

FALCON INSURANCE COMPANY (HONG KONG) LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2024

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REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2024.

Principal activity

The principal activity of Falcon Insurance Company (Hong Kong) Limited (the "Company") is the writing of general insurance business in Hong Kong. The activities of the subsidiary (together, the "Group") are set out in Note 8 to the financial statements.

Business review

No business review is presented for 2024 as the Company has been able to claim an exemption under section 388(3) of the Companies Ordinance Cap. 622 since it is a wholly owned subsidiary of Fairfax Asia Limited.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 11.

No interim dividend (2023: nil) was paid during the year ended 31 December 2024. The directors do not recommend the payment of a final dividend (2023: nil).

Donations

Charitable and other donations made by the Group during the year amounted to HKD55,868 (2023: HKD40,000).

Directors

(a) Directors of the company

The directors of the company during the year and up to the date of this report are:

Mr. Gobinath Arvind ATHAPPAN

Mr. Ramaswamy ATHAPPAN (deceased on 22 May 2024)

Mr. CHAN Sum Yu, Sammy

Mr. Brandon W. SWEITZER

Mr. KER Sin Tze

Mr. Simon Philip Guy LEE (appointed on 1 March 2025)

There being no provision in the Company's Articles of Association for retirement by rotation, all directors continue in office.

(b) Directors of the company's subsidiary

During the year and up to the date of this report, Mr. Gobinath Arvind ATHAPPAN and Mr. CHAN Sum Yu, Sammy are also directors of the company's subsidiary.

REPORT OF THE DIRECTORS (continued)

Directors' material interests in transactions, arrangements and contracts that are significant in relation to the company's business

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company's subsidiary, fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in the shares and debentures of the company or any specified undertaking of the company

Under the Fairfax Employee Share Ownership Plan ("ESOP"), eligible employees of the Company can purchase subordinate ordinary shares of Fairfax Financial Holdings Limited ("Fairfax") with employee contributions and the Company will contribute an additional percentage of the employee's contribution. Contribution shares are purchased from the open market.

For the year ended 31 December 2024, the Company contributed HKD232,598 (2023: HKD232,598) to a director to purchase shares.

Apart from the foregoing, at no time during the year was the company, its subsidiary its fellow subsidiaries, its parent company a party to any arrangement to enable the directors of the company to hold any interests in the shares or debentures of the company or its specified undertakings.

Management contracts

There exists an agreement for investment management between Hamblin Watsa Investment Counsel Ltd ("HWICL"), a fellow subsidiary of the Company, and Fairfax, the ultimate holding company, under which HWICL is authorized to manage investments for Fairfax and its subsidiaries, which include the whole investment portfolio of the Company, in return for a management fee calculated at normal commercial terms. The Company paid an investment administration fee to Fairfax for the year of HKD5,592,185 (2023: HKD4,806,499). In this connection, there was no management fee paid to HWICL during the year (2023: nil).

The Company has an agreement with Fairfax Asia Limited ("FAL"), the immediate holding company, under which FAL provides management services to the Company. The management fee paid to FAL for the year was HKD1,717,870 (2023: HKD1,723,150).

REPORT OF THE DIRECTORS (continued)

Permitted Indemnity Provisions

Pursuant to the Company's Articles of Association, subject to the relevant statutes, every director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



Mr. Gobinath Arvind ATHAPPAN
Chairman

Hong Kong, 29 April 2025

Independent Auditor's Report

To the Member of Falcon Insurance Company (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Falcon Insurance Company (Hong Kong) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 10 to 79, comprise:

- the consolidated balance sheet as at 31 December 2024;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2024, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT

To the Member of Falcon Insurance Company (Hong Kong) Limited
(incorporated in Hong Kong with limited liability) (Continued)

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the report of the directors, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

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

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

INDEPENDENT AUDITOR'S REPORT

To the Member of Falcon Insurance Company (Hong Kong) Limited
(incorporated in Hong Kong with limited liability) (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

To the Member of Falcon Insurance Company (Hong Kong) Limited
(incorporated in Hong Kong with limited liability) (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



PricewaterhouseCoopers
Certified Public Accountants


Hong Kong, 29 April 2025

CONSOLIDATED BALANCE SHEET

| | | As at 31 December | |
|--|------|----------------------|----------------------|
| | Note | 2024 | 2023 |
| ASSETS | | | |
| Property, plant and equipment | 5 | 8,354,766 | 13,632,474 |
| Investment properties | 6 | 3,200,000 | 3,800,000 |
| Intangible assets | 7 | 344,488 | 703,706 |
| Financial assets at | | | |
| - Fair value through profit or loss ("FVTPL") | 9 | 1,323,744,177 | 5,683,694 |
| - Fair value through other comprehensive income ("FVTOCI") | 9 | 402,242,957 | 622,193,822 |
| Insurance contract assets | 13 | 13,194 | - |
| Reinsurance contract assets | 13 | 356,157,928 | 341,489,270 |
| Other loans and receivables | 10 | 31,516,864 | 20,211,699 |
| Bank balances and cash | 12 | 545,926,798 | 1,415,042,845 |
| Total assets | | 2,671,501,172 | 2,422,757,510 |
| LIABILITIES | | | |
| Insurance contract liabilities | 13 | 1,471,217,793 | 1,358,798,873 |
| Reinsurance contract liabilities | 13 | 628,117 | 1,655 |
| Derivative financial instruments | 11 | - | 5,718,286 |
| Lease liabilities | 5 | 4,093,018 | 8,498,776 |
| Other payables | 14 | 76,053,184 | 80,164,173 |
| Total liabilities | | 1,551,992,112 | 1,453,181,763 |
| EQUITY | | | |
| Capital and reserves attributable to owners of the parent | | | |
| Share capital | 16 | 266,890,411 | 266,890,411 |
| Reserves | 17 | 852,618,649 | 702,685,336 |
| Total equity | | 1,119,509,060 | 969,575,747 |

The notes on pages 16 to 79 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 10 to 79 were authorized for issue by the board of directors on 29 April 2025 and were signed on its behalf.


Mr. CHAN Sum Yu, Sammy
Director


Mr. Gobinath Arvind ATHAPPAN
Director

CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December | |
|---|------|------------------------|---------------------|
| | | 2024 | 2023 |
| Insurance revenue | 18 | 823,772,820 | 777,286,507 |
| Insurance service expenses | 18 | (665,055,753) | (548,345,174) |
| Net expenses from reinsurance contracts | | (49,245,821) | (127,688,762) |
| Insurance service result | | 109,471,246 | 101,252,571 |
| Net finance expenses from insurance contracts issued | 13.2 | (55,613,290) | (87,222,939) |
| Net finance income from reinsurance contracts held | 13.2 | 13,608,173 | 23,401,481 |
| Net foreign exchange gains/(losses) from insurance contracts issued | 13.2 | 5,777,725 | (123,543) |
| Net insurance result | | 73,243,854 | 37,307,570 |
| Investment income | 19 | 67,706,532 | 98,250,745 |
| Net gains on FVTPL investments | 20 | 9,057,717 | 5,034,154 |
| Net losses on FVTOCI investments | 21 | (134,080) | - |
| Net losses from fair value adjustment to investment properties | | (600,000) | - |
| Other expenses | | (54,936) | (1,643,506) |
| Investment income | | 75,975,233 | 101,641,393 |
| Investment expenses | | (6,866,847) | (5,119,085) |
| Net foreign exchange (losses)/gains | 25 | (25,116,745) | 11,272,117 |
| Expenses for marketing and administration | 22 | (3,377,845) | (3,160,679) |
| Other operating expenses | 22 | (26,364,548) | (25,606,883) |
| Finance costs | | (319,763) | (503,000) |
| Expenses | | (62,045,748) | (23,117,530) |
| Results of operating activities | | 87,173,339 | 115,831,433 |
| Share of profit of associates | | - | 1,572,684 |
| Profit before tax | | 87,173,339 | 117,404,117 |
| Income tax expense | 24 | 10,512,672 | 8,929,203 |
| Profit for the year | | 97,686,011 | 126,333,320 |
| Profit attributable to : | | | |
| - Owners of the parent | | 97,686,011 | 126,333,320 |

The notes on pages 16 to 79 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Group | |
|--|-------|------------------------|--------------------|
| | | Year ended 31 December | |
| | | 2024 | 2023 |
| Profit for the year | 17 | 97,686,011 | 126,333,320 |
| Other comprehensive income : | | | |
| Item that may be subsequently reclassified to profit or loss | | | |
| - Share of other comprehensive income of investments accounted for using the equity method | 17 | - | - |
| - Currency translation differences | 17 | - | - |
| | | <u>-</u> | <u>-</u> |
| Item that will not be reclassified subsequently to profit or loss | | | |
| - Change in revaluation of land and buildings | 17 | (953,191) | 479,245 |
| - Changes in the fair value of equity investments at FVOCI | 17 | 63,713,165 | 54,116,382 |
| - Income tax impact | 17,15 | (10,512,672) | (8,929,203) |
| | | <u>52,247,302</u> | <u>45,666,424</u> |
| Other comprehensive income for the year, net of tax | | | |
| | | <u>52,247,302</u> | <u>45,666,424</u> |
| Total comprehensive income for the year | | <u>149,933,313</u> | <u>171,999,744</u> |
| Total comprehensive income attributable to : | | | |
| - Owners of the parent | | <u>149,933,313</u> | <u>171,999,744</u> |

The income tax relating to each component of other comprehensive loss is disclosed in note 24.

The notes on pages 16 to 79 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Share capital | Other reserve (Note 17) | Attributable to owners of the parent FVOCI (Note 17) | Accumulated profit | Total |
|--|------|---------------|----------------------------|--|-----------------------|--------------|
| Year ended 31 December 2023 | | | | | | |
| At beginning of year | | 266,890,411 | 214,427,058 | 71,509,179 | 197,432,861 | 750,259,509 |
| Adjustment on initial application of HKFRS 17, net of tax as of 1 January, 2022 | | - | - | - | (17,974,849) | (17,974,849) |
| Adjustment for HKFRS 17, net of tax for the year ended 31 December, 2022 | | - | - | - | 65,167,701 | 65,167,701 |
| Restated balance at beginning of year | | 266,890,411 | 214,427,058 | 71,509,179 | 244,625,713 | 797,452,361 |
| Profit for the year | | - | - | - | 126,333,320 | 126,333,320 |
| Other comprehensive income | | - | 479,245 | 45,187,179 | - | 45,666,424 |
| Total comprehensive income for the period | | - | 479,245 | 45,187,179 | 126,333,320 | 171,999,744 |
| - Share of other comprehensive income of investments accounted for using the equity method | 17 | - | - | 5,675,823 | (5,675,823) | - |
| - Currency translation differences | 17 | - | 2,651,763 | - | (2,651,763) | - |
| - Net gains transferred to retained earnings | | - | - | - | 123,642 | 123,642 |
| At end of year | | 266,890,411 | 217,558,066 | 122,372,181 | 362,755,089 | 969,575,747 |

The notes on pages 16 to 79 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

| | Note | Share capital | Other reserve (Note 17) | Attributable to owners of the parent FVOCI (Note 17) | Accumulated profit | Total |
|---|------|--------------------|----------------------------|--|-----------------------|----------------------|
| Year ended 31 December 2024 | | | | | | |
| At beginning of year | | 266,890,411 | 217,558,066 | 122,372,181 | 362,755,089 | 969,575,747 |
| Profit for the year | | - | - | - | 97,686,011 | 97,686,011 |
| Other comprehensive income | | - | (953,191) | 53,200,493 | - | 52,247,302 |
| Total comprehensive income for the period | | - | (953,191) | 53,200,493 | 97,686,011 | 149,933,313 |
| - Transfer of gain on disposal of equity investments at FVOCI to retained earnings (net of tax) | 17 | - | - | (82,883,854) | 82,883,854 | - |
| At end of year | | <u>266,890,411</u> | <u>216,604,875</u> | <u>92,688,820</u> | <u>543,324,954</u> | <u>1,119,509,060</u> |

The notes on pages 16 to 79 are an integral part of these consolidated financial statement.

CONSOLIDATED CASH FLOW STATEMENT

| | Note | <u>Group</u> | |
|---|------|---------------------------|---------------------------|
| | | Year ended 31 December | |
| | | 2024 | 2023 |
| Cash flows from operating activities | | | |
| Net cash used in operations | 26 | (599,942,707) | (36,954,368) |
| Interest received | | 45,186,591 | 43,650,086 |
| Dividend received | | 6,772,038 | 12,958,025 |
| | | <u>(547,984,078)</u> | <u>19,653,743</u> |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | | (396,927) | (191,080) |
| Proceed of disposal of investment in associates | | - | 58,281,172 |
| | | <u>(396,927)</u> | <u>58,090,092</u> |
| Cash flows from financing activities | | | |
| Repayment of principal of lease liabilities | | (4,725,521) | (2,842,050) |
| | | <u>(4,725,521)</u> | <u>(2,842,050)</u> |
| Net increase in cash and cash equivalents | | (553,106,526) | 74,901,785 |
| Cash and cash equivalents at beginning of year | | 848,241,398 | 773,339,613 |
| | | <u>295,134,872</u> | <u>848,241,398</u> |
| Cash and cash equivalents at end of year | | | |
| Analysis of cash and cash equivalents | | | |
| Cash at bank and in hand | | 228,755,500 | 252,417,979 |
| Short-term bank deposits with original maturities within three months | | 66,379,372 | 595,823,419 |
| | | <u>295,134,872</u> | <u>848,241,398</u> |
| Cash and cash equivalents at 31 December | | <u><u>295,134,872</u></u> | <u><u>848,241,398</u></u> |

The notes on pages 16 to 79 are an integral part of these consolidated financial statements.

Notes to the financial statements

1 General information

The principal activity of Falcon Insurance Company (Hong Kong) Limited (the "Company") is the writing of general insurance business in Hong Kong. The activities of the subsidiary (together, the "Group") are set out in Note 8 to the financial statements.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 6th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong and its place of business is Suites 307-11, 3/F, 12 Taikoo Wan Road, Taikoo Shing, Hong Kong.

The Company is a wholly owned subsidiary of Fairfax Financial Holdings Limited, which is incorporated in Canada.

These consolidated financial statements are presented in units of Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements were authorised for issue by the Board of Directors on 29 April 2025.

2 Material accounting policy information

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements are prepared in accordance with all applicable Hong Kong Financial Reporting Standards (the "HKFRS") as defined by Hong Kong Accounting Standard 1 and requirements of Hong Kong Companies Ordinance (Cap.622) (the "Companies Ordinance"). They have been prepared under the historical cost convention basis, except for certain financial assets measured at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

2 Material accounting policy information (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards effective in 2024

The following relevant new interpretations and amendments to standards have been adopted for the financial year ended 31 December 2024 and the application of these standards or interpretations:

- HKAS 1- Classification of Liabilities as Current or Non-current (amendments) and Non-current Liabilities with Covenants (amendments) (effective for annual periods beginning on or after 1 January 2024)
- HKAS 16- Lease Liability in a Sale and Leaseback (amendments) (effective for annual periods beginning on or after 1 January 2024)

(b) New standards and interpretations that are not yet effective and have not been early adopted

- HKAS 21- Lack of Exchangeability (amendments) (effective for annual periods beginning on or after 1 January 2025)
- HKFRS 9 and HKFRS 7- Classification and Measurement of Financial Instruments (amendments) (effective for annual periods beginning on or after 1 January 2026)
- HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7- Annual Improvements to HKFRS Accounting Standards — Volume 11 (effective for annual periods beginning on or after 1 January 2026)
- HKFRS 18- Presentation and Disclosure in Financial Statements (new standard) (effective for annual periods beginning on or after 1 January 2027)
- HKFRS S1- General Requirements for Disclosure of Sustainability-related Financial Information (effective for annual periods beginning on or after 1 August 2025)
- HKFRS S2- Climate-related Disclosures (effective for annual periods beginning on or after 1 August 2025)

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 Material accounting policy information (Continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

- (i) The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) *Merger accounting*

The acquisition of Falcon (1998) as a wholly-owned subsidiary was accounted for using merger accounting which was in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" (AG5) issued by HKICPA. The difference between the par value of the shares of Falcon (1998) and the par value of the Company's share issued in exchange for the shares in Falcon (1998) continues to be reported as a merger reserve under shareholders' equity in the consolidated balance sheet.

