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## **Yunfeng Financial Group Limited**

**雲鋒金融集團有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 376)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021**

The board of directors (the “**Board**”) of Yunfeng Financial Group Limited (the “**Company**”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2021, together with the comparative figures for the corresponding period in 2020. The unaudited condensed consolidated interim results have been reviewed by the Company’s audit committee and the Company’s independent auditor.

## Management discussion and analysis

The board of directors (the “Board”) of Yunfeng Financial Group Limited (the “Company”) submit herewith the unaudited condensed consolidated interim results and financial position of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2021 (the “First Half of 2021” or the “Period”), together with the comparative figures for the corresponding period in 2020 (the “Prior Period”).

### Overview

In the First Half of 2021, notwithstanding the continuing widespread impact of the COVID-19 pandemic on the global economy, as governments in various countries expedited vaccine rollouts and continued to introduce stimulus and relief measures to support reopening their economies, China and other major markets are showing signs of stronger recovery. Thanks to this and Hong Kong’s prominent role as a premier listing platform and leading global asset and wealth management centre, the Group has continued to grasp all opportunities arising in the recovery process and leverage its competitiveness in financial technology and innovations to achieve satisfactory business growth and operating performance during the period.

The Group’s sources of revenue includes life insurance premium income and other financial businesses including subscription fees and management fees for products launched by the Group, platform fees for distribution of third-parties products, administration fee for employees stock ownership plan management services, brokerage commission income and corporate advisory fee income etc. For the Period, the Group’s revenue amounted to HK\$3,571.3 million, representing an increase of 25% compared to that of HK\$2,865.7 million for the Prior Period. The revenue included HK\$3,548.8 million premiums and fee income, representing an increase of 24% compared to that of HK\$2,852.2 million for the Prior Period, and HK\$22.5 million of income from other financial services, representing an increase of 67% compared to that of HK\$13.5 million for the Prior Period. The adjusted operating profit is approximately HK\$431.8 million, representing an increase of 10% compared to that of HK\$392.6 million for the Prior Period. The Group’s consolidated profit amounted to HK\$635.1 million, representing an increase of 142% compared to that of HK\$262.2 million for the Prior Period. The net profit attributable to equity shareholders of the Company amounted to HK\$459.5 million, representing an increase of 321% compared to that of HK\$109.2 million for the Prior Period. The improvement of the Group’s results is mainly due to the satisfactory growth of the business of YF Life Insurance International Limited (“YF Life”), and substantial growth in investment return.

## Financial result review

### Significant financial information

Consolidated profit and loss analysis for the period ended 30 June, HK\$ million

<b>Income</b>	<i>2021</i>	<i>2020</i>	<i>Change %</i>
Premiums and fee income	<u>3,548.8</u>	<u>2,852.2</u>	24
Total operating profit	<u>431.8</u>	<u>392.6</u>	10
Net profit attributable to the owners	<u>459.5</u>	<u>109.2</u>	321
Basic earnings per share (HK\$) ( <i>Note 1</i> )	<u>0.12</u>	<u>0.03</u>	300
Interim dividend proposed per share	<u>-</u>	<u>-</u>	NA

Consolidated financial position analysis, HK\$ million

	<i>At 30 June 2021</i>	<i>At 31 December 2020</i>	<i>Change %</i>
Total assets	<u>93,211</u>	<u>87,553</u>	6
Total equity	<u>19,939</u>	<u>19,342</u>	3
Owner's equity	<u>13,813</u>	<u>13,381</u>	3
Owner's equity per share (HK\$) ( <i>Note 2</i> )	<u>3.57</u>	<u>3.46</u>	3

*Note 1: The denominator is weighted average number of ordinary shares of the Company.*

*Note 2: The denominator is total issued shares.*

**Analysis on profit for six months period ended 30 June, HK\$ million**

	2021	2020	Change %
<b>YF Life segment operating profit</b>	501.0	443.3	13
<b>Other financial services and corporate segment operating loss</b>	<u>(69.2)</u>	<u>(50.7)</u>	36
Total operating profit	431.8	392.6	10
Adjust for the following profit or loss and expenses impact:			
– Investment income from disposal, fair value changes of risk hedging derivatives and fair value change and impairment of certain investments	210.9	(107.7)	NA
– Staff share award amortisation reversal	7.7	9.8	(21)
– Legal and professional fee and other expenses for acquisition of YF Life	-	(2.0)	NA
– Finance cost (Note 1)	(62.6)	(72.0)	(13)
– One-off adjustment (Note 2)	(1.2)	(0.5)	140
– Consolidation adjustments (Note 3)	<u>48.5</u>	<u>42.0</u>	15
<b>Profit for the period</b>	635.1	262.2	142
Less: non-controlling interests	<u>(175.6)</u>	<u>(153.0)</u>	15
Net profit attributable to the owners	<u><u>459.5</u></u>	<u><u>109.2</u></u>	321

Note 1: The amount includes bank interest expenses and other finance expenses incurred for the capital required in the Group's strategic investment.

Note 2: One-off adjustments represent the impact of professional consultancy fees incurred for non-recurring project expense.

Note 3: The consolidation adjustments represent the financial impact arising from the consolidation of YF Life.

## Changes in owner's equity

HK\$ million

	2021
Balance at 1 January	19,342
Share based payment transaction	(8)
Profit for the Period	635
Others comprehensive income and others	(30)
	19,939
<b>Attributable to:</b>	
–Equity shareholders of the Company	13,813
–Non-controlling interests	6,126
	19,939
Total equity	19,939

## Business review

### Insurance business review

To facilitate a more thorough and comprehensive review of the insurance business, YF Life, related financial data below is presented on a half year basis and excluded the fair value accounting adjustments made on the acquisition, intragroup consolidation adjustment and transaction elimination. Such basis is considered being able to provide reader with more relevant information on the business performance of the insurance business segment operating results.

### Overview

During the First Half of 2021, our insurance business remained as authorised insurer licensed to carry on life and annuity, linked long term, permanent health, and retirement scheme management long term insurance businesses in Hong Kong. It also operates in Macau through a branch office and is licensed to sell life insurance products in Macau.

Our insurance business division maintained diversified product suite includes four flagship products: (i) the “FLEXI-ULife Prime Saver”, an enhanced universal life insurance plan; (ii) the “MY Lifetime Annuity”, a plan providing guaranteed lifetime annuity income to act as a safety net during the customer’s retirement; (iii) the “Infinity Saver 3”, a flexible insurance savings plan allowing customers to accumulate capital with potentially higher return; and (iv) the “PrimeHealth” series which are critical illness products covering a wide range of illnesses.

As of 30 June 2021, the tied agency force consisted of approximately 3,481 (31 December 2020: 3,409) agents in Hong Kong and Macau. In addition to tied agency force, we also utilise brokers and agency intermediaries as well as banks and other financial institutions to distribute insurance products. The insurance business division has approximately 530 (31 December 2020: 510) employees and more than 513,000 (31 December 2020: 506,000) in-force individual policies.

During the First Half of 2021, our insurance division continues to develop its tied agency, brokerage and agency intermediary and bancassurance distribution channels to increase penetration in the market, to broaden its access to potential customers and to meet the evolving preferences of existing customers. Tied agency is the most significant distribution channel in terms of premium and fee income contribution and we plan to continue to steadily grow its tied agency force. We also seek to expand our brokerage and agency intermediary distribution channel to serve sophisticated customers who we believe are more receptive to independent advice. For bancassurance distribution channel, we will aim to strengthen partnering relationships with existing banks and financial institutions. Furthermore, our insurance division has been exploring to re-formulate overall strategy of online sales channel.

In addition, our insurance division aim to optimise product mix by developing and promoting products with higher margins, such as refundable critical illness products. To further improve the information capability and usage of digital platforms to match the preferences of potential and existing customers, our insurance division is actively developing virtual-face-to-face solicitation tools and continues to enhance online customer servicing tool.

### **Total premium and fee income**

Total premium and fee income (“TPI”) measures its business volume by referring to the TPI reported under the Insurance Ordinance (Cap. 41 of the Laws of Hong Kong) (“IO”). TPI consists of full amount of single premium, first year regular premium and renewal regular premium before reinsurance, and includes deposits and contributions for contracts. In preparing the financial statements in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), YF Life chooses to unbundle the deposit component of insurance contracts from TPI and such deposit component is credited directly to the policyholders’ deposit upon receipt. Therefore, the revenue recognised in the financial statements prepared under HKFRS is less than TPI before intra-group transaction eliminations.

	<i>For the six months period ended</i>	
	<i>30 June</i>	
	<i>2021</i>	<i>2020</i>
	<i>HK\$ million</i>	<i>HK\$ million</i>
Total premium and fee income reported under the IO	4,691	3,960
Less: Premium deposits separated out from insurance contracts and recognition of fee income	<u>(1,141)</u>	<u>(1,107)</u>
Premium and fee income recognised in the income statements of HKFRS	<u>3,550</u>	<u>2,853</u>

Management considers TPI as one of the important measures of the Group’s operating performance and believes that they are frequently used by analysts, investors and other interested parties in the evaluation of insurance companies. The management also uses TPI as additional measurement tools for the purposes of business decision-making. TPI is not measures of operating performance under HKFRS and should not be considered as a substitute for, or superior to, profit before tax in accordance with HKFRS.

## Business Volume

The tables below set forth the TPI of the insurance business by (i) geographical region, (ii) distribution channel and (iii) product type based on internal records.

**(i) By geographical region**

	<i>For the six months period ended 30 June</i>			
	2021		2020	
	HK\$ million	%	HK\$ million	%
Hong Kong	3,189	68	3,095	78
Macau	1,502	32	865	22
	<u>4,691</u>	<u>100</u>	<u>3,960</u>	<u>100</u>

**(ii) By distribution channel**

	<i>For the six months period ended 30 June</i>					
	2021			2020		
	HK\$ million			HK\$ million		
	Hong Kong	Macau	Total	Hong Kong	Macau	Total
Tied agency	2,081	575	2,656	1,937	516	2,453
Brokers and non-tied agency	811	345	1,156	874	7	881
Banks and other financial institutions	297	582	879	284	342	626
	<u>3,189</u>	<u>1,502</u>	<u>4,691</u>	<u>3,095</u>	<u>865</u>	<u>3,960</u>

**(iii) By product type**

	<i>For the six months period ended 30 June</i>					
	2021			2020		
	HK\$ million			HK\$ million		
	Hong Kong	Macau	Total	Hong Kong	Macau	Total
Regular premium-First year	290	586	876	351	360	711
Regular premium-Renewal	2,740	852	3,592	2,617	486	3,103
Single premium	157	63	220	126	18	144
Fee income	2	1	3	1	1	2
	<u>3,189</u>	<u>1,502</u>	<u>4,691</u>	<u>3,095</u>	<u>865</u>	<u>3,960</u>

### Embedded value and value of new business

The Embedded Value method is a commonly adopted alternative method of measuring the value and profitability of a life insurance company. Embedded Value is an actuarially determined estimate of the economic value of a life insurance business based on a particular set of assumptions as to future experience, excluding any economic value attributable to future new business. Value of New Business represents an actuarially determined estimate of the economic value arising from new life insurance business issued in the relevant 12-month period.

We adopted a traditional deterministic discounted cash flow methodology to determine the components of embedded value. This methodology makes implicit allowance for the time value of options and guarantees and other risks associated with the realisation of the expected future distributable earnings through the use of a risk adjusted discount rate and is consistent with the industry practice in the market.

The embedded value of the insurance business as at 30 June 2021 is HK\$16,937 million (31 December 2020: HK\$15,736 million) with breakdown as below.

HK\$ million

	<i>As at 30 June 2021</i>	<i>As at 31 December 2020</i>	<i>Change %</i>
Adjusted Net Worth ("ANW") (Note 1)	5,866	4,724	24
Value of in-force ("VIF") business after cost of capital (Note 2)	<u>11,071</u>	<u>11,012</u>	1
Embedded value	<u><u>16,937</u></u>	<u><u>15,736</u></u>	8

Note 1 The ANW represents the net asset value on Hong Kong statutory basis, with marked-to-market adjustment to certain assets. The ANW change is mainly driven by a surplus enhancement arising from a new reinsurance arrangement and decrease in liabilities arising from market interest rate increase.

Note 2 The VIF is the present value of future estimated after-tax statutory profits from in-force business, discounted at the risk discount rate. The VIF growth is driven by new business acquired and favourable actual experience, partly offset by future economic assumption update and future cash flow change arising from the new reinsurance arrangement.

The new business value of the insurance business for the six months period ended 30 June 2021 is HK\$291 million compared to that of HK\$218 as of the same period last year. The increase of new business value is mainly caused by the increase in annual premium equivalent ("APE"). The APE is HK\$1,058 million, an increase of HK\$247 million or approximately 30% compared to that of HK\$811 million as of the same period last year.

For further detailed discussion of embedded value and new business value of insurance division, please refer to the Embedded Value section.

