial, marketing and management resources than the Guarantor, and it also competes with new market entrants, and, specifically in the catastrophe line of business, those with alternative capital sources and ILS. Competition in the types of reinsurance and insurance that the Guarantor underwrites is based on many factors, including the perceived and relative financial strength, pricing and other terms and conditions, services provided, ratings assigned by independent rating agencies, speed of claims payment and reputation and experience in the lines of business to be written.

The Guarantor believes that as it continues to expand its global footprint through a more diversified platform, the Guarantor will be better positioned to provide broader risk solutions across additional lines of business and geographies, making it more attractive to cedants who are choosing to utilise fewer reinsurers and focus on those reinsurers who can cover more than one line of business.

Supervision and Regulation

The primary source of regulation of the insurance industry in Hong Kong is the HKIO and its subsidiary regulations. In addition to enumerating the regulatory requirements and reporting obligations of insurers and insurance intermediaries in Hong Kong, the HKIO charges the IA with regulatory authority for the enforcement of its provisions. As a consequence, the Guarantor is subject to oversight by the IA as well as to the specific requirements of the HKIO.

The OCI was the regulatory body that administered the HKIO until the IA took over the regulatory functions of the ICA on 26 June 2017. The principal functions of the IA shall be to regulate and supervise the insurance industry for the promotion of the general stability of the insurance industry and for the protection of existing and potential policy holders.

The HKIO empowers the IA to make rules to set out detailed regulatory requirements in response to changing market landscapes and regulatory needs. The rules may provide for specified matters (for example, applications for licence, the issue of licences, requirements of returns to be made by authorised insurers and licensed insurance intermediaries to the IA at specified times, the qualifications, examination and training requirements for licensed insurance intermediaries, the maintenance of registers by the IA), and other matters, after consultation with the Financial Secretary, that are necessary for the performance of any of its functions. The HKIO also empowers the IA to publish non-statutory codes and guidelines for matters in relation to any of the functions of the IA or the operation of a provision of the HKIO. The purpose of the codes and guidelines is to provide the industry with practical guidance to facilitate compliance with the regulatory requirements. While the codes and guidelines are not statutory requirements and failure to comply with them does not by itself render a person liable to any judicial or other proceedings, the codes or guidelines are admissible in evidence in any proceedings under the HKIO before a court. The IA will also have regard to the codes and guidelines when exercising its powers, including taking disciplinary actions where applicable.

With effect from 23 September 2019, the IA took over the regulation of insurance intermediaries from the three Self-Regulatory Organisations, The Hong Kong Confederation of Insurance Brokers, The Professional Insurance Brokers Association and the Hong Kong Federation of Insurers, and became the sole regulator to license and supervise all insurance intermediaries in Hong Kong. The IA is responsible for supervising insurance intermediaries' compliance with the provisions of the HKIO, and the relevant regulations, rules, codes and guidelines issued by the IA. The IA is also responsible for promoting and encouraging proper standards of conduct of insurance intermediaries, and has regulatory powers in relation to licensing, inspection, investigation and disciplinary sanctions.

In Hong Kong, the FI(R)O came into effect on 7 July 2017 following a two-stage consultation and response process. Under the HKIO, the IA is the resolution authority that is vested with a range of necessary powers to effect orderly resolution of non-viable systemically important financial institutions in Hong Kong such that risks posed by the non-viability to the stability and effective working of the Hong Kong financial system, including the continuity of critical financial services, can be mitigated while losses are imposed on the institution's shareholders and creditors, thereby minimising risks posed to public funds. As at the date of this Offering Circular, the Guarantor is not an "insurance sector entity" as defined in FI(R)O. See "*Risk Factors – Legal and Regulatory Risks – Political, regulatory, governmental and industry initiatives could adversely affect the Guarantor's business.*"

In addition to oversight of the Guarantor's operations in Hong Kong by the IA and industry bodies, the Guarantor's operations are also subject to supervision by other relevant government regulators, including FINMA and the Labuan Financial Services Authority. The various regulators overseeing the Guarantor actively monitor its local solvency ratios. The Guarantor is in compliance with the solvency ratio and capital adequacy requirements applied by its regulators.

Information Technology

The Guarantor's core business processes are supported by standard and robust information technology systems and infrastructure. The Guarantor's servers are hosted by a third-party in Kowloon with a back up site in Aberdeen (Hong Kong).

Property, Plant and Equipment

The Guarantor's headquarter is located in Hong Kong. As at 30 June 2020, the Guarantor leased office space in Hong Kong, Zurich and Tokyo. The Guarantor believes that these facilities are adequate for its present needs in all material respects.

Patents and Licences

The Guarantor has entered into various licensing arrangements with a number of service providers and leverages on third-party developed and sophisticated tools for catastrophe modelling.

Research and Development

In June 2015, the Guarantor announced an exclusive partnership with the Shanghai Typhoon Institute of China Meteorological Administration ("**STI**"), a state-level institution which conducts basic and applied research related to tropical cyclones in China. The Guarantor and STI collaborate on research projects related to the tropical cyclone activities in the North West Pacific basin and South China Sea and analyse their insurance impact. The research results are intended to help the insurance industry better quantify, manage and mitigate the related risks and provide useful information to serve society at large.

Employees

As at 30 June 2020, the Guarantor employed 99 full-time employees, with an average of 15 years insurance industry experience per employee. As an expanding business, the Guarantor has gradually grown its number of employees over the years to support business and operational growth as well as strengthen its risk management and internal control functions. The Guarantor seeks to ensure its employees possess diversified experience in the insurance industry with a strong balance of technical skill and international exposure.

Legal and Regulatory Proceedings

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

Related Party Transactions

The Guarantor enters into transactions (including reinsurance transactions) with affiliated companies from time to time in accordance with regulatory requirements and internal policies. Such related party transactions are conducted on an arm's length basis and on normal commercial terms. For the year ended 31 December 2019, transactions with affiliated companies accounted for 0.7 per cent. of the Guarantor's gross written premiums (excluding NAGICO).

DIRECTORS AND MANAGEMENT

DIRECTORS

The board of directors (the "**Board**") of the Guarantor comprises two executive directors, three non-executive directors and three independent non-executive directors as at the date of this Offering Circular. The Board oversees the overall strategic development, internal control system and risk management system of the Guarantor. The Board also provides guidance on business plans, monitors the results of such business plans implemented by management and reviews and approves the Guarantor's financial objectives and major financial and investment activities.

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

Name	Age	Title
Li Tao	47	Chairman, Non-Executive Director
Franz Josef Hahn	63	Vice Chairman, Executive Director
Chen Kaihong (Cathy)	50	Executive Director
Wang Qunbin	50	Non-Executive Director
Monish Kant Dutt	62	Independent Non-Executive Director
Stephen Bernard Roder	62	Independent Non-Executive Director
Ouyang Hui	57	Independent Non-Executive Director
Andrew John Zeissink	52	Non-Executive Director

Li Tao, is the Chairman of the Guarantor, Senior Vice President and Co-Chief Investment Officer of Fosun International, Chairman of Fosun Insurance, Chairman of Fosun Health Insurance and Health Management Group. Prior to joining the Fosun Group in 2017, Mr. Li held the role of Chief Financial Officer at China Taiping Insurance Group, as well as managing, in turn, the corporate actuarial and investment lines and overseas insurance business. Mr. Li is a member of the Association of Chartered Certified Accountants ("**ACCA**").

Franz Josef Hahn, is the Vice Chairman, the Executive Director and Chief Executive Officer of the Guarantor. With more than 30 years of reinsurance industry experience, Mr. Hahn has successfully helped to build and shape the reinsurance business in the Greater China and Asia Pacific regions.

Prior to founding the Guarantor, Mr. Hahn has held senior management positions in several leading reinsurance companies and has acquired extensive strategic business advisory experience across the globe.

Mr. Hahn was a member of the Geneva Association. He is also an active contributor in the Hong Kong financial and insurance industry. He is a member of the Hong Kong Academy of Finance and an Honorary Secretary of the Insurance Complaints Bureau. He was a member of the Insurance Advisory Committee to the Financial Secretary from 2002 to 2008 and a member of the Independent Insurance Authority's Industry Advisory Committees from 2016 to 2018.

Before launching his reinsurance career, he started his earlier years as a lawyer.

Chen Kaihong (Cathy), serves as Chief Financial Officer and is a key person in control of the finance function of the Guarantor, overseeing the Guarantor's financial and operational management. She has also been an Executive Director of the Guarantor since July 2018. Ms. Chen has more than 19 years of accounting and financial experience in both the insurance and reinsurance industries and has a deep understanding of the related regulations. Prior to joining the Guarantor, she was the Chief Representative of Lloyd's Beijing. Before that, she was the Chief Financial Officer of Swiss Re's China operations. Ms. Chen is a Fellow of the ACCA.

Wang Qunbin, is a Non-Executive Director and Board Committee member of the Guarantor. Mr. Wang is one of the founders of the Fosun Group and was appointed as the Co-Chairman of Fosun International in February 2020. Mr. Wang was a Director of Shanghai Yuyuan Tourist Mart (Group) Co., Ltd. and Henan Lingrui Pharmaceutical Co., Ltd., and a non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. and Sinopharm Group Co., Ltd.

Mr. Wang was recognised at the Asia Pacific Outstanding Entrepreneur Awards by Enterprise Asia and was named Best Asian Corporate Director at the Asian Excellence Recognition Awards 2014 by Corporate Governance Asia.

Mr. Wang received a bachelor's degree in genetic engineering from Fudan University in 1991.

Monish Kant Dutt, is an Independent Non-Executive Director of the Guarantor. He is a seasoned investment professional and consultant on emerging markets and serves as a director on four other boards in the Caribbean and the U.S. Mr. Dutt spent 25 years with the International Financial Corporation ("**IFC**") where he last served as Chief Credit Officer for Global Financial Institutions and Private Equity Funds until 2011. Before joining IFC, Mr. Dutt worked at Ernst & Young London for four years.

Mr. Dutt holds an MBA in Finance from London Business School, London University and a bachelor's degree in Economics from St. Stephen's College, University of Delhi. He is also a Chartered Accountant accredited as a Fellow by the Institute of Chartered Accountants in England and Wales.

Stephen Bernard Roder, is an Independent Non-Executive Director of the Guarantor and was one of the co-founders of the Guarantor prior to joining Manulife Financial Corporation as Group Chief Financial Officer. He was appointed as an Independent Non-Executive Director of the Guarantor in May 2018. Mr. Roder has over 20 years of experience in dealing with global companies working across markets in Asia, covering strategy, regulatory matters, finance, capital markets and transactions. He is also a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Hong Kong Institute of Certified Public Accountants.

Ouyang Hui, is an Independent Non-Executive Director of the Guarantor and has been on the Board since 2014. Mr. Ouyang is currently the Dean's Distinguished Chair Professor of Finance and an associate dean at the Cheung Kong Graduate School of Business ("**CKGSB**"). Prior to joining CKGSB, he served as a managing director at UBS, where he headed Quantitative Solutions/Algo Strategies for Asia Pacific.

Mr. Ouyang has received a Ph.D. in finance from the University of California, Berkeley, a Ph.D. in Chemical Physics from Tulane University. He received his post-doctoral training in chemical physics from the California Institute of Technology, where he worked under Nobel Laureate Rudy Marcus.

Andrew John Zeissink, is a Non-Executive Director of the Guarantor and has over 25 years of Financial Institutions Group ("**FIG**") experience mostly in investment banking in Asia and has broad FIG involvement across insurance, banks, asset management and securities clients. He joined the Fosun Group in August 2019 and is currently the Senior Assistant President of the Fosun Group and Executive President of Fosun Insurance Group. Prior to joining the Fosun Group, he worked at HSBC for around 19 years where he last served as Vice Chairman of Global Banking and Chairman of FIG Advisory Asia Pacific (Hong Kong). Before that, he worked at PricewaterhouseCoopers for 10 years as a chartered accountant and in a financial advisory role.

Mr. Zeissink holds a bachelor's degree in Economics from Monash University. He is also a Chartered Accountant in Australia.

SENIOR EXECUTIVES

The members of the senior executives as at the date of this Offering Circular are as follows:

Name	Age	Title
Franz Josef Hahn	63	Chief Executive Officer
Chen Kaihong (Cathy)	50	Chief Financial Officer
Eckart Walter Roth	59	Chief Risk Officer
Chris Kershaw	59	Managing Director – Global Markets and Co-head of P&C
Lawrence Cheng	39	Managing Director – Underwriting and Co-head of P&C

Franz Josef Hahn, is the Chief Executive Officer of the Guarantor. Please refer to *"– Directors"* for the biographical details of Mr. Hahn.

Chen Kaihong (Cathy), is the Chief Financial Officer of the Guarantor. Please refer to "– *Directors*" for the biographical details of Ms. Chen.

Eckart Walter Roth, is the Chief Risk Officer and is a key person in control of risk and compliance functions of the Guarantor. With more than 25 years of experience in the regional and international reinsurance markets, Mr. Roth has a proven track record of building and implementing comprehensive risk management systems.

Prior to co-founding the Guarantor with Mr. Hahn, Mr. Roth ran and owned a consultancy firm which offered tailored reinsurance solutions to financial institutions in Asia Pacific, Europe and the United States.

Mr. Roth is a qualified lawyer.

Chris Kershaw, is the Managing Director of the Global Markets of the Guarantor. Mr. Kershaw has more than 35 years of experience in the reinsurance industry and has spent the past 25 years in Asia, gaining a wide range of experience working with various stakeholders, including regulators, to develop relationships and business across the region and multiple business lines.

Mr. Kershaw previously served as the Chief Operations Officer of Asia Reinsurance Brokers.

Mr. Kershaw holds a master's degree in modern history and economics from the University of Oxford.

Lawrence Cheng, is the Managing Director of Underwriting of the Guarantor. Mr. Cheng currently also serves as Co-Chief Executive Officer of Peak Capital, a Bermuda-based ILS investment specialist wholly owned by the Guarantor. Mr. Cheng has more than 15 years of experience in the reinsurance industry with exposure to both brokering and reinsurance companies. Mr. Cheng has solid experience in reinsurance purchasing, reserving, pricing, catastrophe modelling, capital modelling and enterprise risk management.

Prior to joining the Guarantor, Mr. Cheng was the Head of Actuarial at Aon Benfield China. Mr. Cheng started his career in the London Lloyds Insurance Market and has worked at Liberty Syndicates and Markel International.

Mr. Cheng is a fellow of the Institute of Actuaries and has a Bachelor degree in Mathematics from the University of Warwick.

TAXATION

The following summary of certain applicable tax consequences of the purchase, ownership and disposition of the Securities is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Securities and does not purport to deal with the consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Holder or any persons acquiring, selling or otherwise dealing in the Securities or on any tax implications arising from the acquisition, sale or other dealings in respect of the Securities. Persons considering the purchase of the Securities should consult their own tax advisers concerning the application of the following tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Securities arising under the laws of any other taxing jurisdiction.

British Virgin Islands

The Issuer is exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands. Payments of principal, premium or distribution in respect of the Securities to persons who are not resident in the British Virgin Islands are not subject to British Virgin Islands tax or withholding tax.

Capital gains realised with respect to the Securities by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to the Securities.

All instruments relating to transactions in respect of the Securities are exempt from payment of stamp duty in the British Virgin Islands. This assumes that the Issuer does not hold an interest in real estate in the British Virgin Islands.

Hong Kong

Withholding Tax

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

Profits Tax

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

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

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

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

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

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

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

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

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

Stamp Duty

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

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with Citigroup Global Markets Limited ("**Citigroup**") and The Hongkong and Shanghai Banking Corporation Limited ("**HSBC**" and together with Citigroup, the "**Joint Lead Managers**") dated 20 October 2020 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to issue, the Guarantor has agreed to guarantee and the Joint Lead Managers have severally and not jointly agreed with the Issuer and the Guarantor to subscribe for the principal amount of Securities as set forth opposite their names in the following table.

Joint Lead Managers	**Principal Amount**
	(U.S.$)
Citigroup Global Markets Limited	125,000,000
The Hongkong and Shanghai Banking Corporation Limited	125,000,000
Total	**250,000,000**

The Joint Lead Managers are offering the Securities in accordance with the terms of the Subscription Agreement and subject to certain conditions contained in the Subscription Agreement, including, *inter alia*, the receipt by the Joint Lead Managers of documentation related to the issuance and sale of the Securities, officer's certificates and legal opinions. The Subscription Agreement provides that the Issuer and the Guarantor will jointly and severally indemnify the Joint Lead Managers and their affiliates against certain liabilities in connection with the offer and sale of the Securities. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate in certain circumstances prior to payment being made to the Issuer.

The Issuer or, as the case may be, the Guarantor will pay the Joint Lead Managers' customary commissions in connection with the offering and will reimburse the Joint Lead Managers for certain fees and expenses incurred in connection with the offering.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services and/or Transactions**"). The Joint Lead Managers and their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services and/or Transactions with the Issuer, the Guarantor and/or their respective affiliates for which they have received, or will receive, fees and expenses. The Joint Lead Managers propose to offer the Securities for resale in transactions not requiring registration under the Securities Act pursuant to Regulation S.

In connection with the issue of the Securities, the Stabilising Manager may over-allot the Securities or effect transactions with a view to supporting the price of the Securities at a level higher than that which might otherwise prevail, for a limited period. However, there is no obligation on the Stabilising Manager to do this. Such stabilising if commenced may be discontinued and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

In connection with the offering of the Securities, the Joint Lead Managers and/or their respective affiliates, or affiliates or other related parties of the Issuer or the Guarantor, may purchase the Securities for its or their own account (without a view to distributing such Securities). Such entities may hold or sell such Securities or purchase further Securities for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and therefore, they may offer or sell the Securities or other securities otherwise than in connection with the offering of the Securities pursuant to this Offering Circular. Accordingly, references herein to the Securities being 'offered' should be read as including any offering of the Securities to the Joint Lead Managers and/or their respective affiliates, or affiliates or other related parties of the Issuer or the Guarantor for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Securities. If this is the case, liquidity of trading in the Securities may be constrained (see "*Risk Factors – Risks Relating to the Guarantee and the Securities – An active trading market for the Securities may not develop*"). The Issuer, the Guarantor and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Securities amongst individual investors.

Each of the Joint Lead Managers and/or its affiliates may enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Securities or other securities of the Issuer or the Guarantor at the same time as the offer and sale of the Securities or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Securities to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchaser of the Securities). Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer and/or the Guarantor routinely hedge their credit exposure to the Issuer and/or the Guarantor consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's and/or the Guarantor's securities, including potentially the Securities offered hereby. Any such short positions could adversely affect future trading prices of the Securities offered hereby. The Joint Lead Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Securities or other financial instruments of the Issuer or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Securities or other financial instruments.

Selling Restrictions to the Offering

United States

The Securities and the Guarantee have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Securities and the Guarantee are being offered and sold outside the United States in reliance on Regulation S.

Each of the Joint Lead Managers has represented that it has not offered or sold, and agreed that it will not offer or sell, any Securities and the Guarantee constituting part of its allotment within the United States, except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Securities and the Guarantee. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

United Kingdom

Each of the Joint Lead Managers has represented and agreed that:

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

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

Prohibition of Sales to EEA and UK Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the EEA and in the UK. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

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

Japan

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "**FIEA**") and each of the Joint Lead Managers has represented and agreed that it has not offered or sold any Securities, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re- sale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each of the Joint Lead Managers has represented and agreed that:

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

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

The PRC

Each of the Joint Lead Managers has represented and agreed that the Securities are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Region of the PRC or Taiwan), except as permitted by the securities laws of the PRC.

Singapore

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

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

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

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

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

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

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

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

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

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

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

British Virgin Islands

Each of the Joint Lead Managers has represented and agreed that it has not made and will not make any invitation, directly or indirectly, to any person in the British Virgin Islands or to the public in the British Virgin Islands to subscribe for the Securities and the Securities are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands, except as otherwise permitted by the British Virgin Islands laws.

This Offering Circular does not constitute, and there will not be, an offering of the Securities to any person in the British Virgin Islands.

Taiwan

The Securities have not been and will not be registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority pursuant to relevant securities laws and regulations and may not be offered, issued or sold in Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that require a registration, filing or approval of the Financial Supervisory Commission and/or other regulatory authority of Taiwan.

General

The distribution of this Offering Circular and the offering and sales of the Securities in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration without authorisation by the relevant securities regulatory authorities or an exemption therefrom.

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or the Joint Lead Managers that would, or is intended to, permit a public offering of the Securities, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Securities or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Securities, in all cases at their own expense.

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

GENERAL INFORMATION

Clearing Systems

The Legal Entity Identifier of the Issuer is 549300KB2UHI8ALPSD62. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code number 223962343 and the International Securities Identification Number for the Securities is XS2239623437.

Listing of the Securities

Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Securities by way of debt issues to Professional Investors only. It is expected that dealing in, and listing of, the Securities on the Hong Kong Stock Exchange will commence on 29 October 2020. Listing of the Securities on the Hong Kong Stock Exchange is conditional upon satisfaction of the requirements of such exchange, including execution of the Trust Deed relating to the Securities.

Authorisations

Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Securities. The issue of the Securities was authorised by written resolutions of the Board of Directors of the Issuer dated 28 September 2020 and the written resolutions of the Board of Directors of the Guarantor dated 28 September 2020.

The Securities will be issued in accordance with the requirements under the NDRC Regulations and the NDRC Quota, pursuant to which the NDRC granted an annual foreign debt quota to the parent company of Fosun High Technology (Group) Co., Ltd., and Fosun International's subsidiaries, including the Guarantor. The Guarantor is able to rely on the NDRC Quota and is not required to make any pre-issuance registration of the Securities with the NDRC, however, the Guarantor will be required to make a post-issuance filing with the NDRC within the prescribed time following issuance of the Securities.

No Material Adverse Change

Except as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position of the Issuer, the Guarantor and its subsidiaries since 31 December 2019.

Litigation

None of the Issuer, the Guarantor or any of its subsidiaries is involved in any litigation or arbitration proceedings that the Issuer and the Guarantor believes are material in the context of the Securities nor are the Issuer and the Guarantor aware that any such proceedings are pending or threatened.

Available Documents

Copies of the Guarantor's annual report for the year ended 31 December 2019, the Guarantor's unaudited and reviewed consolidated financial statements as at and for the six months ended 30 June 2020, the Deed of Guarantee, the Trust Deed and the Agency Agreement relating to the Securities and the Memorandum and Articles of Association of the Issuer and the Guarantor will be available for inspection at the specified office of the Guarantor during normal business hours, so long as any of the Securities is outstanding.

The Deed of Guarantee, the Trust Deed and the Agency Agreement relating to the Securities (i) will be available for inspection from the principal office for the time being of the Principal Paying Agent during normal business hours with prior written notice and satisfactory proof of holding, or (ii) may be provided by email to such holder requesting copies of such documents, subject to the Principal Paying Agent being supplied by the Issuer with copies of such documents, so long as any of the Securities is outstanding.

The Guarantor prepares and publishes an annual report every year. Copies of the Guarantor's annual report in respect of the latest year can be obtained from the website of the Guarantor.

Auditors

The Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2019 have been audited by Ernst & Young, Certified Public Accountants, as stated in their report appearing herein. The Guarantor's unaudited and reviewed consolidated financial statements as at and for the six months ended 30 June 2020 have been reviewed by Ernst & Young, Certified Public Accountants, as stated in their report appearing herein.

Issuer's Accounts

Under British Virgin Islands law, the Issuer is not required to publish interim or annual accounts. The Issuer has not published, and does not propose to publish, any of its accounts. The Issuer is, however, required to keep proper records and underlying documentation which are sufficient to show and explain the Issuer's transactions and will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

INDEX TO FINANCIAL STATEMENTS

Notes:

(1) The consolidated financial statements of the Guarantor set out herein are reproduced from the Guarantor's report of the Directors and audited financial statements for the year ended 31 December 2018 (the "**2018 Report**"). Page references included in the consolidated financial statements as at and for the year ended 31 December 2018 set out herein refer to pages set out in the 2018 Report.

(2) The consolidated financial statements of the Guarantor set out herein are reproduced from the Guarantor's report of the Directors and audited financial statements for the year ended 31 December 2019 (the "**2019 Report**"). Page references included in the consolidated financial statements as at and for the year ended 31 December 2019 set out herein refer to pages set out in the 2019 Report.

(3) The consolidated financial statements of the Guarantor set out herein are reproduced from the Guarantor's unaudited and reviewed financial statements for the six months ended 30 June 2020 (the "**2020 Interim Report**"). Page references included in the consolidated financial statements as at and for the six months ended 30 June 2020 set out herein refer to pages set out in the 2020 Interim Report.