(b) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.6).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2 Material accounting policy information (Continued)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of debt securities denominated in foreign currency classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Transaction differences on financial assets and liabilities held at fair value through income are reported as part of the fair value gain/ loss. Translation differences on financial assets such as equities classified as fair value through other comprehensive income are, included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity.

2 Material accounting policy information (Continued)

2.4 Property, plant and equipment

Land and buildings comprise warehouses for storage purpose. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against reserves directly in equity; all other decreases are expensed in the income statement. The reserves included in shareholders' equity will be transferred directly to retained earnings when the land and buildings are derecognised.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | |
|------------------------------------|--|
| - Land and buildings | Over the unexpired period of the lease |
| - Leasehold improvements | Over the lease period |
| - Equipment, furniture and fixture | 25% or over the lease period |
| - Computer equipment | 25% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement when revalued assets are derecognised that amounts included in the revaluation surplus are transferred to retained earnings.

2.5 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement.

2 Material accounting policy information (Continued)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates and is tested for impairment as part of the overall measurement of the carrying amount of investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

(b) Computer Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of four years.

2.7 Financial instruments

2.7.1 Classification and measurement of financial instruments

(a) Recognition and derecognition

Purchases and sales of financial assets are recognised on the trade date, which is when the Group commits to purchase or sell the assets. Financial assets are derecognised when contractual rights to receive cash flows from the investments expire, or where the investments, together with substantially all the risks and rewards of ownership, have been transferred. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(b) Classification

The Group classifies its financial assets in the following measurement categories:

- those measured at amortised cost; and
- those measured subsequently at fair value (either through other comprehensive income, or through profit or loss).

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group classifies its financial liabilities, into one of the following categories:

- financial liabilities at FVTPL, and within this category as:
 - held-for-trading;
 - derivative hedging instruments; or
 - designated as at FVTPL; and
- financial liabilities at amortised cost.

2 Material accounting policy information (Continued)

2.7 Financial assets (Continued)

2.7.1 Classification and measurement of financial instruments (Continued)

(b) Classification (Continued)

The Group has designated investment contract liabilities as at FVTPL on initial recognition if the related assets are measured at FVTPL and the designation eliminates a measurement inconsistency.

All investment contract liabilities have a unit-linking feature whereby the amount due to contract holders is contractually determined based on specified assets. The effect of the unit-linking feature on the fair value of the liability is asset-specific performance risk and not credit risk, and the liabilities are fully collateralised. The Group has determined that any residual credit risk is insignificant and has not had any impact on the fair value of the liabilities.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets measured at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of financial assets is set out below:

- (i) Financial assets measured at amortised cost: These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gains and losses on derecognition are recognised in profit or loss.
- (ii) Financial assets measured at fair value through other comprehensive income: These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other changes in carrying amounts are recognised in other comprehensive income. On derecognition of debt instruments, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
- (iii) Financial assets measured at fair value through profit or loss: These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

2.7.2 Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its debt instruments and other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For financial assets measured at amortised cost, the Group uses a 'three-stage' model for impairment assessment to calculate financial asset's impairment.

Stage 1 - Financial assets where 12-month ECL is recognised. At initial recognition, allowance is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ("12-month ECL");

Stage 2 – Financial assets which are considered to have experienced a significant increase in credit risk. In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial assets ("lifetime ECL");

Stage 3 – Financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired. Financial assets that are credit-impaired at the reporting date are stated as the difference between the gross carrying amount and the present value of estimated future cash flows.

Purchased or originated credit-impaired financial assets ("POCI") - Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

2 Material accounting policy information (Continued)

2.7 Financial assets (Continued)

2.7.2 Impairment of financial assets (Continued)

(a) Measurement

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

Period over which ECL is measured

ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group is exposed to credit risk.

(b) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.8 Impairment of assets

Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.11 Share capital

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

2.12 Current and deferred income tax

The tax expense for the period comprised current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluated position taken in tax returns with respect to situation in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax arises from initial recognition of an assets or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 Material accounting policy information (Continued)

2.12 Current and deferred income tax (Continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Employee benefits

(a) Pension obligations

The Group has joined a mandatory provident fund scheme (the “MPF Scheme”) established under the Hong Kong Mandatory Provident Fund Ordinance. The MPF Scheme is a defined contribution plan. Contributions to the MPF Scheme are charged to the income statement as incurred in accordance with the rules of the scheme. The assets of the MPF Scheme are held separately in an independently administered fund.

The Group also operates a defined contribution plan in Hong Kong, the assets of which are held in separate trustee – administered fund.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(c) Share-based compensation

(i) Under the Restricted Share Plan operated by Fairfax Financial Holdings Limited (“Fairfax”), the ultimate parent company of the Group, certain directors have been granted Fairfax shares as part of their remuneration for the fair value of the employee services received. The total costs of the shares are expensed over the vesting period in the income statement.

(ii) Under the Fairfax Employee Share Ownership Plan, eligible employees of the Company can purchase subordinate ordinary shares of Fairfax with employee contributions and the Company will contribute an additional percentage of the employee's contribution. Contribution shares are purchased from the open market.

The Company contribution to the Plan are expenses as incurred.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(e) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2 Material accounting policy information (Continued)

2.14 Provisions

The Group is subject to various insurance-related assessments or guarantee-fund levies. Related provisions are provided for where there is a present obligation (legal or constructive) as a result of a past event.

2.15 Revenue recognition

(a) *Gross premiums written*

Gross premiums written on policies are recognised at date of risk inception. Revenue is recognised after adjusting for unearned premiums.

Certain reinsurance premiums are estimated at the individual contract level, based on historical patterns and experience from the ceding companies for contracts where reports from ceding companies for the period are not contractually due until after the balance sheet date.

(b) *Interest income*

Interest income for financial assets is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continued unwinding the discount as interest income.

(c) *Dividend income*

Dividend income for equity investment is recognised when the right to receive payment is established.

2.16 Insurance and reinsurance contracts

The Group issues casualty and property insurance contracts that assume insurance risk. A contract under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event is classified as insurance contract.

Casualty insurance contracts protect the Group's policyholders against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business policyholders who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Group's policyholders for damage suffered to their properties or for the value of property lost. Policyholders who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

2.16.1 Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

2.16.2 Unit of account

The Group manages insurance contracts issued by product lines within an operating segment, where each product line includes contracts that are subject to similar risks. All insurance contracts within a product line represent a portfolio of contracts. Each portfolio is further disaggregated into groups of contracts that are issued within a calendar year (annual cohorts) and are (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or (iii) a group of remaining contracts. These groups represent the level of aggregation at which insurance contracts are initially recognised and measured. Such groups are not subsequently.

For each portfolio of contracts, the Group determines the appropriate level at which reasonable and supportable information is available to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. This level of granularity determines sets of contracts. The Group uses significant judgement to determine at what level of granularity the Group has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment.

2 Material accounting policy information (Continued)

2.16 Insurance and reinsurance contracts (Continued)

2.16.2 Unit of account (Continued)

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Group aggregates reinsurance contracts held concluded within a calendar year (annual cohorts) into groups of (i) contracts for which there is a net gain at initial recognition, if any; (ii) contracts for which at initial recognition there is no significant possibility of a net gain arising subsequently; and (iii) remaining contracts in the portfolio, if any.

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis. The Group tracks internal management information reflecting historical experiences of such contracts' performance. This information is used for setting pricing of these contracts such that they result in reinsurance contracts held in a net cost position without a significant possibility of a net gain arising subsequently.

2.16.3 Recognition and derecognition

Groups of insurance contracts issued are initially recognised from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from the policyholder is due or actually received, if there is no due date; and
- when the Group determines that a group of contracts becomes onerous.

Insurance contracts acquired in a business combination or a portfolio transfer are accounted for as if they were entered into at the date of acquisition or transfer.

A group of reinsurance contracts held that covers the losses of separate insurance contracts on a proportionate basis (proportionate or quota share reinsurance) is recognised at the later of the beginning of the coverage period of the group; or the initial recognition of any underlying insurance contract.

The Group does not recognise a group of quota share reinsurance contracts held until it has recognised at least one of the underlying insurance contracts.

A group of reinsurance contracts held that covers aggregate losses from underlying contracts in excess of a specified amount (non-proportionate reinsurance contracts, such as excess of loss reinsurance) is recognised at the beginning of the coverage period of that group.

An insurance contract is derecognised when it is extinguished (i.e. when the obligation specified in the insurance contract expires or is discharged or cancelled); or the contract is modified and certain additional criteria are met.

2.16.4 Fulfilment cash flows within contract boundary

The FCF are the current estimates of the future cash flows within the contract boundary of a group of contracts that the Group expects to collect from premiums and pay out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows:

- a. are based on a probability weighted mean of the full range of possible outcomes;
- b. are determined from the perspective of the Group, provided the estimates are consistent with observable market prices for market variables; and
- c. reflect conditions existing at the measurement date.

An explicit risk adjustment for non-financial risk is estimated separately from the other estimates. For contracts measured under the PAA, unless the contracts are onerous, the explicit risk adjustment for non-financial risk is only estimated for the measurement of the LIC.

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgement and estimation.

2 Material accounting policy information (Continued)

2.16 Insurance and reinsurance contracts (Continued)

2.16.4 Fulfilment cash flows within contract boundary (Continued)

Risk of the Group's non-performance is not included in the measurement of groups of insurance contracts issued. In the measurement of reinsurance contracts held, the probability weighted estimates of the present value of future cash flows include the potential credit losses and other disputes of the reinsurer to reflect the non-performance risk of the reinsurer. The Group estimates certain FCF at the portfolio level or higher and then allocates such estimates to groups of contracts. The Group uses consistent assumptions to measure the estimates of the present value of future cash flows for the group of reinsurance contracts held and such estimates for the groups of underlying insurance contracts.

2.16.5 Contract boundary

The Group uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts. This assessment is reviewed every reporting period. Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or the Group has a substantive obligation to provide the policyholder with insurance coverage or other services. A substantive obligation ends when:

- a. the Group has the practical ability to reprice the risks of the particular policyholder or change the level of benefits so that the price fully reflects those risks; or
- b. both of the following criteria are satisfied:
 - i. the Group has the practical ability to reprice the contract or a portfolio of contracts so that the price fully reflects the reassessed risk of that portfolio; and
 - ii. the pricing of premiums related to coverage to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

In assessing the practical ability to reprice, risks transferred from the policyholder to the Group, such as insurance risk and financial risk, are considered; other risks, such as lapse or surrender and expense risk, are not included. Riders, representing add-on provisions to a basic insurance policy that provide additional benefits to the policyholder at additional cost, that are issued together with the main insurance contracts form part of a single insurance contract with all the cash flows within its boundary.

2.16.6 Insurance acquisition costs

The Group includes the following acquisition cash flows within the insurance contract boundary that arise from selling, underwriting and starting a group of insurance contracts and that are costs directly attributable to individual contracts and groups of contracts; and costs directly attributable to the portfolio of insurance contracts to which the group belongs, which are allocated on a reasonable and consistent basis to measure the group of insurance contracts.

2.16.7 Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows and reflects the compensation the Group requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Group fulfils insurance contracts. For reinsurance contracts held, the risk adjustment for non-financial risk

2.16.8 Initial and subsequent measurement

Applying HKFRS 17 Paragraph 53, an entity may simplify the measurement of a group of insurance contracts using the Premium Allocation Approach (PAA) only if, at the inception of the group:

- a) the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage (LRC) for the group that would not differ materially from the one that would be produced applying the requirements in GMM; or
- b) the coverage period of each contract in the group (including insurance contract service arising from all premiums within the contract boundary determined at that date is one year or less.

2 Material accounting policy information (Continued)

2.16 Insurance and reinsurance contracts (Continued)

2.16.8 Initial and subsequent measurement (Continued)

Each group of contracts that the Group desires to measure under PAA are subjected to the testing procedures :

- Test 1: Does the HKFRS 17 group contain only contracts with a coverage period clearly defined as less than or equal to 12 months?
- Test 2: Does base case/sensitivity modelling results for the HKFRS 17 group indicate less than 5% variability in cash flows in the LRC?
- Test 3: Does base case/sensitivity modelling results for the HKFRS 17 group indicate less than 3% variability in cash flows in the premium less acquisition cost?
- Test 4: Is the total of the groups that failed all previous steps not material

For the purpose of PAA eligibility testing, the Group has considered the longest coverage period within each line of business and after thorough assessment, it is concluded that the difference between the LRC estimation under PAA and GMM is less than the selected threshold of 5% or the difference is less than 3% of premium less acquisition cost. Thus, all lines of business are considered PAA eligible.

For insurance contracts issued, on initial recognition, the Group measures the LRC at the amount of premiums received, less any acquisition cash flows paid and any amounts arising from the derecognition of the prepaid acquisition cash flows asset.

The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of the LRC; and the LIC, comprising the FCF related to past service allocated to the group at the reporting date.

For insurance contracts issued, at each of the subsequent reporting dates, the LRC is increased for premiums received in the period; decreased for insurance acquisition cash flows paid in the period; decreased for the amounts of expected premiums received recognised as insurance revenue for the services provided in the period; and increased for the amortisation of insurance acquisition cash flows in the period recognised as insurance service expenses.

For reinsurance contracts held, on initial recognition, the Group measures the remaining coverage at the amount of ceding premiums paid.

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of the remaining coverage; and the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

For reinsurance contracts held, at each of the subsequent reporting dates, the remaining coverage is increased for ceding premiums paid in the period; and decreased for the amounts of ceding premiums recognised as reinsurance expenses for the services received in the period.

The Group does not adjust the LRC for insurance contracts issued and the remaining coverage for reinsurance contracts held for the effect of the time value of money as insurance premiums are due within the coverage of contracts, which is one year or less.

For contracts measured under the PAA, the LIC is measured similarly to the LIC's measurement under the GMM. Future cash flows are adjusted for the time value of money since automobile insurance contracts issued by the Group and measured under the PAA typically have a settlement period of over one year.

2.16.9 Insurance revenue

The Group provides services under the group of insurance contracts which reduces the LRC and recognises insurance revenue. The amount of insurance revenue recognised in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration the Group expects to be entitled to in exchange for those services. The Group recognises insurance revenue based on the passage of time over the coverage period of a group of contracts.

2.16.10 Insurance service expenses

Insurance service expenses include incurred claims; other incurred directly attributable insurance service expenses; amortisation of insurance acquisition cash flows; changes that relate to past service (i.e. changes in the FCF relating to the LIC); and changes that relate to future service (i.e. losses/reversals on onerous groups of contracts from changes in the loss components). The amortisation of insurance acquisition cash flows is based on the passage of time. Other expenses not meeting the above categories are included in the expenses for marketing and administration in the consolidated statement of comprehensive income.

2 Material accounting policy information (Continued)

2.16 Insurance and reinsurance contracts (Continued)

2.16.11 Insurance service result from reinsurance contracts held

The Group presents financial performance of groups of reinsurance contracts held on a net basis in net income (expenses) from reinsurance contracts held, comprising reinsurance expenses; incurred claims recovery; other incurred directly attributable insurance service expenses; effect of changes in risk of reinsurer non-performance and changes relating to past service (i.e. adjustments to incurred claims).

Reinsurance expenses are recognised similarly to insurance revenue. The amount of reinsurance expenses recognized in the reporting period depicts the transfer of received services at an amount that reflects the portion of ceding premiums the Group expects to pay in exchange for those services.

The Group recognises reinsurance expenses based on the passage of time over the coverage period of a group of contracts. Ceding commissions that are not contingent on claims of the underlying contracts issued reduce ceding premiums and are accounted for as part of reinsurance expenses.

2.16.12 Insurance finance income or expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effect of the time value of money and changes in the time value of money, the effect of financial risk and changes in financial risk, the effect of changes in interest rates and other financial assumptions and foreign exchange differences arising from contracts denominated in a foreign currency. The main amounts within insurance finance income or expenses are interest accreted on the LIC and the effect of changes in interest rates and other financial assumptions. The Group disaggregates changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expenses.