## Key financial data of insurance business segment

The key financial data of insurance segment is presented under HKFRS on a half year basis before any fair value adjustment arising from the acquisition accounting policy and intra-group eliminations:

	<i>For the six months period ended 30 June</i>		<i>Change %</i>
	<i>2021</i> HK\$ million	<i>2020</i> HK\$ million	
<b>Income</b>			
Premiums and fee income (Note a)	3,550	2,853	24
Premiums ceded to reinsurer (Note a)	(931)	(618)	51
Net premium and fee income	2,619	2,235	17
Change in unearned revenue liability	(176)	(304)	-42
Net earned premium and fee income	2,443	1,931	27
Net investment and other income (Note b)	2,494	1,274	96
Reinsurance commission and profit	22	21	5
<b>Benefits, losses and expenses</b>			
Net policyholders benefit (Note c)	1,579	833	90
Commission and related expenses	882	561	57
Deferral and amortisation of deferred acquisition costs (Note d)	(545)	(246)	122
Management and other expenses	449	355	26
Change in future policyholder benefits (Note e)	2,038	1,236	65
Profit before taxation	556	487	14
Taxation	22	24	-8
Profit after taxation	534	463	15

Note a: The increase of the premiums and fee income mainly arises from the newly launched short-term endowment product, other new business and natural growth of inforce portfolio, which also drives the increase in premium ceded to reinsurer.

Note b: The balance includes net investment and other income, interest income from bank deposits and other operating income. The increase of the balance mainly arises from more investment gain from investment-linked policies and more reinsurance income in relation to short-term endowment product.

Note c: The balance includes net claims, policy benefits and surrenders, interest credited to policyholders' deposits and dividends to policyholders. The increase of the balance mainly arises from more investment gain passing to the policyholders of investment-linked policies.

Note d: The increase of the balance is mainly due to increase in sales and acquisition cost.

Note e: The balance includes change in future policyholders' benefits to both insurance and investment contracts. The increase of the balance mainly arises from the newly launched short-term endowment product, other new business and natural growth of inforce portfolio.

### Operating Profit

For management decision making and internal performance management purpose, the Group refers to the operating profit which excludes the investment income from disposal, fair value changes of risk hedging derivatives and impairment loss of investments. The operating profit for the Period grew by 13% to HK\$501 million.

	<i>For the six months</i>		<i>Change %</i>
	<i>period ended 30 June</i>		
	<i>2021</i>	<i>2020</i>	
	HK\$ million	HK\$ million	
<b>Operating profit (Note 1)</b>	501	443	13
Adjust for the following profit or loss and expenses impact:			
- Investment income from disposal, fair value changes of risk hedging derivatives and impairment loss of investments	33	20	65
<b>Profit for the period</b>	534	463	15

Note 1: Operating profit represents profit generated from core business activities.

## Assets and Liabilities

The following table sets out the key financial information with respect to the assets and liabilities employed by the insurance division before any fair value adjustment arising from the acquisition accounting policy and intra-group eliminations.

	<i>As at</i> <i>30 June</i> <i>2021</i> HK\$ million	<i>As at</i> <i>31 December</i> <i>2020</i> HK\$ million
Investments	65,076	62,357
Cash and deposits	2,969	1,878
Deferred acquisition costs	6,810	5,998
Other assets	8,040	6,602
<b>Total assets</b>	<b>82,895</b>	<b>76,835</b>
Insurance contract provisions	57,665	54,287
Investment contract liabilities	4,645	4,529
Other payable	4,907	3,262
<b>Total liabilities</b>	<b>67,217</b>	<b>62,078</b>
<b>Net assets</b>	<b>15,678</b>	<b>14,757</b>

## Investment assets

The table below sets forth the asset allocation of the investment portfolio of the insurance division based on the classification in conformity with the reports provided to the management of the Company to measure the performance of the investment portfolio which can be reconciled to the total carrying amount of investments in the above table for the six months period ended 30 June 2021 and year ended 31 December 2020.

	<i>As at</i> <i>30 June</i> <i>2021</i> HK\$ million	<i>As at</i> <i>31 December</i> <i>2020</i> HK\$ million
Debt securities	48,349	45,967
Mortgage loans	6,247	6,547
Equity securities	2,182	1,887
Cash for investment	746	515
	57,524	54,916
Unit trusts and investment policyholder plans related securities	8,298	7,915
	65,822	62,831

As at 30 June 2021, 94.3% (31 December 2020: 94.5%) of the debt securities are investment grade rated (i.e. BBB- or above) by reputable credit rating agencies. As at 30 June 2021, 80.8% (31 December 2020: 82.2%) of the mortgage loans are investment grade rated (i.e. BBB- or above) as assessed by internal rating analysis with the support from external investment manager using similar credit rating methodology from reputable credit rating agencies.

The table below sets forth the total investment income based on internal records:

	<i>For the six months period ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	HK\$ million	HK\$ million
Interest income and others	1,065	959
Dividend income	168	61

The investment income excludes income arising from investment-linked products.

### **Key operational data of the insurance division**

The table below sets forth certain other key operational data of the insurance division.

	<i>As at 30 June 2021</i>	<i>As at 31 December 2020</i>
Number of employees		
- <i>Hong Kong</i>	503	486
- <i>Macau</i>	27	24
Number of tied agents		
- <i>Hong Kong</i>	2,424	2,373
- <i>Macau</i>	1,057	1,036
Number of brokers and non-tied agents	523	527
Number of bancassurance partners	5	6

## **Financial strength and solvency margin**

During the period ended 30 June 2021, our insurance business has strictly adhered to the regulatory minimum capital requirement as determined at the relevant time in accordance with the IO and maintain sufficient available capital for operation purpose.

## **Other financial service business**

### **Brokerage Business**

During the Period, the turnover of brokerage business amounted to HK\$14,972.3 million (Prior Period: HK\$8,926.8 million), representing an increase of 68% driven by growth in number of clients. We will continue to enhance customer experience by upgrading of our app and internet operation to continue to carry out the relevant operating activities in conjunction with the launch of the "Yunfeng Youyu" super-app and with a focus on the IPO market and enhancing user experience. We also aim to promote closer interaction between the businesses in the primary and secondary markets in compliance with regulatory requirements so as to give full play to the characteristics of the Yunfeng Capital ecosystem.

### **Employee Stock Ownership Plan Administration**

During the Period, the business volume, revenue from service fees and related commission income of the employee stock ownership plan (the "ESOP") administration service division have remained stable. The team continued to assist a number of corporate clients to complete the implementation of the employee stock ownership plans and enhance the quality of ESOP administration system and securities trading mobile application to satisfy our customers' needs. The first version of the self-developed ESOP platform was introduced successfully to our clients and partners with positive feedback on user experiences, cost reduction etc. The team will further enhance the service infrastructure to improve the functionality of the existing system, optimise the online platform and cover pre-IPO companies and provide more standardised scheme design and data management services. The ESOP administration service will continue to play a key role in the long-term development of the Group's securities brokerage and wealth management businesses.

### **Financial Technology**

During the Period, the financial technology business offered fintech solutions to promote more in-depth co-sharing of all major market data targeted for institutions. The fintech division continues to strive for breakthroughs and enhance its frontline products for different business segments. Looking forward, the fintech division will focus on enhancement of existing core functions to provide stronger product support to further improve on client experiences creating a new brand and product for the Yunfeng securities, ESOP and YF Life business.

## **Asset Management**

In the First Half of 2021, the Youyu Wealth online platform enabled our clients with access to a variety of public funds offered by several globally renowned fund houses. The asset management division will continue to enhance the asset allocation policies, diversify the investment in different categories of alternative assets, strengthen the research, selection and offerings of private funds and public funds, and participate in more single equity and bond projects. In the meantime, we will enhance the role of investment research, improve the effective use and return of proprietary capital, continue to strengthen and deepen the cooperation in the Group and enhance the infrastructure of the ecosystem conducive to stronger synergies between the asset side and the capital side of the Group so as to provide customers with high quality cross-border assets and services.

## **Prospect**

In the second half of 2021, the effectiveness of governments' continuing efforts to contain and mitigate the spread of COVID-19 and new variants of the virus and their responses to, amongst others, rising inflation in the post-pandemic environment, are crucial to the sustainable recovery of global economies. As the pandemic subsides, we will continue to embrace technology and digitalisation to consolidate our position as a leading innovative and integrated financial services group with a view to bringing unique wealth management experience and solutions to all our clients.

## **Liquidity and financial resources**

As at 30 June 2021, the Group had fixed bank deposits with original maturity over 3 months and cash and cash equivalents amounting to HK\$4,596 million (31 December 2020: HK\$4,293 million). As at 30 June 2021, the Group has HK\$1,378 million (31 December 2020: HK\$1,554 million) bank borrowing outstanding and HK\$1,641 million (31 December 2020: HK\$1,641 million) shareholder's loan outstanding. The Group's gearing ratio was 13.15% (31 December 2020: 14.18%), which was measured as total debt excluding those operation related liabilities to total debt excluding those operation related liabilities plus equity.

## **Capital structure**

Details of movements in share capital of the Company during the Period are set out in the statement of changes in equity to the condensed consolidated interim financial statements.

## **Foreign exchange risk**

The Group has assets and liabilities denominated in currencies other than Hong Kong dollar and that are subject to fluctuation in foreign exchange amounts in the different currencies. The Group is exposed to currency risk arising from various currency exposures mainly to the extent of its investments and bank balances in multi currencies. Management of the Group monitors the foreign exchange exposure and will hedge significant foreign currency exposure should the need arise as set out in note 4 to the condensed consolidated interim financial statements.

## **Material acquisitions and disposals of subsidiaries and associates**

The Group did not have any material acquisitions or disposals of subsidiaries and associates during the Period.

## **Charges on assets**

At the end of the Period, the Group did not have any charges on assets, other than security deposits of HK\$9,900,000 (31 December 2020: HK\$150,000) for banking facilities, HK\$10,841,085,000 of investments together with HK\$509,648,000 of fixed bank deposit (31 December 2020: HK\$7,542,647,000 of investments together with HK\$309,648,000 of fixed bank deposits) in favour of Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.

## **Commitments**

Details of commitments are set out in note 28 to the condensed consolidated interim financial statements.

## **Contingent liabilities**

The Group did not have any significant contingent liabilities as at 30 June 2021 and 31 December 2020.

## **Staffing and remuneration**

As at 30 June 2021, the Group employed 738 (31 December 2020: 708) full-time employees mainly located in Hong Kong, Macau and the People's Republic of China and stringently abided by the relevant labour laws and regulations. To foster a motivated and skilled working team, the Group provides on-the-job training and competitive remuneration packages including salaries and discretionary bonuses for employees.

The remuneration policy and package, including the share options and share awards (if any), of the Group's employees are maintained at market level and are reviewed annually by the management. There have been no significant changes in the employment, training or development policies of the Group since the publication of the annual report for the year ended 31 December 2020.

## **Dividend**

The board did not declare the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

## Use of proceeds from issue of subscription shares

As disclosed in the circular of the Company dated 21 September 2020, the Company entered into subscription agreements on 7 September 2020 with (1) Jade Passion Limited (“Jade Passion”) in relation to the subscription of 484,665,279 ordinary shares of the Company at the subscription price of HK\$3.17 and (2) MassMutual International LLC in relation to the subscription of 160,000,000 ordinary shares of the Company at the Subscription Price of HK\$3.17 (together refer to “Issue”). The total gross proceeds for the Issue was HK\$2,043,588,934 and the net proceeds was HK\$2,040,588,934.

The table below sets out the actual application of net proceeds of the Issue up to 30 June 2021:

	<i>Use of Proceeds</i> HK\$ million	<i>Unutilised Proceeds up to 31 December 2020</i> HK\$ million	<i>Actual usage from 1 Jan 2021 to 30 June 2021</i> HK\$ million	<i>Unutilised Proceeds up to 30 June 2021</i> HK\$ million	<i>Expected timeline for utilising the remaining net proceeds</i>
Strategic investment	1,224.6	1,224.6	-	1,224.6	Expected to be fully utilised on or before 31 December 2023
Asset management business	306.1	282.7	(222.2)	60.5	Expected to be fully utilised on or before 31 December 2023
Securities brokerage business	306.2	22.1	(22.1)	-	-
Working Capital	204.1	166.2	(121.6)	44.6	Expected to be fully utilised on or before 31 December 2022
<b>Total:</b>	<u>2,041.0</u>	<u>1,695.6</u>	<u>(365.9)</u>	<u>1,329.7</u>	

Remark: The expected timeline of utilising the remaining proceeds is subject to significant uncertainties including but not limited to the negotiation with counterparties, market conditions and demand, global economic environment, investment sentiment and regulatory approval (if applicable) for the above purposes. The Company adopted a treasury management model that may involve (but shall not be limited to) holding fixed income instruments and high quality financial investments in order to maximise the Shareholders’ interest as a whole.

## Events after reporting period

Details of events after reporting period are set out in note 32 to the condensed consolidated interim financial statements.

## Embedded Value

### 1. Background

The Group mainly consists of two major segments including life insurance business and other financial services in the areas of investment holding, asset management, pensions, other businesses and corporate services. Life insurance business is operated by YF Life, a 69.8%-owned subsidiary, which is the most significant part of the Group in terms of total asset and profitability. To provide additional information of the insurance business of the Group, the Group disclosed the Embedded Value (“EV”) of the segment.

