PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2024

Content Page

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED

REPORT OF THE DIRECTORS

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

Principal Activity
The principal activity of Paofoong Insurance Company (Hong Kong) Limited ("the Company") is the operation of general insurance company.

Company Profile
Paofoong Insurance Company (Hong Kong) Limited is a limited company engaging in general insurance business It is a subsidiary of Shanghai Commercial Bank Limited ("SCB"), a company incorporated in Hong Kong.

Mr. John Con-sing YUNG is the Company's Chairman and Mr. Ryan Yuk Lung FUNG is the Chief Executive who supervises the daily operations of the Company.

Performance Review
The Insurance Revenue for the year of 2024 at HK$82.0 million, was 4 2% higher than 2023. The Insurance Service Expenses, which included the Gross Commission, the Gross Claims Incurred and the Direct Attributable Expenses amounting to HK$55.6 million, were 3 1% higher than 2023, mainly due to the increase of claims payment under the Health (medical) business line. The net expenses from reinsurance contracts held at HK$10.9 million, were 32% higher than 2023, mainly due to the reduction of claim recovery reserve provision.

For the year of 2024, the net profit after tax of the Company was HK$21.4 million (2023: HK$16.8 million)

As at the end of 2024, the shareholders' funds and total assets of the Company were HK$279.4 million and HK$363 4 million respectively.

Key Performance Indicators of the Company
The Key Performance Indicators for the year of 2024 are shown below.

	2024	2023
The Insurance Revenue (HK$'000)	81,986	78,652
Insurance Service Result (HK$'000)	15,548	16,516
Net Profit after Tax (HK$'000)	21,385	16,760
Return on Equity	8 0%	6 7%

Business Strategies
The Company aims to achieve underwriting profit to ensure a steady and healthy growth.

The business strategy of the Company is to provide customer-centric services to the target clients of SCB with manageable risk exposure by strong collaboration with the branches and business units of SCB

In order to facilitate the provision of the Company's personal line insurance products including travel, home, domestic helper, golfer and China medical card, the Company has developed the digital distribution channel by using the website of SCB

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED

REPORT OF THE DIRECTORS

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls Material policies and procedures are subject to ongoing review by management of the Company together with Operational Risk Management Department and Internal Audit Department of SCB.

The principal risks for general insurance business arise from inadequate premium rate most often due to keen competition, frequency and severity of claims compared to expectation of the Company, inadequate reinsurance and inadequate reserves for losses. The underwriting and reinsurance strategies are communicated clearly throughout the Company through a set of policies and guidelines.

The Company is also exposed to financial risks arising primarily from the investments that it holds. These risks are monitored by the Investment Committee of the Company and the Risk Committee of the Company through regular meetings and discussions

Future Development

Following the normalization of social and commercial activities, the local economy has rebounded since 2023 However, the pace of recovery has not met expectations. Local consumption and business activities are not so encouraging causing less demand in general insurance coverage.

The difficult global economic environment, geo-political tensions and fiscal policies of central banks will create uncertainties in the investment market. Nevertheless, both the Hong Kong and mainland China governments are expected to implement measures to reactivate economy and stimulate consumptions

The property insurance business line will incur higher risk and reinsurance cost due to the increase in extreme weather events causing tremendous losses. There will be intense competition in the Medical and Motor business lines leading to unsustainable premium rates The Company will strive the best in collaborating with the branches and business units of SCB in maintaining a high renewal business, whilst continue to remain prudent in underwriting new business. The Company will also continue to make use of the website of SCB as an e-distribution channel to provide personal line insurance services to the customers

On the investment side, the Company will remain vigilant by keeping a high portion of the investments in the money market to ensure liquidity and stable interest income, while maintaining the existing portfolio of local equities to generate dividend income and seeking opportunities to capture capital gains at market turnaround

Results and appropriations

The results of the Company for the year are set out in the statement of profit or loss and other comprehensive income on page 8 to the financial statements The directors do not recommend the payment of a dividend (2023 nil).

Share capital

The Company did not issue any new share during the year. Details of the share capital of the Company are set out in Note 11 to the financial statements

Equity-linked agreements

For the year ended 31 December 2024, the Company had not entered into any equity-linked agreement

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED

REPORT OF THE DIRECTORS

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

# John Con-sing YUNG, Chairman	
^ David Sek-chi KWOK	(retired on 1 July 2024)
* Ming-ho CHENG	(resigned on 23 April 2024)
^ Sammy Tak-keung WONG	(resigned on 23 January 2025)
* Zachary Wing Kwong KWAN	(resigned on 8 January 2025)
# Ching-Yi KUO	
* Michael Yiu Wing FUNG	(appointed on 23 April 2024)
^ Ryan Yuk Lung FUNG	(appointed on 26 July 2024)
* Angus Ping Chung CHOI	(appointed on 8 January 2025)
^ Patrick Shing Chi WONG	(appointed on 23 January 2025)

^ Executive Director
# Non-executive Director
* Independent Non-executive Director

In accordance with Article 84(b) of the Company's Articles of Association, Messrs John Con-sing YUNG and Ching-Yi KUO shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election

In accordance with Article 84(c) of the Company's Articles of Association, Messrs. Michael Yiu Wing FUNG, Ryan Yuk Lung FUNG, Angus Ping Chung CHOI, and Patrick Shing Chi WONG shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr David Sek-chi KWOK retired as Director and Chief Executive of the Company on 1 July 2024

Messrs Ming-ho CHENG and Zachary Wing Kwong KWAN resigned as Independent Non-executive Director of the Company on 23 April 2024 and 8 January 2025 respectively and both confirmed that they had no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholders of the Company.

Mr Sammy Tak-keung WONG resigned as Director of the Company on 23 January 2025 and he confirmed that he had no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholders of the Company

Directors' material interests in transactions, arrangements or contracts
No transactions, arrangements or contracts of significance in relation to the Company's business to which the Company's fellow subsidiaries or its holding companies 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
At no time during the year was the Company, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors and Chief Executive of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED

REPORT OF THE DIRECTORS

Management contracts
A management agreement was entered into between SCB and the Company during the year whereby the Company agreed to reimburse SCB for the staff expenses incurred for supporting the business and operation of the Company. During the year, an amount of HK$5,983,403 (2023: HK$5,946,173) was paid to SCB.

Mr John Con-sing YUNG is director of the Company and SCB.

Messrs Ryan Yuk Lung FUNG and Patrick Shing Chi WONG are directors of the Company and employees of SCB.

Other than as mentioned above, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Permitted indemnity
Every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses and liabilities (to the extent permitted by the Companies Ordinance) incurred by such Director or other officer in the execution of his/her duties or otherwise in relation thereto Insurance cover has been arranged to indemnify the Directors and other officers of the Company.

Auditor
The financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-appointment

On behalf of the Board

John Con-sing YUNG
Chairman
Hong Kong, 26 February 2025

羅兵咸永道

Independent Auditor's Report

To the Members of Paofoong Insurance Company (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of Paofoong Insurance Company (Hong Kong) Limited (the "Company"), which are set out on pages 8 to 49, comprise:

- the statement of financial position as at 31 December 2024;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include material accounting policies and other explanatory information.

