

HKMC ANNUITY LIMITED

DIRECTORS' REPORT AND
AUDITED FINANCIAL STATEMENTS
31 DECEMBER 2025

HKMC ANNUITY LIMITED

DIRECTORS' REPORT

Directors (**Directors**) of HKMC Annuity Limited (**Company**) have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 December 2025 (**Financial Statements**).

PRINCIPAL ACTIVITIES

The Company is a direct wholly-owned subsidiary of The Hong Kong Mortgage Corporation Limited (**Holding Company**) and has no subsidiary.

During the year ended 31 December 2025, the Company carried on annuity business, and principal activities of the Company were:

- (a) to operate a life annuity scheme to facilitate retirement financial planning for the elderly in Hong Kong; and
- (b) to promote the development of the local annuity market through a series of publicity campaigns.

FINANCIAL STATEMENTS

The results of the Company for the year are set out in the Statement of Comprehensive Income on page 9.

SHARE CAPITAL

There were three capital injections for the sum of HK\$12.5 billion from the Exchange Fund into the Company via the Holding Company during the year.

Details of the movements in share capital of the Company during the year are set out in Note 19 to the Financial Statements.

DEBENTURES ISSUED IN THE YEAR

No debentures were issued by the Company during the year (2024: nil).

DIVIDEND

Directors recommended that no dividend be declared for the year ended 31 December 2025 (2024: nil).

TRANSFER TO RESERVES

Movements in reserves during the year are set out in the statement of changes in equity contained in the Financial Statements.

DIRECTORS

Persons who served as Directors during the year and during the period beginning with the end of the year and ending on the date of this report are as follows:

Mr Howard LEE Tat-chi, JP
Chairman and Executive Director

Mr POU Hak-wan, JP
Deputy Chairman and Executive Director

Mr Daniel LEONG Ling-chi
Executive Director and Chief Executive Officer

Prof. BAI Xue
Non-Executive Director

Mr Barry CHAN Siu-tan
Non-Executive Director (appointed on 11 December 2025)

Ms Kerry CHING Kim-wai
Non-Executive Director

Ms Ivy CHUA Suk-lin
Non-Executive Director (appointed on 10 July 2025)

Dr FUNG Wing-hong
Non-Executive Director

Ms Belinda LUK Kwai-sim
Non-Executive Director (appointed on 2 December 2025)

Ms Agnes TSO Miu-yue
Non-Executive Director (retired on 13 June 2025)

Mr Kenneth YU Yuk-wing
Non-Executive Director (retired on 13 June 2025)

In accordance with Article 106 of the Company's Articles of Association, all those Directors who are not Executive Directors shall retire but shall be eligible for re-election at the forthcoming annual general meeting.

PERMITTED INDEMNITY

A permitted indemnity provision (as defined in the Companies Ordinance) for the benefit of the Directors was in force during the year and is in force as at the date of this report.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Apart from those disclosed in Note 20 to the Financial Statements on material related party transactions, there is no other transactions, arrangements or contracts of significance in relation to the Company's

business, to which the Company, the Holding Company or any subsidiary of the Holding Company was a party, and in which any person who was a Director at any time during the year or a connected entity (as defined in the Companies Ordinance) of any such person had, directly or indirectly, a material interest at the end of the year or at any time during the year.

CONTROLLERS

Controllers (as defined in the Insurance Ordinance) of the Company during the year were:

The Hon. Paul Chan Mo-po (by virtue of his control on behalf of the Government of the Hong Kong Special Administrative Region for the account of the Exchange Fund over the exercise of 100% voting power at any general meeting of the Company)

The Holding Company (by virtue of being the sole shareholder of the Company)

Mr Daniel LEONG Ling-chi (by virtue of being the Chief Executive Officer of the Company)

CONTROLLERS' MATERIAL INTERESTS IN CONTRACTS

Apart from those disclosed in Note 20 to the Financial Statements on material related party transactions, there is no other transactions, arrangements or contracts of significance in relation to the Company's business, to which the Company, the Holding Company or any subsidiary of the Holding Company was a party, and in which any person who at any time during the year was a Controller of the Company had, directly or indirectly, a material interest at the end of the year or at any time during the year.

PROPERTY TRANSFERRED, PAYMENTS MADE, LOANS ADVANCED TO, OR OBLIGATIONS ASSUMED BY OR FOR A DIRECTOR OR CONTROLLER OR HIS NOMINEES OR ASSOCIATES

The amounts of payments made (whether for services or otherwise) and property transferred to any of the Company's Directors and Controllers or any of their respective nominees and associates (as defined in the Insurance Ordinance) during the year are set out in Notes 10, 20 and 22 to the Financial Statements. Apart from that, there was no property transferred, payments made, loans advanced to nor obligations assumed by or for any of the Company's Directors and Controllers or any of their respective nominees and associates during the year.

OTHER INSURANCE BUSINESSES

During the year, the Company had carried on neither insurance business (other than reinsurance business) relating to liabilities or risks in respect of which persons are required by any Ordinance to be insured nor reinsurance business.

MATERIAL REINSURANCE ARRANGEMENTS

During the year, no material reinsurance arrangements were effected by the Company.

MATERIAL EVENTS AFTER END-2025

In January 2026, the Monetary Authority entered into a capital commitment arrangement with the Holding Company and the Company to inject additional funds of up to HK\$25 billion in aggregate from the Exchange Fund into the Holding Company as equity for the sole purpose of financing the Holding Company's additional capital injection into the Company, and the Holding Company has committed to inject such funds into the Company as equity to maintain the Company's capital base above a certain level.

AUDITOR

The Financial Statements have been audited by PricewaterhouseCoopers who will retire, and, being eligible, will offer themselves for reappointment, at the forthcoming annual general meeting of the Company.

On behalf of the Board of Directors

(Sd.)

LEE Tat Chi, Howard
Chairman and Executive Director

Hong Kong
17 April 2026

Independent Auditor's Report

To the Member of HKMC Annuity Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The financial statements of HKMC Annuity Limited (the "Company"), which are set out on pages 9 to 55, comprise:

- the statement of financial position as at 31 December 2025;
- the statement of 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, comprising material accounting policy information 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 2025, and of its financial performance and its cash flows for the year then ended in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") as 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"), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the directors' report, 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 and the Audit Committee 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 HKFRS Accounting Standards as 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.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 Audit Committee 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.