### 2. Basis of preparation

We adopted a traditional deterministic discounted cash flow methodology to determine the components of Embedded Value and the New Business Value. This methodology makes implicit allowance for the time value of options and guarantees and other risks associated with the realisation of the expected future distributable earnings through the use of a risk adjusted discount rate and is consistent with the industry practice in the market.

The Group has appointed PricewaterhouseCoopers Limited (“PwC”), an international firm of consulting actuaries, to examine whether the methodology and assumptions used by us in the preparation of the Embedded Value as at 30 June 2021 are consistent with standards generally adopted by insurance companies in Hong Kong and the preparation basis adopted for the Embedded Value as at 31 December 2020.

### 3. Cautionary statement

The calculations of Embedded Value and the New Business Value of insurance business segment are based on certain assumptions with respect to future experience. Thus, the actual results could differ significantly from what is envisioned when these calculations were made. In addition, the insurance business segment is held through a 69.8%-owned subsidiary of the Group. With the Embedded Value and the New Business Value of the insurance business being presented on a 100% basis below, the related value assessment should be considered accordingly.

#### 4. Embedded value of YF Life

##### 4.1 Embedded value

	<i>As at 30 June 2021 HK\$ million</i>	<i>As at 31 December 2020 HK\$ million</i>
Adjusted Net Worth	5,866	4,724
Value of in-force business before cost of capital	13,442	13,287
Cost of capital	<u>(2,371)</u>	<u>(2,275)</u>
Embedded value	<u>16,937</u>	<u>15,736</u>
Attributable to:		
Owners of the Company	11,822	10,984
Non-controlling interests	<u>5,115</u>	<u>4,752</u>
Embedded value	<u>16,937</u>	<u>15,736</u>

##### 4.2 New business value

	<i>For the past 6 months as of 30 June 2021 HK\$ million</i>	<i>For the past 6 months as of 30 June 2020 HK\$ million</i>
New Business Value after cost of capital	<u>291</u>	<u>218</u>

## Other Information

### Directors' and chief executives' interests and/or short positions in the shares, underlying shares and debentures of the company or any associated corporations

As at 30 June 2021, the interests and short positions of each director of Yunfeng Financial Group Limited (the "Company") (the "Director") and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, or known to the Company, were as follows:

### Long positions in the ordinary shares of the Company ("Shares") and the underlying Shares:

<i>Name of Director</i>	<i>Capacity/Nature of interests</i>	<i>Number of Shares held</i>	
		<i>Long position</i>	<i>Percentage of shareholding</i>
Mr. Yu Feng ( <i>Note</i> )	Held by controlled corporation/Corporate interest	1,827,641,279	47.25%

*Note:*

Mr. Yu Feng, Chairman of the Group and a non-executive Director, is deemed to be interested in 1,827,641,279 Shares under the SFO through Jade Passion, a company of which 73.21% of its issued share capital is owned by Key Imagination Limited ("Key Imagination"). 91% of the issued share capital of Key Imagination is owned by Yunfeng Financial Holdings Limited ("YFHL"), 70.15% of the issued share capital of which in turn, is owned by Mr. Yu Feng.

**Long positions in the shares and the underlying shares of associated corporations:**

<b>Name of Associated Corporation</b>	<b>Name of Director</b>	<b>Capacity/ Nature of Interests</b>	<b>Long position</b>	<b>Number of Shares held in Associated Corporation Percentage of shareholding</b>
Yunfeng Financial Holdings Limited	Mr. Yu Feng	Beneficial owner/Beneficial interest	94	70.15%
Key Imagination Limited	Mr. Yu Feng (Note 1)	Held by controlled corporation/Corporate interest	9,100	91%
	Mr. Huang Xin (Note 2)	Held by controlled corporation/Corporate interest	900	9%
Jade Passion Limited	Mr. Yu Feng (Note 1)	Held by controlled corporation/Corporate interest	7,321	73.21%

*Note 1:* Mr. Yu Feng, Chairman of the Group and a non-executive Director, was interested in 9,100 shares, representing 91% of equity interest in Key Imagination through YFHL, the substantial shareholder of the Company. Mr. Yu Feng was also interested in 7,321 shares, representing 73.21% of equity interest in Jade Passion through Key Imagination. Both Key Imagination and Jade Passion are substantial shareholders of the Company.

*Note 2:* Mr. Huang Xin, an executive Director, is the sole shareholder of Perfect Merit Limited which owns 900 shares, representing 9% of the equity interest in Key Imagination.

Save as disclosed above, as at 30 June 2021, none of the Directors and chief executive of the Company and/or any of their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company.

## **Long-term incentive schemes**

The Company has adopted the share option scheme and share award schemes to recognise the contributions of certain employees or Directors and help to retain them for the Group's operations and further development.

### **Share Option Scheme**

The share option scheme (the "Share Option Scheme") was adopted by the Company on 21 July 2011 with a useful life of ten years from the date of adoption. Summary of the Share Option Scheme is set out in the 2020 annual report.

During the six months ended 30 June 2021, no share options were granted and as at 30 June 2021, no share options were outstanding.

### **Share Award Schemes**

The Board had approved the adoption of two share award schemes respectively on 30 October 2014 (the "2014 Share Award Scheme") and on 12 December 2016 (the "2016 Share Award Scheme").

The maximum number of shares that can be issued or purchased under the 2016 Share Award Scheme and the 2014 Share Award Scheme is 10% of the Shares in issue from time to time (i.e. 386,799,167 Shares, representing 10% of total issued Shares as at the date of this announcement).

#### **2014 Share Award Scheme**

Since the date of adoption of 2014 Share Award Scheme (i.e. 30 October 2014) (the "2014 Adoption Date") and up to the date of this announcement, a total of 9,330,239 Shares have been awarded under the 2014 Share Award Scheme, representing about 2.09% of the total number of Shares in issue as at the 2014 Adoption Date and about 0.24% of the total issued Shares as at the date of this announcement.

During the six months ended 30 June 2021, no Shares had been awarded under the 2014 Share Award Scheme and as at 30 June 2021, 26,667 Shares were held by the trustee under the 2014 Share Award Scheme. There was no movement in the number of shares awarded under the 2014 Share Award Scheme during the Period.

#### **2016 Share Award Scheme**

Since the date of adoption of 2016 Share Award Scheme (i.e. 12 December 2016) (the "2016 Adoption Date") and up to the date of this announcement, 43,040,000 Shares have been awarded pursuant to the 2016 Share Award Scheme, representing about 1.79% of the total number of Shares in issue as at the 2016 Adoption Date and about 1.11% of the total issued shares as at the date of this announcement.

During the six months ended 30 June 2021, no Shares had been awarded under the 2016 Share Award Scheme. As at 30 June 2021, 15,395,000 Shares were held by the trustee under the 2016 Share Award Scheme. Details of movements in the number of shares awarded under the 2016 Share Award Scheme are disclosed in note 26 to the condensed consolidated interim financial statements.

## Directors' rights to acquire shares

Save as disclosed in this announcement, at no time during the six months ended 30 June 2021 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors (including their respective spouses and children under the age of 18) to acquire benefits by means of the acquisition of the shares or debentures of, the Company or any other body corporate.

## Substantial shareholders' and other persons' interests in shares

As at 30 June 2021, the Company had been notified of the following substantial shareholders' and other persons' interests, being 5% or more of the Company's issued shares that are recorded in the register under Section 336 of the SFO.

<b>Name of Substantial Shareholder</b>	<b>Capacity/ Nature of interests</b>	<b>Number of Shares held Long position</b>	<b>Percentage of shareholding</b>
Mr. Yu Feng ( <i>Note 1</i> )	Held by controlled corporation/Corporate interest	1,827,641,279	47.25%
Yunfeng Financial Holdings Limited ( <i>Note 1</i> )	Held by controlled corporation/Corporate interest	1,827,641,279	47.25%
Key Imagination Limited ( <i>Note 1</i> )	Held by controlled corporation/Corporate interest	1,827,641,279	47.25%
Jade Passion Limited ( <i>Note 1</i> )	Beneficial owner/Beneficial interest	1,827,641,279	47.25%
Massachusetts Mutual Life Insurance Company ( <i>Note 2</i> )	Held by controlled corporation/Corporate interest	960,000,000	24.82%
MassMutual International LLC ( <i>Note 2</i> )	Beneficial owner/Beneficial interest	960,000,000	24.82%

*Note 1:* Mr. Yu Feng, Chairman of the Group and a non-executive Director, is deemed to be interested in 1,827,641,279 Shares under the SFO through Jade Passion, a company of which 73.21% of its issued share capital is owned by Key Imagination. 91% of the issued share capital of Key Imagination is owned by YFHL, 70.15% of the issued share capital of which in turn, is owned by Mr. Yu Feng.

*Note 2:* Massachusetts Mutual Life Insurance Company was interested in 960,000,000 Shares through its 100% controlled corporation "MassMutual International LLC".

### **Substantial shareholders' and other persons' interests in shares (continued)**

Save as disclosed above, as at 30 June 2021, there were no other persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under divisions 2 and 3 of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

### **Purchase, sale or redemption of the listed securities of the company**

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

### **Corporate governance**

During the six months ended 30 June 2021, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "CG Code"), as set out in Appendix 14 to the Listing Rules, except for a deviation which is summarised below:

#### Code Provision A.4.1

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from this provision because the non-executive Directors and independent non-executive Directors do not currently have specific terms of appointment. However, the articles of association of the Company states that one-third of the Directors for the time being or, if the number is not a multiple of three, then, the number nearest to but not less than one-third, shall retire from office by rotation, provided that every Directors shall be subject to retirement by rotation at least once every three years at each annual general meeting, and offer themselves for re-election. As such, the Board considers that sufficient measures have been put in place to ensure the Company's corporate governance practice in this aspect provides sufficient protection for the interests of Shareholders to a standard commensurate with that of the CG Code.

### **Code of conduct for securities transactions**

The Company has adopted the code of conduct regarding director's securities transactions with terms no less exacting than the required standard set out in the Model Code. Following specific enquiry by the Company, all the Directors have confirmed that they have complied with the required standards as stated in the Model Code throughout the six months ended 30 June 2021.

### **Audit committee**

The audit committee of the Company is chaired by Mr. Chu Chung Yue, Howard, with members of Mr. Qi Daqing and Mr. Xiao Feng. The audit committee of the Company has adopted the terms of reference which are in line with the CG Code.

This unaudited condensed consolidated interim financial results and report of the Group for the six months ended 30 June 2021 have been reviewed by the audit committee of the Company.

### **Changes of directors' information**

The change of directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Mr. Huang Xin has ceased to be a director of Sanxiang Impression Co., Ltd (listed on the Shenzhen Stock Exchange, stock code: 000863) on 29 June 2021.

Save as disclosed above, the Company is not aware of other changes in the directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## Condensed consolidated income statement for the six months ended 30 June 2021 (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
<b>Income</b>			
Premiums and fee income		3,548,781	2,852,246
Premiums ceded to reinsurer		<u>(930,699)</u>	<u>(617,522)</u>
Net premium and fee income		2,618,082	2,234,724
Change in unearned revenue liability		<u>(244,809)</u>	<u>(318,291)</u>
Net earned premium and fee income		2,373,273	1,916,433
Brokerage commission, interest and other service income		19,119	11,348
Subscription, management and rebate fee income		3,392	2,147
Consultancy and advisory income		-	-
Net investment income	5(a)	2,179,688	441,512
Overlay adjustment		(230,402)	239,075
Other income	5(b)	790,695	464,652
Reinsurance commission and profit		<u>21,748</u>	<u>20,599</u>
Total income		<u>5,157,513</u>	<u>3,095,766</u>

## Condensed consolidated income statement for the six months ended 30 June 2021 (continued)

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
<b>Benefits, losses and expenses</b>			
Net policyholders benefit	6	(1,578,388)	(833,106)
Commission and related expenses		(876,996)	(560,216)
Deferral and amortisation of deferred acquisition costs and value of business acquired		608,049	326,070
Management and other expenses		(542,800)	(431,416)
Change in future policyholder benefits		<u>(2,051,523)</u>	<u>(1,243,440)</u>
Total benefits, losses and expenses		<u>(4,441,658)</u>	<u>(2,742,108)</u>
Finance costs		(77,934)	(88,553)
Share of results of associates		<u>(1,609)</u>	<u>(1,567)</u>
Profit before taxation	7	636,312	263,538
Tax expenses	8	<u>(1,218)</u>	<u>(1,383)</u>
Profit after taxation		<u>635,094</u>	<u>262,155</u>
Profit for the period attributable to:			
Equity shareholders of the Company		459,526	109,181
Non-controlling interests		<u>175,568</u>	<u>152,974</u>
		<u>635,094</u>	<u>262,155</u>
<b>Earnings per share attributable to equity shareholders of the Company</b>			
Basic (HK\$)	9	0.12	0.03
Diluted (HK\$)	9	<u>0.12</u>	<u>0.03</u>

The accompanying notes form an integral part of this condensed consolidated interim financial statements.