2.16.13 Loss Component

The Group assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. Where this is not the case, and if at any time during the coverage period, the facts and circumstances indicate that a group of insurance contracts is onerous, the Group establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group.

2 Material accounting policy information (Continued)

2.17 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

3 Critical accounting estimates and judgements in applying accounting policies

The Group is primarily an insurer underwriting commercial lines of business, including Employees' Compensation. Other major business lines include Motor, Accident and Health, Marine Hull and Property. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate.

Ultimate liability arising from claims made under insurance contracts

Provision is made for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported (IBNR) to the Group. The estimated cost of claims includes direct expenses to be incurred in settling those claims.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Liability and other long tail classes of business, where claims settlement may not happen for many years after the event giving rise to the claim, will typically display greater variability between initial estimates and final settlement due to delays in reporting claims, uncertainty in respect of court awards and future inflation. Claims in respect of property and other short tail classes are typically reported and settled sooner after the claim event, giving rise to less uncertainty.

The estimation techniques and assumptions used in determining the outstanding claims provision and the associated reinsurance assets are described below.

(a) Insurance risk assumptions

The Group's process for establishing claims provisions involves extensive consultation with the actuaries, claims managers, underwriters and other senior management.

The determination of the amounts that the Group will ultimately pay for claims arising under insurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that elapses before a definitive determination of the ultimate claims cost can be made;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- social and economic trends, for example price and wage inflation and interest rates.

(b) Central estimates

Central estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected claims estimates are based on a judgemental consideration of the results of each method and qualitative information, for example, the line of business, the maturity of the portfolio and the anticipated tail of the class. Projections are based on both historical experience and the use of external benchmarks where relevant. Central estimates are calculated gross and net of any reinsurance recoveries.

4 Management of insurance and financial risk

The Group issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Group manages them.

4.1 Insurance risks

4.1.1 General insurance risks

The Group has established procedures to manage its insurance risks across the underwriting, claims and actuarial disciplines.

(a) Underwriting risks

(i) Selection and pricing of risks

Underwriting authority is delegated to experienced underwriters reflecting the level of risk which the Group is prepared to take. The authorities include reference to some combination of:

- gross written premium;
- premium per contract;
- sum insured per contract;
- aggregate exposures per zone;
- probable maximum loss;
- levels and quality of reinsurance protection;
- geographic exposures; and/or
- classes of business and types of product that may be written

Insurance and reinsurance policies are written taking into account the Group's risks tolerance and underwriting standards.

Pricing of risks is controlled by use of in-house pricing models relevant to the specific portfolio and markets in which the consolidated entity operates. Experienced underwriters and actuaries maintain historical pricing and claims analysis for each portfolio and this is combined with a detailed knowledge of the current developments in the respective markets and classes of business.

(ii) Concentration risk

The Group mainly offers insurance contracts to the Hong Kong market and the insurance risk with reference to the carrying amount of the insurance liabilities arising from insurance contracts is predominantly in Hong Kong. The Group's exposure to concentrations of insurance risk is mitigated by setting location accumulation limit. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of businesses. A combination of core and specialty products under the control of proven employees skilled in such products allows the Group to lead underwrite in the markets in which it operates.

The Group has potential exposure to catastrophe losses which are protected by Catastrophe excess of loss treaties.

(iii) Reinsurance risk

The Group's strategy in respect of the selection, approval and monitoring of reinsurance arrangements is addressed by the following protocols:

- Placement of appropriate treaty or facultative reinsurance is governed by the Group's reinsurance management strategy.
- Reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historic losses and potential future losses.

The quality of the Group's exposure to reinsurance counterparties is actively monitored as described in Note 4.2.2 Credit risk.

(b) Claims management and claims provisioning risks

The Group's approach to claims provisioning, and the related sensitivities, are provided in Notes 3 and 13. The Group seeks to ensure the adequacy of its claims provisions by reference to the following controls:

- Experienced claims managers work with underwriters on coverage issues and operate within the levels of authority delegated to them in respect of the settlement of claims.
- Processes exist to ensure that all claims advices are captured and updated on a timely basis and with a realistic assessment of the ultimate claims cost.

4 Management of insurance and financial risk (Continued)

4.2 Financial risk

The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, currency risk, liquidity risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The Group manages the financial risk on a timely basis and the notes below explain how the various financial risk is managed.

4.2.1 Interest-rate risk

The Group's fixed income securities portfolio is exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, market values of fixed income securities portfolios fall and vice versa.

The table below displays the potential impact of market value fluctuations on the fixed income securities portfolio (excluding short-term Treasury Bills with maturity of less than three months) as at 31 December 2024 and 31 December 2023, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments. This analysis was performed by individual security.

| Change in Interest Rates | As at 31 December 2024 | | | As at 31 December 2023 | | |
|--------------------------|--------------------------------------|------------------------|-----------------------|--------------------------------------|------------------------|-----------------------|
| | Fair Value of Fixed Income Portfolio | | | Fair Value of Fixed Income Portfolio | | |
| | Income Portfolio | Hypothetical \$ Change | Hypothetical % Change | Income Portfolio | Hypothetical \$ Change | Hypothetical % Change |
| 200 basis point decline | 1,317,298,115 | 76,995,828 | 6 | 20,477,338 | 221,003 | 1 |
| 100 basis point decline | 1,278,041,590 | 37,739,303 | 3 | 20,368,813 | 112,478 | 1 |
| No change | 1,240,302,287 | - | - | 20,256,335 | - | - |
| 100 basis point rise | 1,204,011,646 | (36,290,641) | (3) | 20,155,052 | (101,283) | (1) |
| 200 basis point rise | 1,169,103,777 | (71,198,510) | (6) | 20,049,783 | (206,552) | (1) |

4 Management of insurance and financial risk (Continued)

4.2 Financial risk (Continued)

4.2.2 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:

- debt securities at FVTOCI,
- assets arising from reinsurance contracts held,
- bank balances and cash,
- other loans and receivables.

The Group manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, such risks are subject to regular review. Limits on the levels of credit risk by category are reviewed and approved by the management regularly.

The maximum credit risk for assets bearing credit risks is the carrying amount less, where applicable, any provision for impairment.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract.

The exposure of reinsurers is monitored by the Riverstone Group, a fellow subsidiary. The creditworthiness of all reinsurers are assessed by reviewing credit grades provided by rating agencies and other publicly available financial information. Provision for reinsurance recoverable are recommended and communicated to all global operations quarterly.

Reinsurance is ceded across all geographic regions in which the Group operates. The Group does not have a significant concentration of credit risk with any single reinsurer.

Individual operating units maintain records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Group. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal audit makes regular reviews to assess the degree of compliance with the Group procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. The financial analysis of reinsurers that is conducted at Group level produces an assessment categorised by Standard & Poors (S&P) rating (or equivalent when not available from S&P).

4 Management of insurance and financial risk (Continued)

4.2 Financial risk (Continued)

4.2.2 Credit risk (Continued)

The following tables indicate the credit risk exposures arising from assets and liabilities as of 31 December 2024.

| As at 31 December 2024 | AAA | AA | A | BBB | BB | B or lower | Not rated/ analysed | Total |
|---|----------|----------------------|--------------------|---------------|----------|------------|------------------------|----------------------|
| Debit securities at FVTPL | - | 1,312,306,806 | - | - | - | - | 182,000 | 1,312,488,806 |
| Bank balances and cash | - | 11,279,579 | 534,611,264 | 27,916 | - | - | 8,039 | 545,926,798 |
| Other loans and receivables | - | 15,393,380 | 8,882,632 | - | - | - | 7,240,852 | 31,516,864 |
| Total assets bearing credit risk | - | 1,338,979,765 | 543,493,896 | 27,916 | - | - | 7,430,891 | 1,889,932,468 |

| As at 31 December 2023 | AAA | AA | A | BBB | BB | B or lower | Not rated/ analysed | Total |
|---|----------|--------------------|----------------------|---------------|----------|------------|------------------------|----------------------|
| Debit securities at FVTOCI and FVTPL | - | 147,778,778 | - | - | - | - | 182,000 | 147,960,778 |
| Bank balances and cash | - | 12,520,939 | 1,402,485,512 | 28,336 | - | - | 8,058 | 1,415,042,845 |
| Other loans and receivables | - | - | - | - | - | - | 20,211,699 | 20,211,699 |
| Total assets bearing credit risk | - | 160,299,717 | 1,402,485,512 | 28,336 | - | - | 20,401,757 | 1,583,215,322 |

Net asset arising from reinsurance are HK\$450,797,951 (2023: HK\$415,185,878) including the estimated claims incurred but not reported and the recoverable unearned premiums from reinsurers. The Group maintains strict controls on reinsurance arrangements. The exposure of reinsurers is monitored by the Riverstone Group, a fellow subsidiary. The creditworthiness of all reinsurers are assessed by reviewing credit grades provided by rating agencies and other publicly available financial information. Provision for reinsurance recoverable are recommended and communicated to all global operations quarterly.

4 Management of insurance and financial risk (Continued)

4.2 Financial risk (Continued)

4.2.3 Liquidity risk

The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligation as they fall due.

In addition to the liquid assets held in short-term money market securities, the Group maintains cash held for working capital requirements.

The Group limits the risk of liquidity shortfall, resulting from a mismatched in the timing of claim payments and receipt of claims recoveries by negotiating cash call clauses in certain reinsurance contracts and seeking accelerated settlements for large claims.

The following tables indicate the contractual/expected timing of cash flows arising from financial assets and liabilities and insurance contracts assets and liabilities as of 31 December 2024:

Assets

| Contractual cash flows (undiscounted) | | | | | | |
|---|----------------------|--------------------|--------------------|--------------------|-------------------|--------------------|
| At 31 December 2024 | Carrying amount | No stated maturity | 0 – 1 year | 1 - 2 years | 2 – 3 years | > 3 years |
| Derivative financial instruments at FVTPL | 11,255,371 | -- | 11,255,371 | - | - | - |
| Debt securities at FVTPL | 1,473,620,661 | 182,000 | 107,131,851 | 416,201,698 | 87,806,397 | 862,298,715 |
| Equity securities at FVTOCI | 402,242,957 | 402,242,957 | - | - | - | - |
| Other loans and receivables | 31,516,864 | - | 31,516,864 | - | - | - |
| Bank balances and cash | 550,752,466 | 228,755,500 | 321,996,966 | - | - | - |
| Total assets | 2,469,388,319 | 631,180,457 | 471,901,052 | 416,201,698 | 87,806,397 | 862,298,715 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

Other liabilities

| Analysed by contractual maturity date | | | | | |
|---------------------------------------|-------------------|-------------------|-------------|-------------|-----------|
| At 31 December 2024 | Carrying amount | 0 – 1 year | 1 – 2 years | 2 – 3 Years | > 3 years |
| Lease liabilities | 4,093,018 | 4,093,018 | - | - | - |
| Other payables | 76,053,184 | 76,053,184 | - | - | - |
| | 80,146,202 | 80,146,202 | - | - | - |
| | ===== | ===== | ===== | ===== | ===== |

Insurance and reinsurance contract liabilities

The following table provides a maturity analysis of the Group's insurance and reinsurance contract liabilities, which reflects the dates on which the cash flows are expected to occur. Liabilities for remaining coverage measured under the PAA have been excluded from this analysis.

| Expected undiscounted future cash flows, excluding risk adjustments | | | | | | | |
|---|----------------------|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| At 31 December 2024 | Total | 1 year of less | 1 - 2 year | 2 - 3 years | 3 - 4 years | 4 - 5 years | More than 5 years |
| Net insurance contract liabilities | 1,568,938,450 | 696,686,224 | 392,740,756 | 220,303,817 | 127,468,616 | 63,753,569 | 67,985,468 |
| Net reinsurance contract assets | (392,901,606) | (220,472,312) | (129,021,330) | (50,400,712) | (17,781,985) | 1,304,097 | 23,470,636 |
| | 1,176,036,844 | 476,213,912 | 263,719,426 | 169,903,105 | 109,686,631 | 65,057,666 | 91,456,104 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

No amounts from insurance contract liabilities are payable on demand at 31 December 2024 (2023: nil).

4 Management of insurance and financial risk (Continued)

4.2 Financial risk (Continued)

4.2.3 Liquidity risk (Continued)

The following tables indicate the contractual/expected timing of cash flows arising from assets and liabilities of insurance contracts as of 31 December 2023:

Assets

| At 31 December 2023 | Contractual cash flows (undiscounted) | | | | | |
|---|---------------------------------------|--------------------|----------------------|-------------|------------------|-----------|
| | Carrying amount | No stated maturity | 0 – 1 year | 1 - 2 years | 2 – 3 years | > 3 years |
| Derivative financial instruments at FVTPL | 5,501,694 | - | 5,501,694 | - | - | - |
| Debt securities at FVTPL | 182,000 | 182,000 | - | - | - | - |
| Equity securities at FVTOCI | 474,415,044 | 474,415,044 | - | - | - | - |
| Debt securities at FVTOCI | 147,778,778 | - | 147,778,778 | - | - | - |
| Other loans and receivables | 20,211,699 | - | 18,707,087 | - | 1,504,612 | - |
| Bank balances and cash | 1,415,042,845 | 252,417,979 | 1,162,624,866 | - | - | - |
| Total assets | 2,063,132,060 | 727,015,023 | 1,334,612,425 | - | 1,504,612 | - |
| | ===== | ===== | ===== | ===== | ===== | ===== |

Other liabilities

| At 31 December 2023 | Analysed by contractual maturity date | | | | |
|---------------------------------|---------------------------------------|-------------------|------------------|-------------|-----------|
| | Carrying amount | 0 – 1 year | 1 – 2 years | 2 – 3 years | > 3 years |
| Investment contract liabilities | 5,718,286 | 5,718,286 | - | - | - |
| Lease liabilities | 8,498,776 | 4,405,757 | 4,093,019 | - | - |
| Other payables | 80,164,173 | 80,164,173 | - | - | - |
| | 94,381,235 | 90,288,216 | 4,093,019 | - | - |
| | ===== | ===== | ===== | ===== | ===== |

Insurance and reinsurance contract liabilities

| At 31 December 2023 | Total | Expected undiscounted future cash flows, excluding risk adjustments | | | | | |
|------------------------------------|----------------------|---|--------------------|--------------------|-------------------|-------------------|-------------------|
| | | 1 year of less | 1 - 2 year | 2 - 3 years | 3 - 4 years | 4 - 5 years | More than 5 years |
| Net insurance contract liabilities | 1,440,765,375 | 637,026,304 | 363,927,633 | 198,711,089 | 118,720,199 | 59,501,455 | 62,878,695 |
| Net reinsurance contract assets | (363,623,398) | (198,134,051) | (122,320,508) | (47,455,742) | (19,798,101) | 870,477 | 23,214,527 |
| | 1,077,141,977 | 438,892,253 | 241,607,125 | 151,255,347 | 98,922,098 | 60,371,932 | 86,093,222 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

4 Management of insurance and financial risk (Continued)
4.2 Financial risk (Continued)

4.2.4 Currency risk

The Group operates in Hong Kong and its exposures to foreign exchange risk arise primarily with respect to the HK dollar and the US dollars. The Group generally invest in assets denominated in HKD, USD, SGD and CNY, the amount of assets denominated in currencies other than HKD, USD, SGD and CNY are considered to be less material. The HKD and USD are currently pegged. If the currencies are re-pegged, a depreciation of HKD against USD of 5% would result in a gain for the year of HKD75,687,450 (2023: HKD22,336,805).

The tables below summarise the Group's exposure to foreign currency exchange rate risk at 31 December 2024. The Group's assets and liabilities at carrying amounts are included in the table, categorised by currency at their carrying amount. All the amounts are denominated in Hong Kong dollars.