The engagement partner on the audit resulting in this independent auditor's report is HUANG, Ka Ming (practising certificate number: P07526).



PricewaterhouseCoopers
 Certified Public Accountants
 Hong Kong, 17 April 2026

HKMC ANNUITY LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2025

	Notes	2025 HK\$'000	2024 HK\$'000
Insurance revenue	6	675,901	401,515
Insurance service expense	9	(2,503,577)	(1,711,013)
Insurance service result		(1,827,676)	(1,309,498)
Net investment income	7	2,411,376	1,073,869
Net insurance finance expenses for insurance contracts issued	8	(2,474,418)	(284,765)
Net insurance and investment result		(1,890,718)	(520,394)
Other income and expense		314	1,740
Loss before taxation		(1,890,404)	(518,654)
Taxation credit	11	251,799	105,915
Loss for the year		(1,638,605)	(412,739)
Other comprehensive income		-	-
Total comprehensive loss		(1,638,605)	(412,739)

The notes on pages 13 to 55 are an integral part of these financial statements.

HKMC ANNUITY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2025

	Notes	2025 HK\$'000	2024 HK\$'000
Assets			
Cash and short-term funds	12	159,106	833,095
Prepayment, deposits and other assets	14	2,190	54,674
Placements with Exchange Fund	13	55,933,232	33,454,116
Amount due from a fellow subsidiary	18	1,545	1,740
Fixed assets	15	60,587	17,456
Deferred tax asset	11	253,254	1,455
Total assets		56,409,914	34,362,536
Liabilities			
Accounts payable and accrued expenses	16	224,321	434,307
Insurance contract liabilities	9	30,370,820	19,028,704
Lease liability		5,200	9,347
Borrowings	17	2,700,000	2,642,000
Total liabilities		33,300,341	22,114,358
Shareholders' equity			
Share capital	19	25,000,000	12,500,000
Accumulated losses		(1,890,427)	(251,822)
Total equity		23,109,573	12,248,178
Total liabilities and equity		56,409,914	34,362,536

Approved and authorised for issue by the Board of Directors on 17 April 2026.

(Sd.)
POU Hak Wan
Deputy Chairman and
Executive Director

(Sd.)
LEONG Ling Chi, Daniel
Executive Director and
Chief Executive Officer

The notes on pages 13 to 55 are an integral part of these financial statements.

HKMC ANNUITY LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2025**

	Notes	Share capital HK\$'000	(Accumulated losses)/ retained earnings HK\$'000	Total HK\$'000
Balance as at 1 January 2024		12,500,000	160,917	12,660,917
Total comprehensive loss for the year		-	(412,739)	(412,739)
Balance as at 31 December 2024		12,500,000	(251,822)	12,248,178
Capital injection	19	12,500,000	-	12,500,000
Total comprehensive loss for the year		-	(1,638,605)	(1,638,605)
Balance as at 31 December 2025		25,000,000	(1,890,427)	23,109,573

The notes on pages 13 to 55 are an integral part of these financial statements.

HKMC ANNUITY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2025

	Notes	2025 HK\$'000	2024 HK\$'000
Cash flows from operating activities			
Loss before taxation		(1,890,404)	(518,654)
Adjustment for:			
Income from Placements with Exchange Fund	7	(2,479,116)	(1,220,326)
Interest income	7	(9,124)	(8,567)
Interest expense	7	76,802	154,602
Depreciation	15	25,179	12,209
Change in prepayment, deposit and other assets		(2,386)	(31,596)
Change in insurance contract liabilities		11,342,116	4,644,827
Change in accounts payable and accrued expenses		(286,237)	257,854
Loss on disposal		1,232	-
Net cash generated from operating activities		6,778,062	3,290,349
Cash flows from investing activities			
Interest received		10,225	7,450
Purchase of fixed assets	15	(15,775)	(2,125)
Placements with Exchange Fund		(20,000,000)	(1,800,000)
Net cash used in investing activities		(20,005,550)	(1,794,675)
Cash flows from financing activities			
Proceeds from capital injection	19	12,500,000	-
Proceeds from/ (Repayment of) borrowings	17	58,000	(815,000)
Payment of lease liabilities		(4,501)	(4,628)
Net cash generated from/ (used in) financing activities		12,553,499	(819,628)
Net (decrease)/ increase in cash and cash equivalents		(673,989)	676,046
Beginning cash and cash equivalents		833,095	157,049
Ending cash and cash equivalents		159,106	833,095

The notes on pages 13 to 55 are an integral part of these financial statements.

HKMC ANNUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Corporate information

HKMC Annuity Limited (**Company**) is a wholly-owned subsidiary of The Hong Kong Mortgage Corporation Limited (**Holding Company**) and is a company incorporated in Hong Kong. The Company is set up for the purpose of facilitating retirement financial planning through provision of annuity products for Hong Kong citizens and promoting the development of annuities market in Hong Kong.

The address of the Company's registered office is 19/F, Two Harbour Square, No. 180 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong.

2 Basis of preparation

The financial statements of the Company have been prepared in accordance with HKFRS Accounting Standards (which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards (**HKFRS**), Hong Kong Accounting Standards (**HKASs**) and Interpretations) as issued by the Hong Kong Institute of Certified Public Accountants (**HKICPA**), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention, except for the placements with the Exchange Fund which is measured at fair value. The accounting policies and the methods of computation used in the preparation of these financial statements are consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in conformity with HKFRS Accounting Standards 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 5.

3 Material accounting policy information

3.1 Adoption of HKFRS Accounting Standards

(a) New and amended standards effective on 1 January 2025

The Company has adopted the following amendments to HKFRS Accounting Standards which are effective for accounting periods beginning on or after 1 January 2025:

Amendments to HKAS 21	Lack of Exchangeability
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Amendments to HKAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable.