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Independent Auditor's Report

To the Members of Paofoong Insurance Company (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)

Other Information

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

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

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

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

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report

To the Members of Paofoong Insurance Company (Hong Kong) Limited
(incorporated in Hong Kong with limited liability)

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

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

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

We communicate with the 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, 26 Feb 2025

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(All amounts in Hong Kong dollar unless otherwise stated)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December *2024*	*2023*
Insurance revenue		81,985,710	78,652,101
Insurance service expenses		(55,586,597)	(53,913,109)
Net expenses from reinsurance contracts held		(10,850,871)	(8,222,510)
Insurance service result	12	15,548,242	16,516,482
Investment income	13	14,541,911	8,394,532
(Charge to) / reversal of expected credit loss		(2,998)	13,715
Net investment income		14,538,913	8,408,247
Finance expenses from insurance contracts issued		(4,565,103)	(3,158,247)
Finance income from reinsurance contracts held		434,205	243,419
Net insurance finance expenses	14	(4,130,898)	(2,914,828)
Net insurance and investment result		25,956,257	22,009,901
Other income	15	55,200	58,178
Other operating expenses	16	(4,695,925)	(4,938,757)
Profit before income tax		21,315,532	17,129,322
Income tax credit / (expense)	17	69,960	(369,016)
Profit for the year		21,385,492	16,760,306
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
Financial assets at fair value through other comprehensive income			
Change in fair value during the year		(177,120)	-
Deferred income tax arising from fair value change		29,225	-
Provision for expected credit loss		3,251	-
Other comprehensive loss for the year, net of tax		(144,644)	-
Total comprehensive income for the year		21,240,848	16,760,306

The notes on pages 12 to 49 are an integral part of these financial statements

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(All amounts in Hong Kong dollar unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2024	2023
ASSETS			
Cash and cash equivalents		7,381,953	6,638,624
Term deposits	7	249,793,974	289,893,740
Current income tax recoverable		-	779,617
Investment assets	5	91,205,485	35,068,829
Reinsurance contract assets	6	7,639,071	8,160,415
Other assets	8	7,374,043	7,894,928
Total assets		363,394,526	348,436,153
LIABILITIES			
Current income tax liabilities		249,574	-
Other current liabilities	10	2,953,345	4,211,689
Insurance contract liabilities	6	80,805,308	85,407,843
Deferred tax liabilities	9	34,400	705,570
Total liabilities		84,042,627	90,325,102
EQUITY			
Share capital	11	50,000,000	50,000,000
Investment revaluation reserve		(144,644)	-
Retained earnings		229,496,543	208,111,051
Total equity		279,351,899	258,111,051
Total equity and liabilities		363,394,526	348,436,153

The financial statements on pages 8 to 49 were approved by the Board of Directors on 26 February 2025.

Ryan Yuk Lung FUNG
Director

Patrick Shing Chi WONG
Director

The notes on pages 12 to 49 are an integral part of these financial statements.

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(All amounts in Hong Kong dollar unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Investment revaluation reserve	Retained earnings	Total
As at 1 January 2023	50,000,000	-	191,350,745	241,350,745
Profit for the year	-	-	16,760,306	16,760,306
Total comprehensive income for the year	-	-	16,760,306	16,760,306
As at 31 December 2023 and 1 January 2024	50,000,000	-	208,111,051	258,111,051
Profit for the year	-	-	21,385,492	21,385,492
Other comprehensive loss	-	(144,644)	-	(144,644)
Total comprehensive income for the year	-	(144,644)	21,385,492	21,240,848
As at 31 December 2024	50,000,000	(144,644)	229,496,543	279,351,899

The notes on pages 12 to 49 are an integral part of these financial statements.

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(All amounts in Hong Kong dollar unless otherwise stated)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December *2024*	*2023*
Profit before taxation		21,315,532	17,129,322
Adjustments for			
Accretion of discount on debt securities	13	(699,669)	-
Dividend income from equity securities	13	(1,237,408)	(1,081,866)
Charge to / (reversal of) expected credit loss		2,998	(13,715)
Interest income on bank deposits	13	(12,722,092)	(11,613,321)
Net insurance finance expense	14	4,130,898	2,914,828
Unrealised loss on investment	13	116,384	4,299,557
Cash flows from operating activities before changes in operating assets and liabilities		10,906,643	11,634,805
Decrease in reinsurance contract assets		955,549	4,071,670
Decrease / (increase) in other assets		1,050,015	(139)
(Decrease) / increase in other current liabilities		(1,258,344)	951,593
Decrease in insurance contract liabilities		(9,167,638)	(5,227,253)
Cash generated from operating activities		2,486,225	11,430,676
Dividend received from equity securities		1,237,408	1,081,866
Purchases of financial assets		(70,730,491)	(190,900)
Sales of financial assets		15,000,000	-
Hong Kong profits tax refund		457,206	-
Net cash (used in) / generated from operating activities		(51,549,652)	12,321,642
Cash flows from investing activities			
Interest received on bank deposits		12,192,981	7,523,679
Transfer from / (to) fixed deposits with original maturities more than three months		40,100,000	(21,900,000)
Net cash generated from / (used in) investing activities		52,292,981	(14,376,321)
Net increase / (decrease) in cash and cash equivalents		743,329	(2,054,679)
Cash and cash equivalents at beginning of the financial year		6,638,624	8,693,303
Cash and cash equivalents at the end of year		7,381,953	6,638,624
Cash and cash equivalents at the end of the year comprised			
Cash at bank		7,381,953	6,638,624
		7,381,953	6,638,624

The notes on pages 12 to 49 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Paofoong Insurance Company (Hong Kong) Limited ("the Company") is incorporated and domiciled in Hong Kong The address of its registered office is Shanghai Commercial Bank Tower, 12 Queen's Road Central, Hong Kong. The principal activity of the Company is the operation of general insurance company.

The financial statements have been prepared from the records of the Company and reflected transactions recorded on the basis of the accounting policies set out in Note 2 to the financial statements. These financial statements were approved for issue by the Board of Directors on 26 February 2025.

2 Material accounting policy information

The material accounting policies applied in the preparation of these 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

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and requirements of the Hong Kong Companies Ordinance (Cap 622) The financial statements of the Company have been prepared on the historical cost basis, except for financial assets at fair value through other comprehensive income ("FVOCI"), financial assets at fair value through profit or loss ("FVPL") which are measured at fair value

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

(i) New and amended standards adopted by the Company

The amendments and new standards which became effective in 2024 do not have significant impact to the Company's financial statements.

(All amounts in Hong Kong dollar unless otherwise stated)

2 Material accounting policy information (continued)

2.1 Basis of preparation (continued)

(ii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the financial year ended 31 December 2024 and have not been early adopted by the Company.

Standard / Interpretation	***Content***	**Applicable for financial years beginning on/after**
Amendments to HKAS 21	Lack of Exchangeability	1 January 2025
Amendments to HKFRS 9 and HKFRS 7	Classification and Measurement of Financial Instruments	1 January 2026
Amendments to HKFRS 7, HKFRS 9 and HKAS 7	Annual Improvements to HKFRS Accounting Standards — Volume 11	1 January 2026
HKFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027
HKFRS 19	Subsidiaries without Public Accountability: Disclosures	1 January 2027

There are no other standards that are not yet effective and that would be expected to have a material impact on the company in the current or future reporting periods and on foreseeable future transactions

2.2 Insurance contract

(a) Definition and classification

Insurance contracts are contracts under which the Company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. In making this assessment, all substantive rights and obligations, including those arising from law or regulation, are considered on a contract-by-contract basis The Company uses judgement to assess whether a contract transfers insurance risk (that is, if there is a scenario with commercial substance in which the Company has the possibility of a loss on a present value basis) and whether the accepted insurance risk is significant.

Contracts that have a legal form of insurance but do not transfer significant insurance risk and expose the Company to financial risk are classified as investment contracts, and they follow financial instruments accounting under HKFRS 9, if they do not contain a discretionary participation feature ("DPF") The Company does not issue any investment contracts with DPF

In the normal course of business, the Company uses reinsurance to mitigate its risk exposures A reinsurance contract transfers significant risk if it transfers substantially all of the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

All references to insurance contracts in the financial information apply to insurance contracts issued (including reinsurance contracts issued) and reinsurance contracts held, unless specifically stated otherwise

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policy information (continued)

2.2 Insurance contract (continued)

(b) Unit of accounts

Level of aggregation of insurance contracts

The Company 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:
(1) contracts that are onerous at initial recognition,
(2) contracts that at initial recognition have no significant possibility of becoming onerous subsequently, or
(3) a group of remaining contracts

These groups represent the level of aggregation at which insurance contracts are initial recognised and measured. Such groups are not subsequently reconsidered.

For each portfolio of contracts, the Company 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 Company uses significant judgement to determine at what level of granularity the Company 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

For contracts measured using the PAA, the Company assumes that no such contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise If facts and circumstances indicate that some contracts are onerous, an additional assessment is performed to distinguish onerous contracts from non-onerous ones For non-onerous contracts, the Company assesses the likelihood of changes in the applicable facts and circumstances in the subsequent periods in determining whether contracts have a significant possibility of becoming onerous

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 Company aggregates reinsurance contracts held concluded within a calendar year (annual cohorts) into groups of
(1) contracts for which there is a net gain at initial recognition, if any,
(2) contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently, and
(3) remaining contracts in the portfolio, if any

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis The Company 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.