As at 31 December 2024

| | HKD | USD | EUR | THB | SGD | CNY | Other | Total |
|---|----------------------|----------------------|-------------------|----------------|--------------------|-------------------|--------------------|----------------------|
| Insurance contract assets | 13,194 | - | - | - | - | - | - | 13,194 |
| Reinsurance contract assets | 195,182,889 | 41,223,819 | 34,523,254 | 82,198 | 1,813,065 | 10,576,452 | 72,756,251 | 356,157,928 |
| Derivative financial instruments at FVTPL | - | - | - | - | 11,255,371 | - | - | 11,255,371 |
| Debt securities at FVTPL | 182,000 | 1,312,306,806 | - | - | - | - | - | 1,312,488,806 |
| Equity securities at FVTOCI | 165,701,068 | 205,135,604 | - | - | 1,300,539 | 30,105,746 | - | 402,242,957 |
| Other loans and receivables | 6,737,472 | 15,784,497 | - | - | - | 112,263 | 8,882,632 | 31,516,864 |
| Bank balances and cash | 151,882,160 | 50,678,868 | 8,713,439 | - | 77,548,374 | 6,311,567 | 250,792,390 | 545,926,798 |
| Total assets | 519,698,783 | 1,625,129,594 | 43,236,693 | 82,198 | 91,917,349 | 47,106,028 | 332,431,273 | 2,659,601,918 |
| Insurance contract liabilities | 1,061,772,254 | 82,133,195 | 40,866,839 | 208,973 | 212,756,309 | 2,402,880 | 71,075,343 | 1,471,217,793 |
| Reinsurance contract liabilities | 628,117 | - | - | - | - | - | - | 628,117 |
| Lease liabilities | 4,093,018 | - | - | - | - | - | - | 4,093,018 |
| Other payables | 45,139,921 | 29,247,395 | 1,486,051 | 2,087 | - | 4,545 | 173,185 | 76,053,184 |
| Total liabilities | 1,111,633,310 | 111,380,590 | 42,354,890 | 211,060 | 212,756,309 | 2,407,425 | 71,248,528 | 1,551,992,112 |

4 Management of insurance and financial risk (Continued)

4.2 Financial risk (Continued)

4.2.4 Currency risk (Continued)

The table below summarises the effect on profit or loss before tax for changes in exchange rates of foreign currencies against HKD (other than HKD and USD).

| | +10% exchange rate | -10% exchange rate |
|--|-----------------------|-----------------------|
| Total impact on profit or loss – assets | 48,336,725 | (48,336,725) |
| Total impact on profit or loss – liabilities | (32,897,821) | 32,897,821 |
| Total impact on equity – assets | 51,477,354 | (51,477,354) |
| Total impact on equity – liabilities | (32,897,821) | 32,897,821 |

4 Management of insurance and financial risk (Continued)
4.2 Financial risk (Continued)
4.2.4 Currency risk (Continued)

The tables below summarise the Group's exposure to foreign currency exchange rate risk at 31 December 2023. The Group's assets and liabilities at carrying amounts are included in the table, categorised by currency at their carrying amount. All the amounts are denominated in Hong Kong dollars.

| As at 31 December 2023 | HKD | USD | EUR | THB | SGD | CNY | Other | Total |
|---|----------------------|--------------------|--------------------|---------------|--------------------|-------------------|-------------------|----------------------|
| Insurance contract assets | - | - | - | - | - | - | - | - |
| Reinsurance contract assets | 199,621,557 | 39,204,145 | 43,498,230 | 69,351 | 1,660,047 | 8,896,655 | 48,539,285 | 341,489,270 |
| Derivative financial instruments at FVTPL | - | 5,501,684 | - | - | - | - | - | 5,501,684 |
| Debt securities at FVTPL | 182,000 | - | - | - | - | - | - | 182,000 |
| Debt securities at FVTOCI | - | 147,778,778 | - | - | - | - | - | 147,778,778 |
| Equity securities at FVTOCI | 124,795,529 | 300,542,439 | - | - | 1,953,919 | 47,123,157 | - | 474,415,044 |
| Other loans and receivables | 5,468,643 | 804,387 | 11,214,760 | - | 2,550,852 | 173,057 | - | 20,211,699 |
| Bank balances and cash | 144,020,057 | 53,981,203 | 590,925,664 | - | 608,239,784 | 15,150,561 | 2,725,576 | 1,415,042,845 |
| Total assets | 474,087,786 | 547,812,636 | 645,638,654 | 69,351 | 614,404,602 | 71,343,430 | 51,264,861 | 2,404,621,320 |
| Insurance contract liabilities | 953,422,521 | 95,399,897 | 52,945,025 | 56,901 | 203,652,222 | 3,554,904 | 49,767,403 | 1,358,798,873 |
| Reinsurance contract liabilities | 1,655 | - | - | - | - | - | - | 1,655 |
| Investment contract liabilities | - | 5,718,286 | - | - | - | - | - | 5,718,286 |
| Lease liabilities | 8,498,776 | - | - | - | - | - | - | 8,498,776 |
| Other payables | 80,164,173 | - | - | - | - | - | - | 80,164,173 |
| Total liabilities | 1,042,087,125 | 101,118,183 | 52,945,025 | 56,901 | 203,652,222 | 3,554,904 | 49,767,403 | 1,453,181,763 |

4 Management of insurance and financial risk (Continued)

4.2 Financial risk (Continued)

4.2.4 Currency risk (Continued)

The table below summarizes the effect on profit or loss before tax for changes in exchange rates of foreign currencies against HKD (other than HKD and USD).

| | +10% exchange rate | -10% exchange rate |
|--|-----------------------|-----------------------|
| Total impact on profit or loss – assets | 133,364,382 | (133,364,382) |
| Total impact on profit or loss – liabilities | (30,997,646) | 30,997,646 |
| Total impact on equity – assets | 138,272,090 | (138,272,090) |
| Total impact on equity – liabilities | (30,997,646) | 30,997,646 |

4 Management of insurance and financial risk (Continued)

4.2 Financial risk (Continued)

4.2.5 Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

The table below summarises the impact of increases/decreases of the global equity markets on the Group's post-tax profit for the year and on equity. The analysis is based on the assumption that the global equity markets had increased/decreased by 10% with all other variables held constant.

| | Impact on other components of equity | |
|----------------------------------|--------------------------------------|--------------|
| | 2024 | 2023 |
| Change in global equity markets: | | |
| 10% increase | 40,094,242 | 47,246,112 |
| 10% decrease | (40,094,242) | (47,246,112) |

Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as fair value through comprehensive income.

4.2.6 Capital management

The Group's primary objectives when managing capital is to safeguard the Group's ability to continue as a going concern and to comply with the regulatory requirements stipulated under the Hong Kong Insurance Ordinance ("HKIO") as an authorised insurer to carry on insurance business in or from Hong Kong, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group defines "capital" as including all components of equity and any loans from other group companies with no fixed terms of repayment, less unaccrued proposed dividends. The Group's capital structure is regularly reviewed and managed with due regard to the capital management practices of the Group.

Effective from 1 July 2024, the Company is subject to capital requirements under Hong Kong Risk-based Capital ("HKRBC") Regime introduced by HKIO. Pursuant to Chapter 41 of Hong Kong Insurance Ordinance ("IO"), the Company must ensure at all times that its capital base is not less than each of:

the Prescribed Capital Amount ("PCA") of the insurer as determined in accordance with Part 5 of the Insurance (Valuation and Capital) Rules (Cap. 41R);

the Minimum Capital Amount ("MCA") of the insurer, being 50% of the PCA; and HK\$20 million

Regulatory capital requirements require the Group to satisfy solvency capital rules set out in the HKIO. The Group has maintained its solvency in excess of 100% and complied with all externally and internally imposed capital requirements throughout the current and prior periods.

4.2.7 Fair value hierarchy

HKFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and unit trusts.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes the majority of the debt instruments and structured debt.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes debt instruments with significant unobservable components.

4 Management of insurance and financial risk (Continued)

4.2 Financial risk (Continued)

4.2.7 Fair value hierarchy (Continued)

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 31 December 2024. See Note 5 for disclosures of the property, plant and equipment that are measured at fair value.

| <u>As at 31 December 2024</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total balance</u> |
|------------------------------------|--------------------|----------------------|------------------|----------------------|
| <u>Assets</u> | | | | |
| Financial assets at FVTPL | | | | |
| - Derivative financial instruments | - | 11,255,371 | - | 11,255,371 |
| - Debt securities | - | 1,312,488,806 | - | 1,312,488,806 |
| Financial assets at FVTOCI | | | | |
| - Equities securities | 400,942,418 | - | 1,300,539 | 402,242,957 |
| Total assets | 400,942,418 | 1,323,744,177 | 1,300,539 | 1,725,987,134 |
| <u>Liabilities</u> | | | | |
| Derivative financial instruments | - | - | - | - |
| | | | | |
| <u>As at 31 December 2023</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total balance</u> |
| <u>Assets</u> | | | | |
| Financial assets at FVTPL | | | | |
| - Derivative financial instruments | - | 5,501,694 | - | 5,501,694 |
| - Debt securities | - | 182,000 | - | 182,000 |
| Financial assets at FVTOCI | | | | |
| - Debt securities | - | 147,778,778 | - | 147,778,778 |
| - Equities securities | 351,630,980 | 120,830,145 | 1,953,919 | 474,415,044 |
| Total assets | 351,630,980 | 274,292,617 | 1,953,919 | 627,877,516 |
| <u>Liabilities</u> | | | | |
| Derivative financial instruments | - | 5,718,286 | - | 5,718,286 |

The Group uses counterparty quotations to determine the fair value of financial instruments when unable to obtain the open market quotation.

The Group's level 3 financial instruments were principally equity securities at FVTOCI that do not have quoted market values in active markets. The fair value of these securities is determined based on the net asset values of the underwriting portfolios.

The following table presents the changes in level 3 instruments:

| | 2024 | 2023 |
|--|------------------|------------------|
| Balance at 1 January | 1,953,919 | 3,311,798 |
| Purchases | - | - |
| Fair value losses recognised in other comprehensive income | (653,380) | (1,357,879) |
| Balance at 31 December | 1,300,539 | 1,953,919 |

5 Property, plant and equipment

| | Land and buildings | Right-of-use assets | Leasehold improvements | Equipment, furniture and fixture | Computer equipment | Total |
|----------------------------------|--------------------|---------------------|------------------------|----------------------------------|--------------------|--------------|
| Cost or revaluation | | | | | | |
| At 31 December 2022 | 6,000,000 | 12,441,492 | 2,024,818 | 3,005,712 | 2,983,823 | 26,455,845 |
| Additions | - | - | - | - | 191,080 | 191,080 |
| Disposals | - | - | - | - | (72,380) | (72,380) |
| Revaluation surplus | (200,000) | - | - | - | - | (200,000) |
| At 31 December 2023 | 5,800,000 | 12,441,492 | 2,024,818 | 3,005,712 | 3,102,523 | 26,374,545 |
| Additions | - | - | - | - | 396,927 | 396,927 |
| Disposals | - | - | - | (385,338) | (320,065) | (705,403) |
| Revaluation surplus | (1,200,000) | - | - | - | - | (1,200,000) |
| At 31 December 2024 | 4,600,000 | 12,441,492 | 2,024,818 | 2,620,374 | 3,179,385 | 24,866,069 |
| Accumulated depreciation | | | | | | |
| At 31 December 2022 | (452,831) | (1,036,791) | (2,024,818) | (3,000,995) | (2,374,800) | (8,890,235) |
| Depreciation charge for the year | (226,414) | (4,147,164) | - | (1,573) | (228,310) | (4,603,461) |
| Disposals | - | - | - | - | 72,380 | 72,380 |
| Revaluation surplus | 679,245 | - | - | - | - | 679,245 |
| At 31 December 2023 | - | (5,183,955) | (2,024,818) | (3,002,568) | (2,530,730) | (12,742,071) |
| Depreciation charge for the year | (246,809) | (4,147,164) | - | (1,573) | (325,898) | (4,721,444) |
| Disposals | - | - | - | 385,338 | 320,065 | 705,403 |
| Revaluation surplus | 246,809 | - | - | - | - | 246,809 |
| At 31 December 2024 | - | (9,331,119) | (2,024,818) | (2,618,803) | (2,536,563) | (16,511,303) |
| Net book value | | | | | | |
| At 31 December 2023 | 5,800,000 | 7,257,537 | - | 3,144 | 571,793 | 13,632,474 |
| At 31 December 2024 | 4,600,000 | 3,110,373 | - | 1,571 | 642,822 | 8,354,766 |

5 Property, plant and equipment (Continued)

If land and buildings were stated on a historical cost basis, the amounts would be as follows:

| | | |
|--------------------------|-----------|-----------|
| | 2024 | 2023 |
| Cost | 506,598 | 506,598 |
| Accumulated depreciation | (256,087) | (244,953) |
| Net book amount | 250,511 | 261,645 |

Fair values of land and buildings

Land and buildings were revalued at 31 December 2024 on the basis of their open market value by an independent firm of chartered surveyors. The revaluation surplus net of applicable deferred income taxes during the year was credited to reserves in shareholders' equity.

| | | |
|---|-----------|-----------|
| | 2024 | 2023 |
| Balance at 1 January | 5,800,000 | 5,547,169 |
| Gains and losses recognised within expenses for marketing and administration in consolidated income statement | (246,809) | (226,414) |
| Revaluation surplus | (953,191) | 479,245 |
| Balance at 31 December | 4,600,000 | 5,800,000 |

The valuations of the land and buildings have been performed using a Direct Comparison Approach. This involves the analysis of recent market sales evidence of comparable land and buildings. Sales price per square foot of each comparable is adjusted for differences for various factors, such as time of transaction, floor level, size, view and so on. Valuation techniques used by the independent firm of chartered surveyors uses significant unobservable inputs. Accordingly, the fair value was classified as level 3.

Information about fair value measurements using significant unobservable inputs (level 3)

| Description | Fair value at 31 December 2024 | Valuation technique | Unobservable input | Range of unobservable input (weighted average) | Relationship of unobservable inputs to fair value |
|-------------|--------------------------------|----------------------------|-----------------------|--|---|
| Warehouse | 4,600,000 | Direct Comparison approach | Price per square foot | HKD7,000 - HKD8,200 (HKD7,500) | The higher the price per square foot, the higher the fair value |

| Description | Fair value at 31 December 2023 | Valuation technique | Unobservable input | Range of unobservable input (weighted average) | Relationship of unobservable inputs to fair value |
|-------------|--------------------------------|----------------------------|-----------------------|--|---|
| Warehouse | 5,800,000 | Direct comparison approach | Price per square foot | HKD7,275 – HKD12,061 (HKD9,668) | The higher the price per square foot, the higher the fair value |

5 Property, plant and equipment (Continued)

Leases

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

| | 2024 | 2023 |
|----------------------------|------------------|------------------|
| Right-of-use assets | | |
| Buildings | 3,110,373 | 7,257,537 |
| | <u>3,110,373</u> | <u>7,257,537</u> |
| Lease liabilities | | |
| Current | 4,093,018 | 4,405,757 |
| Non-current | - | 4,093,019 |
| | <u>4,093,018</u> | <u>8,498,776</u> |

No Additions to the right-of-use assets during the 2024 (2023: nil).

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

| | 2024 | 2023 |
|---|-------------|-------------|
| Depreciation charge of right-of-use assets – Building | (4,147,164) | (4,147,164) |
| Interest expense (included in finance costs) | (319,763) | (503,000) |

The total cash outflow for leases in 2024 was HKD4,725,521 (2023: HKD2,842,050).

(iii) The Group's leasing activities and how these are accounted for

The Group leases office. Rental contracts are typically made for fixed periods of 3 years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

6 Investment properties

| | 2024 | 2023 |
|-------------------------------------|-----------|-----------|
| At fair value | | |
| Balance at 1 January | 3,800,000 | 3,800,000 |
| Net gain from fair value adjustment | (600,000) | - |
| Balance at 31 December | 3,200,000 | 3,800,000 |

Amounts recognized in profit or loss for investment properties

| | 2024 | 2023 |
|---|-----------|----------|
| Direct operating expenses from property that did not generate rental income | (41,487) | (42,401) |
| Fair value loss recognised in consolidated income statement | (600,000) | - |
| | (641,487) | (42,401) |

Fair values of investment properties

The properties were revalued at 31 December 2024 on the basis of their open market value by an independent firm of chartered surveyors.

The valuations of the investment properties have been performed using a Direct Comparison Approach. This involves the analysis of recent market sales evidence of comparable land and buildings. Sales price per square foot of each comparable is adjusted for differences for various factors, such as time of transaction, floor level, size, view and so on. Valuation techniques used by the independent firm of chartered surveyors uses significant unobservable inputs. Accordingly, the fair value was classified as level 3.