The adoption of these amendments did not have any financial impact on the Company.

The other standards and amendments effective in 2025 have no material impact on the Company's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

(b) New standards and amendments issued but not yet effective

The Company has not applied the following new and revised HKFRS Accounting Standards, that have been issued but are not yet effective, in these financial statements. The Company intends to apply these revised HKFRS Accounting Standards, if applicable, when they become effective.

HKFRS 18	Presentation and Disclosure in Financial Statements
HKFRS 19 and its amendments	Subsidiaries without Public Accountability: Disclosures
HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7	Annual improvements to HKFRS Accounting Standards – Volume 11
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments;
	Contracts Referencing Nature-dependent Electricity
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to HKAS 21	Translation to a Hyperinflationary Presentation Currency

3.2 Insurance and reinsurance contracts classification

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. In general, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event had not occurred. Insurance contracts can also transfer financial risk.

The Company also issues reinsurance contracts in the normal course of business to compensate other entities for claims arising from one or more insurance contracts issued by those entities. The Company provides reinsurance cover for immediate annuity.

3.3 Insurance contracts accounting treatment

(a) Level of aggregation

HKFRS 17 requires an entity to determine the level of aggregation for applying its requirements. The level of aggregation for the Company is determined firstly by dividing the insurance contracts written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. This means that, for determining the level of aggregation, the Company identifies a contract as the smallest 'unit', i.e., the lowest common denominator. The Company then makes an evaluation of whether a series of contracts can be treated together in making the profitability assessment based on reasonable and supportable information, or whether a single contract contains components that need to be separated and treated as if they were stand-alone contracts. HKFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart. Accordingly, each portfolio is disaggregated into groups of contracts that are issued within a calendar year (annual cohorts).

The Company has defined portfolios of insurance and reinsurance contracts issued based on its product lines, namely immediate annuity due to the fact that the products are subject to similar risks and managed together. The expected profitability of the portfolio at inception is determined based on the existing actuarial valuation models.

The groups of contracts for which the fair value approach has been adopted on transition include contracts issued more than one year apart.

HKMC ANNUITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

The insurance contracts portfolios are divided into:

- A group of contracts that are onerous at initial recognition
- A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently
- A group of the remaining contracts in the portfolio

(b) Recognition

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

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

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 reporting date, they are added to the groups in the reporting period in which they meet the recognition criteria. The Company adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

The Company looks at facts and circumstances to identify if a group of contracts are onerous based on:

- Pricing information;
- Results of similar contracts it has recognised; and
- Environmental factors, e.g., a change in market experience or regulations.

(c) Contract boundary

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with services. A substantive obligation to provide services ends when:

- the Company has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- the Company has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
- the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract are not recognised. Such amounts relate to future insurance contracts.

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NOTES TO THE FINANCIAL STATEMENTS

(d) Measurement - General Measurement Model

(i) Insurance contracts – initial measurement

The Company measures a group of insurance contracts as the total of:

- fulfilment cash flows; and
- a CSM representing the unearned profit the Company will recognise as it provides service under the insurance contracts in the group.

Fulfilment cash flows comprise unbiased and probability-weighted estimates of future cash flows, discounted to present value to reflect the time value of money and financial risks, plus a risk adjustment for non-financial risk.

The Company's objective in estimating future cash flows is to determine the expected value, or the probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort.

When estimating future cash flows, the Company includes all cash flows that are within the contract boundary including:

- premiums and related cash flows;
- claims and benefits;
- an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs;
- claims handling costs;
- policy administration and maintenance costs, including recurring commissions that are expected to be paid to intermediaries; and
- an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts.

The Company does not provide investment-return services in respect of contracts that it issues, nor does it perform investment activities for the benefit of policyholders.

The Company incorporates, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows. The Company estimates the probabilities and amounts of future payments under existing contracts based on information obtained, including:

- information about claims already reported by policyholders;
- other information about the known or estimated characteristics of the insurance contracts;
- historical data about the Company's own experience, supplemented when necessary with data from other sources. Historical data is adjusted to reflect current conditions; and
- current pricing information, when available.

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The measurement of fulfilment cash flows includes insurance acquisition cash flows which are allocated as a portion of premium to profit or loss (through insurance revenue) over the period of the contract in a systematic and rational way on the basis of the passage of time. The Company does not elect to accrete interest on insurance acquisition cash flows to be allocated to profit or loss.

The Company's CSM is a component of the insurance asset or liability for the group of insurance contracts that results in no income at initial recognition. The level of aggregation for CSM is on a group of contracts basis consistent with the level of aggregation specified above. If the fulfilment cash flows are allocated to the insurance contracts, together with any previously recognised insurance acquisition cash flows and any cash flows arising from the contracts at the date of initial recognition in total are a net outflow, then the contract is considered to be onerous. A loss from onerous insurance contracts is recognised in profit and loss immediately.

(ii) Insurance contracts – subsequent measurement

The CSM at the end of the reporting period represents the profit in the group of insurance contracts that has not yet been recognised in profit or loss, because it relates to future service to be provided.

For a group of insurance contracts, the carrying amount of the CSM of the group at the end of the reporting period is adjusted by the Company to reflect the effect of the following changes:

- the effect of any new contracts added to the group;
- interest accreted on the carrying amount of the CSM during the reporting period, measured at the discount rates at initial recognition;
- the changes in fulfilment cash flows relating to future service, except to the extent that: (i) such increases in the fulfilment cash flows exceed the carrying amount of the CSM, giving rise to a loss; or (ii) such decreases in the fulfilment cash flows are allocated to the loss component of the liability for remaining coverage;
- the effect of any currency exchange differences on the CSM; and
- the amount recognised as insurance revenue because of the transfer of services in the period, determined by the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period.

The discount rate is determined periodically and only the set of locked-in discount rates for a group of new contracts in each period will be applied for subsequent measurement. The discount rate used for accretion of interest on the CSM is determined using the bottom-up approach (Note 5.1(b)).

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The CSM is recognised into insurance revenue over the duration of the group of insurance contracts based on the respective coverage units. The locked-in discount rate is the rate applicable at the date of initial recognition of contracts that joined a group for each annual cohort.