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policy information (continued)

2.2 Insurance contract (continued)

(b) Unit of accounts (continued)

Separation of insurance contracts

Before the Company accounts for an insurance contract based on the guidance in HKFRS 17, it analyses whether the contract contains components that should be separated. HKFRS 17 distinguishes three categories of components that have to be accounted for separately:
(1) cash flows relating to embedded derivatives that are required to be separated,
(2) cash flows relating to distinct investment components, and
(3) promises to transfer distinct goods or distinct services other than insurance contract services

The Company applies HKFRS 17 to all remaining components of the contract. The Company does not have any contracts that require further separation or combination of insurance contracts.

(c) Recognition of insurance contracts

Groups of insurance contracts issued are initial recognised from the earliest of the following
(1) the beginning of the coverage period,
(2) the date when the first payment from the policyholder is due or actually received, if there is no due date, and
(3) when the Company determines that a group of contracts becomes onerous

Groups of reinsurance contracts held a recognised as follows·
(1) a group of reinsurance contracts held that provide proportionate coverage (quota share reinsurance) recognised at the later of
    (i) the beginning of the coverage period of the group, and
    (ii) the initial recognition of any underlying insurance contract,
(2) all other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts held

Unless the Company entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, in which case the group of reinsurance contract held recognised at the same time as the group of underlying insurance contracts recognised.

Only contracts that individually meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria in the groups after the reporting date, they are added to the groups in the reporting period in which they meet the recognition criteria, subject to the annual cohorts restriction. Composition of the new groups is not reassessed in subsequent periods

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policy information (continued)

2.2 Insurance contract (continued)

(d) Measurement of insurance contracts

Insurance acquisition cash flow

The Company defines acquisition cash flows as cash flows that arise from costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) and that are directly attributable to the portfolio of insurance contracts to which the group belongs

Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis. Insurance acquisition cash flows that are directly attributable to a group of insurance contracts are allocated:

(1) to that group, and
(2) to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group

Insurance acquisition cash flows not directly attributable to a group of contracts but directly attributable to a portfolio of contracts are allocated to groups of contracts in the portfolio or expected to be in the portfolio.

Fulfilment cash flows ("FCF") 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 Company 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

(1) are based on a probability-weighted mean of the full range of possible outcomes,
(2) are determined from the perspective of the Company, provided that the estimates are consistent with observable market prices for market variables, and
(3) 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 Liability for Incurred Claims ("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. For discount rate, please refer to Note 3 1

Risk of the Company'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 Company estimates certain FCF at the portfolio level or higher and then allocates such estimates to groups of contracts

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policy information (continued)

2.2 Insurance contract (continued)

(d) Measurement of insurance contracts (continued)

Fulfilment cash flows ("FCF") within contract boundary (continued)

The Company 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.

Contract boundary

The Company uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts

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 Company has a substantive obligation to provide the policyholder with insurance contract services A substantive obligation ends when.

(1) the Company 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
(2) both of the following criteria are satisfied
   (i) the Company 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 up 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 Company, such as insurance risk and financial risk, are considered; other risks, such as lapse or surrender and expense risk, are not included

Cash flows outside the insurance contracts boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Group that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or in which the Company has a substantive right to receive insurance contract services from the reinsurer

The excess of loss reinsurance contracts held provides coverage for claims incurred during an accident year Thus, all cash flows arising from claims incurred and expected to be incurred in the accident year are included in the measurement of the reinsurance contracts held. Some of these contracts might include mandatory or voluntary reinstatement reinsurance premiums, which are guaranteed per the contractual arrangements and are thus within the respective reinsurance contracts' boundaries

Cash flows that are not directly attributable to a portfolio of insurance contracts, such as some product development and training costs, are recognised in other operating expenses as incurred.

2 Material accounting policy information (continued)

2.2 Insurance contract (continued)

(d) Measurement of insurance contracts (continued)

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 it reflects the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfils insurance contracts For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

Methods and assumptions used to determine the risk adjustment for non-financial risk are discussed in Note 3.1

Insurance and reinsurance contracts measured under the PAA

Initial measurement

The Company simplifies the measurement of a group of insurance contracts using the PAA if, and only if any of the conditions below is satisfied, at the inception of the group.
(1) the Company reasonably expects that the resulting measurement of the LRC would not differ materially from the result of applying the accounting policies for insurance contracts not measured under the PAA, or
(2) the coverage period of each contract in the group is one year or less

Acquisition costs in the PAA

For insurance contracts issued, insurance acquisition cash flows allocated to a group are deferred and recognized over the coverage period of contracts in a group For reinsurance contracts held, broker fees are recognised over the coverage period of contracts in a group

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

For reinsurance contracts held, on initial recognition, the Company measures the remaining coverage at the amount of ceding premiums paid, plus broker fees paid to a party other than the reinsurer and any amounts arising from the derecognition of any other relevant pre-recognition cash flows.

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policy information (continued)

2.2 Insurance contract (continued)

(d) Measurement of insurance contracts (continued)

Insurance and Reinsurance contracts measured under the PAA (continued)

Subsequent measurement

The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of:
(1) the Liabilities for remaining coverage ("LRC"), and
(2) the LIC, comprising the FCF related to past service allocated to the group at the reporting date

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

For insurance contracts issued, at the end of each subsequent reporting period, the carrying amount of the LRC is the carrying amount at the start of the reporting period:
- increased for premiums received in the period, excluding amounts that relate to premium receivables included in the LIC,
- decreased for insurance acquisition cash flows paid in the period,
- decreased for the amounts of expected premium receipts 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, at each of the subsequent reporting dates, the remaining coverage is:
- increased for ceding premiums paid in the period,
- increased for broker fees paid in the period, and
- decreased for the expected amounts of ceding premiums and broker fees recognized as reinsurance expenses for the services received in the period

The Company 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, because insurance premiums are due within the coverage period of contracts, which is one year or less.

The Company adjusts the remaining coverage for reinsurance contracts held for the effect of the risk of reinsurer's non-performance.

There are no investment components within insurance contracts issued and reinsurance contracts held that are measured under the PAA.

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 and other financial risks.

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policy information (continued)

2.2 Insurance contract (continued)

(d) Measurement of insurance contracts (continued)

If facts and circumstances indicate that a group of insurance contracts measured under the PAA is onerous on initial recognition or becomes onerous subsequently, the Company increases the carrying amount of the LRC to the amounts of the FCF determined under the GMM with the amount of such an increase recognised in insurance service expenses, and a loss component is established for the amount of the loss recognised. Subsequently, the loss component is remeasured at each reporting date as the difference between the amounts of the FCF determined under the GMM relating to the future service and the carrying amount of the LRC without the loss component. Where applicable, resulting changes in the loss component are disaggregated between insurance service expenses and insurance finance income or expenses for the effect of the time value of money, financial risk and effect of changes therein

When a loss is recognised on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group, the carrying amount of the asset for remaining coverage for reinsurance contracts held measured under the PAA is increased by the amount of income recognised in profit or loss and a loss-recovery component is established or adjusted for the amount of income recognised The referred income is calculated by multiplying the loss recognised on underlying insurance contracts by the percentage of claims on underlying insurance contracts that the Company expects to recover from the reinsurance contract held that are entered into before or at the same time as the loss is recognised on the underlying insurance contracts.

When underlying insurance contracts are included in the same group with insurance contracts issued that are not reinsured, the Company applies a systematic and rational method of allocation to determine the portion of losses that relates to underlying insurance contracts

Where applicable, changes in the loss-recovery component are disaggregated between net income from reinsurance contracts held and insurance finance income or expenses for the effect of the time value of money, financial risk and effect of changes therein in proportion to the disaggregation applied to the changes in the underlying loss component

The Company does not have any reinsurance contracts held measured under the PAA with underlying contracts measured under the GMM.