Condensed consolidated statement of  
comprehensive income  
for the six months ended 30 June 2021  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
<b>Profit for the period after taxation</b>		635,094	262,155
<b>Other comprehensive income for the period</b>			
Item that will not be reclassified subsequently to profit or loss:			
Equity investment at fair value through other comprehensive income-net movement in fair value reserve (non- recycling)		(39)	(435)
Items that may be reclassified subsequently to profit or loss:			
Net movement in the fair value reserve during the period recognised in other comprehensive income		(324,071)	370,563
Financial assets at fair value through profit or loss under overlay adjustment		230,402	(239,075)
Exchange differences arising on translation of results of foreign operations		4,920	(5,177)
Unrealised gain/(loss) related to amortisation of deferred acquisition costs and value of business acquired		41,345	(206,818)
Unrealised gain related to amortisation of unearned revenue liability — Insurance contract provisions		16,398	111,151
Unrealised gain related to amortisation of unearned revenue liability — Investment contract liabilities		698	14,225
		(30,347)	44,434
<b>Total comprehensive income for the period</b>		604,747	306,589

Condensed consolidated statement of  
comprehensive income  
for the six months ended 30 June 2021 (continued)  
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<b>Total comprehensive income for the period attributable to:</b>		
Equity shareholders of the Company	439,818	138,502
Non-controlling interests	164,929	168,087
	<u>604,747</u>	<u>306,589</u>

The accompanying notes an integral form part of this condensed consolidated interim financial statements.

## Condensed consolidated statement of financial position at 30 June 2021

(Expressed in Hong Kong dollars)

	Note	At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
<b>Assets</b>			
Property and equipment	12	644,316	600,451
Statutory deposits		4,513	5,721
Deferred tax asset		151	150
Investments in associates		74,095	30,074
Goodwill and intangible assets		1,909,326	1,909,079
Value of business acquired		9,007,377	9,012,571
Deferred acquisition costs		2,585,786	1,931,197
Investments	13	66,226,610	62,807,704
Advance reinsurance premiums		1,243,030	1,289,587
Reinsurers' share of outstanding claims		60,468	55,443
Insurance and reinsurance receivables	14	5,172,870	3,755,753
Other accounts receivable and accrued income	15	139,498	158,878
Other receivables, deposits and prepayment	16	942,162	954,639
Bank balance - trust and segregated accounts	17	604,184	747,841
Fixed bank deposits with original maturity over 3 months	17	1,018,116	236,733
Cash and cash equivalents	17	3,578,352	4,056,734
		93,210,854	87,552,555
		93,210,854	87,552,555

**Condensed consolidated statement of financial position**  
**at 30 June 2021 (continued)**  
*(Expressed in Hong Kong dollars)*

	Note	At 30 June 2021 (Unaudited) HK\$'000	At 31 December 2020 (Audited) HK\$'000
<b>Liabilities</b>			
Insurance contract provisions	18	58,085,394	54,487,776
Investment contract liabilities	19	4,629,162	4,492,855
Outstanding claims		192,926	184,160
Reinsurance premium payables		674,532	321,989
Other accounts payable	20	686,713	869,533
Other payables and accrued expense	21	3,908,268	2,520,712
Tax payable		23,875	13,893
Financial liabilities at fair value through profit or loss	22	586,651	618,561
Lease liabilities		266,374	286,412
Deferred tax liabilities		1,199,011	1,220,317
Bank borrowings	23	1,378,019	1,553,503
Shareholder's loan	24	1,641,077	1,641,077
		<u>73,272,002</u>	<u>68,210,788</u>
<b>NET ASSETS</b>		<u>19,938,852</u>	<u>19,341,767</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	25	11,872,683	11,872,683
Reserves		1,940,049	1,507,893
		<u>13,812,732</u>	<u>13,380,576</u>
Non-controlling interests		6,126,120	5,961,191
<b>TOTAL EQUITY</b>		<u>19,938,852</u>	<u>19,341,767</u>

The accompanying notes form an integral part of this condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity  
for the six months ended 30 June 2021  
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company											
	Share capital HK\$'000	Shares held by share award scheme HK\$'000	Share-based payment reserve HK\$'000	Asset revaluation reserve HK\$'000	Fair value reserve (recycling) HK\$'000	Fair value reserve (non- recycling) HK\$'000	Exchange reserve HK\$'000	Statutory and capital reserve HK\$'000	Retained earnings/(Acc umulated loss) HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
<b>Balance at 1 January 2020</b>	9,829,094	(83,230)	21,492	1,538	481,644	(372)	(11,658)	66,465	(202,275)	10,102,698	5,360,460	15,463,158
<b>Changes in equity for the six months ended 30 June 2020:</b>												
Equity settled share-based transactions	-	-	(9,759)	-	-	-	-	-	-	(9,759)	-	(9,759)
Profit for the period	-	-	-	-	-	-	-	-	109,181	109,181	152,974	262,155
Other comprehensive income for the period	-	-	-	-	34,933	(435)	(5,177)	-	-	29,321	15,113	44,434
Appropriation to statutory and capital reserve	-	-	-	-	-	-	-	202	(202)	-	-	-
<b>Balance at 30 June 2020 and 1 July 2020</b>	9,829,094	(83,230)	11,733	1,538	516,577	(807)	(16,835)	66,667	(93,296)	10,231,441	5,528,547	15,759,988
<b>Changes in equity for the six months ended 31 December 2020:</b>												
Issue of subscription shares	2,043,589	-	-	-	-	-	-	-	-	2,043,589	-	2,043,589
Equity settled share-based transactions	-	-	(2,260)	-	-	-	-	-	-	(2,260)	-	(2,260)
Profit for the period	-	-	-	-	-	-	-	-	509,134	509,134	177,698	686,832
Other comprehensive income for the period	-	-	-	-	589,243	1,167	8,262	-	-	598,672	254,946	853,618
Appropriation to statutory and capital reserve	-	-	-	-	-	-	-	408	(408)	-	-	-
<b>Balance at 31 December 2020 and 1 January 2021</b>	11,872,683	(83,230)	9,473	1,538	1,105,820	360	(8,573)	67,075	415,430	13,380,576	5,961,191	19,341,767
<b>Changes in equity for the six months ended 30 June 2021:</b>												
Equity settled share-based transactions	-	-	(7,662)	-	-	-	-	-	-	(7,662)	-	(7,662)
Profit for the period	-	-	-	-	-	-	-	-	459,526	459,526	175,568	635,094
Other comprehensive income for the period	-	-	-	-	(24,589)	(39)	4,920	-	-	(19,708)	(10,639)	(30,347)
Appropriation to statutory and capital reserve	-	-	-	-	-	-	-	244	(244)	-	-	-
<b>Balance at 30 June 2021</b>	11,872,683	(83,230)	1,811	1,538	1,081,231	321	(3,653)	67,319	874,712	13,812,732	6,126,120	19,938,852

The accompanying notes form an integral part of this condensed consolidated interim financial statements.

## Condensed consolidated statement of cash flows for the six months ended 30 June 2021 (Expressed in Hong Kong dollars)

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Net cash generated from operating activities</b>	2,062,119	1,575,178
Purchases of investments	(5,954,685)	(7,635,994)
Proceeds from disposal of investments	3,118,519	4,912,584
Fixed bank deposits with original maturity over 3 months	(781,383)	(449,541)
Other investing activities	<u>(79,020)</u>	<u>(53,743)</u>
<b>Net cash used in investing activities</b>	(3,696,569)	(3,226,694)
Bank loan drawdown	1,400,000	600,000
Bank loan repayment	(1,555,038)	-
Policyholders' account deposits	3,475,250	2,189,563
Policyholders' account withdrawals	(2,020,562)	(825,364)
Other financing activities	<u>(145,099)</u>	<u>(99,063)</u>
<b>Net cash generated from financing activities</b>	1,154,551	1,865,136
<b>Net (decrease)/increase in cash and cash equivalents</b>	(479,899)	213,620
Cash and cash equivalents at 1 January	4,056,734	2,169,751
Effect of foreign exchange rate changes	<u>1,517</u>	<u>(404)</u>
<b>Cash and cash equivalents at 30 June</b>	<u><u>3,578,352</u></u>	<u><u>2,382,967</u></u>

The accompanying notes form an integral part of this condensed consolidated interim financial statements.

# Notes to the condensed consolidated interim financial statements

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 General information

Yunfeng Financial Group Limited (the “Company”) is a limited liability company incorporated in Hong Kong, the shares of which are listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is Suites 3201-3204, One Exchange Square, 8 Connaught Place, Central, Hong Kong. The condensed consolidated interim financial statements for the period ended 30 June 2021 comprises the Company and its subsidiaries (collectively the “Group”) and the Group’s interest in associates and a joint venture.

The condensed consolidated interim financial statements are unaudited, but have been reviewed by the Company’s audit committee and the Company’s independent auditor, KPMG, in accordance with the 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 (“HKICPA”). This condensed consolidated interim financial statements has been approved for issuance by the Board on 27 August 2021.

The financial information relating to the financial year ended 31 December 2020 that is included in the condensed consolidated interim financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

## 2 Basis of preparation

### (a) Statement of compliance

The condensed consolidated interim financial statements for the six months ended 30 June 2021 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the HKICPA. The condensed consolidated interim financial statements should be read in conjunction with the Group’s audited consolidated financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

**(b) Basis of measurement**

The measurement basis used in the preparation of the condensed consolidated interim financial statements is the historical cost basis except that investments in certain debt and equity securities and derivative financial instruments are stated at their fair values.

The condensed consolidated interim financial statements is presented in Hong Kong dollars (“HKD”), and all values are stated to the nearest thousand (HK\$’000s), unless otherwise stated.

**(c) Use of estimates and judgements**

The preparation of condensed consolidated interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**(d) Determination of consolidation scope**

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor’s returns.

An investor’s initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g. a change in the investee’s returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed above or changes the overall relationship between a principal and an agent.

At the end of each reporting period, the Group assesses the variable returns arising from other equities and uses plenty of judgements, in combination with historical exposure to variable returns, to determine the consolidation scope.

### 3 Significant accounting policies

The accounting policies applied in preparing the condensed consolidated interim financial statements are the same as those applied in preparing the consolidated financial statements for the year ended 31 December 2020, as disclosed in the annual report and financial statements for the year ended 31 December 2020.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The adoption of the amended HKFRSs for the current accounting period has no material impacts on the condensed consolidated interim financial statements.

### 4 Insurance and financial risk management

#### (a) Risk management objectives and policies for mitigating insurance and financial risk

The Group operates in a business environment which is subject to various risks and uncertainties. Such risks and uncertainties can be classified into two categories, insurance risks and financial risks.

##### (i) Insurance risks

The Group manages insurance risks through prudent pricing guidelines, reinsurance and underwriting management and monitoring internal and external emerging trends and issues.

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write in order to ensure appropriate risk selection within the portfolio. Adherence to the underwriting authorities is monitored through a scheduled underwriting audit. In addition, the Group has an Underwriting Committee to establish policies and procedures to supervise and assess the insurance risks and to periodically review and monitor the overall underwriting management process. The Group also has a Claims Settlement Committee to establish policies and procedures to supervise the claims settlement policy. The committee monitors the adequacy of the Group's reserves for the settlement of claims, reviews significant claims or major events, and investigates any fraudulent claims.

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses to avoid the risk of concentration and to protect capital resources. Such transfers of risks do not relieve the group of its primary liability and, as such, failure of reinsurers to honour their obligations could result in losses. The Group reduces this risk by evaluating the financial condition of reinsurers and monitoring for possible concentrations of credit risk. The Group has a Reinsurance Committee to establish policies and procedures to properly and regularly supervise and review proposed and existing reinsurance activities covering ceded risks to reinsurers. The committee also periodically reviews and monitors the financial stability of reinsurers.

(ii) Financial risks

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities. These risks are limited by the Group's financial management policies and practices described below.

(1) Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- amounts due from issuers of debt securities;
- bank balances;
- insurance and reinsurance receivables;
- commercial and residential mortgage loans;
- other unsecured receivables; and
- derivative financial instruments.

The Group manages its financial assets to limit credit risk by diversifying its portfolio among various security types and industry sectors. The Group has an investment committee to supervise and control investments and related financial matters. Investment policies and guidelines have to be approved by the committee. In addition, the committee periodically reviews investment strategies and investment performance.

At 30 June 2021, 0.01% (31 December 2020: 0.01%) of the Group's debt securities represented investments in asset-backed and mortgage-backed securities in the United States of America and People's Republic of China ("the PRC") which are exposed to sub-prime credit risks. The Group does not originate any residential mortgages but invests in residential mortgage loan pools which may contain mortgages of subprime credit quality. Residential mortgage loan pools are pools of homogeneous residential mortgage loans substantially backed by Federal Housing Administration and Veterans Administration guarantees.

In respect of bank balances, all of them are due from authorised institutions in Hong Kong, Macau, the PRC, the United Kingdom and the United States of America. Management periodically reviews the credit ratings of these authorised institutions.

With respect to the recoveries due from reinsurers, the Group is exposed to the credit risk that the amounts due under a reinsurance contract may not be paid. In respect of loans to policyholders, direct premium receivables and other loans to agents and staff, management monitors the repayment status on an ongoing basis. Other unsecured receivables mainly comprise accrued interest income on debt securities, where the credit risks are limited by the diversification of its investment portfolio as mentioned above.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

(2) *Liquidity risk*

The Group has to meet daily calls on its cash resources, notably from claims arising from its life insurance contracts. There is therefore a risk that cash will not be available to settle liabilities when due. The Group manages this risk by setting a minimum level of liquidity cash that will be available to cover claims maturities and surrenders.