Information about fair value measurements using significant unobservable inputs (level 3)

| Description | Fair value at 31 December 2024 | Valuation technique | Unobservable input | Range of unobservable input (weighted average) | Relationship of unobservable inputs to fair value |
|-------------|--------------------------------------|----------------------------------|--------------------------|---|--|
| Warehouse | 3,200,000 | Direct comparison approach | Price per square foot | HKD3,400 – HKD4,200 (HKD4,000) | The higher the price per square foot, the higher the fair value |

| Description | Fair value at 31 December 2023 | Valuation technique | Unobservable input | Range of unobservable input (weighted average) | Relationship of unobservable inputs to fair value |
|-------------|--------------------------------------|----------------------------------|--------------------------|---|--|
| Warehouse | 3,800,000 | Direct comparison approach | Price per square foot | HKD4,698 – HKD5,172 (HKD4,935) | The higher the price per square foot, the higher the fair value |

7 Intangible assets

| | Computer software |
|---|----------------------|
| At 31 December 2022 | |
| Cost | 2,832,497 |
| Accumulated amortisation and impairment | <u>(1,763,723)</u> |
| Net book amount | <u>1,068,774</u> |
| Year ended 31 December 2023 | |
| Opening net book amount | 1,068,774 |
| Additions | - |
| Amortisation charge | |
| – through income | <u>(365,068)</u> |
| Closing net book amount | <u>703,706</u> |
| At 31 December 2023 | |
| Cost | 2,832,497 |
| Accumulated amortisation and impairment | <u>(2,128,791)</u> |
| Net book amount | <u>703,706</u> |
| Year ended 31 December 2024 | |
| Opening net book amount | 703,706 |
| Additions | - |
| Amortisation charge | |
| – through income | <u>(359,218)</u> |
| Closing net book amount | <u>344,488</u> |
| At 31 December 2024 | |
| Cost | 2,832,497 |
| Accumulated amortisation and impairment | <u>(2,488,009)</u> |
| Net book amount | <u>344,488</u> |

8 Subsidiaries

The following is a list of subsidiary at 31 December 2024:

| <u>Name</u> | <u>Place of incorporation and kind of legal entity</u> | <u>Principal activities and place of operation</u> | <u>Particulars of share capital</u> | <u>Interest directly held</u> |
|-------------------------------|--|--|--|-------------------------------|
| Falcon (1998) Company Limited | Hong Kong, limited liability company | Investment holding in Hong Kong | 14,000,000 ordinary shares of HKD10 each | 100% |

9 Financial assets

The Group's financial assets are summarised below by measurement category in the table below:

| | 2024 | 2023 |
|-------------------------------|----------------------|--------------------|
| Financial assets at FVTPL | 1,323,744,177 | 5,683,694 |
| Financial assets at FVTOCI | 402,242,957 | 622,193,822 |
| Total financial assets | 1,725,987,134 | 627,877,516 |
| Current portion | 72,004,520 | 147,778,778 |
| Non-current portion | 1,653,982,614 | 480,098,738 |

(a) Financial assets at FVTPL

Financial assets at FVTPL are reported at fair value and include the following:

| | 2024 | 2023 |
|--|----------------------|------------------|
| - Derivative financial instruments (Note 11) | 11,255,371 | 5,501,694 |
| - Debt securities – other | 1,312,488,806 | 182,000 |
| | 1,323,744,177 | 5,683,694 |

(b) Financial assets at FVTOCI

Financial assets at FVTOCI are reported at fair value and include the following:

| | 2024 | 2023 |
|---------------------------------|--------------------|--------------------|
| Listed securities: | | |
| - Equity securities – Hong Kong | 171,478,926 | 135,896,819 |
| - Debt securities – other | - | 147,778,778 |
| - Equity securities – other | 229,463,492 | 215,734,162 |
| Unlisted securities: | | |
| - Equity securities | 1,300,539 | 122,784,063 |
| | 402,242,957 | 622,193,822 |

9 Financial assets (Continued)

The movement in the Group's financial assets at FVTOCI (excluding other loans and receivables – see note 10) are summarised in the table below by measurement category:

| | FVTOCI |
|--|---------------|
| At the end of 2022 | 439,542,667 |
| Additions | 248,971,752 |
| Disposals (sale and maturity) | (124,939,740) |
| Fair value net losses (excluding net realized gains) | 54,116,382 |
| Amortization | 4,502,761 |
| At the end of 2023 | 622,193,822 |
| Additions | 38,027,469 |
| Disposals (sale and maturity) | (223,343,851) |
| Fair value net losses (excluding net realized gains) | (35,548,935) |
| Amortization | 914,452 |
| At the end of 2024 | 402,242,957 |

The Group's management has assessed which business models apply to the financial assets held and has classified its financial instruments into the appropriate HKFRS 9 category.

| | Amortised cost | FVTOCI | | FVTPL | | Total |
|-------------------------------|-------------------|-------------|-----------|------------|---------------|---------------|
| | | Designated | Mandatory | Designated | Mandatory | |
| 31 December 2024 | | | | | | |
| Government bonds | - | - | - | - | 1,312,306,806 | 1,312,306,806 |
| Other debt securities | - | - | - | - | 182,000 | 182,000 |
| Equity securities | - | 402,242,957 | - | - | - | 402,242,957 |
| Derivatives | - | - | - | - | 11,255,371 | 11,255,371 |
| Total financial assets | - | 402,242,957 | - | - | 1,323,744,177 | 1,725,987,134 |

9 Financial assets (Continued)

| 31 December 2023 | Amortised cost | FVTOCI | | FVTPL | | Total |
|-------------------------------|-------------------|-------------|-------------|------------|-----------|-------------|
| | | Designated | Mandatory | Designated | Mandatory | |
| Government bonds | - | - | 147,778,778 | - | - | 147,778,778 |
| Other debt securities | - | - | - | - | 182,000 | 182,000 |
| Equity securities | - | 474,415,044 | - | - | - | 474,415,044 |
| Derivatives | - | - | - | - | 5,501,694 | 5,501,694 |
| Total financial assets | - | 474,415,044 | 147,778,778 | - | 5,683,694 | 627,877,516 |

10 Other loans and receivables

| | 2024 | 2023 |
|---|-------------------|-------------------|
| – amounts due from related parties | 37,224 | 160,898 |
| – prepayments, deposits and other receivables | 31,479,640 | 20,050,801 |
| Other loans and receivables | 31,516,864 | 20,211,699 |
| Current portion | 31,516,864 | 18,707,087 |
| Non-current portion | - | 1,504,612 |

All non-current receivables are due within five years from the balance sheet date.

The carrying amount of loans and receivables are not materially different from their estimated fair values.

11 Derivative financial instruments

| | 2024 | | | 2023 | | |
|------------------------------------|--------------------|---------------------|-------------------------|--------------------|---------------------|-------------------------|
| | Notional Amount | Fair value Asset | Fair value liability | Notional Amount | Fair value Asset | Fair value liability |
| Foreign exchange forward contracts | 276,778,086 | 11,255,371 | - | 586,761,149 | 5,501,694 | 5,718,286 |
| Total at 31 December | 276,778,086 | 11,255,371 | - | 586,761,149 | 5,501,694 | 5,718,286 |

Long and short foreign exchange forward contracts denominated in the USD, SGD, EUR and CAD are used to manage certain foreign currency exposures arising from foreign currency denominated transactions. The contracts have an average term to maturity of less than one year and may be renewed at market rates. The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the consolidated balance sheet.

12 Bank balances and cash

| | 2024 | 2023 |
|---|--------------------|----------------------|
| Time deposits with original maturities over three months | <u>250,791,926</u> | <u>566,801,447</u> |
| Cash at bank and in hand | 228,755,500 | 252,417,979 |
| Short-term bank deposits with original maturities within three months | <u>66,379,372</u> | <u>595,823,419</u> |
| Cash and cash equivalents | <u>295,134,872</u> | <u>848,241,398</u> |
| | <u>545,926,798</u> | <u>1,415,042,845</u> |

The effective interest rate on time deposits with original maturities over three months was 4.2% (2023: 5.4%) and these have an average maturity of 365 days (2023: 259 days) at the reporting date.

The effective interest rate on short-term bank deposits was 2.84% (2023: 4.01%) and these have an average maturity to date of 7 days (2023: 64 days) at the reporting date. The carrying amount disclosed above reasonably approximate to their fair values at the reporting date.

13 Insurance and reinsurance contracts

| Insurance contracts | 2024 | 2023 |
|----------------------------------|------------------|----------------|
| Insurance contract liabilities | 1,471,217,793 | 1,358,798,873 |
| Insurance contract assets | <u>(13,194)</u> | <u>-</u> |
| Reinsurance contracts | 2024 | 2023 |
| Reinsurance contract assets | 356,157,928 | 341,489,270 |
| Reinsurance contract liabilities | <u>(628,117)</u> | <u>(1,655)</u> |

The following table sets out the carrying amounts of insurance and reinsurance contracts expected to be (recovered) settled more than 12 months after the reporting date.

| <i>In Hong Kong dollars</i> | 2024 | 2023 |
|----------------------------------|---------------|---------------|
| Insurance contract assets | - | - |
| Insurance contract liabilities | 872,252,226 | 803,739,071 |
| Reinsurance contract assets | (172,429,294) | (165,489,347) |
| Reinsurance contract liabilities | - | - |

At 31 December 2024, the maximum exposure to credit risk from insurance contracts is HKD1,471,217,793 (2023: HKD1,358,798,873), which primarily relates to premiums receivable for services that the Group has already provided, and the maximum exposure to credit risk from reinsurance contracts is HKD356,157,928 (2023: HKD341,489,270).

(a) Movements in insurance and reinsurance contract balances

The following reconciliations show how the net carrying amounts of insurance and reinsurance contracts in each segment changed during the year as a result of cash flows and amounts recognised in the income statement.

The Group presents a table that separately analyses movements in the liabilities for remaining coverage and movements in the liabilities for incurred claims and reconciles these movements to the line items in the income statement.

13 Insurance and reinsurance contracts (Continued)

(a) Movements in insurance and reinsurance contract balances (Continued)

(i) Insurance

| | | As at 31 December 2024 | | | | |
|---|--------------------------|------------------------------------|---|--|---------------|--|
| | | Liabilities for remaining coverage | | Liabilities for incurred claims | | |
| Note | Excluding loss component | Loss component | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | Total | |
| | - | - | - | - | - | |
| Opening assets | | | | | | |
| Opening liabilities | (240,352,278) | 9,222,702 | 1,533,497,155 | 56,431,294 | 1,358,798,873 | |
| Net opening balance | (240,352,278) | 9,222,702 | 1,533,497,155 | 56,431,294 | 1,358,798,873 | |
| Changes in the income statement | | | | | | |
| Insurance revenue | 18 (823,772,820) | - | - | - | (823,772,820) | |
| Insurance service expenses | | | | | | |
| Incurring claims and other insurance service expenses | - | - | 599,794,882 | 20,729,187 | 620,524,069 | |
| Amortisation of insurance acquisition cash flows | 94,626,423 | - | - | - | 94,626,423 | |
| Adjustments to liabilities for incurred claims | - | - | (3,7912,829) | (15,083,148) | (52,995,977) | |
| Losses on onerous contracts and the reversals of those losses | - | 2,901,238 | - | - | 2,901,238 | |
| | 94,626,423 | 2,901,238 | 561,882,053 | 5,646,039 | 665,055,753 | |
| Investment components and premium refunds ^a | - | - | - | - | - | |
| Insurance service result | 94,626,423 | 2,901,238 | 561,882,053 | 5,646,039 | 665,055,753 | |
| Net finance expenses from insurance contracts | (260,704) | - | 55,873,994 | - | 55,613,290 | |
| Effect of movements in exchange rates | 7,667,993 | - | (13,445,718) | - | (5,777,725) | |
| Total changes in the income statement | (721,739,108) | 2,901,238 | 604,310,329 | 5,646,039 | (108,881,502) | |
| Cash flows | | | | | | |
| Premiums received | 831,949,219 | - | 6,968,503 | - | 838,917,722 | |
| Claims and other insurance service expenses paid | - | - | (519,379,591) | - | (519,379,591) | |
| Insurance acquisition cash flows | (98,250,903) | - | - | - | (98,250,903) | |
| Total cash flows | 733,698,316 | - | (512,411,088) | - | 221,287,228 | |
| Transfer to other items in the consolidated balance sheet | - | - | - | - | - | |
| Net closing balance | (228,393,070) | 12,123,940 | 1,625,396,396 | 62,077,333 | 1,471,204,599 | |
| Closing assets | (80,755) | - | 65,213 | 2,348 | (13,194) | |
| Closing liabilities | (228,312,315) | 12,123,940 | 1,625,331,183 | 62,074,985 | 1,471,217,793 | |
| Net closing balance | (228,393,070) | 12,123,940 | 1,625,396,396 | 62,077,333 | 1,471,204,599 | |

13 Insurance and reinsurance contracts (Continued)

(a) Movements in insurance and reinsurance contract balances (Continued)

(i) Insurance (Continued)

| As at 31 December 2023 | | | | | | |
|--|------|------------------------------------|----------------|---|--|---------------|
| | Note | Liabilities for remaining coverage | | Liabilities for incurred claims | | Total |
| | | Excluding loss component | Loss component | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | |
| Opening assets | | (61,728) | - | 37,049 | 1,334 | (23,345) |
| Opening liabilities | | (121,396,652) | 2,317,247 | 1,275,562,095 | 52,728,041 | 1,209,210,731 |
| Net opening balance | | (121,458,380) | 2,317,247 | 1,275,599,144 | 52,729,375 | 1,209,187,386 |
| Changes in the income statement | | | | | | |
| Insurance revenue | 18 | (777,286,507) | - | - | - | (777,286,507) |
| Insurance service expenses | | | | | | |
| Incurring claims and other insurance service expenses | | - | - | 616,802,371 | 20,694,582 | 637,496,953 |
| Amortisation of insurance acquisition cash flows | | 87,365,773 | - | - | - | 87,365,773 |
| Adjustments to liabilities for incurred claims | | - | - | (166,430,344) | (16,992,663) | (183,423,007) |
| Losses on onerous contracts and the reversals of those losses | | - | 6,905,455 | - | - | 6,905,455 |
| | | 87,365,773 | 6,905,455 | 450,372,027 | 3,701,919 | 548,345,174 |
| Investment components and premium refunds ^a | | - | - | - | - | - |
| Insurance service result | | 87,365,773 | 6,905,455 | 450,372,027 | 3,701,919 | 548,345,174 |
| Net finance expenses from insurance contracts | | (31,195) | - | 87,254,134 | - | 87,222,939 |
| Effect of movements in exchange rates | | (5,306,268) | - | 5,429,811 | - | 123,543 |
| Total changes in the income statement | | (695,258,197) | 6,905,455 | 543,055,972 | 3,701,919 | (141,594,851) |
| Cash flows | | | | | | |
| Premiums received | | 665,276,835 | - | - | - | 665,276,835 |
| Claims and other insurance service expenses paid | | - | - | (285,157,960) | - | (285,157,960) |
| Insurance acquisition cash flows | | (88,912,537) | - | - | - | (88,912,537) |
| Total cash flows | | 576,364,298 | - | (285,157,960) | - | 291,206,338 |
| Transfer to other items in the consolidated balance sheet | | - | - | - | - | - |
| Net closing balance | | (240,352,278) | 9,222,702 | 1,533,497,156 | 56,431,294 | 1,358,798,873 |
| Closing assets | | - | - | - | - | - |
| Closing liabilities | | (240,352,278) | 9,222,702 | 1,533,497,155 | 56,431,294 | 1,358,798,873 |
| Net closing balance | | (240,352,278) | 9,222,702 | 1,533,497,155 | 56,431,294 | 1,358,798,873 |

13 Insurance and reinsurance contracts (Continued)

(a) Movements in insurance and reinsurance contract balances (Continued)