2 Material accounting policy information (continued)

2.2 Insurance contract (continued)

(e) Modification and derecognition of insurance contracts

An insurance contract is derecognised when it is
- extinguished (that is, when the obligation specified in the insurance contract expires or is discharged or cancelled), or
- the contract is modified and additional criteria discussed below are met

When an insurance contract is modified by the Company as a result of an agreement with the counterparties or due to a change in regulations, the Company treats changes in cash flows caused by the modification as changes in estimates of the FCF, unless the conditions for the derecognition of the original contract are met. The Company derecognises the original contract and recognises the modified contract as a new contract if any of the following conditions are present:

(1) if the modified terms had been included at contract inception and the Company would have concluded that the modified contract
   i. is not within the scope of IFRS 17,
   ii. results in different separable components,
   iii results in a different contract boundary, or
   iv belongs to a different group of contracts,

(2) the original contract represents an insurance contract with direct participation features, but the modified contract no longer meets that definition, or vice versa, or

(3) the original contract was accounted for under the PAA, but the modification means that the contract no longer meets the eligibility criteria for that approach

When an insurance contract accounted for under the PAA is derecognised, adjustments to remove related rights and obligations to account for the effect of the derecognition result in the following amounts being charged immediately to profit or loss

(1) if the contract is extinguished, any net difference between the derecognised part of the LRC of the original contract and any other cash flows arising from extinguishment,

(2) if the contract is transferred to the third party, any net difference between the derecognised part of the LRC of the original contract and the premium charged by the third party, or

(3) if the original contract is modified resulting in its derecognition, any net difference between the derecognised part of the LRC and the hypothetical premium that the entity would have charged if it had entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification

(f) Amounts recognised in profit or loss

Insurance revenue

As the Company provides insurance contract services under the group of insurance contracts, 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 that the Company expects to be entitled to in exchange for those services

For contracts measured under the PAA, the Company recognises insurance revenue based on the passage of time over the coverage period of a group of contracts

2 Material accounting policy information (continued)

2.2 Insurance contract (continued)

(f) Amounts recognised in profit or loss (continued)

Insurance service expenses

Insurance service expenses include the following:
(1) incurred claims and benefits, excluding investment components,
(2) other incurred directly attributable expenses,
(3) insurance acquisition cash flows amortisation,
(4) changes that relate to past service – changes in the FCF relating to the LIC, and
(5) changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses
(6) insurance acquisition cash flows assets impairment, net of reversals

For contracts measured under the PAA, amortisation of insurance acquisition cash flows is based on the passage of time.

Other expenses not meeting the above categories are included in other operating expenses in the statement of profit or loss

Net income / (expenses) from reinsurance contracts held

The Company presents financial performance of groups of reinsurance contracts held on a net basis in net income / (expenses) from reinsurance contracts held, comprising the following amounts
(1) reinsurance expenses,
(2) for groups of reinsurance contracts measured under the PAA, broker fees are included within reinsurance expenses,
(3) incurred claims recovery, excluding investment components,
(4) other incurred directly attributable expenses,
(5) changes that relate to past service – changes in the FCF relating to incurred claims recovery
(6) effect of changes in the risk of reinsurers' non-performance,
(7) amounts relating to accounting for onerous groups of underlying insurance contracts issued income on initial recognition of onerous underlying contracts and on addition of onerous underlying insurance contracts to a group,

Reinsurance expenses are recognised similarly to insurance revenue The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received insurance contract services at an amount that reflects the portion of ceding premiums that the Company expects to pay in exchange for those services. Additionally, for reinsurance contracts held measured under the PAA, broker fees are included in reinsurance expenses.

For groups of reinsurance contracts held measured under the PAA, the Company recognizes 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

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policy information (continued)

2.2 Insurance contract (continued)

(f) Amounts recognised in profit or loss (continued)

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:
(1) the effect of the time value of money and changes in the time value of money, and
(2) the effect of financial risk and changes in financial risk

For contracts measured under the PAA, the main amounts within insurance finance income or expenses are:
a interest accreted on the LIC, and
b. the effect of changes in interest rates and other financial assumptions.

The Company disaggregates changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expenses.

For the contracts measured under the PAA, the Company includes all insurance finance income or expenses for the period in profit or loss (that is, the profit or loss option (the PL option) is applied).

2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rate at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

All foreign exchange gains and losses recognised in the statement of profit or loss are presented net in the statement of profit or loss within the corresponding item Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

2 Material accounting policy information (continued)

2.3 *Foreign currency translation (continued)*

(b) Transactions and balances (continued)

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as fair value through other comprehensive income ("FVOCI"), a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss ("FVTPL"), are reported as part of the fair value gain or loss or such as equities classified as FVOCI investments, are included in other comprehensive income.

2.4 Financial assets

Initial recognition and measurement

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset

At initial recognition, the Company measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss Immediately after initial recognition, expected credit loss ("ECL") is recognised for financial assets, which results in an accounting loss being recognised in profit or loss when an asset is newly originated

When the fair value of financial assets differs from the transaction price on initial recognition, the Company recognises the difference as follows·

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Classification and subsequent measurement

The Company has applied HKFRS 9 and classifies its financial assets into the following measurement categories

- Amortised cost;
- FVOCI; or
- FVPL.

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policy information (continued)

2.4 Financial assets (continued)

Classification and subsequent measurement (continued)

Classification and subsequent measurement of financial instruments depend on:
(i) the Company's business model for managing the asset, and
(ii) the cash flow characteristics of the asset.

There are three measurement categories into which the Company classifies its financial instruments:

(a) Amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by expected credit losses ("ECL") recognised Interest income from these financial assets is also included in "investment income" using the effective interest rate method

(b) FVOCI: Assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment charges, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is also included in "investment income" using the effective interest rate method

(c) FVPL Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net in the statement of profit or loss within "Net trading income" in the period in which it arises Interest income from these financial assets is also included in "investment income" using the effective interest rate method

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets If neither of these is applicable (e.g , financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test") In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending, the related financial assets are classified and measured at fair value through profit or loss.

2 Material accounting policy information (continued)

2.5 Expected credit loss of financial assets

The Company has three types of financial assets that are subject to HKFRS 9's new expected credit loss ("ECL") model:

- Bank balances and term deposits
- Debt securities at FVOCI
- Other assets

While bank balances and term deposits are also subject to the ECL requirements of HKFRS 9, the identified ECL was immaterial.

The Company adopts a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Company.

- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired.

- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3"

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months Instruments in Stages 2 or 3 have their ECL measured based on a lifetime basis

- A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward-looking information

- Purchased or originated credit-impaired ("POCI") financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

NOTES TO THE FINANCIAL STATEMENTS

2 Material accounting policy information (continued)

2.6 Current and deferred income tax

The tax expense for the period comprises current and deferred tax Tax is recognised in the statement of profit or loss, 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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's entities operate and generate taxable income

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 financial statements Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2.7 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount is reliably estimated

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.8 Revenue recognition

For groups of insurance contracts measured under the PAA, the Company recognises insurance revenue based on the passage of time over the coverage period of a group of contracts Refer to Note 2.2 (f)

Interest income is recognized using the effective interest method.

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

2.9 Related parties

For the purposes of these financial statements, a party is considered to be related to the Company if that party controls, jointly controls or has significant influence over the Company, or where the Company and the party are subject to common control.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant judgements and estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. 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.

3.1 Estimates and assumptions

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results.

In applying HKFRS 17 measurement requirements, the following inputs and methods were used that include significant estimates. The present value of future cash flows is estimated using deterministic scenarios, except where stochastic modelling is used to measure financial guarantees The assumptions used in the deterministic scenarios are derived to approximate the probability-weighted mean of a full range of scenarios

For the sensitivities with regard to the assumptions made that have the most significant impact on measurement under HKFRS 17, refer to Note 6 4 (c)

At the end of the reporting period, when measuring the insurance contract liabilities, the Company needs to make reasonable estimates in payments that the Company is required to make in fulfilling the obligations under the insurance contracts, based on information currently available at the end of the reporting period

The main assumptions applied in making the estimates of FCF are as follows

<u>Discount rate</u>

The Company determines the discount rates for insurance contracts based on a bottom-up approach

The Company adopts the bottom-up approach in the determination of discount rate and applies the discount rates and the risk-free yield curves as published by Insurance Authority for determination of Risk Based Capital. The liquidity premium that is required to be added to the risk-free rate is considered to be insignificant and therefore not to be applied in its determination of discount rate The discount rate is reviewed and adjusted as necessary at end of each year or when there is a significant change to the risk-free rate published by the Insurance Authority and the cash flow and liquidity characteristics of the insurance contracts

The Company starts with a high liquidity risk-fee yield curve and adjusts it to reflect the difference between the liquidity characteristics of the financial instrument and the cash flow of the insurance contract The Company's spot discount rate curve, to measure insurance contract liabilities, consists of the base interest rate curve as a high liquidity risk-free yield curve, with consideration of tax effect and liquidity premiums

The yield curves of 3 27% - 3.47% (2023· 4 32% - 5.06%) were used to discount the estimates of future cash flows that do not vary based on the returns of the underlying items.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant judgements and estimates (continued)

3.1 Estimates and assumptions (continued)

Estimates of future cash flows to fulfill insurance contracts

Included in the measurement of each group of contracts within the scope of HKFRS 17 *are all of the* future cash flows within the boundary of each group of contracts. The estimates of these future cash flows are based on probability-weighted expected future cash flows The Company estimates which cash flows are expected and the probability that they will occur as at the measurement date. In making these expectations, the Company uses information about past events, current conditions and forecasts of future conditions The Company's estimate of future cash flows is the mean of a range of scenarios that reflect the full range of possible outcomes. Each scenario specifies the amount, timing and probability of cash flows. The probability-weighted average of the future cash flows is calculated using a deterministic scenario representing the probability-weighted mean of a range of scenarios.

Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis. Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis.

For the Property and Casualty contracts, uncertainty in the estimation of future claims and benefit payments arises primarily from the severity and frequency of claims and uncertainties regarding future inflation rates leading to claims and claims-handling expenses growth

Assumptions used to develop estimates about future cash flows are reassessed at each reporting date and adjusted where required

Expenses

The Company projects estimates of future expenses relating to fulfilment of contracts within the scope of HKFRS 17 using current expense levels Expenses comprise expenses directly attributable to the groups of contracts, including an allocation of fixed and variable overheads.

Possible increases in expense assumptions increase estimates of future cash outflows and they increase the LIC for Property and Casualty contracts measured under the PAA. For a sensitivity analysis, refer to Note 6 4

NOTES TO THE FINANCIAL STATEMENTS

3 Significant judgements and estimates (continued)

3.1 Estimates and assumptions (continued)

Methods used to measure Property and Casualty contracts

Judgement is involved in assessing the most appropriate technique to estimate insurance liabilities for the claims incurred. The Company relies on the paid and incurred loss development methods, supplemented by the Bornhuetter-Ferguson method, which use historical patterns of claim emergence to project future emergence of losses. The Bornhuetter-Ferguson method relies on a gradual transition from an expected loss ratio to an experience-related development. It is applied to the more recent accident years, for which the paid and incurred loss development methods may yield less accurate results. The initial expected loss ratios were selected based on the projected ultimate loss ratios for all historical years for which the premium information is available.

In its claims incurred assessments, the Company uses internal and market data. Internal data is derived mostly from the Company's claims reports This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims Market data consists of inflation projections, large claims threshold, large claims quantity, market claims ratios and other.

Refer to Note 6 4 for sensitivity of Property and Casualty insurance liabilities to assumptions used.

Methods used to measure the risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the insurance contract is fulfilled. Because the risk adjustment represents compensation for uncertainty, estimates are made on the degree of diversification benefits and expected favourable and unfavourable outcomes in a way that reflects the Company's degree of risk aversion The Company estimates an adjustment for non-financial risk separately from all other estimates The Company does not consider the effect of reinsurance in the risk adjustment for non-financial risk of the underlying insurance contracts.

The risk adjustment was calculated at the issuing company level and then allocated down to each group of contracts in accordance with their risk profiles The bootstrapping techniques were used to derive the overall risk adjustment for non-financial risk.

The resulting amount of the calculated risk adjustment is at confidence level of 75% (2023 75%)

The methods and assumptions used to determine the risk adjustment for non-financial risk were not changed in 2023 and 2024

Measurement of the expected credit loss ("ECL") allowance

The Company follows the guidance of HKFRS 9 to determine when other assets, bank balance, term deposits and debt securities measured at FVOCI are impaired The Company recognises expected credit losses for such losses at each reporting date The measurement of ECL reflects

(i) An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(ii) The time value of money; and
(iii) Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

NOTES TO THE FINANCIAL STATEMENTS

4 Management of risk

An Enterprise Risk Management ("ERM") policy has been established and implemented by the Company The ERM policy outlines clearly the risk management framework and procedures to manage the risks associated with its business operations in accordance to their nature, scale and complexity It also covers the governance of risk management across all major business processes and ensures all reasonably foreseeable and relevant material risks are properly managed and controlled Last but not the least, the ERM policy stipulates the roles and responsibilities, reporting lines as well as approaches, methodologies, processes, controls and reviews in relating to risk management activities

The Risk Committee of the Company has been empowered by the Board of the Company to oversee the establishment and implementation of the risk management system and report to the Board All business strategies and plans, underwriting acceptance limit, risks selections, investment strategies, reinsurance arrangements and all reasonably foreseeable risks must be aligned to the ERM policy

4.1 Underwriting risk management

Underwriting Risk is the most material risk to the Company. This is the risk of underwriting loss due to actual experience being different from that assumed when an insurance product is priced. Various underwriting guidelines have been developed to guide risk selection and pricing with appropriate terms and conditions.

Despite the Company's prudence in risk selection, severe loss is inevitable The Company has arranged adequate reinsurance to protect its bottom line against severe and catastrophic loss By reinsurance arrangement, the Company has capped the maximum amount of claim payment up to a specific amount any one claim or a series of claims from one event. A Reinsurance Committee has been established to formulate the Reinsurance Management Strategy policy to manage and control the reinsurance risks.

Claims Management Risk refers to the failure of prompt claims registration so that the liability of the Company cannot be truly reflected. The Claims Manual and the Reserve Manual outline the importance and service standard in prompt claims registration and proactive handling and updating to reflect the actual liability of the Company The Finance team monitors the adequacy of claims liabilities with the appointed actuarial consultant.

The Company has long recognized the importance in establishing a strong risk culture which is the core value of the Company and is endorsed by the Board of Directors and being followed by senior management The risk culture of the Company is created through setting and complying with the risk management strategies and core risk management principles as well as establishing a sound risk management systems and effective risk management process to address material risks under normal and stressed conditions in a forward-looking approach

<u>Expense risk</u>

Expense risk is the risk of unexpected increases in policy maintenance, claim handling and other costs relating to insurance contracts fulfillment It is managed through budgeting and periodic cost evaluations

<u>Methods used and assumptions made</u>

The methods adopted and assumptions made for insurance liabilities assessment are disclosed in Note 3 1

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

4 Management of risk (continued)

4.1 Underwriting risk management (continued)

Changes from the previous period

There were no significant changes in the Company's objectives, policies and processes for managing risks and risk measurement methods compared to the previous period

4.2 Financial risk management

The Company is exposed to financial risk through its financial assets and reinsurance assets. 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 contracts The most important components of this financial risk are interest rate risk, equity price risk, currency risk, credit risk and liquidity 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 Company primarily faces due to the nature of its investments are interest rate risk, equity price risk and credit risk.

The objective of the Company's asset and liability management is to match the Company's assets with liabilities on the basis of duration The Company actively manages its assets using an approach that balances quality, diversification, asset and liability matching, liquidity and investment return. The goal of the investment process is to achieve stable investment returns at a tolerable risk level, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis. The Company manages accumulations in investments by issuer, industry and credit rating, and closely monitors changes

(a) Interest-rate risk

During 2024 and 2023, the Company did not expose to significant interest rate risk as its key financial assets were fixed deposits placed, debt securities and equity securities.

(b) Equity price risk

The Company's equity securities are subject to equity market risk The estimated potential exposure of the Company's equity securities to a 10% decline or increase in the respective stock price as of 31 December 2024 would be a reduction or increase in net assets of HK$3 5 million respectively (2023 HK$3 5 million)

NOTES TO THE FINANCIAL STATEMENTS

4 Management of risk (continued)

4.2 Financial risk management (continued)

(c) Credit risk

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

- counterparty risk with respect to investment transactions,
- reinsurers' share of insurance liabilities,
- amounts due from reinsurers in respect of claims already paid,
- amounts due from insurance contract holders, and
- amounts due from insurance intermediaries.

As a part of the Company's overall risk management strategy, the Company cedes out insurance risk via proportional, non-proportional and specific risk reinsurance treaties. While these cessions mitigate insurance risk to some extent they would expose the Company to credit risk.

In order to manage this risk, the Company only conducts business with carefully selected, reputable and well-managed reinsurance companies in the market.