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

安永會計師事務所
香港中環添美道 1 號
中信大廈 22 樓

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

Independent auditor's report
To the member of Peak Reinsurance Company Limited
(Incorporated in Hong Kong with limited liability)

Opinion
We have audited the consolidated financial statements of Peak Reinsurance Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 75, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion
We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), 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 consolidated 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 consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Independent auditor's report (continued)
To the member of Peak Reinsurance Company Limited
(Incorporated in Hong Kong with limited liability)

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

Independent auditor's report (continued)
To the member of Peak Reinsurance Company Limited
(Incorporated in Hong Kong with limited liability)

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young

Certified Public Accountants
Hong Kong
30 April 2019

PEAK REINSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 US$	2017 US$
Gross written premiums	5	1,381,891,328	1,098,346,198
Gross earned premiums		1,264,916,291	926,222,183
Retrocessionaires' share of gross earned premiums		(282,629,245)	(125,528,463)
Net reinsurance contracts earned premiums revenue		982,287,046	800,693,720
Gross claims paid and payable	19(a)	(620,430,023)	(387,848,737)
Retrocessionaires' share of claims paid	19(a)(i)	111,711,214	32,097,751
Change in gross reinsurance outstanding claims	19(a)	(314,644,150)	(324,184,517)
Change in retrocessionaires' share of outstanding claims	19(a)	133,292,912	49,327,885
Net claims incurred		(690,070,047)	(630,607,618)
Commission expense	15	(364,578,557)	(235,906,325)
Commission income	21	72,979,831	29,071,119
Net commission expense		(291,598,726)	(206,835,206)
Administration expenses		(35,016,981)	(27,873,348)
Underwriting loss for the year		(34,398,708)	(64,622,452)
Investment income	5	41,964,662	106,653,846
Share of profit/(loss) of an associate	10	3,535,000	(8,006,500)
Foreign exchange gain		9,884,549	2,739,099
Other expenses		(3,749,608)	(1,475,245)
PROFIT BEFORE TAX	6	17,235,895	35,288,748
Income tax credit/(expense)	7	2,284,168	(4,760,220)
PROFIT FOR THE YEAR		19,520,063	30,528,528
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments			
Changes in fair value		(91,959,835)	26,739,534
Reclassification adjustments for gains on disposal included in the consolidated statement of profit or loss		(18,710,396)	20,225,586
Income tax effect		8,249,747	(6,474,009)
		(102,420,484)	40,491,111
Share of other comprehensive income of an associate		23,000	(509,500)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		(102,397,484)	39,981,611
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(82,877,421)	70,510,139

PEAK REINSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 US$	2017 US$
ASSETS			
Intangible assets	8	7,109	139,663
Property, plant and equipment	9	243,650	243,044
Investment in associates	10	66,537,500	45,969,500
Held to maturity investments	11	29,220,607	37,091,953
Available-for-sale investments	12	1,203,268,182	894,160,585
Investments at fair value through profit or loss	13	81,748,439	149,786,285
Loans and receivables	14	126,807,869	150,355,595
Deferred acquisition costs	15	159,002,597	145,010,723
Prepayments, deposits and other receivables	16	19,080,006	30,915,144
Retrocession assets	19	325,137,151	150,609,224
Reinsurance receivables	17	1,533,616,403	923,623,714
Amount due from immediate holding company		2,019,647	258
Deferred tax asset	23	9,385,940	-
Current tax recoverable		106,595	-
Cash and cash equivalents	18	195,075,304	267,541,237
TOTAL ASSETS		3,751,256,999	2,795,446,925
LIABILITIES			
Reinsurance contract/policy liabilities	19	1,793,763,590	1,378,178,212
Reinsurance payables	20	939,270,554	470,153,024
Derivatives	13	2,984,653	224,133
Deferred commission income	21	35,287,446	22,453,539
Other payables and accrued liabilities	22	14,459,346	11,328,026
Deferred tax liability	23	-	1,144,769
Current tax payable		-	317,105
TOTAL LIABILITIES		2,785,765,589	1,883,798,808
NET ASSETS		965,491,410	911,648,117
EQUITY			
Share capital	24	786,720,714	650,000,000
Reserves		178,770,696	261,648,117
		965,491,410	911,648,117

Chen Kaihong
Director

Hahn Franz Josef
Director

PEAK REINSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Note	Share capital US$	Retained earnings US$	Fair value reserve US$	Total US$
Total equity as at 1 January 2017		650,000,000	202,622,858	(11,484,880)	841,137,978
Profit for the year		-	30,528,528	-	30,528,528
Other comprehensive income for the year:					
Changes in fair value of available-for-sale investments, net of tax		-	-	40,491,111	40,491,111
Share of other comprehensive income of an associate		-	-	(509,500)	(509,500)
Total comprehensive income for the year		-	30,528,528	39,981,611	70,510,139
Total equity as at 31 December 2017 and 1 January 2018		650,000,000	233,151,386	28,496,731	911,648,117
Increase in share capital	24	136,720,714	-	-	136,720,714
Profit for the year		-	19,520,063	-	19,520,063
Other comprehensive income for the year:					
Changes in fair value of available-for-sale investments, net of tax		-	-	(102,420,484)	(102,420,484)
Share of other comprehensive income of an associate		-	-	23,000	23,000
Total comprehensive income for the year		-	19,520,063	(102,397,484)	(82,877,421)
Total equity as at 31 December 2018		786,720,714	252,671,449*	(73,900,753)*	965,491,410

* These reserve accounts comprise the reserves of US$178,770,696 (2017: US$261,648,117) in the consolidated statement of financial position.

PEAK REINSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 US$	2017 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		17,235,895	35,288,748
Adjustments for:			
Depreciation of property and equipment	9	97,360	93,122
Amortisation of intangible assets	8	132,554	315,493
Share of profits and loss of associate		(3,535,000)	8,006,500
Interest income		(43,304,683)	(30,968,679)
Dividend income from investments	5	(33,904,571)	(10,272,761)
Fair value (gains)/losses on investments at fair value through profit or loss	5	70,982,020	(39,000,464)
Gain on disposal of investments at fair value through profit or loss	5	(2,360,988)	(4,500,168)
Gain on disposal of available-for-sale investments	5	(29,456,472)	(31,645,038)
Loss on disposal of loan and receivable investments	5	276,072	-
Day one profit on available-for-sale investment	5	(14,034,149)	-
Impairment loss on available-for-sale investments	5	8,129,843	14,178,777
Change in net reinsurance contract/policy liabilities		241,057,451	428,966,803
Change in reinsurance payables		469,117,530	262,874,559
Change in prepayments, deposits and other receivables		14,033,970	(15,630,006)
Change in deferred acquisition costs, net		(1,157,967)	(30,378,859)
Change in reinsurance receivables		(614,883,329)	(374,227,307)
Change in other payables and accrued liabilities		3,131,320	(24,834,471)
Cash flows from operations		81,556,856	188,266,249
Tax paid		(415,090)	(3,068,916)
Net cash flows from operating activities		81,141,766	185,197,333
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment	9	(97,966)	(221,584)
Additions to intangible assets	8	-	(10,366)
Interest received		39,480,888	27,021,006
Change in cash collaterals		(25,176,903)	8,419,641
Dividends received from investments in securities		33,670,938	10,514,028
Purchases of available-for-sale investments		(665,600,797)	(677,320,119)
Purchases of loans and receivables		(3,535,000)	(119,785,420)
Purchases of held-to-maturity investments		-	(10,258,800)
Purchase of investment in associate		(17,010,000)	-
Proceeds from maturity of loans and receivables		27,108,140	1,748,230
Proceeds from maturity of held-to-maturity investments		7,168,909	29,252,821
Proceeds from disposal of available-for-sale investments		283,354,743	478,015,240
Proceeds from disposal of investments at fair value through profit or loss		4,855,038	57,162,319
Net cash flows used in investing activities		(315,782,010)	(195,463,004)
CASH FLOWS FROM FINANCING ACTIVITY			
Proceed from capital injection and net cashflows from financing activity	24	136,720,714	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(97,919,530)	(10,265,671)

PEAK REINSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2018

	Notes	2018 US$	2017 US$
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		262,718,140	270,210,080
Net decrease in cash and cash equivalents		(97,919,530)	(10,265,671)
Effect of foreign exchange rate change		276,694	2,773,731
CASH AND CASH EQUIVALENTS AT END OF YEAR		165,075,304	262,718,140
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents and cash collaterals	18	195,075,304	267,541,237
Cash collaterals	18	(30,000,000)	(4,823,097)
Cash and Cash Equivalents	18	165,075,304	262,718,140

1. CORPORATE INFORMATION

The registered office of Peak Reinsurance Company Limited is located at Room 2107-11, 21/F, ICBC Tower, 3 Garden Road, Central, Hong Kong.

Peak Reinsurance Company Limited was granted a composite license by the Hong Kong Insurance Authority on 3 June 2014 and the principal activity of the Group consists of general reinsurance business and life and health reinsurance business.

In the opinion of the directors, the ultimate holding company of the Group is Fosun International Holdings Ltd., which is incorporated in British Virgin Island.

The immediate holding company of Peak Reinsurance Company Limited is Peak Reinsurance Holdings Limited which is an investment holding company, with limited liability incorporated in Bermuda.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Principal activities
Peak Reinsurance AG	Zurich	CHF 10,000,000	100	Reinsurance business
Peak Re (BVI) Holding Limited*	British Virgin Island	Nil par value	100	Special purpose vehicle currently with no business activity

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

2.1 BASIS OF PREPARATION

These consolidated 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"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investments at fair value through profit or loss and available-for-sale investments which have been measured at fair value as further explained below. For assets recorded under the historical cost convention, management assessed that the amortised costs approximate the fair values. They are presented in US dollars which is also the Group's functional currency.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFS 4 Insurance Contracts*
HKFRS 9	*Financial instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

Except for HKFRS 15, Amendments to HKFRS 15, Amendments to HKAS 40, and Amendments to HKFRS 1, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) In July 2014, the HKICPA issued the final version of HKFRS 9 Financial Instruments that replaces HKAS 39 Financial Instruments: Recognition and Measurement and all previous versions of HKFRS 9. HKFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

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

The Group has assessed that it meets the pre-conditions for the temporary exemption from HKFRS 9 in 2018 and the Group elected to apply the temporary exemption option.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Temporary exemption from HKFRS 9

Financial assets of the Group are separated into the following two groups:

i. financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) in accordance with HKFRS 9 and are not held for trading or managed on fair value basis, which consist of cash and cash equivalents, receivables, accrued investment income, loans and deposits, and debt securities; and

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

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

	As at 31 December 2018			
	SPPI financial assets		Other financial assets	
Financial Assets	Fair Value US$	Fair Value Change US$	Fair Value US$	Fair Value Change US$
Held-to-maturity investments	27,811,076	-	-	-
Available-for-sale investments	878,407,373	248,776,732	324,860,809	60,330,865
Investments at fair value through profit or loss	-	-	81,748,439	(68,037,846)
Loan and receivables	-	-	126,807,869	-
Reinsurance receivables	1,533,616,403	-	-	-
Financial assets included in deposits and other receivables	18,837,774	-	-	-
Cash and cash equivalent and cash collaterals	195,075,304	-	-	-
Total	2,653,747,930	248,776,732	533,417,117	(7,706,981)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Temporary exemption from HKFRS 9 (continued)

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

By credit risk rating grade	Carrying amount as at 31 December 2018
	US$
AAA	130,042,006
AA	9,936,000
A	306,957,074
BBB	322,503,825
BB	86,949,080
B	46,313,695
Not rated	4,926,300
Total	907,627,980

As at 31 December 2018, the fair value of financial assets that do not have low credit risk was US$ 30,074,550

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

(b) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

(c) Amendments to HKAS 28 clarifies that the election to measure at fair value through profit or loss an investment in an associate or joint venture that is held by an entity, that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or join venture on an investment by investment basis, upon initial recognition. The amendments have had no impact on the financial position or performance of the Group as the Group does not measure the associate at fair value through profit or loss.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]*
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after 1 January 2021 (International Accounting Standards ("IASB") proposed one year delay in effective date to 1 January 2022)

* The Group has elected to apply the temporary exemption option from HKFRS 9. Additional information on financial assets in relation to the election of the temporary exemption option is provided in note 2.2.

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

Amendments to HKFRS 3 Definition of a Business

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

Amendments to HKFRS 9 allow financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of a contract to be measured at amortised cost or at fair value through other comprehensive income, rather than at fair value through profit or loss. The amendments clarify that a financial asset passes the "solely payments of principal and interest on the principal amount outstanding" criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for that early termination. The Company expects to adopt these amendments from 1 January 2019 and to apply the exemption from restating comparative information of prior periods. Any difference between the previous carrying amount and the adjusted carrying amount will be recognised in the opening balance of equity. The amendments do not apply to the Company as the Company does not have any debt instruments with prepayment features along with compensation for early termination. In addition, as clarified in the amendments to the basis for conclusions on HKFRS 9, the gain or loss arising on modification of a financial liability that does not result in derecognition (calculated by discounting the change in contractual cash flows at the original effective rate) is immediately recognised in profit or loss. As there is no specific relief on this clarification, this requirement shall be applied retrospectively. The Group's current accounting policy is consistent with this clarification and therefore the adoption of the amendments is not expected to have any impact on the Group.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases - Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 16 Leases (continued)

HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives.

In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group expects to adopt the standard from 1 January 2019. The standard is not expected to have any significant impact on the Group's financial statements.

HKFRS 17 Insurance Contracts

HKFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, HKFRS 17 will replace the existing HKFRS 4 Insurance Contracts. In contrast to the requirements in HKFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, HKFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts. The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognized in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the year/period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 17 Insurance Contracts (continued)

HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies HKFRS 9 and HKFRS 15 on or before the date it first applies HKFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Group plans to adopt the new standard on the required effective date together with HKFRS 9 (see above). The Group started a project to implement HKFRS 17 and is performing a high-level impact assessment of HKFRS 17. The Group expects that the new standard is likely to have a significant impact on profit, total equity, financial statement presentation and disclosure.

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

Amendments to HKAS 1 and HKAS 8 Definition of Material

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments under Annual Improvements to HKFRSs 2015-2017 Cycle

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

- HKFRS 3 *Business Combinations* clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value. The Group expects to adopt the amendment on 1 January 2019. The amendment is not expected to have any significant impact on the financial position or performance of the Group upon adoption.

- HKFRS 11 *Joint Arrangements* clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation. The Group expects to adopt the amendment on 1 January 2019. The amendment is not expected to have any significant impact on the financial position or performance of the Group upon adoption.

- HKAS 12 *Income Taxes* clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. The Group expects to adopt the amendment on 1 January 2019. The amendment is not expected to have any significant impact on the financial position or performance of the Group upon adoption.

- HKAS 23 *Borrowing Costs* clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete. The Group expects to adopt the amendment on 1 January 2019. The amendment is not expected to have any significant impact on the financial position or performance of the Group upon adoption.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Revenue recognition

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

(a) Premiums are recognised as income when risk coverage is provided to ceding companies.

(b) Fair value gains on investments at fair value through profit or loss are recognised as unrealised gains and losses which comprises changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting period.

(c) Realised gains and losses on disposals of financial instruments classified at fair value through profit or loss which represent the difference between an instrument's initial carrying amount and disposal amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

(e) Dividend income is recognised when the shareholders' right to receive payment has been established; and

(f) Commission income from reinsurers is recognised on reinsurance contract inception and earned on a pro rata basis over the term of the related reinsurance contract coverage.

Product classification - Reinsurance contracts

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

Once a contract has been classified as a reinsurance contract, it remains a reinsurance contract for the rest of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

Reinsurance contract liabilities (General reinsurance)

General reinsurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities include the outstanding claims provision, and provision for unearned premiums, unexpired risk and inadequate premium levels.

Outstanding claims provision

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost may not be known with certainty at the end of the reporting period. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. The liability is derecognised when it is discharged or is settled.

Provision for unearned premium

The provision for unearned premiums includes premiums received for risks that have not yet expired. Generally the provision is released over the term of the contract and is recognised as premium income.

Liability adequacy test

At the end of each reporting period, a liability adequacy test is performed in accordance with HKFRS 4 "Insurance Contracts". Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the provision for outstanding claims. The provision for unexpired risk is increased to the extent that future claims in respect of current insurance contracts exceed the current unearned premium provision net of deferred expenses. Any deficiency is immediately charged to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance policy liabilities (Life reinsurance)
Life policy liabilities are based on the best estimate experience plus a provision for adverse deviation ("PAD"). For business which is yearly renewable, life policy liabilities include the greater of the unearned portion of the premium ("unearned premium reserve") calculated on the gross premium less any acquisition costs, multiplied by the outstanding duration at year end and the unexpired risk reserve. For long term business (more than one year), a net premium valuation ("NPV") reserve, which is calculated by discounting cash flows, is used in place of unearned premium reserve. In addition to the above, policy liabilities include provision for claims incurred but not reported ("IBNR"), and maintenance costs which are required to be set aside to meet future settlements ("outgo").

Liability adequacy test
The liability adequacy test for the life segment compares the carrying value of the technical reserves with the fair value of the liabilities from the reinsurance portfolio recognised. The fair value is calculated as the present value of the projected future cash flow using current actuarial assumptions and parameters. In the case there is a deficiency, the Group would either impair deferred acquisition costs, and/or increase technical reserves. The liability adequacy test is performed on the level of portfolios that are managed together and are subject to broadly similar risks.

Deferred acquisition costs
Acquisition costs consist of commissions/discounts and other costs, which are directly related to the production of revenues. They are deferred to the extent that these costs are recoverable out of future premiums and amortised on the straight-line basis over the terms of the underlying insurance policies.

Retrocession
The Group cedes insurance risk in the normal course of business for all of its businesses. Retrocession assets represent balances recoverable from retrocession companies together with deferred retrocession expenses. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the retrocession contract.

An impairment review is performed at the end of each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the retrocessionaire can be measured reliably. The impairment loss is recorded in profit or loss.

Retrocession arrangements do not relieve the Group from its obligations to policyholders.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Leasehold improvement	33.33% or over the lease term, whichever is shorter
Data processing equipment	33.33%
Furniture, fixtures and other equipment	20%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

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

Intangible assets – Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful life of three years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Intangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Intangible assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 consolidated 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 consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

The Group's financial assets include held-to-maturity investments, available-for-sale investments, investments at fair value through profit or loss, loans and receivables, deposits and other receivables, reinsurance receivables and bank balances, deposits and cash.

Subsequent measurement

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

Held-to-maturity financial investments

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and negative net changes in fair value presented as other expense in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” above.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in 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.

Loans and receivables

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

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" above.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or borrowings, as appropriate.

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

The Group's financial liabilities include reinsurance payables and other payables.

Subsequent measurement

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

Borrowings

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss.

Offsetting of financial instruments

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

Employee benefits - Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. 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 Group in an independently administered fund.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group 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 taxable 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 realise 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates, assumptions and judgements that affect the carrying amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

Reinsurance contract liabilities from general insurance contracts

For general reinsurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of the reporting period. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the claims provision in the statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes from the previous assessment are made to the provision. General reinsurance claims provisions are not discounted for the time value of money.

Estimates are also made, based on past experience of premium and claims development, of the expected future cash flows relating to the unexpired portion of policies in force at the end of the reporting period, for comparison to the recognised provision for unearned premiums. Recognition of additional provisions may result.

Life reinsurance policy liabilities

The liability for life insurance contracts is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses and discount rates.

The Group bases mortality and morbidity on standard industry tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Life reinsurance policy liabilities (continued)

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate.

An estimate is also made of premiums that have been written but not recorded as at year end, and the portion of those premiums that remains unearned at the end of the reporting period.

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. Further details are contained in note 23 to the consolidated financial statements.

Impairment of financial assets carried at amortised cost

When there is objective evidence that an impairment loss on held-to-maturity investments or loans and receivables investments, which are carried at amortised cost, has been incurred, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the investments shall be reduced either directly or through the use of a provision account and described in note 11 and note 14 to the consolidated financial statements respectively.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the significance and/or duration of decline in value to determine whether there is an impairment that should have been recognised in profit or loss. The carrying amounts of such assets and the impairment losses recognised are described in note 12 to the consolidated financial statements.

Fair value of unlisted equity investments and derivatives

The fair value of unlisted equity investments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. The fair values are estimated based on appropriate assumptions as market observable inputs are not available. The fair value of the unlisted equity investments, derivative assets and derivative liability at 31 December 2018 were US$ 46,609,392, US$285,267 and US$2,984,653 respectively (2017: US$77,874,891, US$725,521 and US$224,133 respectively). Further details are included in notes 12, 13 and 28 to the consolidated financial statements.

5. REVENUE AND INVESTMENT INCOME

An analysis of revenue and investment income is as follows:

	2018 US$	2017 US$
Revenue		
Gross premiums written:		
General reinsurance	1,313,293,068	998,837,312
Life reinsurance	68,598,260	99,508,886
	1,381,891,328	1,098,346,198
Investment income		
Interest income from debt investments	41,614,593	30,436,757
Interest income from bank deposits	1,690,090	531,922
Dividend income from listed equity investments	33,904,571	10,272,761
Net fair value gain/(loss) on investments at fair value through profit or loss	(70,982,020)	39,000,464
Net gain on disposal of fair value through profit or loss investments	2,360,988	4,500,168
Net gain on disposal of available-for-sale investments	29,456,472	31,645,038
Net loss on disposal of loan and receivables investments	(276,072)	-
Day one profit on available-for-sale investment	14,034,149	-
Impairment loss on available-for-sale investments	(8,129,843)	(14,178,777)
Foreign exchange gains/(losses)	(1,708,266)	4,445,513
	41,964,662	106,653,846

6. PROFIT BEFORE TAX

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

	2018 US$	2017 US$
Directors' remuneration:		
Fees	196,874	206,152
Salaries and other short-term benefits	2,154,202	1,340,996
Pension contributions	30,644	15,357
	2,381,720	1,562,505
Employee benefits expense (excluding directors' remuneration):		
Wages and salaries	16,783,012	14,603,944
Pension contributions	643,987	583,087
Others	446,725	149,425
	17,873,724	15,336,456
Auditor's remuneration	357,468	125,403
Depreciation of property and equipment	97,360	93,122
Amortisation of intangible assets	132,554	315,493
Foreign exchange (gains)/losses, net*	(9,884,549)	(2,739,099)

* The foreign exchange gains / losses include US$14,533,809 gain (2017: US$ 26,050,324 loss) on revaluation of net reinsurance contract liabilities (Notes 19(a) and 19(b)).

Directors' remuneration is disclosed pursuant to section 383(1)(a) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation.

7. INCOME TAX

Hong Kong profits tax has been provided at the rates 8.25% on the estimated assessable profits arising in Hong Kong during the year. In 2017, 16.5% and 8.25% were applied on the estimated assessable profits for onshore and offshore business respectively arising in Hong Kong.

	Note	2018 US$	2017 US$
Hong Kong current tax charge for the year		564,100	1,271,259
Over provision for prior year		(567,306)	-
Overseas taxation		-	175,711
Deferred tax (credit)/charge	23	(2,280,962)	3,313,250
Total tax (credit)/charge for the year		(2,284,168)	4,760,220

7. INCOME TAX (continued)

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

2018	Hong Kong		Swiss		Total	
	US$	%	US$	%	US$	%
Profit/(loss) before tax	19,838,387		(2,602,492)		17,235,895	
Tax at the statutory tax rate	1,636,667	8.25	(546,523)	(21.0)	1,090,144	6.3
Income not subject to tax	(5,042,922)	(25.4)	-	0.0	(5,042,922)	(29.3)
Expenses not deductible for tax	332,508	1.7	-	0.0	332,508	1.9
Temporary difference not recognized in prior year	1,414,092	7.1	-	0.0	1,414,092	8.2
Difference from tax treatment for life business	(1,387,989)	(7.0)	-	0.0	(1,387,989)	(8.1)
Tax effect of loss before tax of overseas branch	10,171	0.1	-	0.0	10,171	0.1
Over-provision in prior year	(567,306)	(2.9)	-	0.0	(567,306)	(3.3)
Temporary difference recognised for changes in tax law	1,320,611	6.7	-	0.0	1,320,611	7.7
Tax losses not recognised	-	-	546,523	21.0	546,523	3.2
Tax credit for the year	(2,284,168)	(11.5)	-	-	(2,284,168)	(13.3)

2017	Hong Kong		Swiss		Total	
	US$	%	US$	%	US$	%
Profit/(loss) before tax	36,659,377		(1,370,629)		35,288,748	
Tax at the statutory tax rate	6,048,797	16.5	(287,832)	(21.0)	5,760,965	16.3
Income not subject to tax	(3,174,209)	(8.7)	-	0.0	(3,174,209)	(9.0)
Expenses not deductible for tax	1,832,130	5.0	-	0.0	1,832,130	5.2
Lower tax rate of 8.25% for offshore business	(454,776)	(1.2)	-	0.0	(454,776)	(1.3)
Difference from tax treatment for life business	318,988	0.9	-	0.0	318,988	0.9
Tax effect of loss before tax of overseas branch	13,579	0.0	-	0.0	13,579	0.0
Overseas taxation paid	175,711	0.5	-	0.0	175,711	0.5
Tax losses not recognised	-	-	287,832	21.0	287,832	0.8
Tax expense for the year	4,760,220	13.0	-	0.0	4,760,220	13.4

8. INTANGIBLE ASSETS

	Computer software US$
2018	
Cost:	
At 1 January 2018	1,749,177
Additions	-
At 31 December 2018	1,749,177
Accumulated amortisation:	
At 1 January 2018	(1,609,514)
Provided during the year	(132,554)
At 31 December 2018	(1,742,068)
Net book value:	
At 31 December 2018	7,109

	Computer software US$
2017	
Cost:	
At 1 January 2017	1,738,811
Additions	10,366
At 31 December 2017	1,749,177
Accumulated amortisation:	
At 1 January 2017	(1,294,021)
Provided during the year	(315,493)
At 31 December 2017	(1,609,514)
Net book value:	
At 31 December 2017	139,663

9. PROPERTY AND EQUIPMENT

2018	Leasehold improvements US$	Data processing equipment US$	Furniture, fixtures and other equipment US$	Total US$
Cost:				
At 1 January 2018	651,214	199,836	141,208	992,258
Additions	-	79,122	18,844	97,966
At 31 December 2018	651,214	278,958	160,052	1,090,224
Accumulated depreciation:				
At 1 January 2018	(527,504)	(152,361)	(69,349)	(749,214)
Provided during the year	(56,218)	(22,792)	(18,350)	(97,360)
At 31 December 2018	(583,722)	(175,153)	(87,699)	(846,574)
Net book value:				
At 31 December 2018	67,492	103,805	72,353	243,650

2017	Leasehold improvements US$	Data processing equipment US$	Furniture, fixtures and other equipment US$	Total US$
Cost:				
At 1 January 2017	535,514	159,981	75,179	770,674
Additions	115,700	39,855	66,029	221,584
At 31 December 2017	651,214	199,836	141,208	992,258
Accumulated depreciation:				
At 1 January 2017	(464,910)	(139,411)	(51,771)	(656,092)
Provided during the year	(62,594)	(12,950)	(17,578)	(93,122)
At 31 December 2017	(527,504)	(152,361)	(69,349)	(749,214)
Net book value:				
At 31 December 2017	123,710	47,475	71,859	243,044

10. INVESTMENT IN ASSOCIATES

	2018 US$	2017 US$
Investment in associates	66,537,500	45,969,500

Particulars of the associates are as follows:

Name	Carrying Amount US$	Place of incorporation	Principal activity	Type of shares held	Percentage of ownership interest attributable to the Group
Nagico Holdings Limited	49,527,500	Anguilla	Underwriting property and casualty insurance	Ordinary shares	50%
EA One Holding, Inc.	17,010,000	USA	Ownership of medical buildings in USA	Ordinary shares	42%

Nagico Holdings Limited ('Nagico') is considered a material associate of the Group and is accounted for using the equity method. The following table illustrates the summarised financial information in respect of Nagico and reconciled to the carrying amount in the consolidated financial statements:

	2018 US$'000	2017 US$'000
Total assets	397,959	754,337
Total liabilities	(303,488)	(667,118)
Non-controlling interest	(2,125)	(1,989)
Net assets	92,346	85,230
Reconciliation to the Group's interest in an associate:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the associate, excluding goodwill	46,173	42,615
Goodwill on acquisition	3,355	3,355
Carrying amount of the investment	49,528	45,970
Net premium earned	106,376	77,520
Profit/(loss) for the year	7,268	(15,896)
Net income/(loss) for the year attributable to shareholders	7,070	(16,013)
Other comprehensive income/(loss)	46	(1,011)
Total comprehensive income/(loss) for the year	7,314	(16,907)
Comprehensive income for the year attributable to shareholders	7,116	(17,032)

10. INVESTMENT IN ASSOCIATES (continued)

EA One Holding; Inc (‘EA One Holdings’) is considered a material associate of the Group and is accounted for using the equity method. The following table illustrates the summarised financial information in respect of EA One Holdings and reconciled to the carrying amount in the consolidated financial statements:

	2018 US$’000
Total assets	113,184
Total liabilities	(72,717)
Net assets	40,467
Reconciliation to the Group's interest in an associate:	
Proportion of the Group's ownership	42%
Group's share of net assets of the associate	16,996
Goodwill on acquisition	14
Carrying amount of the investment	17,010
Income from rental operation	4,690
Profit for the year	1,268

11. HELD-TO-MATURITY INVESTMENTS

	Note	2018 US$	2017 US$
Listed debt securities, at amortised cost:			
Hong Kong		20,807,676	28,592,753
Elsewhere		8,412,931	8,499,200
Total	27	29,220,607	37,091,953

The Group has pledged investments amounted to US$21,028,367 (2017: US$22,000,219) from the above held-to-maturity investments to secure life treaties.