(3) *Interest rate risk*

Interest rate risk is the potential for interest rates to change, which can cause fluctuations in the value of investments and in the amounts due to policyholders. To the extent that fluctuations in interest rates cause the duration of assets and liabilities to differ, the Group controls its exposure to this risk by, among other things, asset and liability matching techniques that account for the cash flow characteristics of the assets and liabilities.

(4) *Currency risk*

The Group's currency exchange risk is mainly related to certain policies that are not written in the United States dollars. However, most of the policies are denominated in the United States dollars. As the Group's investments are primarily made in the United States dollars, coupled with the fact that the Hong Kong dollars are pegged to the United States dollars, management does not believe that the currency risk is material. For investments made in non-United States dollars, the Group mitigates currency risk through the use of cross-currency swaps and forward contracts. Cross-currency swaps are used to minimise currency risk for certain non-United States dollar assets and liabilities through a prespecified exchange of interest and principal. Forward contracts are used to hedge movements in exchange rates.

(5) *Equity price risk*

The Group is exposed to equity price changes arising from equity investments classified as financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss held by the Group. Gains and losses arising from changes in the fair value of financial assets and financial liabilities at fair value through profit or loss are dealt with in condensed consolidated income statement.

The portfolio of unit trusts backing linked insurance contracts, which the Group carries on its condensed consolidated statement of financial position at fair value, has exposure to price risk. However, such price risk is fully borne by the policyholders as the benefits payable are linked to the price of the securities.

The portfolio of unit trusts backing non-linked insurance contracts, which the Group carries on its condensed consolidated statement of financial position at fair value, also has exposure to price risk. This risk is defined as the potential loss in market value resulting from an adverse change in prices.

For the other investment under fair value hierarchy level 2 and 3 that is either backing linked insurance contract and those that are not related to insurance contracts, their price risk impact on the Group's profit or total equity is further analysed under fair value measurement.

### **Fair value measurement**

(1) Financial assets and liabilities measured at fair value

*Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations:	Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
Level 2 valuations:	Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
Level 3 valuations:	Fair value measured using significant Unobservable inputs

The Group has established and maintained policies and guidelines that govern its valuation methodologies and their consistent application. These policies and guidelines address the use of inputs, price source hierarchies and provide controls around the valuation processes.

These controls include appropriate review and analysis of prices against market activity or indicators for reasonableness, approval of price source changes, price overrides, methodology changes and classification of fair value hierarchy levels. The valuation policies and guidelines are reviewed and updated as appropriate.

Annually, the Group conducts reviews of the primary pricing vendors to validate that the inputs used in that vendors' pricing process are deemed to be market observable as defined in the standard. While the Group was not provided access to proprietary models of the vendors, the reviews have included on-site walkthroughs of the pricing process, methodologies and control procedures for each asset class and level for which prices are provided. The review also included an examination of the underlying inputs and assumptions for a sample of individual securities across asset classes, credit rating levels and various durations, a process the Group continues to perform for each reporting period.

In addition, the pricing vendors have an established challenge process in place for all security valuations, which facilitates identification and resolution of prices that fall outside expected ranges. The Group believes that the prices received from the pricing vendors are representative of prices that would be received to sell the assets at the measurement date (exit prices) and are classified appropriately in the hierarchy.

The Group reviews the fair value hierarchy classification at each reporting period. Overall, reclassifications between levels occur when there are changes in the observability of inputs and market activity used in the valuation of a financial asset or liability. Such reclassifications are reported as transfers between levels at the beginning of the reporting period in which the changes occur. Given the types of assets classified as Level 1 (primarily equity securities and mutual fund investments), transfers between Level 1 and Level 2 measurement categories are expected to be infrequent. There were no such transfers during any period presented. Transfers into and out of Level 3 are summarised in the schedule of changes in Level 3 assets and liabilities.

The fair value of short-term debt instruments, maturity less than 30 days, is assumed to be equal to the book value. The Group generally uses unadjusted quotable market prices from independent brokers, when available, to determine the fair value of debt instruments with a maturity greater than 30 days.

*Yunfeng Financial Group Limited*  
*Interim Results Announcement for the Six Months Ended 30 June 2021*

	<i>Fair value measurements as at 30 June 2021 categorised into</i>			<i>Fair value measurements as at 31 December 2020 categorised into</i>		
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurement						
(Liabilities)/assets						
Financial assets at fair value through profit or loss:						
– Private credit and other trust product type funds	-	-	608,198	-	-	635,657
– Credit linked obligation note	-	-	-	-	-	-
– Listed equity	517,521	-	-	287,363	-	-
– Unlisted equity	-	299,574	-	-	23,758	-
– Leveraged and structured note investment	-	2,554,801	112,696	-	2,527,431	13,078
– Unit trust	597,648	8,297,678	365,303	584,733	7,915,620	287,048
– Interest in a joint venture	-	-	129,346	-	-	107,240
– Insurance contract related partnership investment	-	-	1,961,004	-	-	1,814,439
– Mutual fund	-	279	-	-	269	-
Financial asset at fair value through other comprehensive income						
– Debt securities	1,057,685	17,222,600	4,631,982	391,458	15,704,855	4,512,536
– Perpetual capital measured at fair value	-	77,990	-	-	78,029	-
Financial liabilities designated at fair value through profit or loss						
– Preference share liability	-	-	(357,195)	-	-	(387,655)
– Third-party interests in consolidated funds	-	-	(229,456)	-	-	(230,906)
– Investment contract liabilities	-	(4,629,162)	-	-	(4,492,855)	-

There were no transfers between Level 1 and Level 2. During the period, there were transfers into Level 3 which is due to lack of observable market data as compared to the previous period. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

*Valuation techniques and inputs used in Level 2 and Level 3 fair value measurements for those insurance contract related assets and liabilities*

The Group determines the estimated fair value of its investments using primarily the market approach or the income approach. The use of quoted prices for identical assets and matrix pricing or other similar techniques are examples of market approaches, while the use of discounted cash flow methodologies is an example of the income approach. The Group attempts to maximise the use of observable inputs and minimise the use of unobservable inputs in selecting whether the market or the income approach is used.

The use of different assumptions or valuation methodologies may have a material impact on the estimated fair value amounts. For the periods presented, there were no significant changes to the Group's valuation techniques.

For level 2 debt securities, valuations are based primarily on quoted prices in markets that are not active, or using matrix pricing or other similar techniques using standard market observable inputs such as the benchmark U.S. Treasury yield curve, the spreads versus the U.S. Treasury curve for the identical security and comparable securities that are actively traded.

For level 2 corporate securities, valuations are based primarily on quoted prices in markets that are not active, broker quotes or using matrix pricing or other similar techniques that use standard market observable inputs such as benchmark yields, spreads versus benchmark yields, new issuances, issuer rating, duration, and trades of identical or comparable securities.

For level 2 unit trusts and equity securities, valuations are based on quoted market prices adjusted for certain factors, such as foreign market differential.

For level 2 derivative financial instrument, observable significant inputs to the valuation of derivative financial instruments include Overnight Indexed Swap and London InterBank Offered Rate basis curves, interest rate volatility, swap yield curve, currency spot rates, cross currency basis curves and dividend yield curves.

*Information about Level 3 fair value measurements*

	Valuation techniques	Significant unobservable inputs	Range		Weighted average
			Min	Max	
Financial assets:					
Financial asset at fair value through profit or loss under overlay adjustment					
- Partnership investment	Net asset value	Net asset value	NA	NA	NA
Financial asset at fair value through other comprehensive income:					
- Corporate securities	Matrix pricing and DCF	Credit spread	86BPS (31 December 2020: 75BPS)	1,540BPS (31 December 2020: 1,593BPS)	277BPS (31 December 2020: 175BPS)

A description of the sensitivity of the estimated fair value to changes in the significant unobservable inputs for the more significant Level 3 insurance contract related asset and liability classes is as follows:

*Partnership interest* - the fair value estimation is based on the net asset value attributable to the Group determined by the respective fund managers. If such net asset value attributable to the Group is not yet readily available, adjustments to the fair value of the funds are made based on the latest net asset value with adjustments based on subsequent contribution made and distribution received by the Group. As at 30 June 2021, it is estimated that with all other variables held constant, an increase/decrease in net asset value by 10% would have increased/decreased the Group's other comprehensive income by HK\$195,415,000 (31 December 2020: HK\$181,444,000) under the overlay approach.

*Corporate securities* - Internally-priced corporate securities classified in Level 3 include certain below investment grade watch list and distressed fixed maturity securities. For securities where discounted cash flows are used, the primary unobservable input is the internally-developed discount rate. Significant increases in the discount rate would result in a significantly lower fair value, with the opposite being true for decreases in the discount rate. In certain cases, the Group uses an estimated liquidation value of the borrower or underlying assets. The Group also applies market comparables, such as earnings before interest, taxes, depreciation and amortisation (EBITDA) multiples for certain securities. In isolation, an increase in the value of these inputs would result in an increase in fair value, with the opposite being true for decreases in the value of these inputs. As at 30 June 2021, it is estimated that with all other variables held constant, a decrease/increase in credit spread by 100 BPS would have increased/decreased the Group's other comprehensive income by HK\$269,372,000 (31 December 2020: HK\$279,202,000).

*Valuation techniques and inputs used in Level 2 and Level 3 fair value measurements for those non-insurance contract related assets and liabilities*

Level 2 perpetual capital investment is based on brokers quote for valuation purpose.

Information about Level 3 investment

<i>Unlisted FVPL investment</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>
Private credit funds and interest in a joint venture	Net asset value	Net asset value
Preference share liability	Discounted cashflow	Expected distribution from underlying fund investment per annum and net asset value of underlying fund investment
Third-party interests in consolidated funds	Net asset value	Net asset value

A description of the sensitivity of the estimated fair value to changes in the significant unobservable inputs for those non-insurance contract related level 3 asset and liability classes is as follows:

Fund investments - the fair value of private debt securities investment fund and interest in a joint venture holding is based on the net asset value attributable to the Group determined by the respective fund managers. If such net asset value attributable to the Group is not yet readily available, adjustments to the fair value of the funds are made based on the latest net asset value with adjustments based on subsequent contribution made and distribution received by the Group.

Preference share liabilities and third parties interest in consolidated funds - the fair value of the financial liabilities are determined mainly based on the fair value of the fund investments and credit linked obligation as the principal investment of the consolidated funds and the effective interest of the third parties in those consolidated funds.

Change in the relevant equity price risk variable:	30 June 2021		31 December 2020	
	%	Effect on profit after tax and retained profit HK\$'000	%	Effect on profit after tax and retained profit HK\$'000
Trust type fund products				
Increase	5	9	5	12
Decrease	(5)	(9)	(5)	(12)
Joint controlled entity				
Increase	10	12,935	10	10,724
Decrease	(10)	(12,935)	(10)	(10,724)
Private credit funds				
Increase	10	60,796	10	63,542
Decrease	(10)	(60,796)	(10)	(63,542)
Preference share liability				
Increase	10	-	10	-
Decrease	(10)	-	(10)	-
Third party interest in consolidated fund				
Increase	10	(20,858)	10	(21,801)
Decrease	(10)	20,858	(10)	21,801

The movement during the period in the balance of Level 3 fair value measurements is as follows:

**Financial assets at fair value through profit or loss**

	2021 HK\$'000	2020 HK\$'000
At 1 January	742,897	807,641
Capital purchase/injection	7,765	173,973
Net realised loss	-	(16,257)
Settlement on disposal	(78,206)	(40,635)
Exchange alignment	(4,648)	(3,596)
Fair value change of investment	69,736	(173,061)
	<u>737,544</u>	<u>748,065</u>
At 30 June	<u>737,544</u>	<u>748,065</u>

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

	2021 HK\$'000	2020 HK\$'000
At 1 January	4,512,536	4,450,348
Purchase	387,930	161,340
Settlements	(157,976)	(118,250)
Net realised loss to profit or loss	(39,690)	(135)
Net unrealised gain to other comprehensive income	(140,278)	72,113
Transfer into level 3	69,460	-
	<u>4,631,982</u>	<u>4,565,416</u>
At 30 June	<u>4,631,982</u>	<u>4,565,416</u>

**Financial assets at fair value through profit or loss under overlay adjustments**

	2021 HK\$'000	2020 HK\$'000
At 1 January	2,114,564	1,749,677
Cost of investment purchased	175,115	152,572
Distribution received	(250,886)	(82,892)
Earnings reinvested	139,210	42,816
Net realised gain	2,754	216
Settlement	(1,770)	(4,528)
Net unrealised gain/(loss) to other comprehensive income	163,223	(55,740)
Foreign exchange impact	(1,095)	72
Transfer into level 3	97,889	-
	<u>2,439,004</u>	<u>1,802,193</u>
At 30 June	<u>2,439,004</u>	<u>1,802,193</u>

**Financial liabilities at fair value through profit or loss**

	2021 HK\$'000	2020 HK\$'000
At 1 January	618,561	630,569
Share issued/contribution received	-	37,657
Share redeemed	(31,110)	-
Distribution to third party investor	(20,897)	(1,519)
Fair value change	20,097	(54,112)
	<u>586,651</u>	<u>612,595</u>
At 30 June	<u>586,651</u>	<u>612,595</u>

(2) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2020 and 30 June 2021 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	2021		<i>Fair value measurements as at 30 June 2021 categorised into</i>		
	<i>Carrying amount</i> HK\$'000	<i>Fair value</i> HK\$'000	<i>Level 1</i> HK\$'000	<i>Level 2</i> HK\$'000	<i>Level 3</i> HK\$'000
Debt securities	21,646,764	25,118,286	450,480	21,875,629	2,792,177
Mortgage loans	<u>6,145,541</u>	<u>6,576,008</u>	<u>-</u>	<u>-</u>	<u>6,576,008</u>

	2020		<i>Fair value measurements as at 31 December 2020 categorised into</i>		
	<i>Carrying amount</i> HK\$'000	<i>Fair value</i> HK\$'000	<i>Level 1</i> HK\$'000	<i>Level 2</i> HK\$'000	<i>Level 3</i> HK\$'000
Debt securities	21,503,917	30,223,711	-	23,012,254	7,211,457
Mortgage loans	<u>6,420,273</u>	<u>6,858,859</u>	<u>-</u>	<u>-</u>	<u>6,858,859</u>

Mortgage loans - The fair value of mortgage loans is established using a discounted cash flow method based on credit rating, maturity and future income. The fair value for impaired mortgage loans is based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. A significant increase/(decrease) in the discount rate would result in a significant decrease/(increase) to the fair value.