The Company's credit risk exposures to third party companies arise where the Company holds financial assets issued by those companies

The table below presents the exposures of its financial assets by issuer rating as assigned by Standard & Poor's or Moody's as at the reporting date

31 December 2024
(in HK$'000)

Credit rating	AAA	AA	A	BBB	Not-rated	Total
Debt securities	-	-	56,253	-	-	56,253
Term deposits	-	-	249,794	-	-	249,794
Fixed deposits interest receivable	-	-	7,149	-	-	7,149
Cash and cash equivalent	-	-	7,382	-	-	7,382

31 December 2023
(in HK$'000)

Credit rating	AAA	AA	A	BBB	Not-rated	Total
Term deposits	-	-	289,894	-	-	289,894
Fixed deposits interest receivable	-	-	6,619	-	-	6,619
Cash and cash equivalent	-	-	6,638	-	-	6,638

NOTES TO THE FINANCIAL STATEMENTS

4 Management of risk (continued)

4.2 Financial risk management (continued)

(d) Currency risk

The majority of the assets and liabilities of the Company are denominated in either Hong Kong dollar or US dollar Hong Kong dollar is currently pegged to the US dollar The currency risk relevant to the Company is a re-pegging / de-pegging between Hong Kong dollar and US dollar

(e) Liquidity risk

The Company is exposed to daily calls on its available liquid resources mainly from claims arising from short-term insurance contracts Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost.

The following table details the Company's remaining contractual / expected maturity for its financial liabilities and insurance liabilities. For insurance contracts, a maturity analysis based on contractual repayment date would present the liabilities as falling due in the earliest period in the table.

31 December 2024 (in HK$'000)	**Less than 1 year**	**More than 1 year**	**Total**
Insurance liabilities			
Insurance contracts	41,446	39,359	80,805
Less assets arising from reinsurance contract held	(3,283)	(4,356)	(7,639)
Net insurance liabilities	38,163	35,003	73,166
Financial liabilities			
Other liabilities	2,953	-	2,953
	41,116	**35,003**	**76,119**

31 December 2023 (in HK$'000)	**Less than 1 year**	**More than 1 year**	**Total**
Insurance liabilities			
Insurance contract liabilities	44,035	41,373	85,408
Less. assets arising from reinsurance contract held	(2,672)	(5,488)	(8,160)
Net insurance liabilities	**41,363**	**35,885**	**77,248**
Financial liabilities			
Other liabilities	4,212	-	4,212
	45,575	**35,885**	**81,460**

NOTES TO THE FINANCIAL STATEMENTS

4 Management of risk (continued)

4.3 Capital management

The Company's objectives when managing capital are

- to comply with the insurance capital requirements imposed by the relevant authorities in Hong Kong;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk

Pursuant to Chapter 41 of the Hong Kong Insurance Ordinance, each authorized insurer (except a captive or marine insurer or Lloyd's) must ensure at all times that its capital base is not less than each of

- the prescribed capital amount of the insurer as determined in accordance with Part 5 of the Insurance (Valuation and Capital) Rules (Cap 41R) ("IVCR"),
- the minimum capital amount of the insurer, being 50% of the prescribed capital amount, and
- HK$20 million

For the years ended 31 December 2024 and 2023, the Company complied with the capital requirements as set out by the relevant authorities in Hong Kong.

The Prescribed Capital Requirement ratio at the end of third quarterly 2024 was 645% (2023· 724%) which was above the regulatory requirement.

4.4 Fair value estimation

The table below analyses the Company's financial instruments carried at fair value at the reporting date by level of the inputs to valuation techniques used to measure fair value Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (level 3).

31 December 2024	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets at FVOCI				
- Debt securities	-	56,253	-	56,253
Financial assets at FVPL				
- Equity securities	34,952	-	-	34,952
	34,952	56,253	-	91,205

31 December 2023	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets at FVPL				
- Equity securities	35,069	-	-	35,069
	35,069	-	-	35,069

(All amounts in Hong Kong dollar unless otherwise stated)

4 Management of risk (continued)

4.4 Fair value estimation (continued)

There were no transfers between level 1 and level 2 during the year

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis The quoted market price used for financial assets held by the Company is the last traded market price. These instruments are included in level 1

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable data, the instrument is included in level 3

Loans and receivables including insurance receivables, cash and cash equivalents and trade and other payables are carried at amortised cost and their carrying values are a reasonable approximation of fair value.

5 Investment assets

	2024	*2023*
Debt securities - fair value through other comprehensive income		
Fixed interest rate		
- Certificates of deposit	56,253,040	-
Equity securities - fair value through profit or loss		
Listed in Hong Kong	34,952,445	35,068,829
	91,205,485	35,068,829
At the beginning of year	35,068,829	39,177,486
Additions	70,730,491	190,900
Disposals (including sales and redemptions)	(15,000,000)	-
Fair value net loss (excluding net realised gain)	(293,504)	(4,299,557)
Accretion of discount	699,669	-
At the end of year	91,205,485	35,068,829

(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

6 Insurance contracts and reinsurance contracts held

The following reconciliations show how the net carrying amounts of insurance contracts and reinsurance contracts held changed during the period as a result of cash flows and amounts recognised in the statement of profit or loss. The Company presents a table 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 statement of profit or loss.

The estimates of the present value of future cash flows from insurance and reinsurance contract assets represent the Company's maximum exposure to credit risk from these assets

6.1 Analysis by remaining coverage and incurred claims of insurance contracts measured under the PAA

	2024				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	Total
Insurance contract liabilities as at 1 January	11,382,951	144,382	65,739,764	8,140,746	85,407,843
Insurance revenue	(81,985,710)	-	-	-	(81,985,710)
Insurance service expenses					
Incurred claims and other directly attributable expenses	-	-	51,556,702	2,736,373	54,293,075
Changes that related to past service – changes in the FCF relating to the LIC	-	-	(14,015,286)	(3,645,029)	(17,660,315)
Losses on onerous contracts and reversals of those losses	-	222,699	-	-	222,699
Insurance acquisition cash flows amortisation	18,731,138	-	-	-	18,731,138
Total insurance service expenses	18,731,138	222,699	37,541,416	(908,656)	55,586,597
Insurance service result	(63,254,572)	222,699	37,541,416	(908,656)	(26,399,113)
Finance expenses from insurance contracts issued	-	-	4,062,027	503,076	4,565,103
Total amounts recognised in profit or loss	(63,254,572)	222,699	41,603,443	(405,580)	(21,834,010)
Cash flows					
Premium received	80,478,541	-	-	-	80,478,541
Claims and other directly attributable expenses paid	-	-	(44,793,413)	-	(44,793,413)
Insurance acquisition cash flows	(18,453,653)	-	-	-	(18,453,653)
Total cash flows	62,024,888	-	(44,793,413)	-	17,231,475
Insurance contract liabilities as at 31 December	10,153,267	367,081	62,549,794	7,735,166	80,805,308

(All amounts in Hong Kong dollar unless otherwise stated)

6 Insurance contracts and reinsurance contracts held (continued)

6.1 Analysis by remaining coverage and incurred claims of insurance contracts measured under the PAA (continued)

	2023				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	Total
Insurance contract liabilities as at 1 January	11,821,034	45,955	67,241,273	8,368,587	87,476,849
Insurance revenue	(78,652,101)	-	-	-	(78,652,101)
Insurance service expenses					
Incurred claims and other directly attributable expenses	-	-	52,556,526	3,127,331	55,683,857
Changes that related to past service – changes in the FCF relating to the LIC	-	-	(16,830,439)	(3,703,417)	(20,533,856)
Losses on onerous contracts and reversals of those losses	-	98,427	-	-	98,427
Insurance acquisition cash flows amortisation	18,664,681	-	-	-	18,664,681
Total insurance service expenses	18,664,681	98,427	35,726,087	(576,086)	53,913,109
Insurance service result	(59,987,420)	98,427	35,726,087	(576,086)	(24,738,992)
Finance expenses from insurance contracts issued	-	-	2,810,002	348,245	3,158,247
Total amounts recognised in profit or loss	(59,987,420)	98,427	38,536,089	(227,841)	(21,580,745)
Cash flows					
Premium received	79,893,672	-	-	-	79,893,672
Claims and other directly attributable expenses paid	-	-	(40,037,598)	-	(40,037,598)
Insurance acquisition cash flows	(20,344,335)	-	-	-	(20,344,335)
Total cash flows	59,549,337	-	(40,037,598)	-	19,511,739
Insurance contract liabilities as at 31 December	11,382,951	144,382	65,739,764	8,140,746	85,407,843