As at 31 December 2018, the fair value of the held-to-maturity investments was US$27,811,076 (2017: US$37,504,131) and there were no overdue but not impaired.

12. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2018 US$	2017 US$
Listed debt securities, at fair value:			
Hong Kong		240,878,350	189,486,990
Elsewhere		610,459,477	408,872,960
	27, 28	851,337,827	598,359,950
Unlisted debt securities, at fair value	27, 28	93,826,950	108,280,258
Listed equity shares, at fair value:			
Hong Kong		132,550,230	101,814,296
Elsewhere		79,097,099	29,573,341
	27, 28	211,647,329	131,387,637
Unlisted equity shares, at fair value	27, 28	46,456,076	56,132,740
Total		1,203,268,182	894,160,585

During the year, the net fair value change in respect of the Group's available-for-sale investments decreased the other comprehensive income by US$110,670,231 (2017: increased by US$46,965,120), of which US$18,710,396 (2017: US$20,225,586) was reclassified from other comprehensive income to the consolidated statements of profit or loss for the year.

12. AVAILABLE-FOR-SALE INVESTMENTS (continued)

There was a significant decline or prolonged decline in the market value of certain listed equity shares during the year. The directors consider that this indicates that the listed equity shares have been impaired and impairment losses of US$8,129,843 (2017: US$14,178,777) were recognised and reclassified from other comprehensive income to consolidated statements of profit or loss.

The Group has pledged investments amounted to US$215,126,343 (2017: US$218,800,861) from the above available-for-sale investments to secure life treaties.

13. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2018 US$	2017 US$
Listed equity shares, at fair value:			
Hong Kong		81,309,856	127,318,613
	27, 28	81,309,856	127,318,613
Unlisted equity shares, at fair value	27, 28	153,316	21,742,151
Unlisted derivative assets, at fair value	28	285,267	725,521
Total		81,748,439	149,786,285
Unlisted derivative liability, at fair value	27, 28	(2,984,653)	(224,133)

The above equity shares at 31 December 2018 and 2017 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

During the year, the net unrealised fair value loss of the Group's equity shares and derivatives recognised directly in profit or loss amounted to US$ 70,982,020 (2017: net unrealised fair value gain of US$39,000,464).

14. LOANS AND RECEIVABLES

	2018 US$	2017 US$
Collateralised loan obligation, at amortised cost	126,807,869	150,355,595

In the event of default by the counterparty to repay the loan, the Group has the right to the underlying loans held by the trustees in the names of special purpose vehicles. The carrying amounts of the loans and receivables are approximate to their fair values.

15. DEFERRED ACQUISITION COSTS

	2018 US$	2017 US$
At 1 January	145,010,723	99,126,574
Commission paid and payables	378,570,431	281,790,474
Commission expenses charged for the year	(364,578,557)	(235,906,325)
At 31 December	159,002,597	145,010,723

Deferred acquisition costs are expected to be amortised within twelve months from the end of the reporting period.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 US$	2017 US$
Interest receivable	13,105,367	9,451,136
Other deposits and prepayments	4,695,616	5,182,027
Other receivables	1,279,023	16,281,981
	19,080,006	30,915,144

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

The carrying amounts of prepayments, deposits and other receivables approximate to their fair values.

17. REINSURANCE RECEIVABLES

	2018 US$	2017 US$
Amounts due under reinsurance contracts accepted	1,533,616,403	923,623,714

The Group's reinsurance receivables relate to a large number of diversified customers and therefore there is no significant concentration of credit risk. Reinsurance receivables are non-interest-bearing. The carrying amounts of reinsurance receivables approximate to their fair values.

The Group has no reinsurance receivables that are past due by more than one year at the balance sheet date of 2018 and which are impaired.

The above carrying amounts of reinsurance receivables include premium receivables from fellow subsidiaries of US$15,174,844 (2017: US$7,352,995) and premium receivables from an associate of US$191,254,170 (2017: US$124,950,841).

The aging analysis of the reinsurance receivables that are not considered to be impaired is as follows:

	2018 US$	2017 US$
Neither past due nor impaired	784,197,779	714,589,785
Less than 3 months past due	440,280,017	125,481,676
3 to 12 months past due	309,138,607	83,552,253
	1,533,616,403	923,623,714

18. CASH AND BANK BALANCES AND CASH COLLATERALS

	2018 US$	2017 US$
Fixed and saving deposit	153,379,637	229,900,423
Cash at banks	1,407,933	781,275
Cash held by investment managers	40,287,734	36,859,539
	195,075,304	267,541,237
Less: Cash collaterals	(30,000,000)	(4,823,097)
Cash and cash equivalents	165,075,304	262,718,140

Cash at bank earns interest at floating rates based on daily bank deposit rates. The group has pledged cash amounted to US$30,000,000 (2017: Nil) from the above cash and cash balances to secure letter of credit facility. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances reasonably approximate to their fair values.

In 2017, cash collaterals were restricted cash held by investment managers and was pledged for investment transactions.

19. REINSURANCE CONTRACTS/POLICY LIABILITIES

Reinsurance contracts/policy liabilities are analysed as follows:

		2018			2017		
	Notes	Reinsurance contracts/policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts/policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
General reinsurance	(a)	1,557,062,263	(325,137,151)	1,231,925,112	1,182,120,776	(150,609,224)	1,031,511,552
Life reinsurance	(b)	236,701,327	-	236,701,327	196,057,436	-	196,057,436
Total reinsurance contracts/policy liabilities		1,793,763,590	(325,137,151)	1,468,626,439	1,378,178,212	(150,609,224)	1,227,568,988

(a) General reinsurance contracts liabilities are analysed as follows:

		2018			2017		
	Notes	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
Provision for claims reported		304,525,275	(58,204,091)	246,321,184	210,685,226	(19,012,652)	191,672,574
Provision for claims incurred but not reported (IBNR)		645,115,221	(154,871,328)	490,243,893	466,144,526	(62,269,855)	403,874,671
Total claims reported and IBNR	(i)	949,640,496	(213,075,419)	736,565,077	676,829,752	(81,282,507)	595,547,245
Provision for unearned premiums	(ii)	606,496,764	(112,061,732)	494,435,032	502,429,893	(69,326,717)	433,103,176
Provision for premium deficiency	(iii)	925,003	-	925,003	2,861,131	-	2,861,131
Total reinsurance contracts liabilities		1,557,062,263	(325,137,151)	1,231,925,112	1,182,120,776	(150,609,224)	1,031,511,552

(i) The provision for claims reported by policyholders and claims incurred but not reported ("IBNR") is analysed as follows:

	2018			2017		
	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	676,829,752	(81,282,507)	595,547,245	411,992,590	(31,497,090)	380,495,500
Claims incurred in and related to the current underwriting year	450,233,934	(149,396,681)	300,837,253	363,913,073	(64,580,722)	299,332,351
Claims incurred in and related to prior underwriting years	414,321,270	(95,607,445)	318,713,825	251,776,715	(16,844,914)	234,931,801
Claims paid and payable during the year	(575,574,389)	111,711,214	(463,863,175)	(377,308,544)	32,097,751	(345,210,793)
Exchange difference	(16,170,071)	1,500,000	(14,670,071)	26,455,918	(457,532)	25,998,386
At 31 December	949,640,496	(213,075,419)	736,565,077	676,829,752	(81,282,507)	595,547,245

(ii) The provision for unearned premiums is analysed as follows:

	2018			2017		
	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	502,429,893	(69,326,717)	433,103,176	332,905,607	(25,262,550)	307,643,057
Premiums written in the year	1,313,293,068	(325,309,260)	987,983,808	998,837,312	(169,545,208)	829,292,104
Premiums earned during the year	(1,209,226,196)	282,574,245	(926,651,951)	(829,313,026)	125,481,041	(703,831,985)
At 31 December	606,496,765	(112,061,732)	494,435,033	502,429,893	(69,326,717)	433,103,176

19. REINSURANCE CONTRACTS/POLICY LIABILITIES (continued)

(a) General reinsurance contracts liabilities are analysed as follows: (continued)

(iii) Provision for premiums deficiency:

	2018			2017		
	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	2,861,131	-	2,861,131	2,685,000	-	2,685,000
Incurred during the year	(1,936,128)	-	(1,936,128)	176,131	-	176,131
At 31 December	925,003	-	925,003	2,861,131	-	2,861,131

(b) Life reinsurance policy liabilities are analysed as follows:

		2018			2017		
	Notes	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
Provision for claims		23,437,367	-	23,437,367	5,681,051	-	5,681,051
Provision for mathematical reserve		197,205,242	-	197,205,242	187,225,833	-	187,225,833
Total claims reported and mathematical reserve	(i)	220,642,609	-	220,642,609	192,906,884	-	192,906,884
Provision for unearned premiums	(ii)	16,058,718	-	16,058,718	3,150,552	-	3,150,552
Total reinsurance contracts liabilities		236,701,327	-	236,701,327	196,057,436	-	196,057,436

(i) The provision for claims reported and mathematical reserve is analysed as follows:

	2018			2017		
	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	192,906,884	-	192,906,884	107,227,806	-	107,227,806
Claims incurred in and related to the current underwriting year	50,635,889	-	50,635,889	2,854,247	-	2,854,247
Claims incurred in and related to the prior underwriting year	21,819,208	-	21,819,208	93,313,088	-	93,313,088
Claims paid and payable during the year	(44,855,634)	-	(44,855,634)	(10,540,193)	-	(10,540,193)
Exchange differences	136,262	-	136,262	51,936	-	51,936
At 31 December	220,642,609	-	220,642,609	192,906,884	-	192,906,884

(ii) The provision for unearned premiums is analysed as follows:

	2018			2017		
	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	3,150,552	-	3,150,552	550,823	-	550,823
Premiums written in the year	68,598,260	(55,000)	68,543,260	99,508,886	(47,422)	99,461,464
Premiums earned during the year	(55,690,094)	55,000	(55,635,094)	(96,909,157)	47,422	(96,861,735)
At 31 December	16,058,718	-	16,058,718	3,150,552	-	3,150,552

20. REINSURANCE PAYABLES

An aging analysis of the reinsurance payables as at the end of the reporting period is as follows:

	2018 US$	2017 US$
Not yet due	487,326,325	298,514,522
Within 3 months	273,308,342	101,728,251
Over 3 months but less than 1 year	178,635,887	69,910,251
	939,270,554	470,153,024

The carrying amounts of reinsurance payables include payables to fellow subsidiaries of US$3,103,376 (2017: US$1,761,336) and payables to an associate of US$147,960,799 (2017: US$92,503,399).

21. DEFERRED COMMISSION INCOME

	2018 US$	2017 US$
At 1 January	22,453,539	6,948,249
Commission received during the year	85,813,738	44,576,409
Commission earned for the year	(72,979,831)	(29,071,119)
At 31 December	35,287,446	22,453,539

Deferred commission income is expected to be amortised within twelve months from the end of the reporting period.

22. OTHER PAYABLES AND ACCRUED LIABILITIES

	2018 US$	2017 US$
Other payables and accrued liabilities	14,459,346	11,328,026

Other payables are expected to be settled within one year or are repayable on demand and their carrying amounts approximate to their fair values.

23. DEFERRED TAX

The movements in deferred tax (assets)/liabilities during the year are as follows:

	Depreciation allowances in excess of the related depreciation US$	Available-for-sale investments US$	Fair value through profit or loss investment US$	Total US$
Deferred tax (assets)/liabilities at 1 January 2017	23,153	(8,522,683)	(142,960)	(8,642,490)
(Credited)/charged to profit or loss	(43,801)	(169,246)	3,526,297	3,313,250
Charged to reserves	-	6,474,009	-	6,474,009
Deferred tax (assets)/liabilities at 31 December 2017 and 1 January 2018	(20,648)	(2,217,920)	3,383,337	1,144,769
Charged/(credited) to profit or loss	5,529	3,362,428	(5,648,919)	(2,280,962)
Credited to reserves	-	(8,249,747)	-	(8,249,747)
Deferred tax assets at 31 December 2018	(15,119)	(7,105,239)	(2,265,582)	(9,385,940)

24. SHARE CAPITAL

Shares

	2018 US$	2017 US$
Issued and fully paid:		
721,430,470 (2017: 626,923,078) Ordinary Shares	786,720,714	650,000,000

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

	Number of shares in issue	Share capital US$
At 1 January 2018	626,923,078	650,000,000
New shares issued (Note)	94,507,392	136,720,714
At 31 December 2018	721,430,470	786,720,714

Note: On 3 April 2018, 94,507,392 Ordinary Shares were issued at US$1.45 each for cash to Peak Reinsurance Holdings Limited, representing a 13.1% stake in the Company, and resulted in proceeds of US$ 136,720,714.

25. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year on terms agreed between the parties:

	2018 US$	2017 US$
Associate:		
Reinsurance premium received	50,523,917	71,072,245
Fellow subsidiaries:		
Reinsurance premium received	12,883,239	12,678,633
Expenses paid to fellow subsidiaries	39,061	-
Other related parties:		
Reinsurance premium received	1,918,352	-

(a) Transactions with related parties:

(i) During the financial year, related party transactions took place between the following related companies, Yongan Property Insurance Group Limited, AmeriTrust Insurance Group, National General Insurance Corporation N.V, Fidelidade Companhia de Seguros and Fosun Asset Management Limited. All transactions were in the normal course of business and on the same terms as provided to other participants in the same proportional treaty where applicable.

(ii) All related party transactions were made on an arm's length basis.

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

Details of compensation of key management personnel, who are the directors of the Group, are included in note 6 to the consolidated financial statements.

26. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating leases arrangements. Leases for properties are negotiated for one year term. The rentals are subject to review at the end of the leases.

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

	2018 US$	2017 US$
Within one year	137,372	174,434
In the second to third year, inclusive	217,670	411,042
	355,042	585,476

27. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments (other than reinsurance contract liabilities, as disclosed at note 19) as at the end of the reporting period are as follows:

As at 31 December 2018

Financial assets

	Available-for-sale financial assets US$	Financial assets at fair value through profit or loss US$	Held-to-maturity financial assets US$	Loans and receivables US$	Total US$
Held-to-maturity investments	-	-	29,220,607	-	29,220,607
Available-for-sale investments	1,203,268,182	-	-	-	1,203,268,182
Investments at fair value through profit or loss	-	81,748,439	-	-	81,748,439
Loans and receivables	-	-	-	126,807,869	126,807,869
Reinsurance receivables	-	-	-	1,533,616,403	1,533,616,403
Financial assets included in deposits and other receivables	-	-	-	18,837,774	18,837,774
Cash and cash equivalent and cash collaterals	-	-	-	195,075,304	195,075,304
	1,203,268,182	81,748,439	29,220,607	1,874,337,350	3,188,574,578

Financial liabilities

	Financial liabilities at amortised cost US$	Financial liability at fair value US$	Total US$
Reinsurance payables	939,270,554	-	939,270,554
Other payables and accrued liabilities	14,459,346	-	14,459,346
Derivative	-	2,984,653	2,984,653
	953,729,900	2,984,653	956,714,553

27. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2017

Financial assets

	Available-for-sale financial assets US$	Financial assets at fair value through profit or loss US$	Held-to-maturity financial assets US$	Loans and receivables US$	Total US$
Held-to-maturity investments	-	-	37,091,953	-	37,091,953
Available-for-sale investments	894,160,585	-	-	-	894,160,585
Investments at fair value through profit or loss	-	149,786,285	-	-	149,786,285
Loans and receivables	-	-	-	150,355,595	150,355,595
Reinsurance receivables	-	-	-	923,623,714	923,623,714
Financial assets included in deposits and other receivables	-	-	-	29,735,093	29,735,093
Cash and cash equivalents and cash collaterals	-	-	-	267,541,237	267,541,237
	894,160,585	149,786,285	37,091,953	1,371,255,639	2,452,294,462

Financial liabilities

	Financial liabilities at amortised cost US$	Financial liability at fair value US$	Total US$
Reinsurance payables	470,153,024	-	470,153,024
Other payables and accrued liabilities	11,328,026	-	11,328,026
Derivative	-	224,133	224,133
	481,481,050	224,133	481,705,183

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active market (Level 1) US$	Significant inputs (Level 2) US$	Significant unobservable inputs (Level 3) US$	Total US$
Assets measured at fair value:				
Available-for-sale investments:				
- Debt investments	851,337,827	93,826,950	-	945,164,777
- Equity investments	211,647,329	-	46,456,076	258,103,405
Investments at fair value through profit or loss				
- Equity investments	81,309,856	-	153,316	81,463,172
- Derivatives	-	-	285,267	285,267
	1,144,295,012	93,826,950	46,894,659	1,285,016,621
Liability measured at fair value:				
Investment at fair value through profit or loss				
- Derivative	-	(2,984,653)	-	(2,984,653)

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active market (Level 1) US$	Significant inputs (Level 2) US$	Significant unobservable inputs (Level 3) US$	Total US$
Assets measured at fair value:				
Available-for-sale investments:				
- Debt investments	-	706,640,208	-	706,640,208
- Equity investments	131,387,637	-	56,132,740	187,520,377
Investments at fair value through profit or loss				
- Equity investments	127,318,613	-	21,742,151	149,060,764
- Derivatives	-	501,461	224,060	725,521
	258,706,250	707,141,669	78,098,951	1,043,946,870
Liability measured at fair value:				
Investment at fair value through profit or loss				
- Derivative	-	-	(224,133)	(224,133)

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

Fair value hierarchy (continued)

Management has assessed that the fair values of cash and bank balances and collaterals, reinsurance receivables, loans and receivables, financial assets included in deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The fair value of a financial asset is 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 value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instruments are included in level 2. If one or more of the significant inputs is not based on observable market data, the instruments are included in level 3.

There were instruments purchased by the Group in the current year. There were no transfers into level 3 from level 1 or level 2 during the year.

The embedded options of certain debt securities separately recognised as derivatives are included level 2 because the implied volatility, stock price and other parameters used in determining the fair value are market observables.

For the fair value of the unlisted equity investments included in level 3 instrument, equity share of Pingtao (Hong Kong) Limited and preference share of Deneb TMK, were purchased by the Group in 2015 and 2014, respectively. The Group has determined that the reported net asset value of US$46,456,076 and US$153,316 (2017: US$56,132,740 and US$21,742,151), in regards of the equity share of Pingtao (Hong Kong) Limited and preference share of Deneb TMK held by the Group respectively, represented fair value as at 31 December 2018.

Simulation model is used to value the derivative financial instrument. Below is a summary of significant unobservable inputs to the valuation of the derivatives together with a quantitative sensitivity analysis as at 31 December 2018:

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

Fair value hierarchy (continued)

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input US$'000
Unlisted derivatives	Simulation	Volatility	2018: 17.61% to 19.47%	5% increase/ (decrease) on volatility would result in increase/(decrease) in fair value by $20 and ($31) respectively
			2017: 17.96% to 19.85%	5% increase/ (decrease) on volatility would result in increase/(decrease) in fair value by $334 and ($54) respectively
		P/B ratio	2018: 1.21 to 1.33	5% increase/ (decrease) on P/B ratio would result in increase/(decrease) in fair value by $2,775 and ($2,470) respectively
			2017: 1.28 to 1.42	5% increase/ (decrease) on P/B ratio would result in increase/(decrease) in fair value by $2,363 and ($224) respectively
		Net Asset Value	2018: $42,174 to $46,614	5% increase/ (decrease) on Net Asset Value would result in increase/(decrease) in fair value by $96 and ($103) respectively
			2017: $39,091 to $43,206	5% increase/ (decrease) on Net Asset Value would result in increase/(decrease) in fair value by $158 and ($17) respectively

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Market risk

The Group invests its capital and the premiums it receives from customers and consequently investment results comprise a substantial part of the Group's income. The Group's investments are exposed to market risk (i.e. the risk of a price change in the capital markets), which include risks from interest rates, equities price and foreign exchange rates.

(a) Interest rate risk

The Group's fixed income portfolio is primarily invested in high quality, investment grade securities of limited duration. This portfolio is sensitive to changes in interest rates and risk spreads. Interest rates are highly sensitive to many factors, including fiscal and monetary policies in major economies, inflation, economic and political factors outside the Group's control. In a declining interest rate environment, the Group will be required to (re-)invest funds at a lower rate, which would have a negative impact on future investment income. In a rising interest rate environment, the market value of the Group's fixed income portfolio may decline.

In addition, interest rate changes can also impact the life business portfolio. When pricing a life reinsurance transaction, the actuary makes an assumption on the risk free rate for the discounting of future values. If this assumption changes due to changes in interest rates, this may impact the value of mathematical reserves, with an impact on the valuation of liabilities on the balance sheet.

The Group adopts an approach of focusing on achieving a desired overall interest income, which may change over time, based on management's view of interest rates and economic conditions.

The Group's exposure to interest rate risk primarily relates to the fluctuation of the prevailing market interest rate on bank deposit balances and variable rate bonds.

	Fixed rate US$	Variable rate US$	Non-interest bearing US$	Total US$
2018				
Held-to-maturity investments	29,220,607	-	-	29,220,607
Available-for-sale investments	885,856,327	59,308,450	258,103,405	1,203,268,182
Investments at fair value through profit or loss	-	-	81,748,439	81,748,439
Loans and receivables	34,727,680	92,080,189	-	126,807,869
Cash and cash equivalents and cash collaterals	-	195,075,304	-	195,075,304
	949,804,614	346,463,943	339,851,844	1,636,120,401

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest rate risk (continued)

	Fixed rate US$	Variable rate US$	Non-interest bearing US$	Total US$
2017				
Held-to-maturity investments	37,091,953	-	-	37,091,953
Available-for-sale investments	642,355,168	64,285,040	187,520,377	894,160,585
Investments at fair value through profit or loss	-	-	149,786,285	149,786,285
Loans and receivables	-	150,355,595	-	150,355,595
Cash and cash equivalents and cash collaterals	-	267,541,237	-	267,541,237
	679,447,121	482,181,872	337,306,662	1,498,935,655

The exposure of the bank deposits to interest rate risk is as follows:

	Impact on profit or loss	
	25 basis point higher US$	25 basis point lower US$
2018		
Interest bearing bank deposit	487,688	(487,688)
2017		
Interest bearing bank deposit	668,853	(668,853)

Debt securities are classified as held-to-maturity investments and available-for-sale investments, and the Group's general practice is to hold the debt securities to maturity, such that the principal and interest will be fully recovered and fluctuations in fair value arising from interest rate changes are temporary in nature. The management considers that the credit risk exposure in relation to its holding of debt securities is of greater significance to the Group.

Interest rate fluctuations have direct consequences on the fair value of the Group's debt investments and therefore on the level of unrealised capital gains or losses of the debt securities held in its portfolio. Interest rates are sensitive to a number of external factors, including monetary and budgetary policies, the national and international economic and political environment, and the risk aversion of economic agents.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest rate risk (continued)

The Group uses analytical tools which guide both its strategic allocation and local distribution of assets. The sensitivity to changes in interest rates is monitored by the Group and is generally analysed on a monthly basis. The Group analyses the impact of a major change in interest rates on each of its portfolios. Portfolio sensitivity analysis on interest rate changes is an important risk measurement and management tool for the Group which may lead to decisions for reallocation.

The analysis below shows the impact on profit before tax:

	Impact on profit or loss	
	100 basis point higher US$	100 basis point lower US$
2018		
Debt securities	(11,011,933)	11,011,933
2017		
Debt securities	(8,940,878)	8,940,878

(b) Equity price risk

The Group invests a portion of its portfolio in common stock. This exposes the portfolio to the fluctuations of equity markets. In times of economic weakness, the market value and liquidity of these assets may decline and may impact the Group's net income and capital.

The Group's listed investments are listed on the recognised Stock Exchange. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the recognised market Indexes and other industry indicators, as well as the Group's liquidity needs. Listed investments which are held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The Group is exposed to market risk in respect of its holding in equity shares. Based on the fair value of those holdings as at the financial reporting date, a reduction of 5% in the fair value would result in a reduction in equity of US$16,978,329 (2017: US$16,829,057).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) *Foreign currency risk*

The Group underwrites risks originating from many parts of the world, and as such it is potentially subject to claims from different countries, which in most cases, will need to be met in the currencies of the countries in which such claims arise. The Group holds deposits in various foreign currencies as a hedge against potential underwriting liabilities on claims exposure. The Group's principal exposures include Hong Kong Dollar, Chinese Yuan, Japanese Yen, Australian Dollar, EURO, Korean Won, British Pounds, and Thai Baht. Assets and liabilities denominated in foreign currencies are exposed to changes in currency exchange rates. The Group's reporting currency is USD, and exchange rate fluctuations relative to the USD may materially impact the Group's results and financial position. In addition, the currency exchange rate against USD can also be impacted by Government's policies, US domestic and international economic and political developments, as well as global events and the supply and demand in the global market.