The changes in fulfilment cash flows relating to future service that adjust the CSM comprise of:

- experience adjustments that arise from the difference between the premium receipts (and any related cash flows such as insurance acquisition cash flows) and the estimate, at the beginning of the period, of the amounts expected. Differences related to premiums received (or due) related to current or past services are recognised immediately in profit or loss while differences related to premiums received (or due) for future services are adjusted against the CSM;
- changes in estimates of the present value of future cash flows in the liability for remaining coverage, except those relating to the time value of money and changes in financial risk (recognised in the statement of profit or loss and other comprehensive income rather than adjusting the CSM);
- differences between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period; and
- changes in the risk adjustment for non-financial risk that relate to future service.

Except for changes in the risk adjustment, adjustments to the CSM noted above are measured at discount rates that reflect the characteristics of the cash flows of the group of insurance contracts at initial recognition.

Where, during the coverage period, a loss is created for a group of insurance contracts becoming onerous when there is an increase in fulfilment cash flows that exceeds the carrying amount of the CSM. Once a change in fulfilment cash flows reduces CSM to nil, the excess establishes a loss which is recognised in profit and loss immediately for the net cash outflow. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognised. Any subsequent decrease in the fulfilment cash flows will reverse the losses previously recognised in profit and loss. Any remaining loss will be released based on a systematic allocation of subsequent changes relating to future service in the fulfilment cash flows.

The Company measures the carrying amount of a group of insurance contracts at the end of each reporting period as the sum of (i) the liability for remaining coverage comprising fulfilment cash flows related to future service allocated to the group at that date and the CSM of the group at that date; and (ii) the liability for incurred claims for the Company comprising the fulfilment cash flows related to past service allocated to the group at that date. The fulfilment cash flows at the reporting dates are measured using the current estimates of expected cash flows and current discount rates.

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NOTES TO THE FINANCIAL STATEMENTS

(iii) Insurance contracts – modification and derecognition

The Company derecognises insurance contracts when:

- the rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired); or
- the contract is modified such that the modification results in a change in the measurement model, change in the applicable standard for measuring a component of the contract, substantially difference in contract boundary or change in grouping of contracts. In such cases, the Company derecognises the initial contract and recognises the modified contract as a new contract.

(iv) Insurance acquisition cash flows

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

(e) Presentation

The Company has presented separately in the statement of financial position the carrying amount of portfolios of insurance and reinsurance contracts issued that are assets and those that are liabilities.

The Company disaggregates the amounts recognised in the statement of profit or loss into insurance service results, comprising insurance revenue and insurance service expenses, and investment results, which comprises insurance finance income or expenses.

The Company does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

(i) Insurance revenue

The Company's insurance revenue depicts the performance of insurance services through provision of coverage and other services arising from a group of insurance contracts at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. Insurance revenue from a group of insurance contracts is therefore the relevant portion for the period of the total consideration for the contracts, (i.e., the amount of premiums paid to the Company adjusted for financing effect (the time value of money) and excluding investment components). The total consideration for a group of contracts covers amounts related to the provision of services and is comprised of:

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- Expected insurance service expenses for claims and other insurance expenses, excluding any amounts allocated to the loss component of the liability for remaining coverage;
- The risk adjustment for non-financial risk, excluding any amounts allocated to the loss component of the liability for remaining coverage;
- The CSM release; and
- Amounts related to the recovery of insurance acquisition cash flows.

(ii) Insurance services expenses

The insurance service expenses arising from insurance contracts are recognised in profit or loss as they are incurred. The insurance service expenses comprise of: (a) incurred claims and other insurance expenses; (b) losses on onerous contracts and reversal of such losses; (c) adjustments to liability for incurred claims; and (d) amounts related to amortising of insurance acquisition cash flows.

(iii) Loss components

The Company has grouped contracts that are onerous at initial recognition separately from contracts in the same portfolio that are not onerous at initial recognition. Groups that were not onerous at initial recognition can also subsequently become onerous if assumptions and experience changes. The Company has established a loss component of the liability for remaining coverage for any onerous group depicting the future losses recognised.

A loss component represents a notional record of the losses attributable to each group of onerous insurance contracts (or contracts profitable at inception that have become onerous). The loss component is released based on a systematic allocation of the subsequent changes in the fulfilment cash flows to: (i) the loss component; and (ii) the liability for remaining coverage excluding the loss component. The allocation to loss component follows the approach of CSM amortisation, where the loss component is amortised based on coverage unit. The loss component is also updated for subsequent changes in estimates of the fulfilment cash flows related to future service. The systematic allocation of subsequent changes to the loss component results in the total amounts allocated to the loss component being equal to zero by the end of the coverage period of a group of contracts (since the loss component will have been materialised in the form of incurred claims).

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(iv) Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

Insurance finance income or expenses on the Company's issued insurance contracts is not disaggregated because the related financial assets are managed on a fair value basis and measured at fair value through profit or loss.

3.4 Expense recognition

Expenses are generally recognised on an accrual basis when the service has been provided.

3.5 Investment income

Interest income from short-term deposit is recognised on an accrual basis using the effective interest method.

Changes in fair value of the placements with the Exchange Fund designated as "financial assets at fair value through profit or loss", is recognised as net investment income in the year in which they arise.

3.6 Financial assets

(a) Classification

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

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

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

The Company has classified placements with the Exchange Fund as financial asset at fair value through profit or loss.

The Company reclassifies investments when and only when its business model for managing those assets changes.

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(b) Measurement

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of financial assets of the company are classified into the following categories, depending on the Company's business model for managing the asset and the cash flow characteristics of the asset.

- Fair value through profit or loss (**FVPL**): assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at FVPL. A gain or loss on a financial asset that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented net in the income statement within other gains or losses in the period in which it arises.
- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired.

(c) Impairment

The Company assesses on a forward looking basis the expected credit loss (**ECL**) associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 4.4 provides more detail of how the ECL is measured.