**5(a) Net investment income**

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	HK\$'000	HK\$'000
Interest income from unlisted debt securities and mortgage loans	1,100,459	986,207
Bank and other interest income	5,331	9,261
Net realised gain on disposal of securities designated at fair value through profit or loss	302,605	65,221
Net unrealised gain/(loss) on financial asset and financial liabilities designated at fair value through profit or loss	273,704	(451,642)
Net realised gain/(loss) on fair value through other comprehensive income and amortised cost debt securities	19,295	16,045
Impairment loss reversal/(made) of amortised cost debt securities	150	(50,748)
Impairment loss reversal/(made) of fair value through other comprehensive income debt securities	6,128	(95,125)
Dividend income	190,519	110,756
Net derivative gain	16,095	90,612
Reversal of impairment loss on investment in an associate	35,000	-
Net unrealised gain/(loss) of fair value through profit or loss financial assets under overlay approach	<u>230,402</u>	<u>(239,075)</u>
	<u>2,179,688</u>	<u>441,512</u>

Total interest income on financial assets not at fair value through profit or loss amounted to HK\$1,094,478,000 for the period ended 30 June 2021 (for the period ended 30 June 2020: HK\$986,271,000).

**5(b) Other income**

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	HK\$'000	HK\$'000
Net gain on deemed partial disposal of associates	7,360	-
Trustee fee income	18,367	13,064
Income from modified coinsurance and coinsurance with fund withheld	712,437	398,651
Other income	<u>52,531</u>	<u>52,937</u>
	<u>790,695</u>	<u>464,652</u>

## 6 Net policyholders benefit

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	HK\$'000	HK\$'000
Net claims, policy benefits and surrenders	276,172	201,632
Interest credited to policyholders' deposits	1,269,542	598,736
Dividends to policyholders	32,674	32,738
	<u>1,578,388</u>	<u>833,106</u>

## 7 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	HK\$'000	HK\$'000
Staff costs	<u>261,814</u>	<u>223,008</u>

There is no forfeited contribution from the defined contribution schemes for the period ended 30 June 2021 and year ended 31 December 2020 that may be used by the Company and its subsidiaries to reduce the existing level of contributions as the contributions are fully vested to the employees immediately upon contributions are made.

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	HK\$'000	HK\$'000
Other operating items		
Auditors' remuneration	5,441	4,945
Legal and professional costs	13,198	7,211
Lease payments - property rentals	2,319	2,460
Amortisation of value of business acquired	103,029	98,617
Amortisation of deferred acquisition cost	325,064	200,334
Depreciation and amortisation on property and equipment and other intangible assets	89,192	75,918
Reversal of impairment loss on:		
– Other accounts receivable	-	(550)
Information, data and communication expenses	14,688	11,800
Net exchange gain	<u>(3,680)</u>	<u>(4,206)</u>

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	HK\$'000	HK\$'000
<b>Finance costs</b>		
Bank loan interest	21,113	32,333
Lease liabilities	4,075	4,727
Preference share liability	11,238	11,583
Other interest expense	4	202
Shareholder's loan interest	41,504	39,708
	<u>77,934</u>	<u>88,553</u>

## 8 Income tax in the consolidated income statement

### *Taxation in the consolidated income statement represents:*

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	HK\$'000	HK\$'000
<b>Current tax</b>		
<u>Hong Kong</u>		
Provision for the year	22,154	23,664
<u>Overseas</u>		
Provision for the year	462	554
(Over)/Under-provision in respect of prior years	(92)	101
	<u>22,524</u>	<u>24,319</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(21,306)	(22,936)
	<u>1,218</u>	<u>1,383</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2020: 16.5%) to the six months ended 30 June 2021, except for one subsidiary of the group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2020.

Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

## **9 Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the period ended 30 June 2021 of HK\$459,526,000 (six months ended 30 June 2020: HK\$109,181,000), and the weighted average number of shares in issue during the period ended 30 June 2021 of 3,852,570,006 (30 June 2020: 3,207,904,727).

There were no potential dilutive ordinary shares for the six months ended 30 June 2021 therefore basic earnings per share equals to diluted earnings per share (six months ended 30 June 2020: basic earnings per share equals to diluted earnings per share).

## **10 Dividend**

The Board did not declare the payment of an interim dividend in respect of six months ended 30 June 2021 (2020: Nil).

## **11 Segment reporting**

The operating segments have been determined based on the reports reviewed by the executive directors of the Company that are used for performance assessment and to make strategic decisions. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns different from those of other operating segments.

As disclosed in the 2020 annual report, the Group is largely dominated by the insurance business after the completion of the YF Life acquisition. As a result, management decided to streamline and regroup the operating segments. Insurance business is considered as an operating segment and other operating segments that existed prior to the acquisition are consolidated as other financial services and corporate to reflect the long term business development focus.

Consequently, the Group currently has two operating segments:

- (i) Insurance business — engage in the writing of long term insurance business
- (ii) Other financial services and corporate includes
  - a) Securities brokerage - engages in securities brokerage and provision of custodian and other services;
  - b) Asset management - provision of funds and asset management services as well as financing and investing solution for clients;
  - c) Consultancy and advisory services - provision of corporate advisory, placing and underwriting advisory services to clients;
  - d) Principal investment – utilise capital 1) to provide funding on developing financial products and the funds managed by wealth management team and 2) to improve returns on the Group’s capital and cash flow management based on treasury management model that may involve (but shall not be limited to) holding fixed income instruments, high quality equity instruments and other financial investments;
  - e) Financial technology – provision of technology business solution including system setup, upgrade and enhancement to clients; and
  - f) Corporate service includes central administrative and financing functions to support other operating segments.

The accounting policies of the reportable segments are the same as those followed by the Group in the last annual financial statements.

Segment revenue represents the revenue generated by each operating segment from external customers. Inter-segment revenue represents inter-segment services which were transacted with reference to the normal commercial price made to third parties at the then prevailing market prices.

Segment results represent specific operating performance of the reported segments by allocating all specific and related operating and finance costs, excluding other corporate, general administrative, and financial expenses, taxation and non-operating costs. This is the measure reported to the chief operating decision maker, at the relevant times, for the purposes of resource allocation and performance assessment.

**(a) Segment revenue and results**

**For the period ended 30 June 2021**

	<i>Insurance business</i> HK\$'000	<i>Other financial services and corporate</i> HK\$'000	<i>Total</i> HK\$'000
Premiums and fee income	3,548,781	-	3,548,781
Premiums ceded to reinsurer	(930,699)	-	(930,699)
Net premium and fee income	2,618,082	-	2,618,082
Change in unearned revenue liability	(244,809)	-	(244,809)
Brokerage commission, interest and other service income	-	19,119	19,119
Subscription, management and rebate fee income	-	3,392	3,392
Consultancy and advisory income	-	-	-
Revenue from external party	2,373,273	22,511	2,395,784
Inter-segment income	859	6,681	7,540
Reportable segment revenue	2,374,132	29,192	2,403,324
Allocated net investment income, other operating income and gains	2,560,516	201,213	2,761,729
Share of results of associates	-	(1,609)	(1,609)
Allocated operating costs	(4,348,881)	(99,918)	(4,448,799)
Allocated finance costs	(3,565)	(11,796)	(15,361)
Reportable segment profit	582,202	117,082	699,284
Elimination of inter-segment loss			750
Reportable segment profit derived from Group's external customers			700,034
Unallocated legal and professional and other operating expenses			(1,149)
Unallocated finance costs			(62,573)
Taxation			(1,218)
Profit for the period			635,094
As at 30 June 2021			
Reportable assets	87,410,124	4,091,970	91,502,094
Cash and cash equivalents and fixed bank deposits with original maturity over 3 months	3,008,086	1,588,382	4,596,468
Reportable liabilities	(68,860,659)	(4,496,972)	(73,357,631)
As at 31 December 2020			
Reportable assets	81,442,764	4,365,942	85,808,706
Cash and cash equivalents and fixed bank deposits with original maturity over 3 months	1,880,711	2,412,756	4,293,467
Reportable liabilities	(63,449,832)	(4,820,726)	(68,270,558)

**For the period ended 30 June 2020**

	<i>Insurance business</i> HK\$'000	<i>Other financial services and corporate</i> HK\$'000	<i>Total</i> HK\$'000
Premiums and fee income	2,852,246	-	2,852,246
Premiums ceded to reinsurer	(617,522)	-	(617,522)
Net premium and fee income	2,234,724	-	2,234,724
Change in unearned revenue liability	(318,291)	-	(318,291)
Brokerage commission, interest and other service income	-	11,348	11,348
Subscription, management and rebate fee income	-	2,147	2,147
Consultancy and advisory income	-	-	-
Revenue from external party	1,916,433	13,495	1,929,928
Inter-segment income	866	4,595	5,461
Reportable segment revenue	1,917,299	18,090	1,935,389
Allocated net investment income, other operating income and gains	1,257,897	(92,059)	1,165,838
Share of results of associates	-	(1,567)	(1,567)
Allocated operating costs	(2,664,056)	(79,850)	(2,743,906)
Allocated finance costs	(3,776)	(12,674)	(16,450)
Reportable segment profit/(loss)	507,364	(168,060)	339,304
Elimination of inter-segment profit			(1,200)
Reportable segment profit derived from Group's external customers			338,104
Unallocated legal and professional and other operating expenses			(2,462)
Unallocated finance costs			(72,104)
Taxation			(1,383)
Profit for the period			<u>262,155</u>

**(b) Geographical segment information**

The Group's customers, operation and administration are mainly located in Hong Kong and Macau. Research and development for financial technologies divisions are located in PRC.

**(c) Information about major customers**

No customer account for more than 10% of the total revenue of the Group for the period ended 30 June 2021.

**12 Property and equipment**

During the six months ended 30 June 2021, the Group acquired approximately HK\$83 million of computer equipment. Further, the Group entered into a number of lease agreements for right of use of assets and recognise the additional in ownership interests in leasehold land and building held for own use of HK\$48 million.

**13 Investments**

	<i>At fair value through other comprehensive income HK\$'000</i>	<i>At fair value through profit or loss HK\$'000</i>	<i>Amortised cost HK\$'000</i>	<i>Total HK\$'000</i>
<b>At 30 June 2021</b>				
Debt securities:				
– Unlisted	22,912,267	2,667,497	21,646,764	47,226,528
Mortgage loans	-	-	6,145,541	6,145,541
	<u>22,912,267</u>	<u>2,667,497</u>	<u>27,792,305</u>	<u>53,372,069</u>
Equity securities:				
– Listed	-	517,521	-	517,521
– Unlisted	77,990	299,574	-	377,564
	<u>77,990</u>	<u>817,095</u>	<u>-</u>	<u>895,085</u>
Fund Investment and others:				
– Unlisted (note (a))	-	2,698,827	-	2,698,827
Unit trusts:				
– Unlisted	-	9,260,629	-	9,260,629
<b>Total</b>	<u>22,990,257</u>	<u>15,444,048</u>	<u>27,792,305</u>	<u>66,226,610</u>

	<i>At fair value through other comprehensive income</i> HK\$'000	<i>At fair value through profit or loss</i> HK\$'000	<i>Amortised cost</i> HK\$'000	<i>Total</i> HK\$'000
<b>At 31 December 2020</b>				
Debt securities:				
– Unlisted	20,608,849	2,540,509	21,503,917	44,653,275
Mortgage loans	-	-	6,420,273	6,420,273
	<u>20,608,849</u>	<u>2,540,509</u>	<u>27,924,190</u>	<u>51,073,548</u>
Equity securities:				
– Listed	-	287,363	-	287,363
– Unlisted	78,029	23,758	-	101,787
	<u>78,029</u>	<u>311,121</u>	<u>-</u>	<u>389,150</u>
Fund Investment and others:				
– Unlisted (note (a))	-	2,557,605	-	2,557,605
Unit trusts:				
– Unlisted	-	8,787,401	-	8,787,401
<b>Total</b>	<u><u>20,686,878</u></u>	<u><u>14,196,636</u></u>	<u><u>27,924,190</u></u>	<u><u>62,807,704</u></u>

Notes:

- (a) On 28 February 2018, the Group has entered a strategic fund management agreement with another well-established financial institution. By sharing the operating and financing decision making power through the agreement, the Group is no longer considered to be the principal of Majik Access USD Fund 2 LP. After the deconsolidation, the Group elects to measure its 34.04% investment holding in Majik Access USD Fund 2 LP held through a venture capital organisation, an indirect wholly-owned subsidiary, at fair value through profit or loss as management measures the performance of this jointly controlled entity on a fair value basis and considered to be exempted from applying the equity method. The valuation process and fair value information for the joint venture measured at fair value through profit or loss set out in note 4. As of 30 June 2021, the carrying value of the jointly controlled entity amounted to HK\$129 million. (31 December 2020: HK\$107 million).