(ii) Reinsurance

| | As at 31 December 2024 | | | | | |
|---|------------------------|-----------------------------------|-------------------------|---|--|---------------|
| | Note | Assets for remaining coverage | | Assets for incurred claims (see (c)) | | Total |
| | | Excluding loss recovery component | Loss recovery component | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | |
| Opening assets | | (52,166,473) | 2,706,133 | 378,497,238 | 12,452,372 | 341,489,270 |
| Opening liabilities | | - | - | (1,597) | (58) | (1,655) |
| Net opening balance | | (52,166,473) | 2,706,133 | 378,495,641 | 12,452,314 | 341,487,615 |
| Changes in the income statement | | | | | | |
| Allocation of reinsurance premiums paid | | (203,688,102) | - | - | - | (203,688,102) |
| Amounts recoverable from reinsurers | | | | | | |
| Recoveries of incurred claims and other insurance service expenses | | - | - | 126,749,871 | 4,929,432 | 131,679,303 |
| Adjustments to assets for incurred claims | | - | - | 25,758,154 | (3,654,568) | 22,103,586 |
| Losses recoveries on onerous contracts and the reversals of those losses recoveries | | - | 659,392 | - | - | 659,392 |
| | | - | 659,392 | 152,508,025 | 1,274,864 | 154,442,281 |
| Investment components and premium refunds | | - | - | - | - | - |
| Effect of changes in non-performance risk of reinsurers | | - | - | - | - | - |
| Net expenses from reinsurance contracts | | (203,688,102) | 659,392 | 152,508,025 | 1,274,864 | (49,245,821) |
| Net finance income from reinsurance contracts | | - | - | 13,608,173 | - | 13,608,173 |
| Effect of movements in exchange rates | | - | - | - | - | - |
| Total changes in the income statement | | (203,688,102) | 659,392 | 166,116,198 | 1,274,864 | (35,637,648) |
| Cash flows | | | | | | |
| Premiums paid | | 169,145,327 | - | - | - | 169,145,327 |
| Amounts received | | - | - | (119,465,483) | - | (119,465,483) |
| Total cash flows | | 169,145,327 | - | (119,465,483) | - | 49,679,844 |
| Net closing balance | | (86,709,248) | 3,365,525 | 425,146,356 | 13,727,178 | 355,529,811 |
| Closing assets | | (83,089,580) | 3,273,410 | 422,348,655 | 13,625,443 | 356,157,928 |
| Closing liabilities | | (3,619,668) | 92,115 | 2,797,701 | 101,735 | (628,117) |
| Net closing balance | | (86,709,248) | 3,365,525 | 425,146,356 | 13,727,178 | 355,529,811 |

13 Insurance and reinsurance contracts (Continued)

(a) Movements in insurance and reinsurance contract balances (Continued)
(ii) Reinsurance (Continued)

As at 31 December 2023

| | Note | Assets for remaining coverage | | Assets for incurred claims (see (c)) | | Total |
|---|------|-----------------------------------|-------------------------|---|--|---------------|
| | | Excluding loss recovery component | Loss recovery component | Estimates of present value of future cash flows | Risk adjustment for non-financial risk | |
| Opening assets | | (39,983,009) | 600,700 | 374,512,373 | 12,632,076 | 347,762,140 |
| Opening liabilities | | (60,013) | - | 35,085 | 1,276 | (23,652) |
| Net opening balance | | (40,043,022) | 600,700 | 374,547,458 | 12,633,352 | 347,738,488 |
| Changes in the income statement | | | | | | |
| Allocation of reinsurance premiums paid | 18 | (195,441,048) | - | - | - | (195,441,048) |
| Amounts recoverable from reinsurers | | | | | | |
| Recoveries of incurred claims and other insurance service expenses | | - | - | 162,553,630 | 6,358,484 | 168,912,114 |
| Adjustments to assets for incurred claims | | - | - | (96,725,739) | (6,539,522) | (103,265,261) |
| Losses recoveries on onerous contracts and the reversals of those losses recoveries | | - | 2,105,433 | - | - | 2,105,433 |
| | | - | 2,105,433 | 65,827,891 | (181,038) | 67,752,286 |
| Investment components and premium refunds | | - | - | - | - | - |
| Effect of changes in non-performance risk of reinsurers | | - | - | - | - | - |
| Net expenses from reinsurance contracts | | (195,441,048) | 2,105,433 | 65,827,891 | (181,038) | (127,688,762) |
| Net finance income from reinsurance contracts | 13.2 | - | - | 23,401,481 | - | 23,401,481 |
| Effect of movements in exchange rates | | - | - | - | - | - |
| Total changes in the income statement | | (195,441,048) | 2,105,433 | 89,229,372 | (181,038) | (104,287,281) |
| Cash flows | | | | | | |
| Premiums paid | | 183,317,597 | - | - | - | 183,317,597 |
| Amounts received | | - | - | (85,281,189) | - | (85,281,189) |
| Total cash flows | | 183,317,597 | - | (85,281,189) | - | 98,036,408 |
| Net closing balance | | (52,166,473) | 2,706,133 | 378,495,641 | 12,452,314 | 341,487,615 |
| Closing assets | | (52,166,473) | 2,706,133 | 378,497,238 | 12,452,372 | 341,489,270 |
| Closing liabilities | | - | - | (1,597) | (58) | (1,655) |
| Net closing balance | | (52,166,473) | 2,706,133 | 378,495,641 | 12,452,314 | 341,487,615 |

13 Insurance and reinsurance contracts (Continued)

13.1 Non-life insurance contracts (excluding those covering life risks) – assumptions, change in assumptions and sensitivity

(a) Significant judgements and estimates

The Group determines the fulfilment cash flows of groups of insurance and reinsurance contracts when measuring the liabilities for incurred claims and, in some cases, the liabilities for remaining coverage (see Note 2.16.8). In doing so, management has made the following significant judgements and estimates.

(b) *Estimates of future cash flows*

The Group's objective in estimating future cash flows is to determine the expected value of a range of scenarios that reflects the full range of possible outcomes. The cash flows from each scenario are discounted and weighted by the estimated probability of that outcome to derive an expected present value.

In estimating future cash flows, the Group incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

The estimates of future cash flows reflect the Group's view of current conditions at the reporting date, as long as the estimates of any relevant market variables are consistent with observable market prices.

When estimating future cash flows, the Group takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted. The Group derives cost inflation assumptions from the difference between the yields on nominal and inflation-linked government bonds.

Cash flows within the boundary of a contract relate directly to the fulfilment of the contract, including those for which the Group has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Other costs that are incurred in fulfilling the contracts include:

- claims handling, maintenance and administration costs;
- recurring commissions payable on instalment premiums receivable within the contract boundary;
- costs that the Group will incur in providing investment services;
- costs that the Group will incur in performing investment activities to the extent that the Group performs them to enhance benefits from insurance coverage for policyholders by generating an investment return from which policyholders will benefit if an insured event occurs; and
- income tax and other costs specifically chargeable to the policyholders under the terms of the contracts.

Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads.

Cash flows are attributed to acquisition activities, other fulfilment activities and other activities at local entity level using activity-based costing techniques. Cash flows attributable to acquisition and other fulfilment activities are allocated to groups of contracts using methods that are systematic and rational and are consistently applied to all costs that have similar characteristics. The Group generally allocates insurance acquisition cash flows to groups of contracts based on the total premiums for each group, claims handling costs based on the number of claims for each group, and maintenance and administration costs based on the number of in-force contracts within each group. Other costs are recognised in profit or loss as they are incurred.

13 Insurance and reinsurance contracts (Continued)

13.1 Non-life insurance contracts (excluding those covering life risks) – assumptions, change in assumptions and sensitivity (Continued)

(b) Estimates of future cash flows (Continued)

The Group estimates the ultimate cost of settling claims incurred but unpaid at the reporting date and the value of salvage and other expected recoveries by reviewing individual claims reported and making allowance for claims incurred but not yet reported. The ultimate cost of settling claims is estimated using a range of loss reserving techniques – e.g. the chain-ladder and Bornhuetter-Ferguson methods. These techniques assume that the Group's own claims experience is indicative of future claims development patterns and therefore ultimate claims cost. The ultimate cost of settling claims is estimated separately for each geographic area and line of business, except for large claims, which are assessed separately from other claims.

The assumptions used, including loss ratios and future claims inflation, are implicitly derived from the historical claims development data on which the projections are based, although judgement is applied to assess the extent to which past trends might not apply in the future and future trends are expected to emerge.

(i) Process used to decide on assumptions

The best estimates of claim liabilities have been determined from the projected ultimate claim liabilities based on the incurred loss development, the paid loss development, the Bornhuetter Ferguson, or the expected loss ratio methods.

Paid loss development method

This method assumes that the cumulative paid loss amount of each development period will progress to the next development period in a definite pattern and the progression is independent of the corresponding rates of progression for the previous development periods. Therefore, by taking the product of a series of development factors, we can project the ultimate loss amount from the most recent paid loss amount for each accident year.

The implicit assumptions are:

- (1) The rate of claims payment and closure are constant in a development period
- (2) The inflation rate is identical for identical development periods

Incurred loss development method

This method assumes that the incurred loss (paid loss plus case reserve) will progress to the next development period in a definite pattern and the progression is independent of the corresponding rates of progression for the previous development periods.

The implicit assumptions are:

- (1) Case reserve level is constant; no major changes in reserving philosophy has taken place
- (2) The inflation rate is constant for a given development period

13 Insurance and reinsurance contracts (Continued)

13.1 Non-life insurance contracts (excluding those covering life risks) – assumptions, change in assumptions and sensitivity (Continued)

(b) *Estimates of future cash flows (Continued)*

(i) *Process used to decide on assumptions (Continued)*

Bornhuetter Ferguson method on incurred claims

The BF method is often used for establishing IBNR allowance for small portfolios or recent accident years where there is little development. Although this method will often not accurately predict the true emergence of IBNR, it does allow for the release of profits in a manner that reflects the expected pattern of the claims emergence.

In this method, ultimate loss = case incurred + IBNR, where IBNR = IBNR factor x expected loss

The expected loss can be determined by one of the following:

- (a) expected loss ratio x earned premium
- (b) average claim size x number of claims
- (c) ultimate from paid loss development method and incurred loss development method
- (d) judgement

The IBNR factor can be determined by the formula $1 - 1/\text{age-to-ultimate-factor}$.

The implicit assumptions are:

- (1) Case incurred as reported is partially credible
- (2) IBNR emergence is dependent on the expected ultimate loss, not on reported claims

Expected loss ratio method

In this method, ultimate loss = expected loss ratio x earned premium, where expected loss ratio is based on:

- (1) Historical experience
- (2) Pricing or planning projections
- (3) Judgement

The implicit assumption is that the reported case incurred is not credible for projecting final ultimate losses. This method is usually used for a small portfolio, a new line of business with no prior development experience, low frequency/high severity line of business where the development is volatile, or when there is uncertainty in future development because of changes in the portfolio mix or claims handling practices.

Claims paid and incurred, both gross and net of reinsurance recoveries, were produced for the last 13 years in a triangular form, by accident year and development year. Ratios of claim amounts at successive development years were then calculated to build loss development factor triangles.

The selected loss development factors have primarily been based on the historical development pattern from the reported loss development triangles. Judgement was used whenever there was a wide variability in the past development factors due to a small claims sample or due to a fairly new class of business. Also, development factors which seemed abnormal would have been disregarded in selecting the loss development factors.

The claims data includes external claims handling expenses, but does not include internal claims handling expenses. A provision for internal claims expenses (ULAE) has been determined based on the ratio of paid ULAE to net average of paid and incurred losses. This method assumes that most of the expenses incurred in the claims department result from opening and closing claim files, while also accounting for work performed by the claims department during the time the claim remained opened. This ULAE percentage was applied to the pure IBNR and to half of the case reserves plus IBNR for known claims.

13 Insurance and reinsurance contracts (Continued)

13.1 Non-life insurance contracts (excluding those covering life risks) – assumptions, change in assumptions and sensitivity (Continued)

(b) Estimates of future cash flows (Continued)

(i) Process used to decide on assumptions (Continued)

Non-reinsurance recoveries, including salvage and subrogation, were not specifically analysed in this valuation. However, they would implicitly be allowed for in our valuation method, where past recovery patterns are assumed to continue into the projected future years.

The estimates for unearned premium liabilities have been determined such that the total premium liability provision would be sufficient to pay for future claims and expenses in servicing the unexpired policies as of the valuation date.

(ii) Discount rates

Cash flows are discounted using risk-free yield curves, adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts and reinsurance contract assets held. The company determines the yield curves using commercially available currency-specific rates and illiquidity premiums.

The tables below set out the yield curves used to discount the cash flows of insurance contracts.

| | 2024 | | | | | 2023 | | | | |
|-----|--------|---------|----------|----------|----------|--------|---------|----------|----------|----------|
| | 1 year | 5 years | 10 years | 15 years | 20 years | 1 year | 5 years | 10 years | 15 years | 20 years |
| HKD | 4.07% | 3.97% | 4.02% | 4.11% | 4.19% | 4.42% | 3.65% | 3.66% | 3.83% | 3.93% |

(iii) Risk adjustments for non-financial risk

Risk adjustments for non-financial risk are determined to reflect the compensation that the individual issuing entity would require for bearing non-financial risk and are allocated to groups of contracts based on an analysis of the risk profiles of the groups. Risk adjustments for non-financial risk reflect the diversification benefits from contracts issued by the entity, in a way that is consistent with the compensation that it would require and that reflects its degree of risk aversion, and the effects of the diversification benefits are determined using a correlation matrix technique.

The risk adjustments for non-financial risk are determined using a confidence level technique.

To determine the risk adjustments for non-financial risk for reinsurance contracts, the Group applies these techniques both gross and net of reinsurance and derives the amount of risk being transferred to the reinsurer as the difference between the two results.

Applying a confidence level technique, the Group estimates the probability distribution of the expected value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the 75th percentile (the target confidence level) over the expected value of the future cash flows.

13 Insurance and reinsurance contracts (Continued)

13.1 Non-life insurance contracts (excluding those covering life risks) – assumptions, change in assumptions and sensitivity (Continued)

(b) Estimates of future cash flows (Continued)

(iv) Investment components

The Group identifies the investment component of a contract by determining the amount that it would be required to repay to the policyholder in all scenarios with commercial substance. These include circumstances in which an insured event occurs or the contract matures or is terminated without an insured event occurring. Investment components are excluded from insurance revenue and insurance service expenses.

(c) Sensitivity analysis

There is uncertainty inherent in the estimation process; the actual amount of ultimate claims can only be ascertained once all claims are closed.

The table below analyses how profit or loss and equity would have increased (decreased) if a 10% increase in the loss ratios had occurred at the reporting date. This analysis presents the sensitivities both before and after risk mitigation by reinsurance and assumes that all other variables remain constant. All contracts are measured under the PAA and, thus only the LIC component of insurance liabilities is sensitive to possible changes in loss ratios.

| | Profit or loss | | Equity | |
|------------------|----------------|---------------|---------------|---------------|
| | Gross | Net | Gross | Net |
| 31 December 2024 | (168,747,373) | (124,860,020) | (168,747,373) | (124,860,020) |
| 31 December 2023 | (158,992,845) | (119,898,049) | (158,992,845) | (119,898,049) |

(d) Claims development

Each table shows how the Group's estimates of total claims for each accident year have developed over time and reconciles the cumulative claims to the amount included in the consolidated balance sheet. Balances have been translated at the exchange rates prevailing at the reporting date.