3.7 Recognition and de-recognition of financial instruments

Purchases and sales of investments are recognised on the trade date, the date on which the Company purchases or sells the assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Other financial liabilities are recognised when such obligations arise. Financial liabilities are derecognised from the statement of financial position when and only when the obligation specified in the contract is discharged, cancelled or expired.

3.8 Offsetting financial instruments

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

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3.9 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 (**functional currency**). The financial statements are presented in thousands of Hong Kong dollars (**HK\$'000**) which is the Company's functional and presentation currency.

3.10 Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity.

Current tax is calculated on the basis of the tax rates enacted or substantively enacted at the end of the reporting period.

Deferred tax is provided in full, 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 tax is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

3.11 Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives.

Leasehold improvements	over the unexpired period of the lease
Furniture and fixtures	over the unexpired period of the lease
Computer	3 years
Office equipment	3 years

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gain and loss on disposal is determined by comparing proceeds with carrying amount. It is included in the income statement.

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3.12 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events where it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where the effect of the time value of money is material, provisions are measured at the present value of the expenditure 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 risks specific to the obligation.

3.13 Leases

(a) Right-of-use assets

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

(b) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification.

(c) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition to leases of assets that are considered as low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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3.14 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with original maturities of three months or less, including cash and balances with banks that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

4 Financial risk management

4.1 Risks arising from insurance and reinsurance contracts issued

(a) Insurance and reinsurance contracts issued

The main risks that the Company is exposed to are, as follows:

- Longevity risk – risk of loss arising due to the annuitant living longer than expected; and
- Expense risk – risk of loss arising from expense experience being different from expectation.

The Company aims to ensure that sufficient reserves are available to cover the liabilities associated with the insurance contracts that it issues. The assumptions are reviewed regularly with regular experience studies conducted.

The nature of the Company's exposure to insurance risks and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

(b) Sensitivities

The following sensitivity analysis shows the impact on profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions (as detailed in Note 5) held constant. The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

Insurance and reinsurance contracts issued			2025		
In HK\$'000	Change in assumptions	Impact on	Impact on	Impact on	Impact on
		profit before tax gross of reinsurance	profit before tax net of reinsurance	equity gross of reinsurance before the effects of taxation	equity net of reinsurance before the effects of taxation
Mortality rates	-10%	(512,368)	(512,368)	(512,368)	(512,368)
Expenses	+10%	(131,783)	(131,783)	(131,783)	(131,783)

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Insurance and reinsurance contracts issued		2024			
In HK\$'000	Change in assumptions	Impact on profit before tax gross of reinsurance	Impact on profit before tax net of reinsurance	Impact on equity gross of reinsurance before the effects of taxation	Impact on equity net of reinsurance before the effects of taxation
Mortality rates	-10%	(339,257)	(339,257)	(339,257)	(339,257)
Expenses	+10%	(64,372)	(64,372)	(64,372)	(64,372)

4.2 Risk governance

The Board holds ultimate responsibility for the risk management of the Company and is assisted by the Risk Committee.

4.3 Investment risk

To manage asset risk of the investments, the Company's funds are segregated according to their sources and invested according to defined set of investment objectives.

4.4 Credit risk

The capital fund and premium income are placed with the Exchange Fund of Hong Kong Monetary Authority (HKMA) and the short-term deposit of the Holding Company. The credit risk on these placements is very limited as the former is a government authority and the latter is a public entity which is wholly owned by Hong Kong Government.

Collateral and other credit enhancements

Collaterals are not sought for the placements with the Exchange Fund and the Holding Company as the exposures are considered to be low risk due to the nature of the counterparties.

Expected credit loss (ECL) measurement

For financial assets, the following credit risk modelling applies:

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

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- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower.

A three-stage approach to measuring ECL is applied on deposits accounted for at amortised cost. Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest income is calculated by applying the effective interest rate to the amortised cost (net of impairment provision) rather than the gross carrying amount.

ECLs are derived from unbiased and probability-weighted estimates of expected loss. The amount of the ECL is recognised using an impairment allowance account with the movement in this account charged to income statement.

At initial recognition, impairment allowance is required for ECLs resulting from default events that are possible within next 12 months (**12-month ECLs**). At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Company uses the change in external credit ratings to assess the level of deterioration in credit quality of a financial asset. In the event of a significant increase in credit risk, impairment allowance is required from all possible default events over the expected life of the financial assets (**Lifetime ECLs**). If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the impairment allowance reverts from lifetime ECL to 12-month ECL.

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A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Company.

Cash and short-term funds

The impairment allowance on cash and short-term funds as at 31 December 2025 reconciles to the opening impairment allowance as follows:

	HK\$'000
Impairment allowance as at 1 January 2024	(57)
Change in the impairment allowance recognised in profit or loss during the year	(230)
Impairment allowance as at 31 December 2024	(287)
Change in the impairment allowance recognised in profit or loss during the year	232
Impairment allowance as at 31 December 2025 (Note 12)	(55)

All of these financial assets are considered to be low risk, and thus the impairment allowance recognised during the period was limited to 12-month ECLs.

4.5 Currency risk

All the assets and liabilities of the Company are denominated in Hong Kong dollars. The Company has no exposure to effects of fluctuation in the prevailing foreign currency exchange rate on its financial position and cash flows.

4.6 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market interest rates.

The value of the cash deposit and the placements with the Exchange Fund are not sensitive to the short-term fluctuation of market interest rate movements.

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The following analysis is performed for reasonably possible movements in interest rate curve with all other variables held constant, showing the impact on profit before tax and equity driven by insurance contracts.

	Parallel upward/ (downward) shift of interest rate curve	2025		2024	
		Impact on profit before tax HK\$'000	Impact on equity before the effects of taxation HK\$'000	Impact on profit before tax HK\$'000	Impact on equity before the effects of taxation HK\$'000
Insurance contracts					
liabilities	25 bp	719,841	719,841	432,302	432,302
Insurance contracts					
liabilities	(25) bp	(750,250)	(750,250)	(450,211)	(450,211)

4.7 Liquidity risk

Liquidity risk arises if there is insufficient liquid fund to meet the cash outflow or inability to raise funds. Liquidity risk is managed by monitoring the actual inflows and outflows of funds and projection of the cash flow. The Company's major liability is the insurance contract liabilities.