(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

6 Insurance contracts and reinsurance contracts held (continued)

6.2 Analysis by measurement component of reinsurance contracts held measured under the PAA

	2024				
	Asset for remaining coverage		Asset for incurred claims		
	Excluding loss-recovery component	Loss-recovery component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	Total
Reinsurance contract assets as at 1 January	(1,641,061)	427	9,003,299	797,750	8,160,415
Net income / (expenses) from reinsurance contracts held					
Reinsurance expenses	(9,080,059)	-	-	-	(9,080,059)
Incurred claims recovery	-	-	1,340,854	134,239	1,475,093
Changes that related to past service – changes in the FCF relating to incurred claims recovery	-	-	(2,930,180)	(511,932)	(3,442,112)
Income on initial recognition of onerous underlying contracts	-	1,174	-	-	1,174
Effect of changes in the risk of reinsurers' non-performance	-	-	195,033	-	195,033
Net income / (expenses) from reinsurance contracts held	(9,080,059)	1,174	(1,394,293)	(377,693)	(10,850,871)
Finance income from reinsurance contracts held	-	-	389,036	45,169	434,205
Total amounts recognised in profit or loss	(9,080,059)	1,174	(1,005,257)	(332,524)	(10,416,666)
Cash flows					
Premium paid net of ceding commissions and other directly attributable expenses paid	10,580,338	-	-	-	10,580,338
Recoveries from reinsurance	-	-	(685,016)	-	(685,016)
Total cash flows	10,580,338	-	(685,016)	-	9,895,322
Reinsurance contract assets as at 31 December	(140,782)	1,601	7,313,026	465,226	7,639,071

(All amounts in Hong Kong dollar unless otherwise stated)

6 Insurance contracts and reinsurance contracts held (continued)

6.2 Analysis by measurement component of reinsurance contracts held measured under the PAA (continued)

	2023				
	Asset for remaining coverage		Asset for incurred claims		
	Excluding loss-recovery component	Loss-recovery component	Estimate of present value of future cash flows	Risk adjustment for non-financial risk	Total
Reinsurance contract assets as at 1 January	750,995	45	10,599,927	637,699	11,988,666
Net income / (expenses) from reinsurance contracts held					
Reinsurance expenses	(9,369,656)	-	-	-	(9,369,656)
Incurred claims recovery	-	-	3,878,649	317,307	4,195,956
Changes that related to past service – changes in the FCF relating to incurred claims recovery	-	-	(2,758,958)	(182,926)	(2,941,884)
Income on initial recognition of onerous underlying contracts	-	382	-	-	382
Effect of changes in the risk of reinsurers' non-performance	-	-	(107,308)	-	(107,308)
Net income / (expenses) from reinsurance contracts held	(9,369,656)	382	1,012,383	134,381	(8,222,510)
Finance income from reinsurance contracts held	-	-	217,749	25,670	243,419
Total amounts recognised in profit or loss	(9,369,656)	382	1,230,132	160,051	(7,979,091)
Cash flows					
Premium paid net of ceding commissions and other directly attributable expenses paid	6,977,600	-	-	-	6,977,600
Recoveries from reinsurance	-	-	(2,826,760)	-	(2,826,760)
Total cash flows	6,977,600	-	(2,826,760)	-	4,150,840
Reinsurance contract assets as at 31 December	(1,641,061)	427	9,003,299	797,750	8,160,415

(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

6 Insurance contracts and reinsurance contracts held (continued)

6.3 Reconciliation of insurance acquisition cash flows asset

	2024	*2023*
Opening asset	6,322,449	5,924,466
Cash flows recognised an asset during the year	18,622,780	19,062,664
Amounts derecognised on initial recognition of groups of insurance contracts	(18,731,138)	(18,664,681)
Closing asset	6,214,091	6,322,449

6.4 Assumptions, change in assumptions and sensitivity

(a) Process used to decide on assumptions

The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. Internal data is derived mostly from the Company's regular claims reports and screening of the actual insurance contracts carried on a regular basis. This information is used to develop scenarios that are used for the projections of the ultimate amount of claims

(b) Change in assumptions and sensitivity analysis

There was no significant change in the key assumptions for the year

(c) Sensitivity analysis – sensitivity of claims development tables

Actual claims payments are compared with previous estimates of the undiscounted amounts of the claims in the claims development disclosure below on a gross and a net of reinsurance basis as at 31 December 2024

NOTES TO THE FINANCIAL STATEMENTS

6 Insurance contracts and reinsurance contracts held (continued)

6.4 Assumptions, change in assumptions and sensitivity (continued)

(c) Sensitivity analysis – sensitivity of claims development tables (continued)

As at 31 December 2024

Gross claims development

Accident year	2020	2021	2022	2023	2024	Total
			HK$'000			
Estimate of ultimate claim costs (gross of reinsurance, undiscounted, inclusive of other directly attributable expenses related to claims management)						
- at the end of accident year	82,065	93,867	115,788	145,769	52,823	
- one year later	71,751	69,296	79,726	140,392		
- two year later	47,922	44,724	77,514			
- three year later	47,625	43,419				
- four year later	47,456					
Cumulative gross claims and other directly attributable expenses paid	(43,550)	(38,174)	(68,227)	(124,303)	(29,024)	(303,278)
Gross cumulative claims liabilities – accident years from 2020 to 2024	3,906	5,245	9,287	16,089	23,799	58,326
Gross cumulative claims liabilities – prior accident years						7,412
Effect of discounting						(3,188)
Effect of the risk adjustment for non-financial risk						7,735
Gross LIC for the contracts originated						70,285

Net claims development

Accident year	2020	2021	2022	2023	2024	Total
			HK$'000			
Estimate of ultimate claim costs (net of reinsurance, undiscounted, inclusive of other directly attributable expenses related to claims management)						
- at the end of accident year	70,596	82,237	104,348	132,774	49,364	
- one year later	60,793	58,879	68,606	128,666		
- two year later	43,298	41,002	66,737			
- three year later	44,236	39,983				
- four year later	43,451					
Cumulative net claims and other directly attributable expenses paid	(39,781)	(34,825)	(57,940)	(114,310)	(26,943)	(273,799)
Net cumulative claims liabilities – accident years from 2020 to 2024	3,670	5,158	8,797	14,356	22,421	54,402
Net cumulative claims liabilities – prior accident years						3,859
Effect of discounting						(3,024)
Effect of the risk adjustment for non-financial risk						7,270
Net LIC for the contracts originated						62,507

NOTES TO THE FINANCIAL STATEMENTS

6 Insurance contracts and reinsurance contracts held (continued)

6.4 Assumptions, change in assumptions and sensitivity (continued)

(c) Sensitivity analysis – sensitivity of claims development tables (continued)

As at 31 December 2023

Gross claims development

Accident year	2019	2020	2021	2022	2023	Total
			HK$'000			
Estimate of ultimate claim costs (gross of reinsurance, undiscounted, inclusive of other directly attributable expenses related to claims management)						
- at the end of accident year	71,675	82,065	93,867	115,788	145,769	
- one year later	74,768	71,751	69,296	79,726		
- two year later	53,279	47,922	44,724			
- three year later	47,637	47,625				
- four year later	23,107					
Cumulative gross claims and other directly attributable expenses paid	(17,602)	(39,990)	(37,746)	(65,369)	(117,503)	(278,210)
Gross cumulative claims liabilities – accident years from 2019 to 2023	5,505	7,635	6,978	14,357	28,266	62,741
Gross cumulative claims liabilities – prior accident years						8,084
Effect of discounting						(5,085)
Effect of the risk adjustment for non-financial risk						8,141
Gross LIC for the contracts originated						73,881

Net claims development

Accident year	2019	2020	2021	2022	2023	Total
			HK$'000			
Estimate of ultimate claim costs (net of reinsurance, undiscounted, inclusive of other directly attributable expenses related to claims management)						
- at the end of accident year	60,729	70,596	82,237	104,348	132,774	
- one year later	62,098	60,793	58,879	68,606		
- two year later	47,228	43,298	41,002			
- three year later	42,919	44,236				
- four year later	26,756					
Cumulative net claims and other directly attributable expenses paid	(24,329)	(37,335)	(34,397)	(55,108)	(107,701)	(258,870)
Net cumulative claims liabilities – accident years from 2019 to 2023	2,427	6,901	6,605	13,498	25,073	54,504
Net cumulative claims liabilities – prior accident years						6,641
Effect of discounting						(4,618)
Effect of the risk adjustment for non-financial risk						7,343
Effect of the risk of reinsurer's non-performance						210
Net LIC for the contracts originated						64,080

The Company provides information on the gross and net claims development for the current reporting period and five years prior to it The Company considers that there is no significant uncertainty with regard to claims that were incurred more than five years before the reporting period