The Group employs various strategies (including hedging) to manage its exposure to foreign currency exchange risk. To the extent that these exposures are not fully hedged or the hedges are ineffective, The Group's results or equity may be reduced by fluctuations in foreign currency exchange rates. The net asset/(liability) position for each major currency is as follows:

	Assets/(Liabilities) (US$)						
2018	USD	JPY	KRW	CNY	HKD	Others	Total
Fixed assets and intangible assets	-	-	-	-	218,665	32,094	250,759
Investment in an associate	66,537,500	-	-	-	-	-	66,537,500
Held-to-maturity investments	24,726,819	-	-	4,493,788	-	-	29,220,607
Available-for-sale investments	1,046,970,948	924,887	-	-	133,117,665	22,254,682	1,203,268,182
Investments at fair value through profit or loss	285,267	153,316	-	-	81,309,856	-	81,748,439
Loans and receivables	126,807,869	-	-	-	-	-	126,807,869
Deferred acquisition costs	39,930,711	2,154,943	14,155,823	44,517,439	3,511,601	54,732,080	159,002,597
Prepayments, deposits and other receivables	20,423,119	4,271,257	-	(2,042,519)	336,253	(3,908,104)	19,080,006
Retrocession assets	322,672,396	6,104	2,402,569	56,082	-	-	325,137,151
Deferred tax asset	-	-	-	-	9,385,940	-	9,385,940
Current tax recoverable	-	-	-	-	106,595	-	106,595
Reinsurance receivables	747,094,654	30,788,194	177,704,752	204,159,784	16,921,231	356,947,788	1,533,616,403
Amount due from immediate holding company	2,019,647	-	-	-	-	-	2,019,647
Cash and cash equivalents and cash collaterals	131,699,353	15,939,633	-	3,576,324	16,738,835	27,121,159	195,075,304
Total assets	2,529,168,283	54,238,334	194,263,144	254,760,898	261,646,641	457,179,699	3,751,256,999
Reinsurance contract liabilities	(597,736,839)	(157,770,457)	(175,664,301)	(324,863,370)	(41,776,168)	(495,952,455)	(1,793,763,590)
Reinsurance payables	(641,517,007)	(3,869,718)	(102,791,687)	(85,528,960)	(6,734,455)	(98,828,727)	(939,270,554)
Derivative	(2,984,653)	-	-	-	-	-	(2,984,653)
Deferred commission income	(35,204,183)	(993)	(76,924)	(5,346)	-	-	(35,287,446)
Other payables and accrued liabilities	(11,119,914)	-	-	-	-	(3,339,432)	(14,459,346)
	(1,288,562,596)	(161,641,168)	(278,532,912)	(410,397,676)	(48,510,623)	(598,120,614)	(2,785,765,589)
Total assets/(liabilities)	1,240,605,687	(107,402,834)	(84,269,768)	(155,636,778)	213,136,018	(140,940,915)	965,491,410

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Foreign currency risk (continued)

	Assets/(Liabilities) (US$)						
2017	USD	JPY	KRW	CNY	HKD	Others	Total
Fixed assets and intangible assets	20,833	-	-	-	316,823	45,051	382,707
Investment in an associate	45,969,500	-	-	-	-	-	45,969,500
Held-to-maturity investments	24,760,284	-	-	12,331,669	-	-	37,091,953
Available-for-sale investments	768,466,918	6,763,918	-	-	104,609,183	14,320,566	894,160,585
Investments at fair value through profit or loss	725,521	21,742,151	-	-	127,318,613	-	149,786,285
Loans and receivables	150,355,595	-	-	-	-	-	150,355,595
Deferred acquisition costs	51,798,389	1,808,431	10,721,122	33,580,023	3,269,218	43,833,540	145,010,723
Prepayments, deposits and other receivables	18,505,988	(2,504,933)	-	(1,138,677)	15,570,342	482,424	30,915,144
Retrocession assets	147,782,619	393	2,826,212	-	-	-	150,609,224
Deferred tax assets	-	-	-	-	-	-	-
Reinsurance receivables	364,416,785	18,170,216	88,059,278	166,867,611	12,754,232	273,355,592	923,623,714
Amount due from immediate holding company	258	-	-	-	-	-	258
Cash and bank balances and cash collaterals	165,106,982	25,679,607	-	8,716,087	11,346,030	56,692,531	267,541,237
Total assets	1,737,909,672	71,659,783	101,606,612	220,356,713	275,184,441	388,729,704	2,795,446,925
Reinsurance contract liabilities	(548,162,549)	(47,713,854)	(145,572,645)	(219,536,909)	(30,109,463)	(387,082,792)	(1,378,178,212)
Reinsurance payables	(293,924,474)	(3,546,334)	(26,939,003)	(60,669,112)	(4,147,135)	(80,926,966)	(470,153,024)
Derivative	(224,133)	-	-	-	-	-	(224,133)
Deferred commission income	(22,414,921)	(49)	(38,569)	-	-	-	(22,453,539)
Other payables and accrued liabilities	(10,252,105)	-	-	-	-	(1,075,921)	(11,328,026)
Deferred tax liability	-	-	-	-	(1,223,799)	79,030	(1,144,769)
Current tax payable	-	-	-	-	(317,105)	-	(317,105)
	(874,978,182)	(51,260,237)	(172,550,217)	(280,206,021)	(35,797,502)	(469,006,649)	(1,883,798,808)
Total assets/(liabilities)	862,931,490	20,399,546	(70,943,605)	(59,849,308)	239,386,939	(80,276,945)	911,648,117

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the major currencies identified in the above table, with all other variables held constant, of the Group's net profit before tax (due to changes in the fair value of monetary assets and liabilities as at that date).

Currency	Changes in variables	Impact on profit before tax US$'000
2018:		
JPY	+/- 3%	(3,222)/3,222
KRW	+/- 3%	(2,528)//2,528
CNY	+/- 3%	(4,669)/4,669
2017:		
JPY	+/- 3%	612/(612)
KRW	+/- 3%	(2,128)/2,128
CNY	+/- 3%	(1,795)/1,795

The management considers that the Hong Kong Dollar represents limited currency risk as it is pegged to the United States Dollar.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group manages this risk by monitoring periodically the actual and projected cash flows, ensuring that a reasonable amount of investments is kept in liquid assets to meet cash flow needs.

The Group financed its operations and investment activities with internally generated cash flow.

The maturity profiles of the financial assets and liabilities of the Group as at the end of the reporting period, based on the contractual undiscounted receipts and payments are analysed as below.

	Up to a year US$	1-3 years US$	3-5 years US$	Over 5 years US$	Total US$
31 December 2018					
Financial assets					
- Debt securities	11,625,538	240,301,271	309,055,385	413,403,190	974,385,384
- Equity investments at available-for-sale	258,103,405	-	-	-	258,103,405
- Equity investments at fair value through profit or loss	81,463,172	-	-	-	81,463,172
- Loans and receivables	-	1,500,134	1,924,562	123,383,173	126,807,869
- Derivatives	285,267	-	-	-	285,267
- Reinsurance receivables	1,533,616,403	-	-	-	1,533,616,403
- Prepayments, deposits and other receivables	18,837,774	-	-	-	18,837,774
- Cash and cash equivalents and cash collaterals	195,075,304	-	-	-	195,075,304
Total financial assets	2,099,006,863	241,801,405	310,979,947	536,786,363	3,188,574,578
Financial liabilities					
- Reinsurance payables	(939,270,554)	-	-	-	(939,270,554)
- Derivative	(2,984,653)	-	-	-	(2,984,653)
- Other payables and accrued liabilities	(14,459,346)	-	-	-	(14,459,346)
Total financial liabilities	(956,714,553)	-	-	-	(956,714,553)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	Up to a year	1-3 years	3-5 years	Over 5 years	Total
	US$	US$	US$	US$	US$
31 December 2017					
Financial assets					
- Debt securities	13,675,565	71,147,868	87,033,152	571,875,576	743,732,161
- Equity investments at available-for-sale	187,520,377	-	-	-	187,520,377
- Equity investments at fair value through profit or loss	149,060,764	-	-	-	149,060,764
- Loans and receivables	-	11,259,929	4,099,720	134,995,946	150,355,595
- Derivatives	224,060	203,700	297,761	-	725,521
- Reinsurance receivables	923,623,714	-	-	-	923,623,714
- Prepayments, deposits and other receivables	29,735,093	-	-	-	29,735,093
- Cash and cash equivalents and cash collaterals	267,541,237	-	-	-	267,541,237
	1,571,380,810	82,611,497	91,430,633	706,871,522	2,452,294,462
Financial liabilities					
- Reinsurance payables	(470,153,024)	-	-	-	(470,153,024)
- Derivative	(224,133)	-	-	-	(224,133)
- Other payables and accrued liabilities	(11,328,026)	-	-	-	(11,328,026)
	(481,705,183)	-	-	-	(481,705,183)

In case of a major loss, the Group will need to have the liquidity in order to pay claims in a timely manner. The Group monitors its liquidity position and constantly keeps an adequate level of cash. In addition, most equity and fixed income instruments are traded in public exchanges in major financial hubs and can be liquidated easily. However, under rare circumstances, the Group may find itself in a position of having to liquidate a non-liquid investment at unfavourable terms and conditions with negative impact on investment income.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group assumes credit risk through its underwriting of the credit & bond business, through the cession of future losses to reinsurer (so called retrocessionaires) and through the counterparty risk from investment into corporate and government bonds.

In its credit & bond portfolio The Group reinsures among other things the promise by The Group to pay one party (the obligee) a certain amount if a second party (the principal) fails to meet a certain obligation, which can be a payment or the fulfilment of a contract. By this token the Group bears a counterparty risk on the principal, which is being monitored on a per name, per industry and per country basis.

The Group writes some trade credit risks. As part of risk management, the counterparty risk is tracked on a per name, per industry and per country basis, and actively managed.

The Group uses reinsurance (so called retrocession in the case of the Group being the reinsured) to protect its reinsurance portfolio against major event shocks or earnings deterioration. As a consequence, the Group assumes credit risk on the payment of future losses by the reinsurer (retrocessionaire). The Group only utilises retrocession markets of a minimum A- rating quality or requires collateral to reduce credit risk. However in case of a major shock loss to the entire reinsurance industry the Group may face difficulties to collect outstanding receivables from its retrocession markets. This would impact the earnings or the net valuations of reinsurance receivable (assets) of any financial year with consequences on the Group's ability to service its debt.

As part of its investment activities, the Group invests in corporate and sovereign bonds, both of which are subject to default risk. While the Group employs prudence and good care in selecting its counterparties, and while the Group uses good risk management standards to manage its counterparty credit risk form these investments, the recent financial crisis has shown that sudden and unforeseen changes can cause a deterioration in the bond issuer’s ability or willingness to repay principal or to pay interest.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The following table presents the analysis of held-to-maturity investments, loans and receivables, available-for-sale investments and investments at fair value through profit or loss by rating agency designation based on Standard & Poor's ratings or equivalent.

	2018 US$	2017 US$
Debt securities		
- A- to AAA	486,847,511	442,638,600
- B- to BBB+	482,611,573	295,103,561
- CC to CCC+	-	5,990,000
- Unrated	4,926,300	-
	974,385,384	743,732,161
Equity shares		
- A- to AAA	54,654,753	114,348,819
- B- to BBB+	18,439,994	28,495,386
- Unrated	266,471,830	193,736,936
	339,566,577	336,581,141
Derivatives		
- Unrated	285,267	501,388
Loans and receivables		
- A- to AAA	31,502,328	43,957,748
- B- to BBB+	95,305,541	106,397,847
	126,807,869	150,355,595
Total		
- A- to AAA	573,004,592	600,945,167
- B- to BBB+	596,357,108	429,996,794
- CC to CCC+	-	5,990,000
- Unrated	271,683,397	194,238,324
	1,441,045,097	1,231,170,285

Further quantitative data in respect of the Group's exposure to credit risk arising from cedents reinsurance receivables is disclosed in note 17 to the financial statements.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain adequate capital ratios in order to support the business and maximize the shareholder’s value.

The Group manages its capital as disclosed in the statement of financial position and its regulatory capital determined from time to time in accordance with the Hong Kong Insurance Ordinance.

The Group manages its capital structure and may make adjustments to it, in light of changes to economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

The Group is subject to minimum capital requirements under the Hong Kong Insurance Ordinance. To determine its capital for regulatory purposes, the Group makes certain adjustments to the carrying values of its assets and liabilities. The regulatory capital requirement is determined by the application of statutory formulae to the Group's business information.

Throughout the financial years 2018 and 2017, the Group complied fully with these capital requirements.

30. REINSURANCE CONTRACT/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES

General reinsurance

(a) Terms and conditions

The major classes of general reinsurance written by the Group include Property, Casualty, Agriculture, Credit and Bonds, Engineering, Marine, Aviation and Motor. Risks under contracts usually cover a 12-month duration.

For reinsurance contracts, reserves (comprising provisions for claims reported by cedants and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred. Separate provision is made by way of unearned premium provision to cover the cost of risk unexpired at the end of the reporting period.

The IBNR provisions are determined quarterly according to known facts at the end of the respective reporting periods, based on information starting from underwriting year 2013. As the claim experience develops, certain claims are settled and further claims are reported. These outstanding claims provisions are booked on an undiscounted basis and do not take financial interest into account.

30. REINSURANCE CONTRACT/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

General reinsurance (continued)

(a) Terms and conditions (continued)

The methodology used to estimate the IBNR amounts consists primarily of projecting future claims through a combination of actuarial and statistical projection techniques. Typical methods include the Chain Ladder and Bornhuetter-Ferguson methods. For a class of business where there is a lack of sufficient development data, the expected loss ratio is used to estimate the ultimate loss for that underwriting year. Claims provisions are separately analysed by class of business. In addition, large claims are usually separately assessed by the actuaries together with the management. The claims projection assumptions are intended to provide the best estimate of the most likely or expected outcome.

The booked estimates are expected to be above the central estimates determined during the annual actuarial valuation exercise for statutory classes of businesses (Motor and Employees' Compensation) under Hong Kong regulation. The annual actuarial valuation for such business includes an additional provision for adverse deviation, otherwise known as a risk margin, at a 75% confidence level of adequacy.

(b) Assumptions

The principal assumption is that statistical trends underlying the past claim development experience of the segmented businesses may be used to project future development. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

(c) Sensitivities

The sensitivity of certain assumptions like legislative change, uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the end of the reporting period.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognised in the subsequent consolidated financial statements.

(d) Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive underwriting year at the end of each reporting period, together with cumulative claims as at the end of the current reporting period.

30. REINSURANCE CONTRACT/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

General reinsurance (continued)

(d) Loss development triangle (continued)

	Underwriting year				
	2018 US$	2017 US$	2016 US$	2015 US$	Total US$
Gross general reinsurance claims at the end of each year of development					
Estimate of cumulative claims for current and previous underwriting year					
At end of underwriting year	451,400,196	364,029,952	193,331,454	213,390,245	
One year later		778,289,454	476,473,164	378,568,370	
Two years later			465,076,448	367,040,893	
Three years later				368,215,250	
Estimate of cumulative claims for current and previous underwriting year	451,400,196	778,289,454	465,076,448	368,215,250	2,062,981,348
Cumulative gross payments	(47,897,154)	(430,809,504)	(365,508,085)	(282,364,109)	(1,126,578,852)
Provision for prior years					13,238,000
Total gross general reinsurance liability as per the statement of financial position (note 19(a))					949,640,496
Net general reinsurance claims at the end of each year of development					
Estimate of cumulative claims for current and previous underwriting year					
At end of underwriting year	302,176,856	299,449,224	170,415,385	188,581,541	
one year later		614,327,624	431,102,952	362,390,236	
two years later			421,648,381	356,542,336	
three years later				360,474,132	
Estimate of cumulative claims for current and previous accident year	302,176,856	614,327,624	421,648,381	360,474,132	1,698,626,993
Cumulative net payments	(36,091,546)	(335,894,294)	(326,974,061)	(276,340,015)	(975,299,916)
Provision for prior years					13,238,000
Total net general reinsurance liability as per the statement of financial position (note 19(a))					736,565,077

30. REINSURANCE CONTRACT/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

General reinsurance (continued)

(e) Insurance risk

The Group principally accepts inward reinsurance for the property, motor and casualty classes. These risks vary significantly in relation to the location of the risk insured and the type of risks insured. The variability of risks is mitigated by diversification of risk of loss to a well spread portfolio of insurance contracts and geographical areas, as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The following table sets out the gross premium written by line of business.

	2018 US$	2017 US$
Property damage	638,956,339	494,509,015
Motor vehicle	315,243,653	272,861,409
General liability	160,026,919	89,512,595
Pecuniary loss	126,298,870	67,460,688
Accident and health	52,413,116	66,854,847
Goods in transit	4,526,922	5,216,834
Aircraft, Damage & Liability	3,878,688	3,502,500
Ships, damage and liability	11,948,561	(1,080,576)
	1,313,293,068	998,837,312

The following table sets out the gross premium written by geographical area.

	2018 US$	2017 US$
China	359,616,243	262,676,001
Americas	277,797,299	205,180,725
Europe	227,556,486	138,236,293
Korea	160,261,944	122,557,654
Australia and New Zealand	91,135,164	90,998,969
Japan	56,792,756	44,300,030
Others	140,133,176	134,887,640
	1,313,293,068	998,837,312

30. REINSURANCE CONTRACT/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

General reinsurance (continued)

(e) Insurance risk (continued)

The variability of experience is also improved by careful selection and implementation of underwriting guidelines and strict claim review policies to assess all new and on going claims. The Group also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

In order to limit exposure to catastrophic events, appropriate retrocession arrangements have been made. The purpose of these arrangements is to limit exposure to a pre-determined maximum amount based on the Group's risk appetite.

Life reinsurance

The Group underwrites treaties covering both group and individual insurance contracts. Treaties of group contract provides yearly renewable life coverage and other supplementary benefits for employees under a group plan while treaties of individual contract offers single premium and regular premium, short term and long term products which lump sum benefits are payable on death, critical illnesses or permanent disability.

Life reinsurance policy liabilities included mathematical reserves, unearned premium reserves, currency mismatch reserves, resilience reserves and claims reserves.

Mathematical reserves are calculated underwriting reserves relating to guaranteed claims and benefits of ceding companies in life reinsurance. Mathematical reserves are estimated using actuarial methods on the basis of the present value of future payments to cedants less the present value of premium still payable by cedants. The calculation includes assumptions relating to mortality, disability, lapses and the expected future interest rates. Actuarial principles used allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins are no longer considered sufficient.

Claim reserves for losses and claims settlement expenses are recognised for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are recognised for reserves for reinsurance losses reported before the reporting date and reserves for reinsurance losses that have already been incurred but not yet reported.

Unearned premium reserves are related to written premiums receivable but allocated to future risk periods.

30. REINSURANCE CONTRACT/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

Life reinsurance (continued)

Estimates, assumptions concerning the future and judgments are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The main life reinsurance risks which the Group is exposed to are as follows:

(a) Mortality risk

Mortality risk is the risk of loss due to higher than anticipated death experience, usually caused by higher occurrence of claims, resulting from either a general volatility, an adverse long-term trend or a mortality shock event.

(b) Morbidity risk

Morbidity risk is the risk of loss due to adverse claims experience from critical illness or health treaties resulting from trends of early diagnoses, improvements in medical diagnoses, adverse long-term trend and/or inflation of medical costs.

(c) Lapse risk

Lapse risk is the risk of non-payment of premium by the policyholder or the early termination of the policies.

Key assumptions

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

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

- Valuation Interest Rates
  In deciding on the rates of interest to be used, the Appointed Actuary has considered the nature of the liabilities of the single premium treaties, the yields on existing assets and the current market conditions and expectations. Considering the nature of the liabilities and the yields on the assets, a valuation interest rate of 3.65% is considered by the Appointed Actuary to be prudent.

30. REINSURANCE CONTRACT/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

Life reinsurance (continued)

Key assumptions (continued)

- Claims ratios
  The claims ratios are set by the Appointed Actuary based on the historical information obtained at the pricing stage and the agreed pricing basis between the Group and the cedants.

Sensitivities

The analysis which follows is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit before tax. It should be noted that movements in these assumptions are non–linear.

31 December 2018

	Change in assumptions	Impact on gross liabilities US$	Impact on net liabilities US$	Impact on profit before tax US$
Valuation interest	+0.5%	(23,154)	(23,154)	23,154
Valuation interest	-0.5%	2,412,581	2,412,581	(2,412,581)

A stress environment increase/decrease in valuation interest rates by 1% will increase/decrease the profit before tax by US$23,154 and US$4,965,617, respectively.

31 December 2017

	Change in assumptions	Impact on gross liabilities US$	Impact on net liabilities US$	Impact on profit before tax US$
Valuation interest	+0.5%	(3,164,099)	(3,164,099)	3,164,099
Valuation interest	-0.5%	3,236,881	3,236,881	(3,236,881)

31. CAPITAL COMMITMENTS

On 20 January 2019, the Group entered into a share purchase agreement with a company incorporated in U.S.A. for the purchase of some of its shareholding in a U.S real estate. The Group had committed to acquire the shares upon closing of the transaction at a consideration of approximately US$7,750,000. The transaction was completed on 28 January 2019.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018	2017
	US$	US$
ASSETS		
Intangible assets	7,109	139,663
Property and equipment	215,525	208,790
Investment in subsidiaries	88,671,972	53,171,972
Investment in an associate	66,537,500	45,969,500
Held-to-maturity investments	29,220,607	37,091,953
Available-for-sale investments	1,122,776,849	852,374,301
Investments at fair value through profit or loss	81,748,439	149,786,285
Loans and receivables	123,383,173	145,942,186
Deferred acquisition costs	158,286,465	144,831,469
Prepayments, deposits and other receivables	17,680,543	30,471,233
Retrocession assets	325,137,151	150,609,224
Reinsurance receivables	1,477,805,428	918,406,631
Amount due from immediate holding company	2,019,647	258
Deferred tax asset	9,306,910	-
Amount due from intercompany	63,337,004	8,416,507
Current tax receivables	106,595	-
Cash and cash equivalents	168,216,838	256,308,190
TOTAL ASSETS	3,734,457,755	2,793,728,162
LIABILITIES		
Reinsurance contracts/policy liabilities	1,779,610,480	1,375,460,998
Reinsurance payables	932,588,916	468,696,853
Derivatives	2,984,653	224,133
Deferred commission income	35,287,446	22,453,539
Other payables and accrued liabilities	11,022,407	10,758,591
Deferred tax liability	-	1,223,799
Current tax payable	-	317,105
TOTAL LIABILITIES	2,761,493,902	1,879,135,018
NET ASSETS	972,963,853	914,593,144
EQUITY		
Share capital	786,720,714	650,000,000
Reserves	186,243,139	264,593,144
	972,963,853	914,593,144

Chen Kaihong
Director

Hahn Franz Josef
Director

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

A summary of the Company's reserves is as follows:

	Share capital US$	Retained earnings US$	Fair value reserve US$	Total US$
Total equity as at 1 January 2017	650,000,000	203,899,953	(11,484,880)	842,415,073
Profit for the year	-	31,899,157	-	31,899,157
Other comprehensive income for the year:				
Changes in fair value of available-for-sale investments, net of tax	-	-	40,788,414	40,788,414
Share of other comprehensive income of an associate	-	-	(509,500)	(509,500)
Total comprehensive income for the year	-	31,899,157	40,278,914	72,178,071
Total equity as at 31 December 2017 and 1 January 2018	650,000,000	235,799,110	28,794,034	914,593,144
Increase share capital	136,720,714	-	-	136,720,714
Profit for the year	-	22,122,556	-	22,122,556
Other comprehensive income for the year:				
Changes in fair value of available-for-sale investments, net of tax	-	-	(100,495,561)	(100,495,561)
Share of other comprehensive income of an associate	-	-	23,000	23,000
Total comprehensive income for the year	-	22,122,556	(100,472,561)	(78,350,005)
Total equity as at 31 December 2018	786,720,714	257,921,666*	(71,678,527)*	972,963,853

* These reserve accounts comprise the reserves of US$186,243,139 (2017: US$264,593,144) in the statement of financial position.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 April 2019.

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

安永會計師事務所
香港中環添美道 1 號
中信大廈 22 樓

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

Independent auditor's report
To the member of Peak Reinsurance Company Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Peak Reinsurance Company Limited (the "Company") and its subsidiaries (the “Group”) set out on pages 6 to 77, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the “Code”), 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 consolidated 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 consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the directors for the consolidated financial statements

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

Independent auditor's report (continued)
To the member of Peak Reinsurance Company Limited
(Incorporated in Hong Kong with limited liability)

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

EY安永

Independent auditor's report (continued)
To the member of Peak Reinsurance Company Limited
(Incorporated in Hong Kong with limited liability)

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young

Certified Public Accountants
Hong Kong
29 April 2020

PEAK REINSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 US$	2018 US$
Revenues			
Gross written premiums	5	1,664,590,491	1,381,891,328
Gross earned premiums		1,579,760,814	1,264,916,291
Retrocessionaires' share of gross earned premiums		(341,140,492)	(282,629,245)
Net reinsurance contracts earned premiums revenue		1,238,620,322	982,287,046
Investment income	5	47,256,593	41,964,662
Commission income	21	81,797,548	72,979,831
Foreign exchange gains		6,934,322	9,884,549
Total revenue		1,374,608,785	1,107,116,088
Expenses			
Gross claims paid and payable		(824,941,013)	(620,430,023)
Retrocessionaires' share of claims paid		222,003,592	111,711,214
Change in gross reinsurance outstanding claims		(536,424,220)	(314,644,150)
Change in retrocessionaires' share of outstanding claims		228,140,729	133,292,912
Net claims incurred		(911,220,912)	(690,070,047)
Commission expense	15	(381,711,908)	(364,578,557)
Administration expenses		(41,613,650)	(35,016,981)
Other expenses		(1,964,517)	(3,749,608)
Total expenses		(1,336,510,987)	(1,093,415,193)
Profit before share of profit of associates and joint ventures		38,097,798	13,700,895
Share of (loss)/profit of associates		(5,995,519)	3,535,000
Share of profit of joint ventures		6,628,759	-
PROFIT BEFORE TAX	6	38,731,038	17,235,895
Income tax (expense)/credit	7	(3,852,040)	2,284,168
PROFIT FOR THE YEAR		34,878,998	19,520,063
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments			
Changes in fair value		86,704,081	(91,959,835)
Reclassification adjustments for losses/(gains) on disposal included in the consolidated statement of profit or loss		10,802,394	(18,710,396)
Income tax effect		(3,822,761)	8,249,747
		93,683,714	(102,420,484)
Share of other comprehensive income of an associate		516,500	23,000
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		94,200,214	(102,397,484)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		129,079,212	(82,877,421)

PEAK REINSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 US$	2018 US$
ASSETS			
Intangible assets	8	15,267	7,109
Property, plant and equipment	9	179,888	243,650
Investment in associates	10(a)	61,058,481	66,537,500
Investment in joint ventures	10(b)	61,440,825	-
Held to maturity investments	11	24,678,801	29,220,607
Available-for-sale investments	12	1,454,661,007	1,203,268,182
Investments at fair value through profit or loss	13	78,128,516	81,748,439
Loans and receivables	14	119,874,260	126,807,869
Deferred acquisition costs	15	183,520,774	159,002,597
Prepayments, deposits and other receivables	16	20,604,973	19,080,006
Retrocession assets	19	553,828,256	325,137,151
Reinsurance receivables	17	1,579,654,841	1,533,616,403
Amount due from immediate holding company		3,293,814	2,019,647
Deferred tax assets	23	3,674,360	9,385,940
Current tax recoverable		-	106,595
Cash and cash equivalents	18	273,561,737	195,075,304
TOTAL ASSETS		4,418,175,800	3,751,256,999
LIABILITIES			
Reinsurance contracts/policy liabilities	19	2,413,625,113	1,793,763,590
Reinsurance payables	20	811,118,438	939,270,554
Derivatives	13	-	2,984,653
Deferred commission income	21	33,234,444	35,287,446
Other payables and accrued liabilities	22	63,555,201	14,459,346
Current tax payable		2,071,982	-
TOTAL LIABILITIES		3,323,605,178	2,785,765,589
NET ASSETS		1,094,570,622	965,491,410
EQUITY			
Share capital	24	786,720,714	786,720,714
Reserves		307,849,908	178,770,696
		1,094,570,622	965,491,410

....
Hahn Franz Josef
Director and Chief Executive Officer

....
Chen Kaihong
Director

PEAK REINSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Note	Share capital US$	Retained earnings US$	Fair value reserve US$	Total US$
Total equity as at 1 January 2018		650,000,000	233,151,386	28,496,731	911,648,117
Increase in share capital		136,720,714	-	-	136,720,714
Profit for the year		-	19,520,063	-	19,520,063
Other comprehensive income for the year:					
Changes in fair value of available-for-sale investments, net of tax		-	-	(102,420,484)	(102,420,484)
Share of other comprehensive income of an associate		-	-	23,000	23,000
Total comprehensive income for the year		-	19,520,063	(102,397,484)	(82,877,421)
Total equity as at 31 December 2018 and 1 January 2019		786,720,714	252,671,449	(73,900,753)	965,491,410
Profit for the year		-	34,878,998	-	34,878,998
Other comprehensive income for the year:					
Changes in fair value of available-for-sale investments, net of tax		-	-	93,683,714	93,683,714
Share of other comprehensive income of an associate		-	-	516,500	516,500
Total comprehensive income for the year		-	34,878,998	94,200,214	129,079,212
Total equity as at 31 December 2019		786,720,714	287,550,447*	20,299,461*	1,094,570,622

* These reserve accounts comprise the reserves of US$307,849,908 (2018: US$178,770,696) in the consolidated statement of financial position.