The tables below analyse the Company's major assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual/expected maturity date.

As at 31 December 2025	Repayable on demand HK\$'000	Up to 1 year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-4 years HK\$'000	4-5 years HK\$'000	Over 5 years HK\$'000	No fixed maturity HK\$'000	Total HK\$'000
Assets									
Cash and short-term funds	159,106	-	-	-	-	-	-	-	159,106
Prepayment, deposits and other assets	-	-	1,524	-	-	-	-	-	1,524
Placements with Exchange Fund	-	-	3,025,077	7,138,736	5,398,311	10,234,026	30,137,082	-	55,933,232
Amount due from a fellow subsidiary	1,545	-	-	-	-	-	-	-	1,545
Total	160,651	-	3,026,601	7,138,736	5,398,311	10,234,026	30,137,082	-	56,095,407
Liabilities									
Accounts payable and accrued expense	-	2,635	-	-	-	-	-	-	2,635
Insurance contract liabilities	-	2,209,761	2,056,908	1,973,843	1,887,649	1,798,622	20,444,037	-	30,370,820
Borrowings	-	2,700,000	-	-	-	-	-	-	2,700,000
Lease Liability	-	4,263	937	-	-	-	-	-	5,200
Total	-	4,916,659	2,057,845	1,973,843	1,887,649	1,798,622	20,444,037	-	33,078,655

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As at 31 December	Repayable	Up to					Over	No fixed	
2024	on demand	1 year	1-2 years	2-3 years	3-4 years	4-5 years	5 years	maturity	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets									
Cash and short-term funds	272,286	560,809	-	-	-	-	-	-	833,095
Prepayment, deposits and other assets	-	1,128	-	1,549	-	-	-	-	2,677
Placements with Exchange Fund	-	-	-	2,907,335	6,781,319	5,054,735	18,710,727	-	33,454,116
Amount due from a fellow subsidiary	1,740	-	-	-	-	-	-	-	1,740
Total	274,026	561,937	-	2,908,884	6,781,319	5,054,735	18,710,727	-	34,291,628
Liabilities									
Accounts payable and accrued expense	-	9,385	-	-	-	-	-	-	9,385
Insurance contract liabilities	-	1,531,781	1,378,009	1,306,717	1,232,016	1,160,372	12,419,809	-	19,028,704
Borrowings	-	2,642,000	-	-	-	-	-	-	2,642,000
Lease Liability	-	4,147	4,263	937	-	-	-	-	9,347
Total	-	4,187,313	1,382,272	1,307,654	1,232,016	1,160,372	12,419,809	-	21,689,436

4.8 Asset-liability mismatch risk

Asset-liability mismatch risk mainly arises from asset volatility, uncertain annuity liability and cash flow maturity mismatch between assets and liability. The asset-liability mismatch risk is managed by actively monitoring the investment performance; conducting cash flow projections and sensitivity analysis and steadfastly maintains control over asset allocation.

4.9 Fair value of financial assets and liabilities

The following table shows financial instruments recognised at fair value, by valuation method. The different levels of fair value hierarchy have been defined as follows:

	As at 31 December 2025			As at 31 December 2024		
	Carrying amount	Fair value	Level 3	Carrying amount	Fair value	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial asset						
Placements with Exchange Fund	55,933,232	55,933,232	55,933,232	33,454,116	33,454,116	33,454,116

- (a) Level 1: quoted prices in active markets for identical assets or liabilities;
- (b) Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- (c) Level 3: inputs for the asset or liability that is not based on observable market data (unobservable inputs).

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During the year, there was no transfer between Level 1 and Level 2, nor transfers into or out of Level 3.

The following methods and significant assumptions have been used to estimate the fair values of financial instruments:

(a) Cash and short-term funds

Cash and short-term funds include short-term deposits. The fair value of floating-rate deposits is the carrying amount. The estimated fair value of fixed-rate deposits, which are normally less than 6 months, is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. Therefore, the fair value of the deposits is approximately equal to their carrying value.

(b) Placements with the Exchange Fund

The placements with the Exchange Fund are included in Level 3. The fair value of such placements, which is determined with reference to the principal amounts and the estimated rates of investment returns.

Movement in Level 3 fair value measurement as follows:

	2025 HK\$'000	2024 HK\$'000
As at 1 January	33,454,116	30,433,790
Placements with Exchange Fund	20,000,000	1,800,000
Income from placements with the Exchange Fund recognised in the profit or loss	2,479,116	1,220,326
As at 31 December	55,933,232	33,454,116

The Company is exposed to financial risk arising from changes in the rate of return on the placements with the Exchange Fund, which is set annually in January. Based on the balance of the placements with the Exchange Fund as at 31 December 2025, if there were an increase or decrease of 0.1% (or 10 basis points) in the current year rate of return, it is estimated that, with all other variables held constant, the Company's income from the placements with the Exchange Fund would have increased or decreased by approximately HK\$55.9 million (2024: HK\$33.5 million) a year on an annualised basis.

Other assets represent prepayment, deposits and other assets with the carrying amounts approximate to their fair values.

Accounts payable are expected to be settled within one year and their carrying amounts approximate to their fair values.

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4.10 Capital management

The Company is an authorised insurer regulated under the Insurance Ordinance (Cap. 41 of the Laws of Hong Kong) (IO). The paid-up capital is managed in compliance with the capital requirements as stipulated by the Insurance Authority (IA). The Company also conducts stress test to ensure sufficient capital is maintained to weather adverse macroeconomic conditions.

The Company is in compliance with the solvency and capital adequacy requirements applied by its regulator. The Company's primary insurance regulator is the IA, which requires the Company to meet the capital requirements of the IO. The IO sets minimum capital requirements that an insurer must meet in order to be authorised to carry on insurance business in or from Hong Kong. The Company has adopted Risk-based Capital ("RBC") regime introduced by the IA from 1 July 2024.

The Company intends to retain earnings in the early years to strengthen the capital positions. Should there be a need for dividend payment, the Board would review the Company's financial status and determine the appropriate level and form of dividends.