- (b) Investments of HK\$10,841,085,000 (31 December 2020: HK\$7,542,647,000) have been pledged in favour of Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.
- (c) The portion of the investments that is expected to be recoverable within one year is HK\$12,585,090,000 (31 December 2020: HK\$11,517,210,000) and the portion that is expected to be recoverable after more than one year is HK\$53,641,520,000 (31 December 2020: HK\$51,290,494,000).
- (d) As at 30 June 2021, the investments were determined to be impaired on the basis of expected credit losses model. Impairment losses on these investments were recognised in the condensed consolidated income statement in accordance with the Group accounting policy.
- (e) The maturity profile of the Group's debt securities and amortised cost investment is as follows:

	<i>At 30 June 2021 HK\$'000</i>	<i>At 31 December 2020 HK\$'000</i>
Fixed maturities due in		
– 1 year or less	806,392	2,556,450
– 1 to 5 years	6,189,460	8,100,668
– 5 to 10 years	11,245,437	11,017,351
– More than 10 years	28,985,239	22,978,806
	<u>47,226,528</u>	<u>44,653,275</u>
Mortgage loans due in		
– 1 year	177,311	172,844
– 2 years	416,046	195,744
– 3 years	479,774	778,944
– 4 years	621,513	362,620
– 5 years	821,938	724,418
– More than 5 years	3,628,959	4,185,703
	<u>6,145,541</u>	<u>6,420,273</u>

- (f) Interests in collective investment schemes
- (i) Included in financial assets designated at fair value through profit or loss on the condensed consolidated statement of financial position are certain investments in collective investment schemes which have been designed so that voting or similar rights are not the dominant factor in deciding who controls these schemes. These collective investment schemes include investments in unit trusts and limited liability partnership established by third parties. These schemes provide the Group with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated equity price risk (see note 4) and the capital commitments. The maximum exposure to loss, which represents the maximum loss that the Group could be required to report as a result of its involvement with these collective investment schemes regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments.

- (ii) In addition, the Group's subsidiary, YF Life Trustees Limited is the sponsor of Mass Mandatory Provident Fund scheme ('MPF scheme') as specified in the respective trust deeds. Management fee and trustee fee income that the Group recognised in profit or loss in return for the administration services provided to MPF scheme that the Group sponsored amounted to HK\$20,710,000 (for six months period ended 30 June 2020: HK\$4,185,000).

The policyholders invest directly into such MPF scheme, as such, the Group did not transfer any of its own assets into these schemes during the reporting period. Management actively monitor the compliance with the respective regulation requirements in order to minimise losses arising from reputational risk and regulatory compliance risk.

## 14 Insurance and reinsurance receivables

	<i>At 30 June</i>	<i>At 31 December</i>
	<i>2021</i>	<i>2020</i>
	HK\$'000	HK\$'000
Loans to policyholders	3,600	2,795
Direct premium receivables	11,208	4,581
Reinsurance recoverable	5,158,062	3,748,377
	<u>5,172,870</u>	<u>3,755,753</u>

At 30 June 2021 and 31 December 2020, none of the insurance and reinsurance receivables were past due or impaired.

At 30 June 2021, the amount of insurance and reinsurance receivables expected to be settled after more than one year is HK\$4,589,298,000 (31 December 2020: HK\$3,467,147,000).

## 15 Other accounts receivable and accrued income

	<i>At 30 June</i> 2021 HK\$'000	<i>At 31 December</i> 2020 HK\$'000
Other accounts receivable arising from securities brokerage:		
– Cash clients	57,873	71,074
– Margin clients	11,283	10,673
– Clients for subscription of new shares in IPO	29,982	10,000
– Clearing house, brokers, fund managers and dealers	32,734	60,560
	131,872	152,307
Other accounts receivable arising from consultancy and advisory and other services fee receivables	9,417	8,362
	141,289	160,669
Less: allowance for credit losses	(1,791)	(1,791)
	139,498	158,878

The fair value of other accounts receivable approximates its carrying amount.

### (a) Ageing analysis of other accounts receivable

The ageing analysis of other accounts receivable net of credit losses as of the end of the reporting period is as follows:

	<i>At 30 June</i> 2021 HK\$'000	<i>At 31 December</i> 2020 HK\$'000
Current	137,304	154,912
Less than 1 month past due	80	1,711
1 to 3 months past due	31	2,033
More than 3 months past due	2,083	222
Amounts past due	2,194	3,966
	139,498	158,878

The Group has procedures and policies to assess the client's credit quality and defines credit limits for each client. All client acceptance and credit limit are approved by designated approvers according to the client's credit worthiness. During the period, there is no movement in allowance for credit losses (for six months ended 30 June 2020: HK\$550,000 credit losses made), no allowance for credit losses recovered (for six months ended 30 June 2020: HK\$24,000) and no other accounts receivable written off (for six months ended 30 June 2020: HK\$557,000).

**(b) Balance with related parties**

At 30 June 2021, the balance of other service fee receivables includes fund management fee of approximately HK\$3,525,000 (31 December 2020: HK\$2,337,000) due from a joint venture of the Group.

**16 Other receivables, deposits and prepayment**

	<i>At 30 June</i> 2021 HK\$'000	<i>At</i> <i>31 December</i> 2020 HK\$'000
Utility and rental deposits	53,531	46,549
Loans to agents and staff	21,839	19,723
Accrued investment income	583,179	524,004
Prepayment and other deposit	186,314	265,483
Other receivable from non-controlling shareholders of a subsidiary	6,644	8,504
Derivative financial instruments	99,873	99,028
	951,380	963,291
Less: allowance for credit losses	(9,218)	(8,652)
	942,162	954,639

Notes:

- (i) The amount of utility and rental deposits expected to be recovered after more than one year is HK\$28,536,000 (31 December 2020: HK\$37,575,000).
- (ii) Except for those mentioned above in (i), all of the other receivables are expected to be recovered within one year.
- (iii) During the period, there was HK\$566,000 (for six months ended 30 June 2020: HK\$100,000) foreign exchange adjustment to allowance for credit losses.

**17 Cash and cash equivalents, fixed bank deposits with original maturity over 3 months and bank balance – trust and segregated accounts**

	<i>Note</i>	<i>At 30 June 2021 HK\$'000</i>	<i>At 31 December 2020 HK\$'000</i>
Bank balance — trust and segregated accounts			
Deposit with bank	(i)	604,338	747,995
Less: impairment allowance		<u>(154)</u>	<u>(154)</u>
		<u>604,184</u>	<u>747,841</u>
Fixed bank deposits with original maturity over 3 months			
Deposit with bank	(iii)	1,018,116	236,733
Less: impairment allowance		<u>-</u>	<u>-</u>
		<u>1,018,116</u>	<u>236,733</u>
Cash and cash equivalents			
Deposit with bank	(ii)	9,900	150
Fixed bank deposits with original maturity less than 3 months		811,186	2,522,058
Cash at bank and in hand		2,757,380	1,534,640
Less: impairment allowance		<u>(114)</u>	<u>(114)</u>
Cash and cash equivalents in the condensed consolidated statement of financial position		<u>3,578,352</u>	<u>4,056,734</u>

Notes:

- (i) The Group maintains segregated accounts with authorised institutions to hold clients' money arising from its normal course of business of the regulated activities. The cash held on behalf of clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.
- (ii) The Group has made deposit with a bank as security deposit for bank facilities.
- (iii) As of 30 June 2021, the Group has pledged fixed deposits of HK\$509,648,000 (31 December 2020: HK\$309,648,000) to banks in favour of the Autoridade Monetaria de Macau to guarantee the technical reserves in accordance with the Macau Insurance Ordinance.

**18 Insurance contract provisions**

	<i>At 30 June 2021 HK\$'000</i>	<i>At 31 December 2020 HK\$'000</i>
Policyholders' deposits	42,255,821	40,913,580
Future policyholders' benefits	15,405,822	13,358,343
Unearned revenue liability	423,751	215,853
	58,085,394	54,487,776

**19 Investment contract liabilities**

	<i>At 30 June 2021 HK\$'000</i>	<i>At 31 December 2020 HK\$'000</i>
Policyholders' deposits	4,576,492	4,464,045
Future policyholders' benefits	68,872	64,828
Unearned revenue liability	(16,202)	(36,018)
	4,629,162	4,492,855

**20 Other accounts payable**

	<i>At 30 June 2021 HK\$'000</i>	<i>At 31 December 2020 HK\$'000</i>
Accounts payable		
– Cash and margin clients	673,763	851,095
– Clearing house, fund managers, brokers and dealers	12,950	18,438
	686,713	869,533

Included in accounts payable are amounts payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of conducting regulated activities, which amount to HK\$603,099,000 (31 December 2020: HK\$744,307,000). All of the accounts payable are aged and due within one month or on demand.

### Balance with related parties

At 30 June 2021, accounts payable of approximately HK\$14,002,000 (31 December 2020: HK\$15,606,000) are payable to certain key management personnel of the Company and their related companies on normal terms of brokerage and wealth management business of the Group.

## 21 Other payables and accrued expenses

	<i>At 30 June</i> 2021 HK\$'000	<i>At</i> <i>31 December</i> 2020 HK\$'000
Accrued staff costs	69,065	100,464
Commission payables	133,202	255,406
Derivative financial instruments	172,334	151,788
Premium received in advance	1,613,178	1,621,389
Reinsurance deposit liability	1,417,650	-
Other payables and accruals	502,839	391,665
	<u>3,908,268</u>	<u>2,520,712</u>

All of the commission and other payables and derivative liabilities are expected to be settled within one year.

Premium received in advance is expected to be settled within one year or on demand.

### Balance with related parties

At 30 June 2021, amount of approximately HK\$45,864,000 (31 December 2020: HK\$22,507,000) are payable to MassMutual International LLC who is a substantial shareholder of the Company and its affiliates.

At 30 June 2021, interest accrual of approximately HK\$44,255,000 (31 December 2020: HK\$2,752,000) is due to Key Imagination Limited who is the controlling shareholder of the Company.

## 22 Financial liabilities at fair value through profit or loss

	<i>At 30 June</i> 2021 HK\$'000	<i>At</i> <i>31 December</i> 2020 HK\$'000
<b>Designated at fair value through profit or loss</b>		
Preference share liability	357,195	387,655
Third-party interests in consolidated funds	229,456	230,906
	<u>586,651</u>	<u>618,561</u>

## 23 Bank borrowings

The bank loan was unsecured and repayable as follows:

	<i>At 30 June 2021</i>	<i>At 31 December 2020</i>
	HK\$'000	HK\$'000
Within 1 year	-	1,553,503
After 2 year but within 3 years	<u>1,378,019</u>	<u>-</u>

## 24 Shareholder's loan

The loan is due more than one year from 30 June 2021 and the Group has an unconditional extension right to extend the due date for another year at the interest rate to be reset based on prevailing market condition at the time of exercising the right.

## 25 Share capital

Movements of the Company's ordinary shares are set out below:

	<i>At 30 June 2021</i>		<i>At 31 December 2020</i>	
	<i>Number of shares</i>	<i>Amount HK\$'000</i>	<i>Number of shares</i>	<i>Amount HK\$'000</i>
Issued and fully paid	<u>3,867,991,673</u>	<u>11,872,683</u>	<u>3,867,991,673</u>	<u>11,872,683</u>

## 26 Employee share-based arrangements

- (i) Details of the 2016 Share Award Scheme vested, cancelled and modification of service condition to Group A Grantee

### Grant date on 24 January 2017

Vesting date	Number of awarded shares awarded A	Number of awarded shares vested B	Number of awarded shares cancelled and forfeited C	Number of awarded share remains outstanding F = A - B - C
As of 31 December 2019	20,190,000	7,882,500	9,262,500	3,045,000
Movement for the year 2020				
4 May 2017	-	-	-	
4 May 2018	-	-	-	
4 May 2019	-	-	1,262,500	
4 May 2020	-	-	1,287,500	
4 May 2017	5,047,500	4,510,000	537,500	-
4 May 2018	5,047,500	3,372,500	1,675,000	-
4 May 2019	5,047,500	-	4,800,000	247,500
4 May 2020	5,047,500	-	4,800,000	247,500
As of 31 December 2020	20,190,000	7,882,500	11,812,500	495,000
Movement for the period				
4 May 2017	-	-	-	
4 May 2018	-	-	-	
4 May 2019	-	-	75,000	
4 May 2020	-	-	75,000	
4 May 2017	5,047,500	4,510,000	537,500	-
4 May 2018	5,047,500	3,372,500	1,675,000	-
4 May 2019	5,047,500	-	4,875,000	172,500
4 May 2020	5,047,500	-	4,875,000	172,500
As of 30 June 2021	<u>20,190,000</u>	<u>7,882,500</u>	<u>11,962,500</u>	<u>345,000</u>

The awarded share remains outstanding due to service condition modification.