PEAK REINSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 US$	2018 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		38,731,038	17,235,895
Adjustments for:			
Depreciation of property and equipment	9	110,627	97,360
Amortisation of intangible assets	8	4,584	132,554
Share of loss of associates		5,995,519	(3,535,000)
Share of profit of joint ventures		(6,628,759)	-
Interest income		(47,946,730)	(43,304,683)
Dividend income from investments	5	(14,767,851)	(33,904,571)
Fair value (gain)/loss on investments at fair value through profit or loss	5	(5,616,192)	70,982,020
Loss/(gain) on disposal of investments at fair value through profit or loss	5	12,084,264	(2,360,988)
Gain on disposal of available-for-sale investments	5	(62,811)	(29,456,472)
(Gain)/loss on redemption of loans and receivables investments	5	(365,733)	276,072
Day one profit on available-for-sale investment	5	-	(14,034,149)
Impairment loss on available-for-sale investments	5	9,496,915	8,129,843
Change in net reinsurance contract/policy liabilities		391,170,418	241,057,451
Change in reinsurance payables		(128,152,116)	469,117,530
Change in amount due from ultimate holding company		(1,274,167)	(2,019,388)
Change in prepayments, deposits and other receivables		(2,005,808)	16,053,358
Change in deferred acquisition costs, net		(26,571,179)	(1,157,967)
Change in reinsurance receivables		(48,695,560)	(614,883,329)
Change in other payables and accrued liabilities		49,095,855	3,131,320
Cash flows from operations		224,602,314	81,556,856
Tax credit/(paid)		215,356	(415,090)
Net cash flows from operating activities		224,817,670	81,141,766
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment	9	(46,865)	(97,966)
Additions to intangible assets	8	(12,742)	-
Interest received		49,167,314	39,480,888
Change in cash collaterals		(10,000,000)	(25,176,903)
Dividends received from investments in securities		15,008,771	33,670,938
Purchases of available-for-sale investments		(721,590,543)	(665,600,797)
Purchases of loans and receivables		(18,249,604)	(3,535,000)
Purchase of investments at fair value through profit or loss		(740,238)	-
Purchase of investment in associates		-	(17,010,000)
Purchase of investment in joint ventures		(54,812,066)	-
Proceeds from maturity of loans and receivables		25,561,641	27,108,140
Proceeds from maturity of held-to-maturity investments		4,520,628	7,168,909
Proceeds from disposal of available-for-sale investments		556,949,115	283,354,743
(Losses)/proceeds from disposal of investments at fair value through profit or loss		(1,317,255)	4,855,038
Net cash flows used in investing activities		(155,561,844)	(315,782,010)

PEAK REINSURANCE COMPANY LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2019

	Notes	2019 US$	2018 US$
CASH FLOWS FROM FINANCING ACTIVITY			
Proceed from capital injection and net cashflows from financing activity	24	-	136,720,714
NET CHANGE IN CASH AND CASH EQUIVALENTS		69,255,826	(97,919,530)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		165,075,304	262,718,140
Net decrease in cash and cash equivalents		69,255,826	(97,919,530)
Effect of foreign exchange rate change		(769,393)	276,694
CASH AND CASH EQUIVALENTS AT END OF YEAR		233,561,737	165,075,304
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents and cash collaterals	18	273,561,737	195,075,304
Cash collaterals	18	(40,000,000)	(30,000,000)
Cash and Cash Equivalents	18	233,561,737	165,075,304

1. CORPORATE INFORMATION

The registered office of Peak Reinsurance Company Limited is located at Room 6501-06, 65/F, The Center, 99 Queen's Road Central, Central, Hong Kong, which is effective from 6 April 2020. The registered office was previously located at Room 2107-11, 21/F, ICBC Tower, 3 Garden Road, Central, Hong Kong.

Peak Reinsurance Company Limited was granted a composite license by the Hong Kong Insurance Authority on 3 June 2014 and the principal activity of the Group consists of general reinsurance business and life and health reinsurance business.

In the opinion of the directors, the ultimate holding company of the Group is Fosun International Holdings Ltd., which is incorporated in the British Virgin Islands.

The immediate holding company of Peak Reinsurance Company Limited is Peak Reinsurance Holdings Limited which is an investment holding company, with limited liability incorporated in Bermuda.

Information about subsidiaries
Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Principal activities
Peak Reinsurance AG	Zurich	CHF 10,000,000	100	Reinsurance business
Peak Re (BVI) Holding Limited*	British Virgin Islands	Nil par value	100	Special purpose vehicle currently with no business activity

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

2.1 BASIS OF PREPARATION

These consolidated 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"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investments at fair value through profit or loss and available-for-sale investments which have been measured at fair value as further explained below. For assets recorded under the historical cost convention, management assessed that the amortised costs approximate the fair values. They are presented in US dollars which is also the Group's functional currency.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan amendment, curtailment or settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*

[1] The Group has assessed that it meets the pre-conditions for the temporary exemption from HKFRS 9 in 2019 and the Group elected to apply the temporary exemption option.

Except for Amendments to HKFRS 9, Amendments to HKAS 19, and Annual Improvements to HKFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 supersedes HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases - Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17 whereby lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 has not had an impact on leases where an entity is the lessor. The requirement of HKFRS 16 are summarised as follows:

Lease liabilities are the discounted present value of the future cash flows of the lease payments of the lease contracts, after taking into account payments to be made in optional period if the extension option is reasonably certain to be exercised, using the lessees' incremental borrowing rates at the commencement date of leases as discount rate.

Right-of-use assets are generally measured at the amount of the lease liabilities plus initial direct costs, estimated dismantling or restoring cost and adjusted by prepaid and accrued lease payments. Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability.

After the commencement date, the carrying value of lease liability will be increased to reflect the unwinding of discount through interest expense and will reduce to reflect the lease payments made. The lease liability will also be remeasured if there is any modification to the lease contracts. Right-of-use assets are depreciated by straight-line method from commencement date to the earlier of the end of lease term. In case there is a purchase option that is expected to be exercised, then the right-of-use asset will be depreciated to the end of the useful life of the underlying asset.

The Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, had a lease term of 12 months or less and did not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset was of low value ('low-value assets').

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture. The amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any impact on the financial position or performance of the Group.

(d) HKFRS 9 Financial Instrument, addresses the classification measurement and recognition of financial assets and financial liabilities. HKFRS 9 requires financial assets to be classified into separate measurement categories: those measured as at fair value with changes either recognised in profit or loss or in other comprehensive income and those measured at amortised cost. The determination is made at initial recognition depending on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. In addition, a revised expected credit losses model will replace the incurred loss impairment model in HKAS 39.

For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. In addition, the new standard revises the hedge accounting model to more closely align with the entity's risk management strategies. The HKICPA made further changes to two areas of HKFRS 9. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if the cash flow represents solely payments of principal and interest ("SPPI"). Non-substantial modifications or exchange of financial liabilities that do not result in derecognition will be required to be recognised in profit or loss.

The Group has not yet fully completed its assessment of impact of the standard on its financial position and results of operations.

The standard is mandatorily effective for financial periods beginning on or after 1 January 2018. Amendments to HKFRS 4 Insurance Contracts allow a temporary exemption option for companies whose activities are predominantly connected with insurance to defer the effective date of HKFRS 9 until the earlier of the effective date of HKFRS 17 and financial reporting periods beginning on or after 1 January 2021 (please note below that the IASB has decided to defer the effective date of IFRS 17 to 1 January 2023). The Group has elected to apply the temporary exemption option to defer the effective date of HKFRS 9 in order to implement the changes in parallel with HKFRS 17 Insurance Contracts.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Temporary exemption from HKFRS 9

Financial assets of the Group are separated into the following two groups:

i. financial assets with contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) in accordance with HKFRS 9 and are not held for trading or managed on fair value basis, which consist of cash and cash equivalents, receivables, accrued investment income, loans and deposits, and debt securities; and

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

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

	As at 31 December 2019			
	SPPI financial assets		Other financial assets	
Financial Assets	Fair Value	Fair Value Change	Fair Value	Fair Value Change
	US$	US$	US$	US$
Held-to-maturity investments	25,795,800	-	-	-
Available-for-sale investments	875,429,384	(2,977,989)	579,231,623	254,370,814
Investments at fair value through profit or loss	-	-	78,128,516	(3,619,923)
Loans and receivables	-	-	119,874,260	-
Reinsurance receivables	1,579,654,841	-	-	-
Financial assets included in deposits and other receivables	20,334,963	-	-	-
Cash and cash equivalent and cash collaterals	273,561,737	-	-	-
Total	2,774,776,725	(2,977,989)	777,234,399	250,750,891

	As at 31 December 2018			
	SPPI financial assets		Other financial assets	
Financial Assets	Fair Value	Fair Value Change	Fair Value	Fair Value Change
	US$	US$	US$	US$
Held-to-maturity investments	27,811,076	-	-	-
Available-for-sale investments	878,407,373	248,776,732	324,860,809	60,330,865
Investments at fair value through profit or loss	-	-	81,748,439	(68,037,846)
Loans and receivables	-	-	126,807,869	-
Reinsurance receivables	1,533,616,403	-	-	-
Financial assets included in deposits and other receivables	18,837,774	-	-	-
Cash and cash equivalent and cash collaterals	195,075,304	-	-	-
Total	2,653,747,930	248,776,732	533,417,117	(7,706,981)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Temporary exemption from HKFRS 9 (continued)

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

By credit risk rating grade	Carrying amount as at 31 December	
	2019	2018
	US$	US$
AAA	75,474,705	130,042,006
AA	13,150,263	9,936,000
A	433,484,247	306,957,074
BBB	309,383,719	322,503,825
BB	38,375,404	86,949,080
B	21,431,498	46,313,695
C	1,510,249	-
Not rated	7,298,100	4,926,300
Total	900,108,185	907,627,980

As at 31 December 2019, the fair value of financial assets that do not have low credit risk was US$9,305,869 (2018: US$30,074,550)

Financial assets are considered to have low credit risk if:

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	Definition of a Business[1]
HKFRS 17	Insurance Contracts[2#]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
In March 2020, the IASB decided that the effective date of IFRS 17 will be deferred to annual reporting periods beginning on or after 1 January 2023. The IASB also decided to extend the exemption currently in place for qualifying insurers regarding the application of IFRS 9 to enable them to implement both IFRS 9 and IFRS 17 at the same time. At the time of issuance of the financial statements, the changes to the effective dates have not yet been deliberated by the HKICPA. It is expected that the effective dates will be adopted by the HKICPA to HKFRS 17 and the deferral of HKFRS 9, as above.

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

Amendments to HKFRS 3 Definition of a Business

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

HKFRS 17 Insurance Contracts

HKFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, HKFRS 17 will replace the existing HKFRS 4 Insurance Contracts. In contrast to the requirements in HKFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, HKFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts. The main features of the new accounting model for insurance contracts are as follows:

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 17 Insurance Contracts (continued)

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognized in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the year/period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies HKFRS 9 on or before the date it first applies HKFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach. The Group plans to adopt the new standard on the required effective date together with HKFRS 9 (see above). The Group started a project to implement HKFRS 17 and is performing a high-level impact assessment of HKFRS 17. The Group expects that the new standard is likely to have a significant impact on profit, total equity, financial statement presentation and disclosure.

Amendments to HKAS 1 and HKAS 8 Definition of Material

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Revenue recognition

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

(a) Premiums are recognised as income when risk coverage is provided to ceding companies.

(b) Fair value gains on investments at fair value through profit or loss are recognised as unrealised gains and losses which comprises changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting period.

(c) Realised gains and losses on disposals of financial instruments classified at fair value through profit or loss which represent the difference between an instrument's initial carrying amount and disposal amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(d) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

(e) Dividend income is recognised when the shareholders' right to receive payment has been established; and

(f) Commission income from reinsurers is recognised on reinsurance contract inception and earned on a pro rata basis over the term of the related reinsurance contract coverage.

Product classification - Reinsurance contracts

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

Once a contract has been classified as a reinsurance contract, it remains a reinsurance contract for the rest of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

Reinsurance contract liabilities (General reinsurance)

General reinsurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities include the outstanding claims provision, and provision for unearned premiums, unexpired risk and inadequate premium levels.

Outstanding claims provision

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost may not be known with certainty at the end of the reporting period. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. The liability is derecognised when it is discharged or is settled.

Provision for unearned premium

The provision for unearned premiums includes premiums received for risks that have not yet expired. Generally the provision is released over the term of the contract and is recognised as premium income.

Liability adequacy test

At the end of each reporting period, a liability adequacy test is performed in accordance with HKFRS 4 "Insurance Contracts". Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the provision for outstanding claims. The provision for unexpired risk is increased to the extent that future claims in respect of current insurance contracts exceed the current unearned premium provision net of deferred expenses. Any deficiency is immediately charged to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance policy liabilities (Life reinsurance)

Life policy liabilities are based on the best estimate experience plus a provision for adverse deviation ("PAD"). For business which is yearly renewable, life policy liabilities include the greater of the unearned portion of the premium ("unearned premium reserve") calculated on the gross premium less any acquisition costs, multiplied by the outstanding duration at year end and the unexpired risk reserve. For long term business (more than one year), a gross premium valuation ("GPV") reserve, which is calculated by discounting cash flows, is used in place of unearned premium reserve. In addition to the above, policy liabilities include provision for claims incurred but not reported ("IBNR"), and maintenance costs which are required to be set aside to meet future settlements ("outgo").

Liability adequacy test

The liability adequacy test for the life segment compares the carrying value of the technical reserves with the fair value of the liabilities from the reinsurance portfolio recognised. The fair value is calculated as the present value of the projected future cash flow using current actuarial assumptions and parameters. In the case there is a deficiency, the Group would either impair deferred acquisition costs, and/or increase technical reserves. The liability adequacy test is performed on the level of portfolios that are managed together and are subject to broadly similar risks.

Deferred acquisition costs

Acquisition costs consist of commissions/discounts and other costs, which are directly related to the production of revenues. They are deferred to the extent that these costs are recoverable out of future premiums and amortised on the straight-line basis over the terms of the underlying insurance policies.

Retrocession

The Group cedes insurance risk in the normal course of business for all of its businesses. Retrocession assets represent balances recoverable from retrocession companies together with deferred retrocession expenses. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the retrocession contract.

An impairment review is performed when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the retrocessionaire can be measured reliably. The impairment loss is recorded in profit or loss.

Retrocession arrangements do not relieve the Group from its obligations to policyholders.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019)
A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. All leases with a term of more than 12 months are recognised as assets representing the right of use of the underlying asset and liabilities representing the obligation to make lease payments, unless the underlying asset is of low value. Both the assets and the liabilities are initially measured on a present value basis.

Right-of-use assets are recognised under property, plant and equipment and are measured at cost or valuation less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of the useful lives of the assets and the lease terms. Lease liabilities are initially measured at the present value of lease payments to be made under the lease terms and subsequently adjusted by the effect of the interest on and the settlement of the lease liabilities, and the re-measurement arising from any reassessment of the lease liabilities or lease modifications.

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 January 2019)
Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Leasehold improvement	33.33% or over the lease term, whichever is shorter
Data processing equipment	33.33%
Furniture, fixtures and other equipment	20%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

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

Intangible assets – Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful life of three years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Intangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Intangible assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 consolidated 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 consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

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

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

The Group's financial assets include held-to-maturity investments, available-for-sale investments, investments at fair value through profit or loss, loans and receivables, deposits and other receivables, reinsurance receivables and bank balances, deposits and cash.

Subsequent measurement

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

Held-to-maturity financial investments

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and negative net changes in fair value presented as other expense in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” above.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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

Loans and receivables

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

Available-for-sale financial investments

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

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" above.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or borrowings, as appropriate.

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

The Group's financial liabilities include reinsurance payables and other payables.

Subsequent measurement

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

Borrowings

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss.

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

Employee benefits - Pension scheme
The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

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

(a) the party is a person or a close member of that person's family and that person
   (i) has control or joint control over the Group;
   (ii) has significant influence over the Group; or
   (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:
   (i) the entity and the Group are members of the same group;
   (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
   (iii) the entity and the Group are joint ventures of the same third party;
   (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
   (vi) the entity is controlled or jointly controlled by a person identified in (a);
   (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
   (viii) the entity or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group 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 taxable 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 realise 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group makes estimates, assumptions and judgements that affect the carrying amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

Reinsurance contract liabilities from general insurance contracts

For general reinsurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of the reporting period. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the claims provision in the statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes from the previous assessment are made to the provision. General reinsurance claims provisions are not discounted for the time value of money.

Estimates are also made, based on past experience of premium and claims development, of the expected future cash flows relating to the unexpired portion of policies in force at the end of the reporting period, for comparison to the recognised provision for unearned premiums. Recognition of additional provisions may result.

Life reinsurance policy liabilities

The liability for life insurance contracts is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, lapse, expenses and discount rates.

The Group bases mortality and morbidity on standard industry tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Life reinsurance policy liabilities (continued)

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Assumptions on lapse reflects the current experience and/or current view of the Group on the covered policies.

An estimate is also made of premiums that have been written but not recorded as at year end, and the portion of those premiums that remains unearned at the end of the reporting period.

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. Further details are contained in note 23 to the consolidated financial statements.

Impairment of financial assets carried at amortised cost

When there is objective evidence that an impairment loss on held-to-maturity investments or loans and receivables investments, which are carried at amortised cost, has been incurred, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the investments shall be reduced either directly or through the use of a provision account and described in note 11 and note 14 to the consolidated financial statements respectively.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the significance and/or duration of decline in value to determine whether there is an impairment that should have been recognised in profit or loss. The carrying amounts of such assets and the impairment losses recognised are described in note 12 to the consolidated financial statements.

Fair value of unlisted equity investments and derivatives

The fair value of unlisted equity investments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. The fair values are estimated based on appropriate assumptions as market observable inputs are not available. The fair value of the unlisted equity investments, derivative assets and derivative liability at 31 December 2019 were US$37,853,365, US$201,258 and US$Nil respectively (2018: US$46,609,392, US$285,267 and US$2,984,653 respectively). Further details are included in notes 12, 13 and 28 to the consolidated financial statements.

5. REVENUE AND INVESTMENT INCOME

An analysis of revenue and investment income is as follows:

	2019 US$	2018 US$
Revenue		
Gross premiums written:		
General reinsurance	1,531,009,684	1,313,293,068
Life reinsurance	133,580,807	68,598,260
	1,664,590,491	1,381,891,328
Investment income		
Interest income from debt investments	44,911,796	41,614,593
Interest income from bank deposits	3,034,934	1,690,090
Dividend income from equity investments	14,767,851	33,904,571
Net fair value gain/(loss) on investments at fair value through profit or loss	5,616,192	(70,982,020)
Net (loss)/gain on disposal of fair value through profit or loss investments	(12,084,264)	2,360,988
Net gain on disposal of available-for-sale investments	62,811	29,456,472
Net gain/(loss) on disposal of loans and receivables investments	365,733	(276,072)
Day one profit on available-for-sale investment	-	14,034,149
Impairment loss on available-for-sale investments	(9,496,915)	(8,129,843)
Foreign exchange gains/(losses)	78,455	(1,708,266)
	47,256,593	41,964,662

6. PROFIT BEFORE TAX

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

	2019 US$	2018 US$
Directors' remuneration:		
Fees	214,930	196,874
Salaries and other short-term benefits	2,213,158	2,154,202
Pension contributions	30,816	30,644
	2,458,904	2,381,720
Employee benefits expense (excluding directors' remuneration):		
Wages and salaries	21,928,111	16,783,012
Pension contributions	748,569	643,987
Others	536,186	446,725
	23,212,866	17,873,724
Auditor's remuneration	229,762	357,468
Depreciation of property and equipment	110,627	97,360
Amortisation of intangible assets	4,584	132,554
Foreign exchange (gains)/losses, net*	(6,934,322)	(9,884,549)

* The foreign exchange gains / losses include US$3,431,644 gain (2018: US$ 14,533,809 gain) on revaluation of net reinsurance contract liabilities (Notes 19(a) and 19(b)).

Directors' remuneration is disclosed pursuant to section 383(1)(a) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation.

7. INCOME TAX

Hong Kong profits tax has been provided at the rates of 8.25% (2018: 8.25%) on the estimated assessable profits arising in Hong Kong during the year.

	Note	2019 US$	2018 US$
Hong Kong current tax charge for the year		1,982,224	564,100
Over provision in prior year		(19,003)	(567,306)
Deferred tax charge/(credit)	23	1,888,819	(2,280,962)
Total tax charge/(credit) for the year		3,852,040	(2,284,168)

7. INCOME TAX (continued)

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

2019	Hong Kong		Swiss		Total	
	US$	%	US$	%	US$	%
Profit/(loss) before tax	40,313,653		(1,582,615)		38,731,038	
Tax at the statutory tax rate	3,325,876	8.25	(332,349)	(21.0)	2,993,527	7.7
Income not subject to tax	(2,109,285)	(5.2)	-	0.0	(2,109,285)	(5.4)
Expenses not deductible for tax	1,525,996	3.8	-	0.0	1,525,996	3.9
Temporary difference not recognised in prior year	22,318	0.1	-	0.0	22,318	0.1
Difference from tax treatment for life business	991,030	2.4	-	0.0	991,030	2.6
Difference from tax treatment for an overseas branch	115,108	0.3	-	0.0	115,108	0.3
Over-provision in prior year	(19,003)	(0.05)	-	0.0	(19,003)	(0.05)
Tax losses not recognised	-	-	332,349	21.0	332,349	0.9
Tax expense for the year	3,852,040	9.6	-	-	3,852,040	9.9

2018	Hong Kong		Swiss		Total	
	US$	%	US$	%	US$	%
Profit/(loss) before tax	19,838,387		(2,602,492)		17,235,895	
Tax at the statutory tax rate	1,636,667	8.25	(546,523)	(21.0)	1,090,144	6.3
Income not subject to tax	(5,042,922)	(25.4)	-	0.0	(5,042,922)	(29.3)
Expenses not deductible for tax	332,508	1.7	-	0.0	332,508	1.9
Temporary difference not recognized in prior year	1,414,092	7.1	-	0.0	1,414,092	8.2
Difference from tax treatment for life business	(1,387,989)	(7.0)	-	0.0	(1,387,989)	(8.1)
Tax effect of loss before tax of an overseas branch	10,171	0.1	-	0.0	10,171	0.1
Over-provision in prior year	(567,306)	(2.9)	-	0.0	(567,306)	(3.3)
Temporary difference recognised for changes in tax law	1,320,611	6.7	-	0.0	1,320,611	7.7
Tax losses not recognised	-	-	546,523	21.0	546,523	3.2
Tax credit for the year	(2,284,168)	(11.5)	-	-	(2,284,168)	(13.3)

8. INTANGIBLE ASSETS

	Computer software US$
2019	
Cost:	
At 1 January 2019	1,749,177
Additions	12,742
At 31 December 2019	1,761,919
Accumulated amortisation:	
At 1 January 2019	(1,742,068)
Provided during the year	(4,584)
At 31 December 2019	(1,746,652)
Net book value:	
At 31 December 2019	15,267

	Computer software US$
2018	
Cost:	
At 1 January 2018	1,749,177
Additions	-
At 31 December 2018	1,749,177
Accumulated amortisation:	
At 1 January 2018	(1,609,514)
Provided during the year	(132,554)
At 31 December 2018	(1,742,068)
Net book value:	
At 31 December 2018	7,109

9. PROPERTY AND EQUIPMENT

2019	Leasehold improvements US$	Data processing equipment US$	Furniture, fixtures and other equipment US$	Total US$
Cost:				
At 1 January 2019	651,214	278,958	160,052	1,090,224
Additions	-	43,055	3,810	46,865
At 31 December 2019	651,214	322,013	163,862	1,137,089
Accumulated depreciation:				
At 1 January 2019	(583,722)	(175,153)	(87,699)	(846,574)
Provided during the year	(38,567)	(52,193)	(19,867)	(110,627)
At 31 December 2019	(622,289)	(227,346)	(107,566)	(957,201)
Net book value:				
At 31 December 2019	28,925	94,667	56,296	179,888

2018	Leasehold improvements US$	Data processing equipment US$	Furniture, fixtures and other equipment US$	Total US$
Cost:				
At 1 January 2018	651,214	199,836	141,208	992,258
Additions	-	79,122	18,844	97,966
At 31 December 2018	651,214	278,958	160,052	1,090,224
Accumulated depreciation:				
At 1 January 2018	(527,504)	(152,361)	(69,349)	(749,214)
Provided during the year	(56,218)	(22,792)	(18,350)	(97,360)
At 31 December 2018	(583,722)	(175,153)	(87,699)	(846,574)
Net book value:				
At 31 December 2018	67,492	103,805	72,353	243,650

10. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

(a) Investment in associates

	2019 US$	2018 US$
Investment in associates	61,058,481	66,537,500

Particulars of the associates are as follows:

Name	Carrying Amount US$	Place of incorporation	Principal activity	Type of shares held	Percentage of ownership interest attributable to the Group
Nagico Holdings Limited	43,178,500	Anguilla	Underwriting property and casualty insurance	Ordinary shares	50%
EA One Holding, Inc.	17,879,981	USA	Ownership of medical buildings in USA	Ordinary shares	42%

Nagico Holdings Limited ('Nagico') is considered a material associate of the Group and is accounted for using the equity method. The following table illustrates the summarised financial information in respect of Nagico and reconciliation to the carrying amount in the consolidated financial statements:

	2019 US$'000	2018 US$'000
Total assets	406,648	397,959
Total liabilities	(324,782)	(303,488)
Non-controlling interest	(2,218)	(2,125)
Net assets	79,648	92,346

10. INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

(a) Investment in associates (continued)

	2019 US$'000	2018 US$'000
Reconciliation to the Group's interest in Nagico:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the associate, excluding goodwill	39,824	46,173
Goodwill on acquisition	3,355	3,355
Carrying amount of the investment	43,179	49,528
Net premium earned	119,700	106,376
(Loss)/profit for the year	(13,522)	7,268
Net (loss)/income for the year attributable to shareholders	(13,731)	7,070
Other comprehensive income	1,026	46
Total comprehensive (loss)/income for the year	(12,496)	7,314
Comprehensive (loss)/income for the year attributable to shareholders	(12,698)	7,116

EA One Holdings Inc ('EA One Holdings') is considered a material associate of the Group and is accounted for using the equity method. The following table illustrates the summarised financial information in respect of EA One Holdings and reconciliation to the carrying amount in the consolidated financial statements:

	2019 US$'000	2018 US$'000
Total assets	114,347	113,184
Total liabilities	(71,809)	(72,717)
Net assets	42,538	40,467
Reconciliation to the Group's interest in EA One Holdings:		
Proportion of the Group's ownership	42%	42%
Group's share of net assets of the associate, excluding goodwill	17,866	16,996
Goodwill on acquisition	14	14
Carrying amount of the investment	17,880	17,010
Income from rental operation	6,136	4,690
Profit for the year	2,104	1,268

10. INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

(b) Investment in joint ventures

	2019 US$	2018 US$
Investment in joint ventures	61,440,825	-

Particulars of the material joint ventures are as follows:

Name	Carrying Amount US$	Place of incorporation	Principal activity	Type of shares held	Percentage of ownership interest attributable to the Group
North Head 5 TMK	22,144,393	Japan	Ownership of hotels in Japan	Ordinary shares	35.29%
Wanaka TMK	22,098,259	Japan	Ownership of hotels in Japan	Ordinary shares	49.9%

North Head 5 TMK ('North Head 5') is considered a material joint venture of the Group and is accounted for using the equity method. The following table illustrates the summarised financial information in respect of North Head 5 and reconciliation to the carrying amount in the consolidated financial statements:

	2019 US$'000
Total assets	144,768
Total liabilities	(82,343)
Net assets	62,425

Reconciliation to the Group's interest in North Head 5:

Proportion of the Group's ownership	35.29%
Group's share of net assets of the joint venture, excluding goodwill	22,030
Goodwill on acquisition	114
Carrying amount of the investment	22,144

The above amounts of assets and liabilities include the following:

Cash and cash equivalents	29,149
Current financial liabilities (excluding trade and other payables and provisions)	(2,319)
Non-current financial liabilities (excluding trade and other payables and provisions)	(79,803)

10. INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

(b) Investment in joint ventures (continued)

	2019 US$'000
Income from hotel operation	3,912
Loss for the year	(495)
Interest expense	(1,958)
Income tax expense	(6)

Wanaka TMK (‘Wanaka’) is considered a material joint venture of the Group and is accounted for using the equity method. The following table illustrates the summarised financial information in respect of Wanaka and reconciliation to the carrying amount in the consolidated financial statements:

	2019 US$'000
Total assets	128,670
Total liabilities	(84,605)
Net assets	44,065
Reconciliation to the Group's interest in Wanaka:	
Proportion of the Group's ownership	49.9%
Group's share of net assets of the joint venture, excluding goodwill	21,988
Goodwill on acquisition	110
Carrying amount of the investment	22,098
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	4,705
Current financial liabilities (excluding trade and other payables and provisions)	(20)
Non-current financial liabilities (excluding trade and other payables and provisions)	(83,249)
Income from hotel operation	3,213
Profit for the year	913
Interest expense	(648)
Income tax expense	(13)

10. INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

(b) Investment in joint ventures (continued)

In addition to the interests in joint ventures disclosed above, the Group also has interests in two individually immaterial joint ventures that are accounted for using the equity method.