(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

6 Insurance contracts and reinsurance contracts held (continued)

6.4 Assumptions, change in assumptions and sensitivity (continued)

(d) Sensitivity analysis to underwriting risk variables

Interest rate risk sensitivity

The Company's net insurance contract balance is subject to interest rate risk The estimated potential exposure of the Company's net insurance contract balance to a 0.5% decline or increase in the interest rate as of 31 December 2024 would be an increase or reduction in profit or loss of HK$ 0.5 million respectively (2023: HK$ 0.5 million)

The Company's other financial assets and liabilities are not significantly sensitive to interest rates

The analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. No changes were made by the Company in the methods and assumptions used in preparing the analysis during the year

Equity price risk sensitivity

Please refer to 4 2 (b)

7 Term deposits

	2024	*2023*
Fixed deposits with original maturities more than three months	249,800,000	289,900,000
Impairment allowance		
- stage 1	(6,026)	(6,260)
	249,793,974	289,893,740

8 Other assets

	2024	*2023*
Fixed deposit interest receivables	7,148,603	6,619,492
Prepayment	75,731	1,125,746
Deposits	150,000	150,000
Impairment allowance		
- stage 1	(291)	(310)
	7,374,043	7,894,928

(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

9 Deferred tax assets / (liabilities)

The components of deferred tax assets / (liabilities) recognized in the statement of financial position and the movements during the year are as follows:

	Difference between depreciation allowances and related depreciation	Impairment allowance	Difference arising from insurance contract liabilities	Changes in FVOCI debt securities	Total
As at 1 January 2023	624	3,346	(671,937)	-	(667,967)
Charged to profit or loss	(92)	(2,263)	(35,248)	-	(37,603)
As at 31 December 2023 and 1 January 2024	532	1,083	(707,185)	-	(705,570)
(Charged) / credited to profit or loss	(77)	495	641,527	-	641,945
Credited to other comprehensive income	-	-	-	29,225	29,225
As at 31 December 2024	455	1,578	(65,658)	29,225	(34,400)

10 Other current liabilities

	2024	*2023*
Accrued expenses	2,953,345	4,211,689

11 Share capital

	2024	*2023*
Issued and fully paid 500,000 ordinary shares	50,000,000	50,000,000

(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

12 Insurance service result

	2024	*2023*
Insurance revenue	81,985,710	78,652,101
Insurance service expenses		
- Incurred claims and other directly attributable expenses	(54,293,075)	(55,683,857)
- Changes that related to past service – changes in the FCF relating to the LIC	17,660,315	20,533,856
- Losses on onerous contracts and reversal of those losses	(222,699)	(98,427)
- Insurance acquisition cash flows amortisation	(18,731,138)	(18,664,681)
Total insurance service expenses	(55,586,597)	(53,913,109)
Net income / (expenses) from reinsurance contracts held		
- Reinsurance expenses	(9,080,059)	(9,369,656)
- Effect of changes in the risk of reinsurers' non-performance to the LIC	195,033	(107,308)
- Incurred claims recovery	1,475,093	4,195,956
- Changes that relate to past service – changes in the FCF relating to incurred claims recovery	(3,442,112)	(2,941,884)
- Income on initial recognition of onerous underlying contracts	1,174	382
Total net expenses from reinsurance contracts held	(10,850,871)	(8,222,510)
Total insurance service result	15,548,242	16,516,482

13 Investment income

	2024	*2023*
Accretion of discount on debt securities	699,669	-
Deposits interest income	12,722,092	11,613,321
Dividends from equity securities measured at fair value through gain or loss	1,237,408	1,081,866
Investment expenses	(874)	(1,098)
Unrealised losses from equity securities at fair value through gain or loss	(116,384)	(4,299,557)
	14,541,911	8,394,532

14 Net insurance finance expenses

	2024	*2023*
Interest accreted	(3,739,747)	(3,686,034)
Effect of changes in interest rates	(825,356)	527,787
Finance expenses from insurance contracts issued	(4,565,103)	(3,158,247)
Interest accreted	383,549	296,084
Effect of changes in interest rates	50,656	(52,665)
Finance income from reinsurance contracts held	434,205	243,419
Net insurance finance expenses	(4,130,898)	(2,914,828)

(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

15 Other income

	2024	*2023*
Sundry income	55,200	58,178

16 Other operating expenses

	2024	*2023*
Staff costs (Note 18 4)	2,398,805	2,458,403
Auditor's remuneration		
- Statutory audit service	958,531	1,076,780
- Non-audit-related services	39,359	38,213
Legal and professional fee	399,000	541,166
Directors' emoluments (a)	140,000	140,000
Rental expenses (Note 18 4)	136,500	134,657
Other expenses	623,730	549,538
	4,695,925	4,938,757

(a) *Benefits and interests of directors*

The emoluments of the Directors of the Company disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap.622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation were set out below

Directors' fee paid or payable in respect of directors' services is HK$140,000 (2023· HK$140,000) During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2023: nil). No consideration was provided to or receivable by third parties for making available directors' services (2023· nil).

There is no loan, quasi-loan or other dealing in favour of directors, their controlled bodies corporate and connected entities (2023: none).

17 Income tax (credit) / expense

	2024	*2023*
Hong Kong profits tax		
- current year	580,986	331,413
- adjustments in respect of prior years	(1)	-
- tax reduction	(9,000)	-
Deferred tax (Note 9)	(641,945)	37,603
	(69,960)	369,016

Hong Kong profits tax was provided at the rate of 16.5% (2023: 16 5%) on the estimated assessable profit for the year

(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

17 Income tax (credit) / expense (continued)

The taxation on the Company's profit before tax differs from the theoretical amount that would arise using the taxation rate in Hong Kong as follows:

	2024	*2023*
Profit before tax	21,315,532	17,129,322
Calculated at a tax rate of 16.5% (2023:16.5%)	3,517,063	2,826,338
Tax effect of income not subject to taxation	(2,394,401)	(2,094,706)
Tax effect of expenses not deductible for taxation purposes	296,834	-
Tax concession for insurance related business	(772,852)	(362,616)
Tax reduction	(9,000)	-
Adjustments in respect of prior years	(1)	-
Deferred tax	(707,603)	-
Income tax (credit) / charge	(69,960)	369,016

18 Related party transactions

A number of transactions were entered into with related parties by the Company in the normal course of business and at arm's length basis. The outstanding balances of the related party transactions at the reporting date, and related expense and income for the year are as follows:

18.1 The Company's immediate holding company acted as an agent for the Company for introducing general insurance business and is entitled to receive commission based on different types of insurance policies issued and the net underwriting profit based on ordinary business terms. The Company had transactions with immediate holding company as follows:

	2024	*2023*
Insurance revenue	31,251,330	27,350,413
Insurance service expenses	46,444,333	40,641,334

18.2 The Company had reinsurance arrangements and transactions with an associate of the immediate holding company as follows

	2024	*2023*
Net expenses from reinsurance contracts held	2,000,679	2,040,864
Insurance service expenses	-	15,906

18.3 The Company placed its deposits with the immediate holding company in the ordinary course of business and earned interest income

	2024	*2023*
Interest income	12,722,092	11,613,321
Balance as at 31 December	257,181,953	296,538,624

PAOFOONG INSURANCE COMPANY (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(All amounts in Hong Kong dollar unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

18 Related party transactions (continued)

18.4 The Company reimbursed salaries and rental expenses to the immediate holding company as follows:

	2024	*2023*
Insurance service expenses	331,500	336,643
Other operating expenses	136,500	134,657
Total Rental expenses	468,000	471,300
Insurance service expenses	3,584,598	3,487,770
Other operating expenses	2,398,805	2,458,403
Total Salaries and allowances	5,983,403	5,946,173

18.5 The Company had transactions with related companies as follows:

	2024	*2023*
Hai Kwang Property Management Co Ltd		
Insurance revenue	7,976	7,442
Infinite Financial Solutions Ltd		
Insurance revenue	505,377	386,702
Insurance service expenses	316,539	401,531
Shacom Insurance Brokers Ltd		
Insurance service expenses	709,126	849,003

19 Immediate and ultimate holding company at the end of reporting period

The directors regard Shanghai Commercial Bank Limited, a company incorporated in Hong Kong, as being the immediate holding company and The Shanghai Commercial & Savings Bank, Ltd., a company incorporated in Taiwan, as being the ultimate holding company.