13 Insurance and reinsurance contracts (Continued)

13.1 Non-life insurance contracts (excluding those covering life risks) – assumptions, change in assumptions and sensitivity (Continued)

(d) Claims development (Continued)

Insurance claims - gross of reinsurance as at 31 December 2024

Total all non-life insurance contracts

| Accident year | Total all short-term insurance contracts | | | | | Total |
|--|--|---------------|---------------|---------------|--------------|----------------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | |
| Estimate of ultimate claims costs: | | | | | | |
| – at end of accident year | 589,941,467 | 489,733,143 | 517,575,878 | 648,540,098 | 631,767,651 | 2,877,558,237 |
| – one year later | 646,810,336 | 508,158,736 | 530,100,155 | 657,441,242 | | |
| – two years later | 635,871,557 | 489,076,536 | 524,468,505 | | | |
| – three years later | 539,535,758 | 469,362,251 | | | | |
| – four years later | 512,502,558 | | | | | |
| Current estimate of cumulative | | | | | | |
| Claims | 512,502,558 | 469,362,251 | 524,468,505 | 657,441,242 | 631,767,651 | 2,795,542,207 |
| Cumulative payments to date | (381,732,844) | (304,578,512) | (313,470,279) | (275,047,501) | (96,491,977) | (1,371,321,113) |
| Liability recognised | 130,769,714 | 164,783,739 | 210,998,226 | 382,393,741 | 535,275,674 | 1,424,221,094 |
| Total all accident years | | | | | | |
| Liability recognised | | | | | | 1,424,221,094 |
| Liability in respect of prior years | | | | | | 144,717,356 |
| Effect of discounting | | | | | | (103,960,224) |
| Risk adjustment for non-financial risk | | | | | | 62,077,333 |
| Others | | | | | | 160,418,170 |
| Total liability for incurred claims included in the consolidated balance sheet for all short-term insurance claims | | | | | | <u>1,687,473,729</u> |

Insurance claims - net of reinsurance as at 31 December 2024

Total all non-life insurance contracts

| Accident year | Total all short-term insurance contracts | | | | | Total |
|--|--|---------------|---------------|---------------|--------------|----------------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | |
| Estimate of ultimate claims costs: | | | | | | |
| – at end of accident year | 481,065,790 | 392,978,166 | 396,678,276 | 467,143,025 | 490,903,432 | 2,228,768,689 |
| – one year later | 491,421,331 | 399,286,920 | 403,893,429 | 459,711,961 | | |
| – two years later | 486,102,799 | 399,287,822 | 395,800,717 | | | |
| – three years later | 460,351,893 | 389,470,126 | | | | |
| – four years later | 435,976,800 | | | | | |
| Current estimate of cumulative | | | | | | |
| Claims | 435,976,800 | 389,470,126 | 395,800,717 | 459,711,961 | 490,903,432 | 2,171,863,036 |
| Cumulative payments to date | (324,306,051) | (248,577,045) | (233,772,308) | (207,342,253) | (90,669,670) | (1,104,667,327) |
| Liability recognised | 111,670,749 | 140,893,081 | 162,028,409 | 252,369,708 | 400,233,762 | 1,067,195,709 |
| Total all accident years | | | | | | |
| Net liability recognised | | | | | | 1,067,195,709 |
| Net liability in respect of prior years | | | | | | 112,770,131 |
| Effect of discounting | | | | | | (78,847,276) |
| Risk adjustment for non-financial risk | | | | | | 48,350,155 |
| Others (reinsurance paid loss, funds withheld) | | | | | | 99,131,476 |
| Net liability included in the consolidated balance sheet for all short-term insurance claims | | | | | | <u>1,248,600,195</u> |

13 Insurance and reinsurance contracts (Continued)

13.1 Non-life insurance contracts (excluding those covering life risks) – assumptions, change in assumptions and sensitivity (Continued)

(d) Claims development (Continued)

Insurance claims - gross of reinsurance as at 31 December 2023

Total all non-life insurance contracts

| Accident year | Total all short-term insurance contracts | | | | | Total |
|--|--|---------------|---------------|---------------|---------------|----------------------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | |
| Estimate of ultimate claims costs: | | | | | | |
| – at end of accident year | 545,616,328 | 589,941,467 | 489,733,143 | 517,575,878 | 648,540,098 | 2,791,406,914 |
| – one year later | 546,612,017 | 646,810,336 | 508,158,736 | 530,100,155 | | |
| – two years later | 537,735,710 | 635,871,557 | 489,076,536 | | | |
| – three years later | 521,462,868 | 539,535,758 | | | | |
| – four years later | 484,315,251 | | | | | |
| Current estimate of cumulative | | | | | | |
| Claims | 484,315,251 | 539,535,758 | 489,076,536 | 530,100,155 | 648,540,098 | 2,691,567,798 |
| Cumulative payments to date | (396,151,880) | (364,660,578) | (269,993,993) | (228,821,535) | (109,310,880) | (1,368,938,866) |
| Liability recognised | 88,163,371 | 174,875,180 | 219,082,543 | 301,278,620 | 539,229,218 | 1,322,628,932 |
| Total all accident years | | | | | | |
| Liability recognised | | | | | | 1,322,628,932 |
| Liability in respect of prior years | | | | | | 118,136,443 |
| Effect of discounting | | | | | | (96,135,458) |
| Risk adjustment for non-financial risk | | | | | | 56,431,294 |
| Others | | | | | | 188,867,238 |
| Total liability for incurred claims included in the consolidated balance sheet for all short-term insurance claims | | | | | | <u>1,589,928,449</u> |

Insurance claims - net of reinsurance as at 31 December 2023

Total all non-life insurance contracts

| Accident year | Total all short-term insurance contracts | | | | | Total |
|--|--|---------------|---------------|---------------|--------------|----------------------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | |
| Estimate of ultimate claims costs: | | | | | | |
| – at end of accident year | 429,091,829 | 481,065,790 | 392,978,166 | 396,678,276 | 467,143,025 | 2,166,957,086 |
| – one year later | 427,367,620 | 491,421,331 | 399,286,920 | 403,893,429 | | |
| – two years later | 424,746,250 | 486,102,799 | 399,287,822 | | | |
| – three years later | 411,779,912 | 460,351,893 | | | | |
| – four years later | 383,766,769 | | | | | |
| Current estimate of cumulative | | | | | | |
| Claims | 383,766,769 | 460,351,893 | 399,287,822 | 403,893,429 | 467,143,025 | 2,114,442,938 |
| Cumulative payments to date | (309,519,266) | (310,345,715) | (221,924,983) | (181,991,619) | (96,177,021) | (1,119,958,604) |
| Liability recognised | 74,247,503 | 150,006,178 | 177,362,839 | 221,901,810 | 370,966,004 | 994,484,334 |
| Total all accident years | | | | | | |
| Net liability recognised | | | | | | 994,484,334 |
| Net liability in respect of prior years | | | | | | 86,294,013 |
| Effect of discounting | | | | | | (70,932,099) |
| Risk adjustment for non-financial risk | | | | | | 43,978,980 |
| Others (reinsurance paid loss, funds withheld) | | | | | | 145,155,266 |
| Net liability included in the consolidated balance sheet for all short-term insurance claims | | | | | | <u>1,198,980,494</u> |

13 Insurance and reinsurance contracts (Continued)

13.2 Net finance (expense)/income from insurance/reinsurance contracts

| | <i>Note</i> | 2024 | 2023 |
|---|--------------|---------------------|---------------------|
| Net finance expenses from insurance contracts | | | |
| Interest accreted | | (61,062,187) | (67,316,199) |
| Effect of changes in interest rates and other financial assumptions | | 5,448,897 | (19,906,740) |
| Net foreign exchange losses/(gains) | | 5,777,725 | (123,543) |
| Total net finance expenses from insurance contracts | 13(a) | (49,835,565) | (87,346,482) |
| Net finance income from reinsurance contracts | | | |
| Interest accreted | | 14,981,789 | 17,818,588 |
| Effect of changes in interest rates and other financial assumptions | | (1,373,616) | 5,582,893 |
| Total net finance income from reinsurance contracts | 13(a) | 13,608,173 | 23,401,481 |
| | | (36,227,392) | (63,945,001) |

14 Other payables

| | 2024 | 2023 |
|---------------------|------------|------------|
| Other payables | 76,053,184 | 80,164,173 |
| Current portion | 76,053,184 | 80,164,173 |
| Non-current portion | - | - |

15 Deferred tax

Deferred income tax assets are recognised for tax loss carry-forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HKD31,324,356 (2023: HKD56,965,099) in respect of loss amounts of HKD189,844,582 (2023: HKD345,243,024) that can be carried forward against future taxable income. These tax losses have no expiry date.

Deferred tax movement

| | Depreciation allowances in excess of related depreciation | Tax losses | Investment revaluation reserve | Insurance and reinsurance held contracts | Total |
|---------------------------------|---|------------|--------------------------------------|---|-------------|
| Movements | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| At 1 January 2023 | (116,891) | 7,645,029 | (15,252,126) | 7,723,988 | - |
| (Charged)/credited | | | | | |
| - to profit or loss | 310 | 12,492,091 | - | (3,563,198) | 8,929,203 |
| - to other comprehensive income | - | - | (8,929,203) | - | (8,929,203) |
| At 31 December 2023 | (116,581) | 20,137,120 | (24,181,329) | 4,160,790 | - |

| | Depreciation allowances in excess of related depreciation | Tax losses | Investment revaluation reserve | Insurance and reinsurance held contracts | Total |
|---------------------------------|---|--------------|--------------------------------------|---|--------------|
| Movements | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| At 1 January 2024 | (116,581) | 20,137,120 | (24,181,329) | 4,160,790 | - |
| (Charged)/credited | | | | | |
| - to profit or loss | (17,436) | 6,439,770 | - | 4,090,338 | 10,512,672 |
| - to other comprehensive income | - | - | (10,512,672) | - | (10,512,672) |
| - to retained earnings | - | (16,378,246) | 16,378,246 | - | - |
| At 31 December 2024 | (134,017) | 10,198,644 | (18,315,755) | 8,251,128 | - |

16 Share capital

Ordinary shares, issued and fully paid:

| | 2024 | | 2023 | |
|------------------------------|---------------------|------------------|---------------------|------------------|
| | Number of shares | Share capital | Number of shares | Share capital |
| At 1 January and 31 December | 175,000,001 | 266,890,411 | 175,000,001 | 266,890,411 |

17 Reserves

| | Capital contribution Note 17(a) | Share premium | Capital reduction reserve | Merger reserve | Property revaluation reserve | Investment revaluation reserve | Translation | Accumulated profit | Total |
|--|---------------------------------|---------------|---------------------------|----------------|------------------------------|--------------------------------|-------------|--------------------|--------------|
| Balance at 1 January 2023 | 70,000,000 | - | 1,160 | 140,000,000 | 7,077,661 | 71,509,179 | (2,651,763) | 197,432,861 | 483,369,098 |
| Adjustment on initial application of HKFRS 17, net of tax as at 1 January 2022 | - | - | - | - | - | - | - | (17,974,849) | (17,974,849) |
| Adjustment for HKFRS 17, net of tax for the year ended 31 December 2022 | - | - | - | - | - | - | - | 65,167,701 | 65,167,701 |
| Restated balance at 1 January 2023 | 70,000,000 | - | 1,160 | 140,000,000 | 7,077,661 | 71,509,179 | (2,651,763) | 244,625,713 | 530,561,950 |
| Revaluation reserve – net of tax | - | - | - | - | - | 5,675,823 | - | (5,675,823) | - |
| – investments in associates | - | - | - | - | 479,245 | - | - | - | 479,245 |
| – land and buildings | - | - | - | - | - | 45,187,179 | - | - | 45,187,179 |
| – financial assets at FVTOCI (Note 9) | - | - | - | - | - | - | - | 123,642 | 123,642 |
| Net gains transferred to retained earnings | - | - | - | - | - | - | 2,651,763 | (2,651,763) | - |
| Currency translation differences | - | - | - | - | - | - | - | 126,333,320 | 126,333,320 |
| Profit for the year | - | - | - | - | - | - | - | - | - |
| Balance at 31 December 2023 | 70,000,000 | - | 1,160 | 140,000,000 | 7,556,906 | 122,372,181 | - | 362,755,089 | 702,685,336 |

17. Reserves (continued)

| | Capital contribution Note 17(a) | Share premium | Capital reduction reserve | Merger reserve | Property revaluation reserve | Investment revaluation reserve | Translation | Accumulated profit | Total |
|---|---------------------------------|---------------|---------------------------|----------------|------------------------------|--------------------------------|-------------|--------------------|-------------|
| Balance at 1 January 2024 | 70,000,000 | - | 1,160 | 140,000,000 | 7,556,906 | 122,372,181 | - | 362,755,089 | 702,685,336 |
| Revaluation reserve – net of tax | - | - | - | - | (953,191) | - | - | - | (953,191) |
| – land and buildings | - | - | - | - | - | 53,200,493 | - | - | 53,200,493 |
| – financial assets at FVTOCI (Note 9) | - | - | - | - | - | (82,883,854) | - | 82,883,854 | - |
| Net gains transferred to retained earnings (net of tax) | - | - | - | - | - | - | - | 97,686,011 | 97,686,011 |
| Profit for the year | - | - | - | - | - | - | - | - | - |
| Balance at 31 December 2024 | 70,000,000 | - | 1,160 | 140,000,000 | 6,603,715 | 92,688,820 | - | 543,324,954 | 852,618,649 |

17 Reserves (continued)

17 (a) Capital contribution

| | <u>Group</u> | | <u>Company</u> | |
|---------------------|--------------|------------|----------------|------------|
| | 2024 | 2023 | 2024 | 2023 |
| As at 31 December | 70,000,000 | 70,000,000 | 40,000,000 | 40,000,000 |
| Represented by: | | | | |
| Contributed as cash | 70,000,000 | 70,000,000 | 40,000,000 | 40,000,000 |

17 (b) Capital reduction of share premium account

Capital reduction of the share premium account of the Company was approved and confirmed by an Order of the High Court on 27 November 2007.

The Company had undertaken that any future recoveries from claimant and/or 3rd party tortfeasor in respect of the accumulated losses recorded in the Company's audited account for the year ended 31 December 2006, would be credited to a special capital reserve, and not to be treated as realised profits of the Company. There was no relevant recovery as at 31 December 2024 (2023: nil).

18 Insurance revenue and insurance service result

| | 2024 | 2023 |
|---|--------------------|--------------------|
| Insurance revenue from contracts measured under the PAA | 823,772,820 | 777,286,507 |
| Insurance service expenses | | |
| – Incurred claims and other directly attributable expenses | (620,524,069) | (637,496,953) |
| – Changes that relate to past service – changes in the FCF relating to the LIC | 52,995,977 | 183,423,007 |
| – Insurance acquisition cash flows amortisation | (94,626,423) | (87,365,773) |
| – Losses on onerous contracts and the reversals of those losses | (2,901,238) | (6,905,455) |
| Total insurance service expenses | (665,055,753) | (548,345,174) |
| Net income/(expenses) from reinsurance contracts held | | |
| – Reinsurance expenses – contracts measured under the PAA | (203,688,102) | (195,441,048) |
| – Incurred claims recovery | 131,679,303 | 168,912,114 |
| – Changes that relate to past service – changes in the FCF relating to incurred claims recovery | 22,103,586 | (103,265,261) |
| – Losses recovery on onerous contracts and the reversals of those losses recovery | 659,392 | 2,105,433 |
| Total net expenses from reinsurance contracts | (49,245,821) | (127,688,762) |
| Total insurance service result | 109,471,246 | 101,252,571 |

19 Investment income

| | 2024 | 2023 |
|--|-------------------|-------------------|
| Financial assets | | |
| – dividend income | 6,772,038 | 12,958,025 |
| – interest income | 34,388,029 | 5,610,018 |
| Time deposits interest income | 26,546,465 | 51,021,049 |
| Gain on disposal of investment in associates | - | 28,661,653 |
| | 67,706,532 | 98,250,745 |

| | | | |
|-----------|---|-------------------|-------------------|
| 20 | Net gains on FVTPL investments | | |
| | | 2024 | 2023 |
| | Net gains on derivatives | 5,710,044 | 5,250,746 |
| | Net losses on debt securities at FVTPL | (440,998) | - |
| | Net fair value gains/(losses) on FVTPL investments | 3,788,671 | (216,592) |
| | | <u>9,057,717</u> | <u>5,034,154</u> |
| 21 | Net losses on FVTOCI investments | | |
| | | 2024 | 2023 |
| | Realised losses on FVTOCI investments | (134,080) | - |
| | | <u>(134,080)</u> | <u>-</u> |
| 22 | Expenses by nature | | |
| | | 2024 | 2023 |
| | Depreciation, amortisation and impairment charges (Notes 5 and 7) | 5,080,662 | 4,968,529 |
| | Auditors' remuneration | 4,000,000 | 4,400,000 |
| | Employee benefit expense (Note 23) | 61,268,178 | 61,994,555 |
| | Provision for bad and doubtful debts | 9,584 | 224,576 |
| | Guarantee fee paid to a fellow subsidiary | 1,256,122 | 1,219,064 |
| | Management fee paid to an intermediate holding company | 1,717,870 | 1,723,150 |
| | Other expenses | 10,509,584 | 9,261,909 |
| | | <u>83,842,000</u> | <u>83,791,783</u> |
| | | 2024 | 2023 |
| | Insurance acquisition cash flows | 25,601,805 | 21,124,063 |
| | Other directly attributable expenses | 28,497,802 | 33,900,158 |
| | Expenses for marketing and administration | 3,377,845 | 3,160,679 |
| | Other operating expenses | 26,364,548 | 25,606,883 |
| | | <u>83,842,000</u> | <u>83,791,783</u> |

23 Employee benefit expenses

| | 2024 | 2023 |
|---|-------------------|-------------------|
| Wages and salaries | 56,326,734 | 57,812,581 |
| Pension costs – defined contribution plans | 2,876,723 | 2,238,180 |
| Employee share ownership plan (Note 23 (b)) | 957,306 | 861,030 |
| Others | 1,107,415 | 1,082,764 |
| | <u>61,268,178</u> | <u>61,994,555</u> |

(a) Pensions – defined contribution plans

The forfeited contribution utilised during the year was HKD26,650 (2023: HKD320,661).