	2019 US$'000
Aggregate carrying amount of individually immaterial joint ventures	17,198
Aggregate amounts of the Group's share of:	
Profit from continuing operations	6,629
Other comprehensive income	-
Total comprehensive income	6,629

11. HELD-TO-MATURITY INVESTMENTS

	Note	2019 US$	2018 US$
Listed debt securities, at amortised cost:			
Hong Kong		20,704,038	20,807,676
Elsewhere		3,974,763	8,412,931
Total	27	24,678,801	29,220,607

The Group has pledged investments amounted to US$18,328,755 (2018: US$21,028,367) from the above held-to-maturity investments to secure life treaties.

As at 31 December 2019, the fair value of the held-to-maturity investments was US$25,795,800 (2018: US$27,811,076) and there were no overdue but not impaired.

12. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2019 US$	2018 US$
Listed debt securities, at fair value:			
Hong Kong		348,872,773	240,878,350
Elsewhere		489,088,328	610,459,477
	28	837,961,101	851,337,827
Unlisted debt securities, at fair value	28	99,958,292	93,826,950
Listed equity shares, at fair value:			
Hong Kong		81,946,926	132,550,230
Elsewhere		396,941,323	79,097,099
	28	478,888,249	211,647,329
Unlisted equity shares, at fair value	28	37,853,365	46,456,076
Total	27	1,454,661,007	1,203,268,182

During the year, the net fair value change in respect of the Group's available-for-sale investments increased the other comprehensive income by US$97,506,475 (2018: decreased by US$110,670,231), of which US$10,802,394 (2018: US$18,710,396) was reclassified from other comprehensive income to profit or loss for the year.

There was a significant decline or prolonged decline in the market value of certain listed equity shares during the year. The directors consider that this indicates that the listed equity shares have been impaired and impairment losses of US$9,496,915 (2018: US$8,129,843) were recognised and reclassified from other comprehensive income to profit or loss.

The Group has pledged investments amounted to US$241,497,486 (2018: US$215,126,343) from the above available-for-sale investments to secure life treaties.

13. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2019 US$	2018 US$
Listed equity shares, at fair value: Hong Kong	28	77,927,258	81,309,856
Unlisted equity shares, at fair value	28	-	153,316
Unlisted derivative assets, at fair value	28	201,258	285,267
Total	27	78,128,516	81,748,439
Unlisted derivative liability, at fair value	27, 28	-	(2,984,653)

The above equity shares at 31 December 2019 and 2018 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

During the year, the net unrealised fair value gain of the Group's equity shares and derivatives recognised directly in profit or loss amounted to US$5,616,192 (2018: net unrealised fair value loss of US$70,982,020).

14. LOANS AND RECEIVABLES

		2019 US$	2018 US$
Collateralised loan obligation, at amortised cost	27	119,874,260	126,807,869

In the event of default by the counterparty to repay the loan, the Group has the right to the underlying loans held by the trustees in the names of special purpose vehicles. The carrying amounts of the loans and receivables are approximate to their fair values.

15. DEFERRED ACQUISITION COSTS

	2019 US$	2018 US$
At 1 January	159,002,597	145,010,723
Commission paid and payables	406,230,085	378,570,431
Commission expenses charged for the year	(381,711,908)	(364,578,557)
At 31 December	183,520,774	159,002,597

Deferred acquisition costs are expected to be amortised within twelve months from the end of the reporting period.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 US$	2018 US$
Interest receivable	11,748,372	13,105,367
Other deposits and prepayments	8,832,320	4,695,616
Other receivables	24,281	1,279,023
	20,604,973	19,080,006

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

The carrying amounts of prepayments, deposits and other receivables approximate to their fair values.

17. REINSURANCE RECEIVABLES

		2019 US$	2018 US$
Amounts due under reinsurance contracts accepted	27	1,579,654,841	1,533,616,403

The Group's reinsurance receivables relate to a large number of diversified customers and therefore there is no significant concentration of credit risk. Reinsurance receivables are non-interest-bearing. The carrying amounts of reinsurance receivables approximate to their fair values.

The Group has no reinsurance receivables that are past due by more than one year at the balance sheet date of 2019 and which are impaired.

The above carrying amounts of reinsurance receivables include premium receivables from fellow subsidiaries and related party of US$15,253,923 (2018: US$15,174,844) and premium receivables from an associate of US$103,987,297 (2018: US$191,254,170).

The aging analysis of the reinsurance receivables that are not considered to be impaired is as follows:

	2019 US$	2018 US$
Neither past due nor impaired	1,418,980,292	784,197,779
Less than 3 months past due	108,844,635	440,280,017
3 to 12 months past due	51,829,914	309,138,607
	1,579,654,841	1,533,616,403

18. CASH AND BANK BALANCES AND CASH COLLATERALS

		2019 US$	2018 US$
Fixed and saving deposit		256,762,749	153,379,637
Cash at banks		809,179	1,407,933
Cash held by investment managers		15,989,809	40,287,734
	27	273,561,737	195,075,304
Less: Cash collaterals		(40,000,000)	(30,000,000)
Cash and cash equivalents		233,561,737	165,075,304

Cash at bank earns interest at floating rates based on daily bank deposit rates. The group has pledged cash amounted to US$40,000,000 (2018: US$30,000,000) from the above cash and cash balances to secure letter of credit facility. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances reasonably approximate to their fair values.

19. REINSURANCE CONTRACTS/POLICY LIABILITIES

Reinsurance contracts/policy liabilities are analysed as follows:

	Notes	2019 Reinsurance contracts/policy liabilities US$	2019 Retrocessionaires' share of liabilities US$	2019 Net US$	2018 Reinsurance contracts/policy liabilities US$	2018 Retrocessionaires' share of liabilities US$	2018 Net US$
General reinsurance	(a)	2,112,070,461	(553,828,256)	1,558,242,205	1,557,062,263	(325,137,151)	1,231,925,112
Life reinsurance	(b)	301,554,652	-	301,554,652	236,701,327	-	236,701,327
Total reinsurance contracts/policy liabilities		2,413,625,113	(553,828,256)	1,859,796,857	1,793,763,590	(325,137,151)	1,468,626,439

(a) General reinsurance contracts liabilities are analysed as follows:

	Notes	2019 Reinsurance contracts liabilities US$	2019 Retrocessionaires' share of liabilities US$	2019 Net US$	2018 Reinsurance contracts liabilities US$	2018 Retrocessionaires' share of liabilities US$	2018 Net US$
Provision for claims reported		498,130,777	(178,232,628)	319,898,149	304,525,275	(58,204,091)	246,321,184
Provision for claims incurred but not reported (IBNR)		919,442,084	(265,022,790)	654,419,294	645,115,221	(154,871,328)	490,243,893
Total claims reported and IBNR	(i)	1,417,572,861	(443,255,418)	974,317,443	949,640,496	(213,075,419)	736,565,077
Provision for unearned premiums	(ii)	693,417,270	(110,572,838)	582,844,432	606,496,764	(112,061,732)	494,435,032
Provision for premium deficiency	(iii)	1,080,330	-	1,080,330	925,003	-	925,003
Total reinsurance contracts liabilities		2,112,070,461	(553,828,256)	1,558,242,205	1,557,062,263	(325,137,151)	1,231,925,112

(i) The provision for claims reported by policyholders and claims incurred but not reported ("IBNR") is analysed as follows:

	2019 Reinsurance contracts liabilities US$	2019 Retrocessionaires' share of liabilities US$	2019 Net US$	2018 Reinsurance contracts liabilities US$	2018 Retrocessionaires' share of liabilities US$	2018 Net US$
At 1 January	949,640,496	(213,075,419)	736,565,077	676,829,752	(81,282,507)	595,547,245
Claims incurred in and related to the current underwriting year	679,223,208	(273,727,485)	405,495,723	450,233,934	(149,396,681)	300,837,253
Claims incurred in and related to prior underwriting years	574,738,696	(176,416,836)	398,321,860	414,321,270	(95,607,445)	318,713,825
Claims paid and payable during the year	(785,284,847)	222,003,592	(563,281,255)	(575,574,389)	111,711,214	(463,863,175)
Exchange difference	(744,692)	(2,039,270)	(2,783,962)	(16,170,071)	1,500,000	(14,670,071)
At 31 December	1,417,572,861	(443,255,418)	974,317,443	949,640,496	(213,075,419)	736,565,077

(ii) The provision for unearned premiums is analysed as follows:

	2019 Reinsurance contracts liabilities US$	2019 Retrocessionaires' share of liabilities US$	2019 Net US$	2018 Reinsurance contracts liabilities US$	2018 Retrocessionaires' share of liabilities US$	2018 Net US$
At 1 January	606,496,765	(112,061,732)	494,435,033	502,429,893	(69,326,717)	433,103,176
Premiums written in the year	1,531,009,684	(339,588,598)	1,191,421,086	1,313,293,068	(325,309,260)	987,983,808
Premiums earned during the year	(1,444,089,179)	341,077,492	(1,103,011,687)	(1,209,226,196)	282,574,245	(926,651,951)
At 31 December	693,417,270	(110,572,838)	582,844,432	606,496,765	(112,061,732)	494,435,033

19. REINSURANCE CONTRACTS/POLICY LIABILITIES (continued)

(a) General reinsurance contracts liabilities are analysed as follows: (continued)

(iii) Provision for premiums deficiency:

	2019			2018		
	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	925,003	-	925,003	2,861,131	-	2,861,131
Incurred during the year	155,327	-	155,327	(1,936,128)	-	(1,936,128)
At 31 December	1,080,330	-	1,080,330	925,003	-	925,003

(b) Life reinsurance policy liabilities are analysed as follows:

	Notes	2019			2018		
		Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
Provision for claims		13,001,693	-	13,001,693	23,437,367	-	23,437,367
Provision for mathematical reserve		274,585,070	-	274,585,070	197,205,242	-	197,205,242
Total claims reported and mathematical reserve	(i)	287,586,763	-	287,586,763	220,642,609	-	220,642,609
Provision for unearned premiums	(ii)	13,967,889	-	13,967,889	16,058,718	-	16,058,718
Total reinsurance contracts liabilities		301,554,652	-	301,554,652	236,701,327	-	236,701,327

(i) The provision for claims reported and mathematical reserve is analysed as follows:

	2019			2018		
	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	220,642,609	-	220,642,609	192,906,884	-	192,906,884
Claims incurred in and related to the current underwriting year	6,231,131	-	6,231,131	50,635,889	-	50,635,889
Claims incurred in and related to the prior underwriting year	101,016,871	-	101,016,871	21,819,208	-	21,819,208
Claims paid and payable during the year	(39,656,166)	-	(39,656,166)	(44,855,634)	-	(44,855,634)
Exchange differences	(647,682)	-	(647,682)	136,262	-	136,262
At 31 December	287,586,763	-	287,586,763	220,642,609	-	220,642,609

(ii) The provision for unearned premiums is analysed as follows:

	2019			2018		
	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	16,058,718	-	16,058,718	3,150,552	-	3,150,552
Premiums written in the year	133,580,807	(63,000)	133,517,807	68,598,260	(55,000)	68,543,260
Premiums earned during the year	(135,671,636)	63,000	(135,608,636)	(55,690,094)	55,000	(55,635,094)
At 31 December	13,967,889	-	13,967,889	16,058,718	-	16,058,718

20. REINSURANCE PAYABLES

An aging analysis of the reinsurance payables as at the end of the reporting period is as follows:

		2019 US$	2018 US$
Not yet due		674,287,373	487,326,325
Within 3 months		88,769,059	273,308,342
Over 3 months but less than 1 year		48,062,006	178,635,887
	27	811,118,438	939,270,554

The carrying amounts of reinsurance payables include payables to fellow subsidiaries and related party of US$8,912,660 (2018: US$3,103,376) and payables to an associate of US$40,873,946 (2018: US$147,960,799).

21. DEFERRED COMMISSION INCOME

	2019 US$	2018 US$
At 1 January	35,287,446	22,453,539
Commission received during the year	79,744,546	85,813,738
Commission earned for the year	(81,797,548)	(72,979,831)
At 31 December	33,234,444	35,287,446

Deferred commission income is expected to be amortised within twelve months from the end of the reporting period.

22. OTHER PAYABLES AND ACCRUED LIABILITIES

		2019 US$	2018 US$
Other payables and accrued liabilities	27	63,555,201	14,459,346

Other payables are expected to be settled within one year or are repayable on demand and their carrying amounts approximate to their fair values.

23. DEFERRED TAX

The movements in deferred tax (assets)/liabilities during the year are as follows:

	Depreciation allowances in excess of the related depreciation US$	Available-for-sale investments US$	Fair value through profit or loss investment US$	Total US$
Deferred tax (assets)/liabilities at 1 January 2018	(20,648)	(2,217,920)	3,383,337	1,144,769
Charged/(credited) to profit or loss	5,529	3,362,428	(5,648,919)	(2,280,962)
Credited to reserves	-	(8,249,747)	-	(8,249,747)
Deferred tax assets at 31 December 2018 and 1 January 2019	(15,119)	(7,105,239)	(2,265,582)	(9,385,940)
Charged to profit or loss	2,054	1,823,433	63,332	1,888,819
Charged to reserves	-	3,822,761	-	3,822,761
Deferred tax assets at 31 December 2019	(13,065)	(1,459,045)	(2,202,250)	(3,674,360)

24. SHARE CAPITAL

Shares

	2019 US$	2018 US$
Issued and fully paid:		
721,430,470 (2018: 721,430,470) Ordinary Shares	786,720,714	786,720,714

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

	Number of shares in issue	Share capital US$
At 1 January 2018	626,923,078	650,000,000
New shares issued (Note)	94,507,392	136,720,714
At 31 December 2018, 1 January 2019 and 31 December 2019	721,430,470	786,720,714

Note: On 3 April 2018, 94,507,392 Ordinary Shares were issued at US$1.45 each for cash to Peak Reinsurance Holdings Limited, representing a 13.1% stake in the Company, and resulted in proceeds of US$ 136,720,714.

25. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year on terms agreed between the parties:

	2019 US$	2018 US$
Associate:		
Reinsurance premium received	74,887,317	50,523,917
Fellow subsidiaries:		
Reinsurance premium received	11,664,069	12,883,239
Expenses paid to fellow subsidiaries	53,080	39,061
Other related parties:		
Reinsurance premium received	289,756	1,918,352

(a) Transactions with related parties:

(i) During the financial year, related party transactions took place between the following related companies, Yongan Property Insurance Group Limited, AmeriTrust Insurance Group, National General Insurance Corporation N.V, Fidelidade Companhia de Seguros and Fosun Asset Management Limited. All transactions were in the normal course of business and on the same terms as provided to other participants in the same proportional treaty where applicable.

(ii) All related party transactions were made on an arm's length basis.

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

Details of compensation of key management personnel, who are the directors of the Group, are included in note 6 to the consolidated financial statements.

26. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating leases arrangements. Leases for properties are negotiated for three years term. The rentals are subject to review at the end of the leases.

At 31 December 2019, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2019 US$	2018 US$
Within one year	-	137,372
In the second to third year, inclusive	-	217,670
	-	355,042

27. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments (other than reinsurance contract liabilities, as disclosed at note 19) as at the end of the reporting period are as follows:

As at 31 December 2019

Financial assets

	Available-for-sale financial assets US$	Financial assets at fair value through profit or loss US$	Held-to-maturity financial assets US$	Loans and receivables US$	Total US$
Held-to-maturity investments	-	-	24,678,801	-	24,678,801
Available-for-sale investments	1,454,661,007	-	-	-	1,454,661,007
Investments at fair value through profit or loss	-	78,128,516	-	-	78,128,516
Loans and receivables	-	-	-	119,874,260	119,874,260
Reinsurance receivables	-	-	-	1,579,654,841	1,579,654,841
Financial assets included in deposits and other receivables	-	-	-	20,334,963	20,334,963
Cash and cash equivalent and cash collaterals	-	-	-	273,561,737	273,561,737
	1,454,661,007	78,128,516	24,678,801	1,993,425,801	3,550,894,125

Financial liabilities

	Financial liabilities at amortised cost US$	Financial liability at fair value US$	Total US$
Reinsurance payables	811,118,438	-	811,118,438
Other payables and accrued liabilities	63,555,201	-	63,555,201
	874,673,639	-	874,673,639

27. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2018

Financial assets

	Available-for-sale financial assets US$	Financial assets at fair value through profit or loss US$	Held-to-maturity financial assets US$	Loans and receivables US$	Total US$
Held-to-maturity investments	-	-	29,220,607	-	29,220,607
Available-for-sale investments	1,203,268,182	-	-	-	1,203,268,182
Investments at fair value through profit or loss	-	81,748,439	-	-	81,748,439
Loans and receivables	-	-	-	126,807,869	126,807,869
Reinsurance receivables	-	-	-	1,533,616,403	1,533,616,403
Financial assets included in deposits and other receivables	-	-	-	18,837,774	18,837,774
Cash and cash equivalent and cash collaterals	-	-	-	195,075,304	195,075,304
	1,203,268,182	81,748,439	29,220,607	1,874,337,350	3,188,574,578

Financial liabilities

	Financial liabilities at amortised cost US$	Financial liability at fair value US$	Total US$
Reinsurance payables	939,270,554	-	939,270,554
Other payables and accrued liabilities	14,459,346	-	14,459,346
Derivatives	-	2,984,653	2,984,653
	953,729,900	2,984,653	956,714,553

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active market (Level 1) US$	Significant inputs (Level 2) US$	Significant unobservable inputs (Level 3) US$	Total US$
Assets measured at fair value:				
Available-for-sale investments:				
- Debt investments	837,961,101	99,958,292	-	937,919,393
- Equity investments	478,888,249	-	37,853,365	516,741,614
Investments at fair value through profit or loss				
- Equity investments	77,927,258	-	-	77,927,258
- Derivatives	-	201,258	-	201,258
	1,394,776,608	100,159,550	37,853,365	1,532,789,523
Liability measured at fair value:				
Investment at fair value through profit or loss				
- Derivatives	-	-	-	-

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active market (Level 1) US$	Significant inputs (Level 2) US$	Significant unobservable inputs (Level 3) US$	Total US$
Assets measured at fair value:				
Available-for-sale investments:				
- Debt investments	851,337,827	93,826,950	-	945,164,777
- Equity investments	211,647,329	-	46,456,076	258,103,405
Investments at fair value through profit or loss				
- Equity investments	81,309,856	-	153,316	81,463,172
- Derivatives	-	-	285,267	285,267
	1,144,295,012	93,826,950	46,894,659	1,285,016,621
Liability measured at fair value:				
Investment at fair value through profit or loss				
- Derivatives	-	(2,984,653)	-	(2,984,653)

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

Fair value hierarchy (continued)

Management has assessed that the fair values of cash and bank balances and collaterals, reinsurance receivables, loans and receivables, financial assets included in deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The fair value of a financial asset is 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 value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instruments are included in level 2. If one or more of the significant inputs is not based on observable market data, the instruments are included in level 3.

There were instruments purchased by the Group in the current year. There were no transfers into level 3 from level 1 or level 2 during the year.

The embedded options of certain debt securities separately recognised as derivatives are included in level 2 because the implied volatility, stock price and other parameters used in determining the fair value are market observables.

For the fair value of the unlisted equity investments included in level 3 instrument, equity share of Pingtao (Hong Kong) Limited and preference share of Deneb TMK, were purchased by the Group in 2015 and 2014, respectively. Deneb TMK has completed liquidation in 2019. The Group has determined that the reported net asset value of US$37,853,365 and US$Nil (2018: US$46,456,076 and US$153,316), in regards of the equity share of Pingtao (Hong Kong) Limited and preference share of Deneb TMK held by the Group respectively, represented fair value as at 31 December 2019.

Simulation model is used to value the derivative financial instrument. Below is a summary of significant unobservable inputs to the valuation of the derivatives together with a quantitative sensitivity analysis as at 31 December 2019:

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

Fair value hierarchy (continued)

	Valuation techniques	Significant unobservable input	Range	Sensitivity of fair value to the input US$'000
Unlisted derivatives	Simulation	Volatility	2019: Nil	5% increase/(decrease) on volatility would result in increase/(decrease) in fair value by $Nil and ($Nil) respectively
			2018: 17.61% to 19.47%	5% increase/(decrease) on volatility would result in increase/(decrease) in fair value by $20 and ($31) respectively
		P/B ratio	2019: Nil	5% increase/(decrease) on P/B ratio would result in increase/(decrease) in fair value by $Nil and ($Nil) respectively
			2018: 1.21 to 1.33	5% increase/(decrease) on P/B ratio would result in increase/(decrease) in fair value by $2,775 and ($2,470) respectively
		Net Asset Value	2019: $Nil	5% increase/(decrease) on Net Asset Value would result in increase/(decrease) in fair value by $Nil and ($Nil) respectively
			2018: $42,174 to $46,614	5% increase/(decrease) on Net Asset Value would result in increase/(decrease) in fair value by $96 and ($103) respectively

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Market risk

The Group invests its capital and the premiums it receives from customers and consequently investment results comprise a substantial part of the Group's income. The Group's investments are exposed to market risk (i.e. the risk of a price change in the capital markets), which include risks from interest rates, equities price and foreign exchange rates.

(a) Interest rate risk

The Group's fixed income portfolio is primarily invested in high quality, investment grade securities of limited duration. This portfolio is sensitive to changes in interest rates and risk spreads. Interest rates are highly sensitive to many factors, including fiscal and monetary policies in major economies, inflation, economic and political factors outside the Group's control. In a declining interest rate environment, the Group will be required to (re-)invest funds at a lower rate, which would have a negative impact on future investment income. In a rising interest rate environment, the market value of the Group's fixed income portfolio may decline.

In addition, interest rate changes can also impact the life business portfolio. When pricing a life reinsurance transaction, the actuary makes an assumption on the risk free rate for the discounting of future values. If this assumption changes due to changes in interest rates, this may impact the value of mathematical reserves, with an impact on the valuation of liabilities on the balance sheet.

The Group adopts an approach of focusing on achieving a desired overall interest income, which may change over time, based on management's view of interest rates and economic conditions.

The Group's exposure to interest rate risk primarily relates to the fluctuation of the prevailing market interest rate on bank deposit balances and variable rate bonds.

	Fixed rate US$	Variable rate US$	Non-interest bearing US$	Total US$
2019				
Held-to-maturity investments	24,678,801	-	-	24,678,801
Available-for-sale investments	873,761,723	64,157,670	516,741,614	1,454,661,007
Investments at fair value through profit or loss	-	-	78,128,516	78,128,516
Loans and receivables	47,664,241	72,210,019	-	119,874,260
Cash and cash equivalents and cash collaterals	22,500,000	251,061,737	-	273,561,737
	968,604,765	387,429,426	594,870,130	1,950,904,321

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest rate risk (continued)

	Fixed rate US$	Variable rate US$	Non-interest bearing US$	Total US$
2018				
Held-to-maturity investments	29,220,607	-	-	29,220,607
Available-for-sale investments	885,856,327	59,308,450	258,103,405	1,203,268,182
Investments at fair value through profit or loss	-	-	81,748,439	81,748,439
Loans and receivables	34,727,680	92,080,189	-	126,807,869
Cash and cash equivalents and cash collaterals	-	195,075,304	-	195,075,304
	949,804,614	346,463,943	339,851,844	1,636,120,401

The exposure of the bank deposits to interest rate risk is as follows:

	Impact on profit before tax	
	25 basis point higher US$	25 basis point lower US$
2019		
Interest bearing bank deposit	683,904	(683,904)
2018		
Interest bearing bank deposit	487,688	(487,688)

Debt securities are classified as held-to-maturity investments and available-for-sale investments, and the Group's general practice is to hold the debt securities to maturity, such that the principal and interest will be fully recovered and fluctuations in fair value arising from interest rate changes are temporary in nature.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest rate risk (continued)

The Group uses analytical tools which guide both its strategic allocation and local distribution of assets. The sensitivity to changes in interest rates is monitored by the Group and is generally analysed on a monthly basis. The Group analyses the impact of a major change in interest rates on each of its portfolios. Portfolio sensitivity analysis on interest rate changes is an important risk measurement and management tool for the Group which may lead to decisions for reallocation.