To keep pace with the business expansion, the Company may from time to time request the shareholder for capital injection to provide extra buffer to withstand adverse economic conditions and accommodate new business expansion. The commitment for further capital injection from the Exchange Fund through the Holding Company may also serve as a last resort to provide liquidity for annuity payments. Capital utilisation will be monitored regularly by the Risk Committee and reported to the Board.

The Company seeks to invest its paid-up capital to preserve solvency and provide liquidity.

5 Significant judgements and estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Items that are considered particularly sensitive to changes in estimates and assumptions, and the relevant accounting policies are those which relate to insurance contract liabilities and placements with the Exchange Fund.

5.1 Insurance and reinsurance contracts

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur. The Company disaggregates information to disclose life insurance contracts issued and reinsurance contracts issued separately. This disaggregation has been determined based on how the company is managed.

(a) The methods used to measure insurance contracts

The Company primarily uses deterministic projections to estimate the present value of future cash flows.

The main assumptions used relate to mortality, expenses and discount rates.

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The Company's mortality assumption is based on standard industry HKA22 mortality tables adjusted to reflect adverse selection and mortality improvements. The mortality table was revised in 2025 from HKA18 to HKA22 with updated mortality improvements.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation, if appropriate.

The cash flows within the contract boundary include an allocation of overheads directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics.

(b) Discount rate

Insurance contract liabilities are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. Risk-free rates are determined by reference to the inferred from either swap rates or zero-coupon government bond yields of that currency (whichever of higher liquidity/market depth). This method is comparable to the risk-free rate generation methodology adopted by IA. The illiquidity premium is determined by reference to observable market rates including corporate debt rates.

Discount rates applied for discounting of future cash flows are listed below:

	1 year		3 years		5 years		10 years		20 years		30 years	
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec
	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024
Insurance contracts issued												
HKD	3.00%	4.37%	2.99%	4.05%	3.21%	4.08%	3.75%	4.33%	4.12%	4.48%	4.23%	4.49%

(c) 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 risk adjustment was calculated at Company level and then allocated down to each group of contracts in accordance with their risk profiles. The Company determines the risk adjustment for non-financial risk based on the Margin Over Current Estimate (**MOCE**) under IO.

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NOTES TO THE FINANCIAL STATEMENTS

The MOCE reflects the uncertainty of liability cash flows related to non-hedgeable risks, and is calibrated to reflect the 75th percentile confidence level.

The methods and basis used to determine the risk adjustment for non-financial risk were not changed for the year ended 31 December 2025.

(d) **Amortisation of the CSM**

The CSM is a component of the asset or liability for the group of insurance contracts that represents the unearned profit the Company will recognise as it provides services in the future. An amount of the CSM for a group of insurance contracts is recognised in profit or loss as insurance revenue in each period to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount is determined by:

- identifying the coverage units in the group;
- allocating the CSM at the end of the period (before recognising any amounts in profit or loss to reflect the insurance contract services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future; and
- recognising in profit or loss the amount allocated to coverage units provided in the period.

The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering the quantity of the benefits provided and the expected coverage period. Contractual payments under the respective probabilities are considered when determining the quantity of benefit provided. The total coverage units of each group of insurance contracts are reassessed at the end of each reporting period to adjust for the reduction of remaining coverage for claims paid and cancellation of contracts in the period. For the annuity contracts, the quantity of benefits is the maximum of the expected annuity payment and the expected death payment.

5.2 Placements with the Exchange Fund

The placements with the Exchange Fund, accounted under fair value through profit or loss, are included in Level 3 with fair value determined by reference to the principal amount and the estimated rates of investment return.

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NOTES TO THE FINANCIAL STATEMENTS

6 Insurance revenue

The table below presents an analysis of the total insurance revenue recognised in the period:

		2025			2024		
		Life contracts	Reinsurance contracts issued	Total	Life contracts	Reinsurance contracts issued	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts relating to the changes in the liability for remaining coverage							
Expected insurance service expenses incurred in the period	a	635,338	7,966	643,304	375,676	4,743	380,419
Change in the risk adjustment for non-financial risk	b	5,674	55	5,729	4,868	19	4,887
Amounts relating to recovery of insurance acquisition cash flows							
Allocation of the portion of premiums that relate to the recovery of insurance acquisition cash flows	c	26,868	-	26,868	16,209	-	16,209
		<u>667,880</u>	<u>8,021</u>	<u>675,901</u>	<u>396,753</u>	<u>4,762</u>	<u>401,515</u>

Notes:

- a Expected insurance service expenses incurred in the period comprise claims and other expenses which the Company expects to pay on insured events that occurred during the period.
- b Change in risk adjustment shows amount of risk which expired during the period.
- c Acquisition cash flows were allocated based on the ratio of current coverage unit over the future coverage units of the respective group of contracts.

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7 Net investment income

	2025 HK\$'000	2024 HK\$'000
Income from placements with Exchange Fund	2,479,116	1,220,326
Interest from cash and short-term funds	9,124	8,567
Interest expense on borrowings	(76,802)	(154,602)
Other investment expense	(62)	(422)
	<u>2,411,376</u>	<u>1,073,869</u>

8 Net insurance finance result

The table below presents an analysis of net insurance finance result recognised in profit or loss in the period:

	2025			
	Insurance related Life contracts HK\$'000	Reinsurance contracts issued HK\$'000	Non- insurance related HK\$'000	Total HK\$'000
Insurance finance (expenses)/income from insurance contracts issued				
Interest accreted to insurance contracts using current financial assumptions	(1,050,033)	(11,082)	-	(1,061,115)
Effect of changes in interest rates and other financial assumptions	(1,397,849)	(15,454)	-	(1,413,303)
Total insurance finance expenses from insurance contracts issued	<u>(2,447,882)</u>	<u>(26,536)</u>	<u>-</u>	<u>(2,474,418)</u>
Represented by: Amounts recognised in profit or loss	<u>(2,447,882)</u>	<u>(26,536)</u>	<u>-</u>	<u>(2,474,418)</u>