There was no contribution payable to the fund at the year-end (2023: nil).

(b) Share-based compensation

Contributions to employee share ownership plan

For the year ended 31 December 2024, the Company contributed HKD972,517 (2023: HKD867,274) to employees to purchase relating shares, which included HKD232,598 (2023: HKD232,598) contributed to a director.

(c) Three highest paid individuals

The three individuals whose emoluments were the highest in the Group for the year:

| | 2024 | 2023 |
|---|------------------|------------------|
| Aggregate emoluments of the three highest paid directors | 10,716,253 | 9,616,155 |
| Amounts paid by Fairfax Asia Limited, immediate holding company | (4,676,400) | (3,624,210) |
| | <u>6,039,853</u> | <u>5,991,945</u> |

The key management personnel of the Company only comprises of directors of the Company.

24 Income tax expense

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profit tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profit tax rates regime, the first HKD2 million of profits of the qualifying Group entity will be taxed at 8.25% and profits above HKD2 million will be taxed at 16.5%. The profits of Group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No provision for Hong Kong profits tax of 16.5% (2023: 16.5%) has been made in the financial statements as the Company's accumulated tax losses exceeds the assessable profits for the year, and there were no assessable profits for all the subsidiaries of the Group.

| | 2024 | 2023 |
|--|-----------------------------|-----------------------------|
| Current tax | | |
| Current tax income for the year | 3,433,391 | 12,055,637 |
| Deferred income tax | | |
| Increase in deferred tax assets (Note 15) | (9,873,161) | (24,547,728) |
| Decrease in deferred tax liabilities (Note 15) | 6,439,770 | 12,492,091 |
| | - | - |
| | <u> </u> | <u> </u> |

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group as follows:

| | 2024 | 2023 |
|---|---------------------|--------------------|
| Profit before tax | 87,173,339 | 138,999,259 |
| Calculated at a taxation rate of 16.5% (2023: 16.5%) | 14,383,601 | 22,934,878 |
| Income not subject to taxation | (11,756,748) | (11,452,744) |
| Expenses not deductible for taxation purposes | 971,538 | 738,503 |
| Previously unrecognized tax losses used to reduce deferred tax expenses | (6,439,770) | (12,492,091) |
| Tax effect of unused tax losses not recognised | (3,433,391) | (12,055,637) |
| Income tax at concessionary rate | (165,000) | (165,000) |
| Others | (4,072,902) | 3,562,888 |
| Income tax charge | <u>(10,512,672)</u> | <u>(8,929,203)</u> |

25 Net foreign exchange (losses)/gains

The exchange differences charged to the income statement are included as follows:

| | 2024 | 2023 |
|---|---------------------|-------------------|
| Realised gains on financial assets | 2,698,917 | 10,606,988 |
| Unrealised (losses)/gains on financial assets | (27,815,662) | 665,129 |
| | <u>(25,116,745)</u> | <u>11,272,117</u> |

26 Cash flow information

(a) Net cash used in operations

| | 2024 | 2023 |
|---|----------------------|---------------------|
| Profit before tax | 87,173,339 | 117,404,116 |
| Adjustments for: | | |
| Depreciation including amortization of computer software | 5,080,662 | 4,968,529 |
| Net realized losses on financial assets at FVTOCI | 134,080 | - |
| Net realized losses on financial assets at FVTPL | 440,998 | - |
| Net realized gains on derivatives at FVTPL | (5,710,044) | (5,250,746) |
| Fair value losses on investment assets at FVTPL | 7,466,700 | - |
| Fair value losses on investment properties | 600,000 | - |
| Dividend income from investments | (6,772,038) | (12,958,025) |
| Interest income | (55,114,640) | (52,128,305) |
| Amortization of FVTOCI | (914,452) | (4,502,761) |
| Amortization of FVTPL | (4,905,402) | - |
| Finance cost | 319,763 | 503,000 |
| Share of profit of associates | - | (1,572,684) |
| Gain on disposal of investments in associates | - | (28,661,653) |
| Investment expenses | - | (450,841) |
| | <u>27,798,966</u> | <u>17,350,630</u> |
| Changes in financial assets | | |
| Purchase of financial assets at FVTOCI | (38,027,469) | (248,971,752) |
| Proceeds from sales of financial assets at FVTOCI | 322,471,871 | 125,063,382 |
| Purchase of investment assets at FVTPL | (1,828,549,074) | - |
| Proceeds from sales of investment assets at FVTPL | 513,239,972 | - |
| Purchase derivatives at FVTPL | (5,761,919) | - |
| Proceeds from sales of derivatives at FVTPL | - | 14,778,265 |
| Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation) | | |
| Increase in loans and receivables | (1,377,116) | (120,188) |
| Increase in net insurance contract assets & liabilities | 112,405,726 | 149,611,487 |
| Decrease/(Increase) in time deposits with original maturities over three months | 316,009,521 | (115,395,568) |
| (Increase)/Decrease in net reinsurance contract assets | (14,042,196) | 6,250,873 |
| (Decrease)/Increase in trade and other payables | (4,110,988) | 14,478,502 |
| | <u>(599,942,706)</u> | <u>(36,954,368)</u> |

(b) Non-cash investing and financing activities

Non-cash investing and financing activities disclosed in other note – Acquisition of right-of-use assets-note 5.

(c) Reconciliation of liabilities arising from financing activities:

| Leases | 2024 | 2023 |
|-----------------------------|------------------|------------------|
| Liabilities as at 1 January | 8,498,776 | 10,837,826 |
| Acquisition - leases | - | - |
| Lease payment | (4,725,521) | (2,842,050) |
| Finance cost | 319,763 | 503,000 |
| | <u>4,093,018</u> | <u>8,498,776</u> |

27 Contingencies

The Group has no contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business.

The Group, similar to all other insurers, is subject to litigation in the normal course of its business. The Group does not believe that such litigation will have a material effect on its profit or loss and financial condition.

28 Related party transactions

The Group is controlled by Fairfax Asia Limited, the immediate holding company. The ultimate parent of the Group is Fairfax Financial Holdings Limited (incorporated in Ontario, Canada).

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties.

(a) Reinsurance ceded to fellow subsidiaries:

| | Undiscounted | |
|---------------------------|--------------------|--------------------|
| | 2024 | 2023 |
| Premium earned | (3,454,019) | (3,629,894) |
| Acquisition cost incurred | 550,198 | 461,963 |
| Claims recoveries | (3,452,459) | (3,309,040) |
| | <u>(6,356,280)</u> | <u>(6,476,971)</u> |

(b) Reinsurance accepted from and services to fellow subsidiaries:

| | 2024 | 2023 |
|---------------------------|------------------|------------------|
| Premium earned | 19,794,100 | 15,802,554 |
| Acquisition cost incurred | (4,465,019) | (3,282,060) |
| Claims incurred | (11,263,421) | (4,377,033) |
| | <u>4,065,660</u> | <u>8,143,461</u> |

(c) Purchase of services

| | 2024 | 2023 |
|--|------------------|------------------|
| – From Fairfax Financial Holdings Limited, ultimate holding company (investment administration services) | 5,592,185 | 4,806,499 |
| – From Fairfax Asia Limited, immediate holding company (management services) | 1,717,870 | 1,723,150 |
| – From fellow subsidiary (guarantee fee) | 1,256,122 | 1,219,064 |
| | <u>8,566,177</u> | <u>7,748,713</u> |

(d) Key management compensation (note 30 (a))

| | 2024 | 2023 |
|---|------------------|------------------|
| Fees | 418,711 | 370,803 |
| Salaries and other short-term employee benefits | 5,039,645 | 5,039,645 |
| Post-employment benefits | 348,899 | 348,899 |
| Share-based payments (Note 23 (b)) | 232,598 | 232,598 |
| | <u>6,039,853</u> | <u>5,991,945</u> |

28 Related party transactions (Continued)

(e) Year-end balances arising from sales/purchases of products/services

| | 2024 | 2023 |
|--|--------------------|--------------------|
| Receivables from related parties: | | |
| – Immediate holding company | 37,224 | 160,898 |
| – Fellow subsidiaries | 53,537,789 | 71,630,945 |
| – From fellow subsidiary (investment in equity security) | <u>152,173,410</u> | <u>146,973,777</u> |
| | <u>205,748,423</u> | <u>218,765,620</u> |
| | 2024 | 2023 |
| Payable to related parties: | | |
| – Fellow subsidiaries | <u>22,679,261</u> | <u>16,683,188</u> |
| | <u>22,679,261</u> | <u>16,683,188</u> |


(f) Guarantee fee


Included in this balance in the profit and loss account is a guarantee fee of HKD1,256,122 (2023: HKD1,219,064), which was paid to Odyssey Reinsurance Company (formerly known as Odyssey America Reinsurance Corporation), a fellow subsidiary, to guarantee the prompt payment by the Company of all the Company's liabilities under policies and binders, during the term of the agreement, of insurance contracts entered by the Company in the event of insolvency. The agreement commenced from 1 April 2002 and remains in force until terminated by either party upon written notice to the other party of not less than three months prior to 31 December in any year.

29 Balance sheet and reserves movement of the Company

| | Note | As at 31 December | |
|--|-------|----------------------|----------------------|
| | | 2024 | 2023 |
| ASSETS | | | |
| Property, plant and equipment | | 8,354,766 | 13,632,474 |
| Investment properties | | 3,200,000 | 3,800,000 |
| Intangible assets | | 344,488 | 703,706 |
| Interests in subsidiaries | | 1 | 1 |
| Investments in associates | | - | - |
| Financial assets | | | |
| - FVTPL | | 1,323,744,177 | 5,683,694 |
| - FVTOCI | | 402,242,957 | 622,193,822 |
| Insurance contract assets | | 13,194 | - |
| Reinsurance contract assets | | 356,157,928 | 341,489,270 |
| Loans and receivables | | 31,516,864 | 20,211,699 |
| Bank balances and cash | | 545,926,798 | 1,415,042,845 |
| Total assets | | 2,671,501,173 | 2,422,757,511 |
| LIABILITIES | | | |
| Insurance contract liabilities | | 1,471,217,793 | 1,358,798,873 |
| Reinsurance contract liabilities | | 628,117 | 1,655 |
| Investment contract liabilities | | - | 5,718,286 |
| Lease liabilities | | 4,093,018 | 8,498,776 |
| Other payables | | 76,053,185 | 80,164,174 |
| Total liabilities | | 1,551,992,113 | 1,453,181,764 |
| | | 1,119,509,060 | 969,575,747 |
| EQUITY | | | |
| Capital and reserves attributable to owners of the parent | | | |
| Share capital | | 266,890,411 | 266,890,411 |
| Reserves | 29(a) | 852,618,649 | 702,685,336 |
| Total equity | | 1,119,509,060 | 969,575,747 |

The balance sheet of the Company was authorized for issue by the board of directors on 29 April 2025 and was signed on its behalf.


Mr. CHAN Sum Yu, Sammy
Director


Mr. Gobinath Arvind ATHAPPAN
Director

29 Balance sheet and reserves movement of the Company (Continued)

Note (a) Reserve movement of the Company

| | Capital contribution Note 17(a) | Share premium | Capital reduction reserve | Merger reserve | Property revaluation reserve | Investment revaluation reserve | Accumulated profit | Total |
|--|---------------------------------|---------------|---------------------------|----------------|------------------------------|--------------------------------|--------------------|--------------|
| Balance at 1 January 2023 | 40,000,000 | - | 1,160 | 32,669,487 | 7,077,661 | 77,185,002 | 315,296,685 | 472,229,995 |
| Adjustment on initial application of HKFRS 17, net of tax as at 1 January 2022 | - | - | - | - | - | - | (17,974,849) | (17,974,849) |
| Adjustment for HKFRS 17, net of tax for the year ended 31 December 2022 | - | - | - | - | - | - | 65,167,701 | 65,167,701 |
| Restated balance at 1 January 2023 | 40,000,000 | - | 1,160 | 32,669,487 | 7,077,661 | 77,185,002 | 362,489,537 | 519,422,847 |
| Revaluation reserve – net of tax | - | - | - | - | - | - | - | - |
| – land and buildings | - | - | - | - | 479,245 | - | - | 479,245 |
| – investments assets at FVTOCI | - | - | - | - | - | 45,187,179 | - | 45,187,179 |
| Net (gains)/losses transferred to retained earnings | - | - | - | - | - | - | 123,642 | 123,642 |
| (Loss)/profit for the year | - | - | - | - | - | - | 137,472,423 | 137,472,423 |
| Balance at 31 December 2023 | 40,000,000 | - | 1,160 | 32,669,487 | 7,556,906 | 122,372,181 | 500,085,602 | 702,685,336 |

29 Balance sheet and reserves movement of the Company (Continued)

Note (a) Reserve movement of the Company (continued)

| | Capital contribution Note 17(a) | Share premium | Capital reduction reserve | Merger reserve | Property revaluation reserve | Investment revaluation reserve | Accumulated profit | Total |
|---|---------------------------------|---------------|---------------------------|----------------|------------------------------|--------------------------------|--------------------|-------------|
| Balance at 1 January 2024 | 40,000,000 | - | 1,160 | 32,669,487 | 7,556,906 | 122,372,181 | 500,085,602 | 702,685,336 |
| Revaluation reserve – net of tax | - | - | - | - | (953,191) | - | - | (953,191) |
| – land and buildings | - | - | - | - | - | 53,200,493 | - | 53,200,493 |
| – investments assets at FVTOCI | - | - | - | - | - | (82,883,854) | 82,883,854 | - |
| Net gains transferred to retained earnings (net of tax) | - | - | - | - | - | - | 97,686,011 | 97,686,011 |
| Profit for the year | - | - | - | - | - | - | - | - |
| Balance at 31 December 2024 | 40,000,000 | - | 1,160 | 32,669,487 | 6,603,715 | 92,688,820 | 680,655,467 | 852,618,649 |

30 **Benefits and interests of directors (disclosure required by section 383 of the Hong Kong Companies Ordinance (Cap. 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap.622G)**

(a) *Directors' emoluments*

The remuneration of director is set out below:

For the year ended 31 December 2024:

| | 2024 | 2023 |
|--|-------------|-------------|
| Fees | 418,711 | 370,803 |
| Other emoluments | | |
| - Basic salaries, bonuses, housing allowances, other allowances and benefits in kind | 9,716,045 | 8,663,855 |
| - Contributions to pension schemes | 348,899 | 348,899 |
| - Contributions to employee share ownership plan (Note 23(b)) | 232,598 | 232,598 |
| | 10,716,253 | 9,616,155 |
| Amounts paid by Fairfax Asia Limited, immediate holding company | | |
| - Salaries and bonus | (4,676,400) | (3,624,210) |
| | 6,039,853 | 5,991,945 |

Salaries and bonus during the year borne by Fairfax Asia Limited, the immediate holding company was HKD4,676,400 (2023: HKD3,624,210).

(b) *Directors' material interests in transactions, arrangements or contracts*

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.