The analysis below shows the impact on equity:

	100 basis point higher US$	100 basis point lower US$
2019		
Debt securities	(10,824,725)	10,824,725
2018		
Debt securities	(11,011,933)	11,011,933

(b) Equity price risk

The Group invests a portion of its portfolio in common stock. This exposes the portfolio to the fluctuations of equity markets. In times of economic weakness, the market value and liquidity of these assets may decline and may impact the Group's net income and capital.

The Group's listed investments are listed on recognised Stock Exchanges. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the recognised market Indexes and other industry indicators, as well as the Group's liquidity needs. Listed investments which are held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The Group is exposed to market risk in respect of its holding in equity shares. Based on the fair value of those holdings as at the financial reporting date, a reduction of 5% in the fair value would result in a reduction in equity of US$29,733,444 (2018: US$16,978,329).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Foreign currency risk

The Group underwrites risks originating from many parts of the world, and as such it is potentially subject to claims from different countries, which in most cases, will need to be met in the currencies of the countries in which such claims arise. The Group holds deposits in various foreign currencies as a hedge against potential underwriting liabilities on claims exposure. The Group's principal exposures include Hong Kong Dollar, Chinese Yuan, Japanese Yen and Korean Won. Assets and liabilities denominated in foreign currencies are exposed to changes in currency exchange rates. The Group's reporting currency is USD, and exchange rate fluctuations relative to the USD may materially impact the Group's results and financial position. In addition, the currency exchange rate against USD can also be impacted by Government's policies, US domestic and international economic and political developments, as well as global events and the supply and demand in the global market.

The Group employs various strategies (including hedging) to manage its exposure to foreign currency exchange risk. To the extent that these exposures are not fully hedged or the hedges are ineffective, the Group's results or equity may be reduced by fluctuations in foreign currency exchange rates. The net asset/(liability) position for each major currency is as follows:

	Assets/(Liabilities) (US$)						
2019	USD	JPY	KRW	CNY	HKD	Others	Total
Fixed assets and intangible assets	-	2,246	-	-	168,911	23,998	195,155
Investment in associates	61,058,481	-	-	-	-	-	61,058,481
Investment in joint ventures	7,750,000	53,690,825	-	-	-	-	61,440,825
Held-to-maturity investments	24,678,801	-	-	-	-	-	24,678,801
Available-for-sale investments	1,203,574,879	10,261,275	-	97,084,418	81,946,926	61,793,509	1,454,661,007
Investments at fair value through profit or loss	201,258	-	-	-	77,927,258	-	78,128,516
Loans and receivables	119,874,260	-	-	-	-	-	119,874,260
Deferred acquisition costs	55,590,575	2,854,065	17,480,362	71,009,546	3,554,784	33,031,442	183,520,774
Prepayments, deposits and other receivables	13,962,200	15,654	-	2,607,096	3,066,680	953,343	20,604,973
Retrocession assets	551,271,853	3,976	2,435,254	117,173	-	-	553,828,256
Deferred tax asset	-	-	-	-	3,674,360	-	3,674,360
Reinsurance receivables	777,420,121	26,998,409	179,735,890	247,475,094	20,116,595	327,908,732	1,579,654,841
Amount due from immediate holding company	3,293,814	-	-	-	-	-	3,293,814
Cash and cash equivalents and cash collaterals	157,154,004	25,490,753	-	56,742,915	8,712,420	25,461,645	273,561,737
Total assets	2,975,830,246	119,317,203	199,651,506	475,036,242	199,167,934	449,172,669	4,418,175,800
Reinsurance contract liabilities	(734,654,077)	(289,212,512)	(223,818,102)	(571,120,311)	(59,598,296)	(535,221,815)	(2,413,625,113)
Reinsurance payables	(541,214,751)	(6,873,209)	(67,900,930)	(95,152,467)	(7,861,724)	(92,115,357)	(811,118,438)
Deferred commission income	(33,190,141)	(66)	(37,898)	(6,339)	-	-	(33,234,444)
Other payables and accrued liabilities	(60,070,559)	2,344,203	-	-	(1,448,514)	(4,380,331)	(63,555,201)
Current tax payable	-	-	-	-	(2,071,982)	-	(2,071,982)
Total liabilities	(1,369,129,528)	(293,741,584)	(291,756,930)	(666,279,117)	(70,980,516)	(631,717,503)	(3,323,605,178)
Total assets/(liabilities)	1,606,700,718	(174,424,381)	(92,105,424)	(191,242,875)	128,187,418	(182,544,834)	1,094,570,622

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) *Foreign currency risk (continued)*

	Assets/(Liabilities) (US$)						
2018	USD	JPY	KRW	CNY	HKD	Others	Total
Fixed assets and intangible assets	-	-	-	-	218,665	32,094	250,759
Investment in an associate	66,537,500	-	-	-	-	-	66,537,500
Held-to-maturity investments	24,726,819	-	-	4,493,788	-	-	29,220,607
Available-for-sale investments	1,046,970,948	924,887	-	-	133,117,665	22,254,682	1,203,268,182
Investments at fair value through profit or loss	285,267	153,316	-	-	81,309,856	-	81,748,439
Loans and receivables	126,807,869	-	-	-	-	-	126,807,869
Deferred acquisition costs	39,930,711	2,154,943	14,155,823	44,517,439	3,511,601	54,732,080	159,002,597
Prepayments, deposits and other receivables	20,423,119	4,271,257	-	(2,042,519)	336,253	(3,908,104)	19,080,006
Retrocession assets	322,672,396	6,104	2,402,569	56,082	-	-	325,137,151
Deferred tax asset	-	-	-	-	9,385,940	-	9,385,940
Current tax recoverable	-	-	-	-	106,595	-	106,595
Reinsurance receivables	747,094,654	30,788,194	177,704,752	204,159,784	16,921,231	356,947,788	1,533,616,403
Amount due from immediate holding company	2,019,647	-	-	-	-	-	2,019,647
Cash and cash equivalents and cash collaterals	131,699,353	15,939,633	-	3,576,324	16,738,835	27,121,159	195,075,304
Total assets	2,529,168,283	54,238,334	194,263,144	254,760,898	261,646,641	457,179,699	3,751,256,999
Reinsurance contract liabilities	(597,736,839)	(157,770,457)	(175,664,301)	(324,863,370)	(41,776,168)	(495,952,455)	(1,793,763,590)
Reinsurance payables	(641,517,007)	(3,869,718)	(102,791,687)	(85,528,960)	(6,734,455)	(98,828,727)	(939,270,554)
Derivatives	(2,984,653)	-	-	-	-	-	(2,984,653)
Deferred commission income	(35,204,183)	(993)	(76,924)	(5,346)	-	-	(35,287,446)
Other payables and accrued liabilities	(11,119,914)	-	-	-	-	(3,339,432)	(14,459,346)
Total liabilities	(1,288,562,596)	(161,641,168)	(278,532,912)	(410,397,676)	(48,510,623)	(598,120,614)	(2,785,765,589)
Total assets/(liabilities)	1,240,605,687	(107,402,834)	(84,269,768)	(155,636,778)	213,136,018	(140,940,915)	965,491,410

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the major currencies identified in the above table, with all other variables held constant, of the Group's net profit before tax (due to changes in the fair value of monetary assets and liabilities as at that date).

Currency	Changes in variables	Impact on profit before tax US$'000
2019:		
JPY	+/- 3%	(5,233)/5,233
KRW	+/- 3%	(2,763)/2,763
CNY	+/- 3%	(5,737)/5,737
2018:		
JPY	+/- 3%	(3,222)/3,222
KRW	+/- 3%	(2,528)/2,528
CNY	+/- 3%	(4,669)/4,669

The management considers that the Hong Kong Dollar represents limited currency risk as it is pegged to the United States Dollar.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk

The Group manages this risk by monitoring periodically the actual and projected cash flows, ensuring that a reasonable amount of investments is kept in liquid assets to meet cash flow needs.

The Group financed its operations and investment activities with internally generated cash flow.

The maturity profiles of the financial assets and liabilities of the Group as at the end of the reporting period, based on the contractual undiscounted receipts and payments are analysed as below.

	Up to a year US$	1-3 years US$	3-5 years US$	Over 5 years US$	Total US$
31 December 2019					
Financial assets					
- Debt securities	119,074,499	273,699,713	285,436,452	284,387,530	962,598,194
- Equity investments at available-for-sale	516,741,614	-	-	-	516,741,614
- Equity investments at fair value through profit or loss	78,128,516	-	-	-	78,128,516
- Loans and receivables	-	-	1,371,995	118,502,265	119,874,260
- Reinsurance receivables	1,579,654,841	-	-	-	1,579,654,841
- Prepayments, deposits and other receivables	20,334,963	-	-	-	20,334,963
- Cash and cash equivalents and cash collaterals	273,561,737	-	-	-	273,561,737
Total financial assets	2,587,496,170	273,699,713	286,808,447	402,889,795	3,550,894,125
Financial liabilities					
- Reinsurance payables	(811,118,438)	-	-	-	(811,118,438)
- Other payables and accrued liabilities	(63,555,201)	-	-	-	(63,555,201)
Total financial liabilities	(874,673,639)	-	-	-	(874,673,639)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk (continued)

31 December 2018	Up to a year US$	1-3 years US$	3-5 years US$	Over 5 years US$	Total US$
Financial assets					
- Debt securities	11,625,538	240,301,271	309,055,385	413,403,190	974,385,384
- Equity investments at available-for-sale	258,103,405	-	-	-	258,103,405
- Equity investments at fair value through profit or loss	81,463,172	-	-	-	81,463,172
- Loans and receivables	-	1,500,134	1,924,562	123,383,173	126,807,869
- Derivatives	285,267	-	-	-	285,267
- Reinsurance receivables	1,533,616,403	-	-	-	1,533,616,403
- Prepayments, deposits and other receivables	18,837,774	-	-	-	18,837,774
- Cash and cash equivalents and cash collaterals	195,075,304	-	-	-	195,075,304
Total financial assets	2,099,006,863	241,801,405	310,979,947	536,786,363	3,188,574,578
Financial liabilities					
- Reinsurance payables	(939,270,554)	-	-	-	(939,270,554)
- Derivatives	(2,984,653)	-	-	-	(2,984,653)
- Other payables and accrued liabilities	(14,459,346)	-	-	-	(14,459,346)
Total financial liabilities	(956,714,553)	-	-	-	(956,714,553)

In case of a major loss, the Group will need to have the liquidity in order to pay claims in a timely manner. The Group monitors its liquidity position and constantly keeps an adequate level of cash. In addition, most equity and fixed income instruments are traded in public exchanges in major financial hubs and can be liquidated easily. However, under rare circumstances, the Group may find itself in a position of having to liquidate a non-liquid investment at unfavourable terms and conditions with negative impact on investment income.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Credit risk

The Group assumes credit risk through its underwriting of the credit & bond business, through the cession of future losses to reinsurer (so called retrocessionaires) and through the counterparty risk from investment into corporate and government bonds.

In its credit & bond portfolio the Group reinsures among other things the promise by the Group to pay one party (the obligee) a certain amount if a second party (the principal) fails to meet a certain obligation, which can be a payment or the fulfilment of a contract. By this token the Group bears a counterparty risk on the principal, which is being monitored on a per name, per industry and per country basis.

The Group writes some trade credit risks. As part of risk management, the counterparty risk is tracked on a per name, per industry and per country basis, and actively managed.

The Group uses reinsurance (so called retrocession in the case of the Group being the reinsured) to protect its reinsurance portfolio against major event shocks or earnings deterioration. As a consequence, the Group assumes credit risk on the payment of future losses by the reinsurer (retrocessionaire). The Group only utilises retrocession markets of a minimum A- rating quality or requires collateral to reduce credit risk. However in case of a major shock loss to the entire reinsurance industry the Group may face difficulties to collect outstanding receivables from its retrocession markets. This would impact the earnings or the net valuations of reinsurance receivable (assets) of any financial year with consequences on the Group's ability to service its debt.

As part of its investment activities, the Group invests in corporate and sovereign bonds, both of which are subject to default risk. While the Group employs prudence and good care in selecting its counterparties, and while the Group uses good risk management standards to manage its counterparty credit risk from these investments, the recent financial crisis has shown that sudden and unforeseen changes can cause a deterioration in the bond issuer’s ability or willingness to repay principal or to pay interest.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Credit risk (continued)

The following table presents the analysis of held-to-maturity investments, loans and receivables, available-for-sale investments and investments at fair value through profit or loss by rating agency designation based on Standard & Poor's ratings or equivalent.

	2019 US$	2018 US$
Debt securities		
- A- to AAA	547,258,392	486,847,511
- B- to BBB+	401,767,853	482,611,573
- CC to CCC+	1,510,249	-
- Unrated	12,061,700	4,926,300
	962,598,194	974,385,384
Derivatives		
- Unrated	201,258	285,267
Loans and receivables		
- A- to AAA	35,132,440	31,502,328
- B- to BBB+	84,741,820	95,305,541
	119,874,260	126,807,869
Total		
- A- to AAA	582,390,832	518,349,839
- B- to BBB+	486,509,673	577,917,114
- CC to CCC+	1,510,249	-
- Unrated	12,262,958	5,211,567
	1,082,673,712	1,101,478,520

Further quantitative data in respect of the Group's exposure to credit risk arising from cedants reinsurance receivables is disclosed in note 17 to the consolidated financial statements.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(f) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain adequate capital ratios in order to support the business and maximize the shareholder's value.

The Group manages its capital as disclosed in the statement of financial position and its regulatory capital determined from time to time in accordance with the Hong Kong Insurance Ordinance.

The Group manages its capital structure and may make adjustments to it, in light of changes to economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

The Group is subject to minimum capital requirements under the Hong Kong Insurance Ordinance. To determine its capital for regulatory purposes, the Group makes certain adjustments to the carrying values of its assets and liabilities. The regulatory capital requirement is determined by the application of statutory formulae to the Group's business information.

Throughout the financial years 2019 and 2018, the Group complied fully with these capital requirements.

30. REINSURANCE CONTRACTS/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES

General reinsurance

(a) Terms and conditions

The major classes of general reinsurance written by the Group include Property, Casualty, Agriculture, Credit and Bonds, Engineering, Marine, Aviation and Motor. Risks under contracts usually cover a 12-month duration.

For reinsurance contracts, reserves (comprising provisions for claims reported by cedants and claims incurred but not reported) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred. Separate provision is made by way of unearned premium provision to cover the cost of risk unexpired at the end of the reporting period.

The IBNR provisions are determined quarterly according to known facts at the end of the respective reporting periods, based on information starting from underwriting year 2013. As the claim experience develops, certain claims are settled and further claims are reported. These outstanding claims provisions are booked on an undiscounted basis and do not take financial interest into account.

30. REINSURANCE CONTRACTS/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

General reinsurance (continued)

(a) Terms and conditions (continued)

The methodology used to estimate the IBNR amounts consists primarily of projecting future claims through a combination of actuarial and statistical projection techniques. Typical methods include the Chain Ladder and Bornhuetter-Ferguson methods. For a class of business where there is a lack of sufficient development data, the expected loss ratio is used to estimate the ultimate loss for that underwriting year. Claims provisions are separately analysed by class of business. In addition, large claims are usually separately assessed by the actuaries together with the management. The claims projection assumptions are intended to provide the best estimate of the most likely or expected outcome.

The booked estimates are expected to be above the central estimates determined during the annual actuarial valuation exercise for statutory classes of businesses (Motor and Employees' Compensation) under Hong Kong regulation. The annual actuarial valuation for such business includes an additional provision for adverse deviation, otherwise known as a risk margin, at a 75% confidence level of adequacy.

(b) Assumptions

The principal assumption is that statistical trends underlying the past claim development experience of the segmented businesses may be used to project future development. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

(c) Sensitivities

The sensitivity of certain assumptions like legislative change, uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the end of the reporting period.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognised in the subsequent consolidated financial statements.

(d) Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net basis.

The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive underwriting year at the end of each reporting period, together with cumulative claims as at the end of the current reporting period.

30. REINSURANCE CONTRACTS/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

General reinsurance (continued)

(d) Loss development triangle (continued)

	Underwriting year				
	2019 US$	2018 US$	2017 US$	2016 US$	Total US$
Gross general reinsurance claims at the end of each year of development					
Estimate of cumulative claims for current and previous underwriting year					
At end of underwriting year	678,522,795	451,400,196	364,029,952	193,331,454	
One year later		1,010,970,519	778,289,454	476,473,164	
Two years later			786,818,263	465,076,448	
Three years later				476,559,756	
Estimate of cumulative claims for current and previous underwriting year	678,522,795	1,010,970,519	786,818,263	476,559,756	2,952,871,333
Cumulative gross payments	(101,055,733)	(494,914,621)	(607,686,376)	(410,386,119)	(1,614,042,849)
Provision net of payments for prior years					78,744,377
Total gross general reinsurance liability as per the statement of financial position (note 19(a))					1,417,572,861
Net general reinsurance claims at the end of each year of development					
Estimate of cumulative claims for current and previous underwriting year					
At end of underwriting year	403,256,044	302,176,856	299,449,224	170,415,385	
one year later		694,562,110	614,327,624	431,102,952	
two years later			615,203,367	421,648,381	
three years later				432,696,471	
Estimate of cumulative claims for current and previous accident year	403,256,044	694,562,110	615,203,367	432,696,471	2,145,717,992
Cumulative net payments	(86,945,346)	(318,567,056)	(473,993,813)	(369,186,816)	(1,248,693,031)
Provision net of payments for prior years					77,292,482
Total net general reinsurance liability as per the statement of financial position (note 19(a))					974,317,443

30. REINSURANCE CONTRACTS/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

General reinsurance (continued)

(e) Insurance risk

The Group principally accepts inward reinsurance for the property, motor and casualty classes. These risks vary significantly in relation to the location of the risk insured and the type of risks insured. The variability of risks is mitigated by diversification of risk of loss to a well spread portfolio of insurance contracts and geographical areas, as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The following table sets out the gross premium written by line of business.

	2019 US$	2018 US$
Property damage	848,866,917	638,956,339
Motor vehicle	211,955,423	315,243,653
General liability	166,326,893	160,026,919
Pecuniary loss	142,968,431	126,298,870
Accident and health	141,789,163	52,413,116
Goods in transit	4,400,577	4,526,922
Aircraft, Damage & Liability	4,802,706	3,878,688
Ships, damage and liability	9,899,574	11,948,561
	1,531,009,684	1,313,293,068

The following table sets out the gross premium written by geographical area.

	2019 US$	2018 US$
China	511,144,841	359,616,243
Americas	368,046,300	277,797,299
Europe	130,553,448	227,556,486
Korea	225,817,248	160,261,944
Australia and New Zealand	65,620,345	91,135,164
Japan	76,120,425	56,792,756
Others	153,707,077	140,133,176
	1,531,009,684	1,313,293,068

30. REINSURANCE CONTRACTS/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

General reinsurance (continued)

(e) Insurance risk (continued)

The variability of experience is also improved by careful selection and implementation of underwriting guidelines and strict claim review policies to assess all new and on going claims. The Group also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

In order to limit exposure to catastrophic events, appropriate retrocession arrangements have been made. The purpose of these arrangements is to limit exposure to a pre-determined maximum amount based on the Group's risk appetite.

Life reinsurance

The Group underwrites treaties covering both group and individual insurance contracts. Treaties of group contract provides yearly renewable life coverage and other supplementary benefits for employees under a group plan while treaties of individual contract offers single premium and regular premium, short term and long term products which lump sum benefits are payable on death, critical illnesses or permanent disability.

Life reinsurance policy liabilities included mathematical reserves, unearned premium reserves, currency mismatch reserves, resilience reserves and claims reserves.

Mathematical reserves are calculated underwriting reserves relating to guaranteed claims and benefits of ceding companies in life reinsurance. Mathematical reserves are estimated using actuarial methods on the basis of the present value of future payments to cedants less the present value of premium still payable by cedants. The calculation includes assumptions relating to mortality, disability, lapses and the expected future interest rates. Actuarial principles used allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins are no longer considered sufficient.

Claim reserves for losses and claims settlement expenses are recognised for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are recognised for reserves for reinsurance losses reported before the reporting date and reserves for reinsurance losses that have already been incurred but not yet reported.

Unearned premium reserves are related to written premiums receivable but allocated to future risk periods.

30. REINSURANCE CONTRACTS/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

Life reinsurance (continued)

Estimates, assumptions concerning the future and judgments are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The main life reinsurance risks which the Group is exposed to are as follows:

(a) Mortality risk

Mortality risk is the risk of loss due to higher than anticipated death experience, usually caused by higher occurrence of claims, resulting from either a general volatility, an adverse long-term trend or a mortality shock event.

(b) Morbidity risk

Morbidity risk is the risk of loss due to adverse claims experience from critical illness or health treaties resulting from trends of early diagnoses, improvements in medical diagnoses, adverse long-term trend and/or inflation of medical costs.

(c) Lapse risk

Lapse risk is the risk of non-payment of premium by the policyholder or the early termination of the policies.

Key assumptions
Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

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

- Valuation Interest Rates
  In deciding on the rates of interest to be used, the Appointed Actuary has considered the nature of the liabilities of the single premium treaties, the yields on existing assets and the current market conditions and expectations. Considering the nature of the liabilities and the yields on the assets, a valuation interest rates of 3.0% for USD business and a range of 2.8% to 3.2% for CNY business are considered by the Appointed Actuary to be prudent.

30. REINSURANCE CONTRACTS/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

Life reinsurance (continued)
Key assumptions (continued)

- Claims ratios
  The claims ratios are set by the Appointed Actuary based on the historical information obtained at the pricing stage and the agreed pricing basis between the Group and the cedants.

Sensitivities
The analysis which follows is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit before tax. It should be noted that movements in these assumptions are non-linear.

31 December 2019

	Change in assumptions	Impact on gross liabilities US$	Impact on net liabilities US$	Impact on profit before tax US$
Valuation interest	+0.5%	(2,082,128)	(2,082,128)	2,082,128
Valuation interest	-0.5%	2,110,789	2,110,789	(2,110,789)

A stress environment increase/decrease in valuation interest rates by 1% will increase/decrease the profit before tax by US$4,136,130 and US$4,250,787, respectively.

31 December 2018

	Change in assumptions	Impact on gross liabilities US$	Impact on net liabilities US$	Impact on profit before tax US$
Valuation interest	+0.5%	(23,154)	(23,154)	23,154
Valuation interest	-0.5%	2,412,581	2,412,581	(2,412,581)

31. COMMITMENTS

The Group has one lease contract that has not yet commenced as at 31 December 2019. The future lease payments for the non-cancellable lease contract are US$2,959,611 due within one year and US$7,637,673 due in the second to third years, inclusive.

32. EVENTS AFTER THE REPORTING PERIOD

The outbreak of the coronavirus disease ("COVID-19") in early 2020 has certain impacts on the Group's business operation and the Group has implemented various measures to mitigate such impacts. The Group will pay continuous attention on the situation of COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the approval of the financial statements, the assessment is still in progress.

33. COMPARATIVE AMOUNTS

The comparative amounts have been reclassified to conform with the current year's presentation due to the change in the presentation of the revenue and expense items in the consolidated statement of profit or loss and other comprehensive income.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 US$	2018 US$
ASSETS		
Intangible assets	15,267	7,109
Property and equipment	155,889	215,525
Investment in subsidiaries	88,671,972	88,671,972
Investment in associates	61,058,481	66,537,500
Investment in joint ventures	61,440,825	-
Held-to-maturity investments	24,678,801	29,220,607
Available-for-sale investments	1,359,664,272	1,122,776,849
Investments at fair value through profit or loss	78,128,516	81,748,439
Loans and receivables	117,001,728	123,383,173
Deferred acquisition costs	182,247,078	158,286,465
Prepayments, deposits and other receivables	19,725,040	17,680,543
Retrocession assets	553,828,256	325,137,151
Reinsurance receivables	1,525,522,243	1,477,805,428
Amount due from immediate holding company	3,293,814	2,019,647
Deferred tax assets	3,595,330	9,306,910
Amount due from intercompany	60,331,353	63,337,004
Current tax receivables	-	106,595
Cash and cash equivalents	242,146,731	168,216,838
TOTAL ASSETS	4,381,505,595	3,734,457,755
LIABILITIES		
Reinsurance contracts/policy liabilities	2,390,162,524	1,779,610,480
Reinsurance payables	791,993,410	932,588,916
Derivatives	-	2,984,653
Deferred commission income	33,234,444	35,287,446
Other payables and accrued liabilities	62,781,599	11,022,407
Current tax payable	2,071,982	-
TOTAL LIABILITIES	3,280,243,959	2,761,493,902
NET ASSETS	1,101,261,636	972,963,853
EQUITY		
Share capital	786,720,714	786,720,714
Reserves	314,540,922	186,243,139
	1,101,261,636	972,963,853

Hahn Franz Josef
Director and Chief Executive Officer

Chen Kaihong
Director

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

A summary of the Company's reserves is as follows:

	Share capital US$	Retained earnings US$	Fair value reserve US$	Total US$
Total equity as at 1 January 2018	650,000,000	235,799,110	28,794,034	914,593,144
Increase share capital	136,720,714	-	-	136,720,714
Profit for the year	-	22,122,556	-	22,122,556
Other comprehensive income for the year:				
Changes in fair value of available-for-sale investments, net of tax	-	-	(100,495,561)	(100,495,561)
Share of other comprehensive income of an associate	-	-	23,000	23,000
Total comprehensive income for the year	-	22,122,556	(100,472,561)	(78,350,005)
Total equity as at 31 December 2018 and 1 January 2019	786,720,714	257,921,666	(71,678,527)	972,963,853
Profit for the year	-	36,461,613	-	36,461,613
Other comprehensive income for the year:				
Changes in fair value of available-for-sale investments, net of tax	-	-	91,319,664	91,319,664
Share of other comprehensive income of an associate	-	-	516,500	516,500
Total comprehensive income for the year	-	36,461,613	91,836,164	128,297,777
Total equity as at 31 December 2019	786,720,714	294,383,279*	20,157,637*	1,101,261,630

* These reserve accounts comprise the reserves of US$314,540,916 (2018: US$186,243,139) in the statement of financial position.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 April 2020.