**Grant date on 25 April 2018**

<i>Vesting date</i>	<i>Number of awarded shares awarded</i>	<i>Number of awarded shares vested</i>	<i>Number of awarded shares cancelled and forfeited</i>	<i>Number of awarded share remains outstanding</i>
As of 31 December 2019	2,850,000	712,500	37,500	2,100,000
Movement for the period				
4 May 2018	-	-	-	
4 May 2019	-	-	187,500	
4 May 2020	-	-	187,500	
4 May 2021	-	-	187,500	
4 May 2018	712,500	712,500	-	-
4 May 2019	712,500	-	200,000	512,500
4 May 2020	712,500	-	200,000	512,500
4 May 2021	712,500	-	200,000	512,500
As of 31 December 2020	2,850,000	712,500	600,000	1,537,500
Movement for the period				
4 May 2018	-	-	-	
4 May 2019	-	-	512,500	
4 May 2020	-	-	512,500	
4 May 2021	-	-	512,500	
4 May 2018	712,500	712,500	-	-
4 May 2019	712,500	-	712,500	-
4 May 2020	712,500	-	712,500	-
4 May 2021	712,500	-	712,500	-
As of 30 June 2021	<u>2,850,000</u>	<u>712,500</u>	<u>2,137,500</u>	<u>-</u>

## 27 Interests in structured entities

### Interest in consolidated structure entities

The Group had consolidated certain structured entities, mainly funds related to wealth management operation. For those structured entities where the Group is involved as manager or as investor, the Group assesses the extent of controlling power according to relevant group accounting policies.

As at 30 June 2021, the net assets of consolidated fund entities amounted to HK\$669 million (31 December 2020: HK\$673 million) with net carrying interest held by the Group being HK\$439 million (31 December 2020: HK\$442 million).

Interests held by other investors in these consolidated structured entities, mainly fund entities were classified as financial liabilities at fair value through profit or loss on the condensed consolidated statements of financial position with fair value change of financial liability at fair value through profit or loss presented in the condensed consolidated income statement.

At period end, the Group reassessed the control of structured entities and decided whether the Group is still a principal.

### Interest in unconsolidated structure entities

Among those structured entities held by the Group where the Group directly or indirectly involves as investment manager or in equivalent capacity, the Group regularly assesses and determines whether:

- the Group is acting as an agent or a principal in these investment funds;
- substantive removal rights held by other parties may remove the Group as an investment fund manager; and
- the investment interests held together with its remuneration from servicing and managing these structured entities create significant exposure to variability of returns in these investment funds.

In the opinion of the directors, the variable returns that the Group exposes to these structured entities are not significant and the Group is primarily acting as an agent. Therefore, the Group did not consolidate these structured entities.

## 28 Commitments

### (a) Capital commitments

As at 30 June 2021, the Group has a total of HK\$34.8 million (31 December 2020: HK\$66.2 million) capital commitment contracted but not provided for.

**(b) Investment commitments**

- (i) In the normal course of business, the Group enters into commitments to purchase certain investments and capital contribution commitments to third party managed fund investment. As at 30 June 2021, the Group has investment commitments contracted for amounted to HK\$779,483,000 (31 December 2020: HK\$947,663,000).
- (ii) As at 30 June 2021, the Group has capital commitment to a joint venture for an amount of US\$20 million with US\$13.93 million (31 December 2020: US\$20 million with US\$13.93 million) has been contributed.
- (iii) As disclosed in the announcement of the Company dated 4 February 2016, Yunfeng Financial Market Limited (“YFM”) (formerly known as Reorient Financial Markets Limited), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Giant Investment Co., Ltd., and Jiangsu YuWell Technology Development Co., Ltd. (“Jiangsu Limited”) on that day. As disclosed in the circular of the Company dated 29 April 2016, the joint venture agreement was superseded and replaced by the amended and restated joint venture agreement entered among YFM, Hangzhou Dr. Herbs Electronics Commerce Company Limited and Jiangsu Limited on 13 April 2016. Upon establishment of the joint venture company after obtaining all necessary approval as defined and disclosed in the circular, YFM is committed to contribute RMB1,290,000,000 of the registered capital of the joint venture company.

**29 Material related party transactions**

	<i>Six months ended 30 June</i>	
	<i>2021</i>	<i>2020</i>
	HK\$'000	HK\$'000
Investment management fee paid ( <i>note (i)</i> )	45,925	40,729
Transitional services fee paid ( <i>note (ii)</i> )	8,759	7,880
Policy endorsement fee paid ( <i>note (iii)</i> )	2,529	2,615

- (i) The Group paid an investment management fee to an affiliate of a substantial shareholder who appointed a director to the board of the Company, for management service provided to YF Life’s investment portfolio.
- (ii) The fee is paid to a substantial shareholder, who appointed a director to the board of the Company, for certain treasury and financial reporting services relating to investment or portfolio management and other information technology related services to YF Life.
- (iii) The fee is paid to an affiliate of a substantial shareholder, who appointed a director to the board of the Company, for the provision of claims payment endorsement to certain outstanding life insurance policies of YF Life until such policies mature.

Except for those disclosed in this announcement, there is no other significant related party transactions during the period.

### 30 Reconciliation between HKFRSs and US GAAP

The condensed consolidated financial statements are prepared in accordance with HKFRSs, which differ from certain aspects from US GAAP. The effects of material differences between the financial statements of the Group prepared under HKFRSs and US GAAP are as follows:

Condensed consolidated statement of financial position	As at 30 June 2021			Amounts under US GAAP
	HKFRSs adjustments			
	Insurance-related differences <sup>[1]</sup>	Other difference in accounting <sup>[2]</sup>	Difference in impairment basis <sup>[3]</sup>	HK\$'000
<b>Assets</b>				
Property and equipment		4,295		648,611
Statutory deposits				4,513
Deferred tax assets			78	229
Investments in associates				74,095
Goodwill and Intangible assets				1,909,326
Deferred acquisition costs and value of business acquired	321,831			11,914,994
Investments		(1,682)	36,307	66,261,235
Advance reinsurance premiums				1,243,030
Reinsurers' share of outstanding claims	(3,675)			56,793
Insurance and reinsurance receivables	(924,763)			4,248,107
Other account receivable and accrued income				139,498
Other receivables, deposit and prepayment			22	942,184
Bank balance - trust and segregated accounts			155	604,339
Fixed bank deposits with original maturity over 3 months				1,018,116
Cash and cash equivalents			115	3,578,467
<b>Total assets</b>				<u>92,643,537</u>
<b>Liabilities</b>				
Insurance contract provisions	4,570,202			62,655,596
Investment contract liabilities	(4,629,162)			-
Outstanding claims				192,926
Reinsurance premium payables	(121,832)			552,700
Financial liability at fair value through profit or loss, other account payable and lease obligation				1,539,738
Other payables and accrued expense	(433,873)			3,474,395
Tax payable				23,875
Deferred tax liabilities				1,199,011
Bank borrowings				1,378,019
Shareholder's loan				1,641,077
<b>Total liabilities</b>				<u>72,657,337</u>
<b>Net assets</b>				<u>19,986,200</u>
<b>Capital and reserves</b>				
Share capital				11,872,683
Reserves	1,553	7,364	24,487	1,973,453
Non-controlling interests	6,505	(4,751)	12,190	6,140,064
<b>Total equity</b>				<u>19,986,200</u>

Yunfeng Financial Group Limited  
Interim Results Announcement for the Six Months Ended 30 June 2021

Condensed consolidated income statement	For the period ended 30 June 2021			Amounts under
	HKFRSs adjustments			US GAAP
	Insurance-related difference <sup>[1]</sup>	Other difference in accounting <sup>[2]</sup>	Difference in impairment basis <sup>[3]</sup>	HK\$'000
<b>Income</b>				
Premiums and fee income				3,548,781
Premiums ceded to reinsurer	237,759			(692,940)
Net premium and fee income				2,855,841
Change in unearned revenue liability	60,730			(184,079)
Net earned premium and fee income				2,671,762
Brokerage commission, interest and other service income				19,119
Subscription, management and rebate fee income				3,392
Consultancy and advisory income				-
Net investment and other (loss)/income	(194,584)	(219,147)	(12,533)	2,544,119
Overlay adjustment		230,402		-
Reinsurance commission and profit	(9,779)			11,969
Total income				5,250,361
<b>Benefits, losses and expenses</b>				
Net policyholders benefit	(16,648)			(1,595,036)
Commission and related expenses				(876,996)
Management and other expenses	(12,385)	(1,559)		(556,744)
Change in future policyholder benefits and deferral and amortisation of deferred acquisition costs and value of business acquired	(107,629)			(1,551,103)
Total benefits, losses and expenses				(4,579,879)
Finance costs				(77,934)
Share of results of associates				(1,609)
<b>Profit before taxation</b>				590,939
Tax expenses				(1,218)
<b>Profit after taxation</b>				589,721
<b>Profit attributable to:</b>				
Owners of the Company	(29,690)	6,701	(8,748)	427,789
Non-controlling interests	(12,846)	2,995	(3,785)	161,932
				589,721

*Yunfeng Financial Group Limited*  
*Interim Results Announcement for the Six Months Ended 30 June 2021*

Condensed consolidated income statement	<i>For the period ended 30 June 2020</i>			<i>Amounts under US GAAP</i>
	<i>HKFRSs adjustments</i>			HK\$'000
	<i>Insurance-related difference<sup>[1]</sup></i>	<i>Other difference in accounting<sup>[2]</sup></i>	<i>Difference in impairment basis<sup>[3]</sup></i>	
<b>Income</b>				
Premiums and fee income				2,852,246
Premiums ceded to reinsurer	157,817			(459,705)
Net premium and fee income				2,392,541
Change in unearned revenue liability	7,135			(311,156)
Net earned premium and fee income				2,081,385
Brokerage commission, interest and other service income				11,348
Subscription, management and rebate fee income				2,147
Consultancy and advisory income				-
Net investment and other (loss)/income	(188,354)	233,918	77,449	1,029,177
Overlay adjustment		(239,075)		-
Reinsurance commission and profit	(5,229)			15,370
<b>Total income</b>				3,139,427
<b>Benefits, losses and expenses</b>				
Net policyholders benefit	(8,083)			(841,189)
Commission and related expenses				(560,216)
Management and other expenses	(8,236)	(1,342)		(440,994)
Change in future policyholder benefits and deferral and amortisation of deferred acquisition costs and value of business acquired	(17,217)			(934,587)
<b>Total benefits, losses and expenses</b>				(2,776,986)
Finance costs				(88,553)
Share of results of associates				(1,567)
<b>Profit before taxation</b>				272,321
Tax expenses				(1,383)
<b>Profit after taxation</b>				270,938
<b>Profit attributable to:</b>				
Owners of the Company	(43,392)	(4,621)	54,059	115,227
Non-controlling interests	(18,775)	(1,878)	23,390	155,711
				270,938

Notes:

- [1] Major differences in relation to insurance-related balances are summarised as follows: financial reinsurance adjustments arising from different classification of reinsurance contracts under HKFRS and US GAAP; difference in value of business acquired recognised under HKFRS and US GAAP and corresponding differences on insurance contract provisions; difference in measurement of deferred acquisition costs and unearned revenue liability due to different amortisation under HKFRS and US GAAP; other miscellaneous differences due to different accounting principles under HKFRS and US GAAP.
- [2] Difference arises from classification and measurement of investments and lease accounting.
- [3] Difference arises from different impairment methodology and basis (expected credit loss model vs. incurred loss model) under HKFRS and US GAAP.

**31 Contingent liabilities**

The Group did not have any significant contingent liabilities as at 30 June 2021 and 31 December 2020.

**32 Non-adjusting events after the reporting period**

The registered office and principle place of business of the Company will be changed to Rooms 1803-1806, 18th Floor, China Evergrande Centre, 38 Gloucester Road, Wanchai, Hong Kong effective from 30 August 2021.

There is no material non-adjusting event after the reporting period.

By Order of the Board  
**Yunfeng Financial Group Limited**  
**Zhang Ke**

*Executive Director, Vice Chairman and Chief Executive Officer*

Hong Kong, 27 August 2021

*As at the date of this announcement, the Board comprises Mr. Yu Feng (who is Chairman and non-executive director), Mr. Zhang Ke (who is Vice Chairman, Chief Executive Officer and executive director), Mr. Huang Xin and Ms. Hai Olivia Ou (who are executive directors), Mr. Adnan Omar Ahmed and Mr. Michael James O' Connor (who are non-executive directors), and Mr. Qi Daqing, Mr. Chu Chung Yue, Howard and Mr. Xiao Feng (who are independent non-executive directors).*