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

安永會計師事務所
香港中環添美道 1 號
中信大廈 22 樓

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

Independent Review Report
To the board of directors of Peak Reinsurance Company Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 20, which comprises the condensed consolidated statement of financial position of Peak Reinsurance Company Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material aspects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants
Hong Kong
16 September 2020

PEAK REINSURANCE COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Unaudited Six months ended 30 June 2020 US$	2019 US$
Revenues			
Gross written premiums	4	855,879,430	815,890,258
Gross earned premiums		834,738,723	732,140,082
Retrocessionaires' share of gross earned premiums		(197,349,665)	(162,109,448)
Net reinsurance contracts earned premiums revenue		637,389,058	570,030,634
Investment income	4	961,565	32,070,620
Commission income		51,155,281	42,972,160
Foreign exchange gains		1,559,431	2,265,012
Total revenue		691,065,335	647,338,426
Expenses			
Gross claims paid and payable		(478,787,625)	(397,850,285)
Retrocessionaires' share of claims paid		123,851,531	100,134,503
Change in gross reinsurance outstanding claims		(87,140,132)	(217,231,225)
Change in retrocessionaires' share of outstanding claims		(351,795)	74,446,389
Net claims incurred		(442,428,021)	(440,500,618)
Commission expense		(206,753,361)	(178,263,322)
Administration expenses		(26,424,515)	(23,325,525)
Finance costs on lease liability		(376,288)	-
Other expenses		(332,795)	(954,697)
Total expenses		(676,314,980)	(643,044,162)
Profit before share of profit of associates and joint ventures		14,750,355	4,294,264
Share of profit of associates		5,667,096	2,327,981
Share of profit of joint ventures		1,912,179	-
PROFIT BEFORE TAX		22,329,630	6,622,245
Income tax expense	5	(1,353,049)	(1,080,955)
PROFIT FOR THE PERIOD		20,976,581	5,541,290
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments			
Changes in fair value		(14,652,378)	75,268,338
Reclassification adjustments for losses on disposal included in the consolidated statement of profit or loss		8,389,282	6,145,484
Income tax effect		(88,358)	(3,968,149)
		(6,351,454)	77,445,673
Share of other comprehensive loss of an associate		(1,606,000)	-
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(7,957,454)	77,445,673
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		13,019,127	82,986,963

PEAK REINSURANCE COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2020 Unaudited US$	As at 31 December 2019 Audited US$
ASSETS			
Intangible assets		11,416	15,267
Right-of-use asset		17,016,730	-
Goodwill		357,250	-
Property, plant and equipment		2,085,156	179,888
Investment in associates		65,119,577	61,058,481
Investment in joint ventures		62,559,800	61,440,825
Held to maturity investments	6	20,650,467	24,678,801
Available-for-sale investments	7	1,415,641,297	1,454,661,007
Investments at fair value through profit or loss	8	52,173,917	78,128,516
Loans and receivables	9	119,878,662	119,874,260
Deferred acquisition costs		186,810,613	183,520,774
Loan to an associate	11	10,000,000	-
Prepayments, deposits and other receivables		24,043,392	20,604,973
Retrocession assets	13	562,309,000	553,828,256
Reinsurance receivables	10	1,860,363,818	1,579,654,841
Amount due from immediate holding company		3,293,842	3,293,814
Deferred tax assets		4,629,047	3,674,360
Cash and cash equivalents	12	299,310,133	273,561,737
TOTAL ASSETS		4,706,254,117	4,418,175,800
LIABILITIES			
Reinsurance contracts/policy liabilities	13	2,508,512,645	2,413,625,113
Reinsurance payables	14	1,021,095,952	811,118,438
Deferred commission income		38,128,249	33,234,444
Other payables and accrued liabilities		9,635,122	63,555,201
Lease liability		16,900,387	-
Current tax payable		4,392,013	2,071,982
TOTAL LIABILITIES		3,598,664,368	3,323,605,178
NET ASSETS		1,107,589,749	1,094,570,622
EQUITY			
Share capital	15	786,720,714	786,720,714
Reserves		320,869,035	307,849,908
TOTAL EQUITY		1,107,589,749	1,094,570,622

PEAK REINSURANCE COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited			
	Share capital US$	Fair value reserve US$	Retained earnings US$	Total US$
Total equity as at 1 January 2020 (audited)	786,720,714	20,299,461	287,550,447	1,094,570,622
Profit for the period	-	-	20,976,581	20,976,581
Other comprehensive income for the period:				
Changes in fair value of available-for-sale investments, net of tax	-	(6,351,454)	-	(6,351,454)
Share of other comprehensive loss of an associate	-	(1,606,000)	-	(1,606,000)
Total comprehensive income for the period	-	(7,957,454)	20,976,581	13,019,127
Total equity as at 30 June 2020	786,720,714	12,342,007	308,527,028	1,107,589,749
Total equity as at 1 January 2019 (audited)	786,720,714	(73,900,753)	252,671,449	965,491,410
Profit for the period	-	-	5,541,290	5,541,290
Other comprehensive income for the period:				
Changes in fair value of available-for-sale investments, net of tax	-	77,445,673	-	77,445,673
Total comprehensive income for the period	-	77,445,673	5,541,290	82,986,963
Total equity as at 30 June 2019	786,720,714	3,544,920	258,212,739	1,048,478,373

PEAK REINSURANCE COMPANY LIMITED

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Unaudited Six months ended 30 June 2020 US$	2019 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		22,329,630	6,622,245
Adjustments for:			
Depreciation of property and equipment		243,095	54,626
Amortisation of intangible assets		3,851	2,503
Depreciation of right-of-use assets		1,546,976	-
Share of profit of associates		(5,667,096)	(2,327,981)
Share of profit of joint ventures		(1,912,179)	-
Interest income		(21,072,771)	(24,060,009)
Finance cost of lease liability		376,288	-
Dividend income from investments	4	(11,059,935)	(2,603,066)
Fair value loss/(gain) on investments at fair value through profit or loss	4	11,637,186	(13,452,214)
Loss on disposal of investments at fair value through profit or loss	4	2,092,175	9,013,492
Loss/(gain) on disposal of available-for-sale investments	4	5,374,045	(7,559,418)
Gain on redemption of loans and receivables investments	4	-	(115,410)
Impairment loss on available-for-sale investments	4	11,004,597	6,863,035
Change in net reinsurance contract/policy liabilities		86,406,788	228,301,131
Change in reinsurance payables		209,977,514	(51,075,213)
Change in amount due from ultimate holding company		(28)	(304,488)
Change in loan to an associate	11	(10,000,000)	-
Change in prepayments, deposits and other receivables		(2,406,513)	424,887
Change in deferred acquisition costs, net		1,603,966	(16,110,345)
Change in reinsurance receivables		(279,519,406)	(128,996,942)
Change in other payables and accrued liabilities		(55,513,726)	36,253,703
Cash flows from operations		(34,555,543)	40,930,536
Finance cost of lease payments		(124,943)	-
Tax (paid)/credit		(154,900)	215,355
Net cash flows (used in)/generated from operating activities		(34,835,386)	41,145,891

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	Unaudited six months ended 30 June 2020 US$	2019 US$
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment		(2,132,107)	(24,079)
Interest received		23,641,928	22,984,096
Change in cash collaterals		(10,000,000)	(10,000,000)
Dividends received from investments in securities		7,840,577	2,405,612
Dividends received from joint ventures		793,204	-
Purchases of available-for-sale investments		(306,621,499)	(161,940,673)
Purchases of loans and receivables		(6,249,654)	(5,249,823)
Purchase of investments at fair value through profit or loss		-	(740,238)
Purchase of investment in associates		-	(10,569,414)
Acquisition of a subsidiary, net of cash acquired		251,771	-
Proceeds from maturity of loans and receivables		6,239,134	14,860,000
Proceeds from maturity of held-to-maturity investments		4,000,000	3,908,077
Proceeds from disposal of available-for-sale investments		320,873,661	257,656,976
Proceeds/(losses) from disposal of investments at fair value through profit or loss		12,951,421	(7,822,881)
Net cash flows generated from investing activities		51,588,436	105,467,653
CASH FLOWS FROM FINANCING ACTIVITY			
Principal portion of lease payments and net cash flows used in financing activities		(450,695)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS		16,302,355	146,613,544
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		233,561,737	165,075,304
Net increase in cash and cash equivalents		16,302,355	146,613,544
Effect of foreign exchange rate change		(553,959)	206,090
CASH AND CASH EQUIVALENTS AT END OF PERIOD		249,310,133	311,894,938
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents and cash collaterals	12	299,310,133	351,894,938
Cash collaterals	12	(50,000,000)	(40,000,000)
Cash and Cash Equivalents	12	249,310,133	311,894,938

1. CORPORATE INFORMATION

The registered office of Peak Reinsurance Company Limited is located at Room 6501-06, 65/F, The Center, 99 Queen's Road Central, Central, Hong Kong.

Peak Reinsurance Company Limited was granted a composite license by the Hong Kong Insurance Authority on 3 June 2014 and the principal activity of the Group consists of general reinsurance business and life and health reinsurance business.

In the opinion of the directors, the ultimate holding company of the Group is Fosun International Holdings Ltd., which is incorporated in the British Virgin Islands.

The immediate holding company of Peak Reinsurance Company Limited is Peak Reinsurance Holdings Limited which is an investment holding company, with limited liability incorporated in Bermuda.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

The interim consolidated financial information is presented in US dollars which is also the Group's functional currency.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRS for the first time for the current period's financial information.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

[1] The Group has assessed that it meets the pre-conditions for the temporary exemption from HKFRS 9 in 2020 and the Group elected to apply the temporary exemption option.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the interim condensed consolidated financial information of the Group as the Group does not have any interest rate hedge relationships.

(c) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

4. REVENUE AND INVESTMENT INCOME

An analysis of revenue and investment income is as follows:

	Six months ended 30 June	
	2020 Unaudited US$	2019 Unaudited US$
Revenue		
Gross premiums written:		
General reinsurance	821,193,526	764,239,236
Life reinsurance	34,685,904	51,651,022
	855,879,430	815,890,258
Investment income		
Interest income from debt investments	20,660,768	23,391,716
Interest income from bank deposits	412,003	668,293
Dividend income from equity investments	11,059,935	2,603,066
Net fair value (loss)/gain on investments at fair value through profit or loss	(11,637,186)	13,452,214
Net loss on disposal of fair value through profit or loss investments	(2,092,175)	(9,013,492)
Net (loss)/gain on disposal of available-for-sale investments	(5,374,045)	7,559,418
Net gain on disposal of loans and receivables investments	-	115,410
Impairment loss on available-for-sale investments	(11,004,597)	(6,863,035)
Foreign exchange (losses)/gains	(1,063,138)	157,030
	961,565	32,070,620

5. INCOME TAX

Hong Kong profits tax has been provided at the rates of 8.25% (six months ended 30 June 2019: 8.25%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30 June	
	2020 Unaudited US$	2019 Unaudited US$
Hong Kong current tax charge for the period	2,400,000	123,522
Over provision in prior year	(3,906)	(19,003)
Deferred tax (credit)/charge	(1,043,045)	976,436
Total tax charge for the period	1,353,049	1,080,955

6. HELD-TO-MATURITY INVESTMENTS

	As at 30 June 2020 Unaudited US$	As at 31 December 2019 Audited US$
Listed debt securities, at amortised cost:		
Hong Kong	20,650,467	20,704,038
Elsewhere	-	3,974,763
Total	20,650,467	24,678,801

The Group has pledged investments amounted to US$15,385,611 (31 December 2019: US$18,328,755) from the above held-to-maturity investments to secure life treaties.

As at 30 June 2020, the fair value of the held-to-maturity investments was US$21,806,800 (31 December 2019: US$25,795,800) and there were no overdue but not impaired.

7. AVAILABLE-FOR-SALE INVESTMENTS

	As at 30 June 2020 Unaudited US$	As at 31 December 2019 Audited US$
Listed debt securities, at fair value:		
Hong Kong	338,863,841	348,872,773
Elsewhere	434,813,615	489,088,328
	773,677,456	837,961,101
Unlisted debt securities, at fair value	88,659,340	99,958,292
Listed equity shares, at fair value:		
Hong Kong	88,382,702	81,946,926
Elsewhere	416,788,386	396,941,323
	505,171,088	478,888,249
Unlisted equity shares, at fair value	48,133,413	37,853,365
Total	1,415,641,297	1,454,661,007

During the period, the net fair value change in respect of the Group's available-for-sale investments decreased the other comprehensive income by US$6,263,096 (for the six months ended 30 June 2019: increased by US$81,413,822), of which an increase of US$8,389,282 (30 June 2019: an increase of US$6,145,484) was reclassified from other comprehensive income to profit or loss for the period.

There was a significant decline or prolonged decline in the market value of certain listed equity shares during the period. The directors consider that this indicates that the listed equity shares have been impaired and impairment losses of US$11,004,597 (for the six months ended 30 June 2019: US$6,863,035) were recognised and reclassified from other comprehensive income to profit or loss.

The Group has pledged investments amounted to US$248,462,244 (31 December 2019: US$241,497,486) from the above available-for-sale investments to secure life treaties.

8. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 30 June 2020 Unaudited US$	As at 31 December 2019 Audited US$
Listed equity shares, at fair value:		
Hong Kong	51,972,659	77,927,258
Unlisted derivative assets, at fair value	201,258	201,258
Total	52,173,917	78,128,516

The above equity shares at 30 June 2020 and 31 December 2019 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

During the period, the net unrealised fair value loss of the Group's equity shares and derivatives recognised directly in profit or loss amounted to US$11,637,186 (for the six months ended 30 June 2019: net unrealised fair value gain of US$13,452,214).

9. LOANS AND RECEIVABLES

	As at 30 June 2020 Unaudited US$	As at 31 December 2019 Audited US$
Collateralised loan obligations, at amortised cost	119,878,662	119,874,260

In the event of default by the counterparty to repay the loan, the Group has the right to the underlying loans held by the trustees in the names of special purpose vehicles. The carrying amounts of the loans and receivables are approximate to their fair values.

10. REINSURANCE RECEIVABLES

	As at 30 June 2020 Unaudited US$	As at 31 December 2019 Audited US$
Amounts due under reinsurance contracts accepted	1,860,363,818	1,579,654,841

The Group's reinsurance receivables relate to a large number of diversified customers and therefore there is no significant concentration of credit risk. Reinsurance receivables are non-interest-bearing. The carrying amounts of reinsurance receivables approximate to their fair values.

The Group has no reinsurance receivables that are past due by more than one year at the period end date of 2020 and which are impaired.

The above carrying amounts of reinsurance receivables include premium receivables from fellow subsidiaries and a related party of US$20,279,392 (31 December 2019: US$15,253,923) and premium receivables from an associate of US$115,426,212 (31 December 2019: US$103,987,297).

The aging analysis of the reinsurance receivables that are not considered to be impaired is as follows:

	As at 30 June 2020 Unaudited US$	As at 31 December 2019 Audited US$
Neither past due nor impaired	1,530,701,790	1,418,980,292
Less than 3 months past due	165,531,462	108,844,635
3 to 12 months past due	164,130,566	51,829,914
	1,860,363,818	1,579,654,841

11. LOAN TO AN ASSOCIATE

The balance represents an interest-bearing loan to an associate of US$10,000,000 (31 December 2019: Nil) that is repayable within two years. The loan is secured by properties owned by relevant companies of the associate. There was no recent history of default for the loan. As at 30 June 2020, the loss allowance was assessed to be minimal.

12. CASH AND BANK BALANCES AND CASH COLLATERALS

	As at 30 June 2020 Unaudited US$	As at 31 December 2019 Audited US$
Fixed and saving deposit	223,385,818	256,762,749
Cash at banks	1,461,822	809,179
Cash held by investment managers	74,462,493	15,989,809
	299,310,133	273,561,737
Less: Cash collaterals	(50,000,000)	(40,000,000)
Cash and cash equivalents	249,310,133	233,561,737

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Group has pledged cash amounted to US$50,000,000 (31 December 2019: US$40,000,000) from the above cash and cash balances to secure letter of credit facility. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances reasonably approximate to their fair values.

13. REINSURANCE CONTRACTS/POLICY LIABILITIES

Reinsurance contracts/policy liabilities are analysed as follows:

		30 June 2020 Unaudited			31 December 2019 Audited		
	Notes	Reinsurance contracts/policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts/policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
General reinsurance	(a)	2,209,271,275	(562,271,551)	1,646,999,724	2,112,070,461	(553,828,256)	1,558,242,205
Life reinsurance	(b)	299,241,370	(37,449)	299,203,921	301,554,652	-	301,554,652
Total reinsurance contracts/ policy liabilities		2,508,512,645	(562,309,000)	1,946,203,645	2,413,625,113	(553,828,256)	1,859,796,857

(a) General reinsurance contracts liabilities are analysed as follows:

		30 June 2020 Unaudited			31 December 2019 Audited		
	Notes	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
Provision for claims reported		488,681,486	(193,172,673)	295,508,813	498,130,777	(178,232,628)	319,898,149
Provision for claims incurred but not reported (IBNR)		1,000,776,417	(247,313,573)	753,463,844	919,442,084	(265,022,790)	654,419,294
Total claims reported and IBNR	(i)	1,489,457,903	(440,486,246)	1,048,971,657	1,417,572,861	(443,255,418)	974,317,443
Provision for unearned premiums	(ii)	718,733,042	(121,785,305)	596,947,737	693,417,270	(110,572,838)	582,844,432
Provision for premium deficiency	(iii)	1,080,330	-	1,080,330	1080,330	-	1,080,330
Total reinsurance contracts liabilities		2,209,271,275	(562,271,551)	1,646,999,724	2,112,070,461	(553,828,256)	1,558,242,205

13. REINSURANCE CONTRACTS/POLICY LIABILITIES (continued)

(a) General reinsurance contracts liabilities are analysed as follows: (continued)

(i) The provision for claims reported by policyholders and claims incurred but not reported ("IBNR") is analysed as follows:

	30 June 2020 Unaudited			30 June 2019 Unaudited		
	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	1,417,572,861	(443,255,418)	974,317,443	949,640,496	(213,075,419)	736,565,077
Claims incurred in and related to the current underwriting period	168,423,017	(36,138,531)	132,284,486	137,686,601	(34,977,386)	102,709,215
Claims incurred in and related to prior underwriting years	381,202,854	(87,361,205)	293,841,649	435,561,550	(139,603,506)	295,958,044
Claims paid and payable during the period	(465,346,571)	123,851,531	(341,495,040)	(366,966,122)	100,134,503	(266,831,619)
Exchange differences	(12,394,258)	2,417,377	(9,976,881)	3,430,677	(1,108,515)	2,322,162
At 30 June	1,489,457,903	(440,486,246)	1,048,971,657	1,159,353,202	(288,630,323)	870,722,879

(ii) The provision for unearned premiums is analysed as follows:

	30 June 2020 Unaudited			30 June 2019 Unaudited		
	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	693,417,270	(110,572,838)	582,844,432	606,496,765	(112,061,732)	494,435,033
Premiums written in the period	821,193,526	(208,535,381)	612,658,145	764,239,236	(162,633,994)	601,605,242
Premiums earned during the period	(795,877,754)	197,322,914	(598,554,840)	(678,623,807)	162,077,948	(516,545,859)
At 30 June	718,733,042	(121,785,305)	596,947,737	692,112,194	(112,617,778)	579,494,416

(iii) Provision for premiums deficiency:

	30 June 2020 Unaudited			30 June 2019 Unaudited		
	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance contracts liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	1,080,330	-	1,080,330	925,003	-	925,003
Incurred during the period	-	-	-	285,429	-	285,429
At 30 June	1,080,330	-	1,080,330	1,210,432	-	1,210,432

13. REINSURANCE CONTRACTS/POLICY LIABILITIES (continued)

(b) Life reinsurance policy liabilities are analysed as follows:

		30 June 2020 Unaudited			31 December 2019 Audited		
	Notes	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
Provision for claims		11,531,102	-	11,531,102	13,001,693	-	13,001,693
Provision for mathematical reserve		277,917,444	-	277,917,444	274,585,070	-	274,585,070
Total claims reported and mathematical reserve	(i)	289,448,546	-	289,448,546	287,586,763	-	287,586,763
Provision for unearned premiums	(ii)	9,792,824	(37,449)	9,755,375	13,967,889	-	13,967,889
Total reinsurance policy liabilities		299,241,370	(37,449)	299,203,921	301,554,652	-	301,554,652

(i) The provision for claims reported and mathematical reserve is analysed as follows:

	30 June 2020 Unaudited			30 June 2019 Unaudited		
	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	287,586,763	-	287,586,763	220,642,609	-	220,642,609
Claims incurred in and related to the current underwriting period	12,318,756	-	12,318,756	19,336,495	-	19,336,495
Claims incurred in and related to the prior underwriting years	3,983,130	-	3,983,130	22,211,435	-	22,211,435
Claims paid and payable during the period	(13,441,054)	-	(13,441,054)	(30,884,163)	-	(30,884,163)
Exchange differences	(999,049)	-	(999,049)	-	-	-
At 30 June	289,448,546	-	289,448,546	231,306,376	-	231,306,376

(ii) The provision for unearned premiums is analysed as follows:

	30 June 2020 Unaudited			30 June 2019 Unaudited		
	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$	Reinsurance policy liabilities US$	Retrocessionaires' share of liabilities US$	Net US$
At 1 January	13,967,889	-	13,967,889	16,058,718	-	16,058,718
Premiums written in the period	34,685,904	(64,200)	34,621,704	51,651,022	(31,500)	51,619,522
Premiums earned during the period	(38,860,969)	26,751	(38,834,218)	(53,516,275)	31,500	(53,484,775)
At 30 June	9,792,824	(37,449)	9,755,375	14,193,465	-	14,193,465

14. REINSURANCE PAYABLES

An aging analysis of the reinsurance payables as at the end of the reporting period is as follows:

	As at 30 June 2020 Unaudited US$	As at 31 December 2019 Audited US$
Not yet due	802,719,022	674,287,373
Within 3 months	90,600,729	88,769,059
Over 3 months but less than 1 year	127,776,201	48,062,006
	1,021,095,952	811,118,438

The carrying amounts of reinsurance payables include payables to fellow subsidiaries and a related party of US$6,537,773 (31 December 2019: US$8,912,660) and payables to an associate of US$44,053,009 (31 December 2019: US$40,873,946).

15. SHARE CAPITAL

	As at 30 June 2020 Unaudited US$	As at 31 December 2019 Audited US$
Issued and fully paid:		
721,430,470 (31 December 2019: 721,430,470) Ordinary Shares	786,720,714	786,720,714

There were no movements in share capital during the period.

16. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial information, the Group had the following material transactions with related parties during the period on terms agreed between the parties:

	Six months ended 30 June	
	2020 Unaudited US$	2019 Unaudited US$
An associate:		
Reinsurance premium received	15,540,314	40,917,363
Fellow subsidiaries:		
Reinsurance premium received	8,006,109	9,018,255
Expenses paid to fellow subsidiaries	21,867	30,483
Other related party:		
Reinsurance premium received	784,337	34,803

During the financial period, related party transactions took place between the following related companies: Yongan Property Insurance Group Limited, AmeriTrust Insurance Group, National General Insurance Corporation N.V, Fidelidade Companhia de Seguros, La Positiva Seguros, Multicare - Seguros de Saúde and Fosun Asset Management Limited. All transactions were in the normal course of business and on the same terms as provided to other participants in the same proportional treaty where applicable. All related party transactions were made on an arm's length basis.

17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances and collaterals, reinsurance receivables, loans and receivables, financial assets included in deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

Instruments were purchased by the Group during the current period. There were no transfers into level 3 from level 1 or level 2 during the period. There have been no material changes in assumptions and valuation techniques since year ended 31 December 2019.

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's investments are exposed to market risk (i.e. the risk of a price change in the capital markets), which include risks from interest rates, equities price and foreign exchange rates.

The interim financial information does not include all financial risk management information and disclosures required in the financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

There have been no material changes in risk management objectives and policies since year ended 31 December 2019.

19. REINSURANCE CONTRACTS/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS AND ASSUMPTIONS

General reinsurance

The Group principally accepts inward reinsurance for the property, motor and casualty classes. These risks vary significantly in relation to the location of the risk insured and the type of risks insured. The variability of risks is mitigated by diversification of risk of loss to a well spread portfolio of insurance contracts and geographical areas, as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The variability of experience is also improved by careful selection and implementation of underwriting guidelines and strict claim review policies to assess all new and on going claims. The Group also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

In order to limit exposure to catastrophic events, appropriate retrocession arrangements have been made. The purpose of these arrangements is to limit exposure to a pre-determined maximum amount based on the Group's risk appetite.

There have been no material changes in terms and assumptions since year ended 31 December 2019.

19. REINSURANCE CONTRACTS/POLICY LIABILITIES AND RETROCESSION ASSETS - TERMS AND ASSUMPTIONS (continued)

Life reinsurance

The main life reinsurance risks which the Group is exposed to are as follows:

(i) Mortality risk

Mortality risk is the risk of loss due to higher than anticipated death experience, usually caused by higher occurrence of claims, resulting from either a general volatility, an adverse long-term trend or a mortality shock event.

(ii) Morbidity risk

Morbidity risk is the risk of loss due to adverse claims experience from critical illness or health treaties resulting from trends of early diagnoses, improvements in medical diagnoses, adverse long-term trend and/or inflation of medical costs.

(iii) Lapse risk

Lapse risk is the risk of non-payment of premium by the policyholder or the early termination of the policies.

In deciding on the rates of interest to be used, the Appointed Actuary of the Group has considered the nature of the liabilities of the single premium treaties, the yields on existing assets and the current market conditions and expectations. There have been no material changes in the valuation interest rates and assumptions since year ended 31 December 2019.

THE ISSUER

Peak Re (BVI) Holding Limited
Ritter House
Wickhams Cay II
Road Town
Tortola VG 1110
British Virgin Islands

THE GUARANTOR

Peak Reinsurance Company Limited
Rooms 6501-06 and 6509-13, The Center
99 Queen's Road Central,
Central, Hong Kong

TRUSTEE

The Hongkong and Shanghai Banking Corporation Limited
Level 24, HSBC Main Building
1 Queen's Road Central
Hong Kong

REGISTRAR, TRANSFER AGENT, PRINCIPAL PAYING AGENT AND CALCULATION AGENT

The Hongkong and Shanghai Banking Corporation Limited
Level 24, HSBC Main Building
1 Queen's Road Central
Hong Kong

LEGAL ADVISERS

To the Issuer and the Guarantor as to British Virgin Islands law

Ogier
11/F Central Tower
28 Queen's Road Central, Central
Hong Kong

To the Issuer and the Guarantor as to English law and Hong Kong law

Linklaters
11/F, Alexandra House
18 Chater Road, Central
Hong Kong

To the Joint Lead Managers as to English law

Allen & Overy
9th Floor, Three Exchange Square
Central
Hong Kong

To the Issuer, the Guarantor and the Joint Lead Managers as to PRC law

AllBright
11,12/F Shanghai Tower
No.501 Yincheng Middle Rd.
Pudong New Area
Shanghai
P.R. China 200120

To the Trustee as to English law

Allen & Overy LLP
50 Collyer Quay
#09-01 OUE Bayfront
Singapore 049321

AUDITOR

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

api A.Plus International
FINANCIAL PRESS LIMITED
200580263