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	2024			
	Insurance related	Reinsurance	Non-	
	Life	contracts	insurance	Total
	contracts	issued	related	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Insurance finance (expenses)/income from insurance contracts issued				
Interest accreted to insurance contracts using current financial assumptions	(740,853)	(7,282)	-	(748,135)
Effect of changes in interest rates and other financial assumptions	457,969	5,401	-	463,370
Total insurance finance expenses from insurance contracts issued	(282,884)	(1,881)	-	(284,765)
Represented by:				
Amounts recognised in profit or loss	(282,884)	(1,881)	-	(284,765)

9 Insurance and reinsurance contracts

The breakdown of groups of insurance and reinsurance contracts issued, that are in an asset and those in a liability position is set out in the table below:

	2025			2024		
	Assets	Liabilities	Net	Assets	Liabilities	Net
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Insurance contracts issued						
Life contracts	-	30,046,786	30,046,786	-	18,833,695	18,833,695
Reinsurance contracts	-	324,034	324,034	-	195,009	195,009
Total insurance contracts issued	-	30,370,820	30,370,820	-	19,028,704	19,028,704

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NOTES TO THE FINANCIAL STATEMENTS

9.1 Insurance contracts issued

- (a) Roll-forward of net asset or liability for insurance contracts issued showing the liability for remaining coverage and the liability for incurred claims

- (i) Insurance contracts issued

The roll-forward of the net asset or liability for insurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims for portfolios, is disclosed in the table below:

		2025		
		Liabilities for remaining coverage	Liabilities for incurred claims	Total
		Excluding loss component	Loss component	
		HK\$'000	HK\$'000	HK\$'000
Insurance contract liabilities as at 01/01/2025		13,929,253	4,841,918	18,833,695
Insurance contract assets as at 01/01/2025		-	-	-
Net insurance contract liabilities as at 01/01/2025		13,929,253	4,841,918	18,833,695
Insurance revenue		(667,880)	-	(667,880)
Contracts under fair value approach		(190,948)	-	(190,948)
Other contracts		(476,932)	-	(476,932)
Insurance service expenses		26,868	1,479,957	972,010
Incurred claims and other expenses		-	(395,363)	576,647
Amortisation of insurance acquisition cash flows	a	26,868	-	26,868
Losses on onerous contracts and experience adjustments		-	1,875,320	1,875,320
Investment components		(809,784)	-	809,784
Insurance service result		(1,450,796)	1,479,957	1,810,955
Insurance finance expenses	b	2,270,261	176,476	1,145
Total changes in the statement of profit or loss		819,465	1,656,433	1,782,939
Cash flows				
Premiums received		8,892,490	-	8,892,490
Claims and other expenses paid		-	-	(1,768,631)
Insurance acquisition cash flows	c	(169,605)	-	(169,605)
Total cash flows		8,722,885	-	(1,768,631)
Net insurance contract liabilities as at 31/12/2025		23,471,603	6,498,351	76,832
Insurance contract liabilities as at 31/12/2025		23,471,603	6,498,351	30,046,786
Insurance contract assets as at 31/12/2025		-	-	-
Net insurance contract liabilities as at 31/12/2025		23,471,603	6,498,351	76,832

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		2024		
		Liabilities for remaining coverage		Liabilities for incurred claims
		Excluding loss component	Loss component	
		HK\$'000	HK\$'000	HK\$'000
				Total HK\$'000
Insurance contract liabilities as at 01/01/2024		10,549,149	3,692,363	54,717
Insurance contract assets as at 01/01/2024		-	-	-
Net insurance contract liabilities as at 01/01/2024		10,549,149	3,692,363	54,717
Insurance revenue		(396,753)	-	-
Contracts under fair value approach		(211,375)	-	-
Other contracts		(185,378)	-	-
Insurance service expenses		16,209	1,052,541	617,506
Incurred claims and other expenses		-	(269,562)	617,506
Amortisation of insurance acquisition cash flows	a	16,209	-	-
Losses on onerous contracts and experience adjustments		-	1,322,103	-
Investment components		(569,450)	-	569,450
Insurance service result		(949,994)	1,052,541	1,186,956
Insurance finance expenses/(income)	b	184,971	97,014	899
Total changes in the statement of profit or loss		(765,023)	1,149,555	1,187,855
Cash flows				
Premiums received		4,259,102	-	-
Claims and other expenses paid		-	-	(1,180,048)
Insurance acquisition cash flows	c	(113,975)	-	-
Total cash flows		4,145,127	-	(1,180,048)
Net insurance contract liabilities as at 31/12/2024		13,929,253	4,841,918	62,524
Insurance contract liabilities as at 31/12/2024		13,929,253	4,841,918	62,524
Insurance contract assets as at 31/12/2024		-	-	-
Net insurance contract liabilities as at 31/12/2024		13,929,253	4,841,918	62,524

Notes:

- a Acquisition cash flows were allocated based on the ratio of current coverage unit over the future coverage units of the respective group of contracts.
- b The Company does not disaggregate insurance finance expense between profit or loss and other comprehensive income and does not disaggregate changes in the risk adjustment for non-financial risk between insurance service result and insurance finance expenses.
- c Insurance acquisition cash flows paid after the related group is initially recognised are adjusted to the liability for remaining coverage.

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NOTES TO THE FINANCIAL STATEMENTS

- (b) Roll-forward of the net asset or liability for insurance contracts issued held showing estimates of the present value of future cash flows, risk adjustment and CSM.

- (i) Insurance contracts issued

The table below presents a roll-forward of the net asset or liability for insurance contracts issued showing estimates of the present value of future cash flows, risk adjustment and CSM.

	2025			
	Estimates of the present value of future cash flows HK\$'000	Risk adjustment for non- financial risk HK\$'000	CSM HK\$'000	Total HK\$'000
Insurance contract liabilities as at 01/01/2025	18,619,801	213,894	-	18,833,695
Insurance contract assets as at 01/01/2025	-	-	-	-
Net insurance contract liabilities as at 01/01/2025	18,619,801	213,894	-	18,833,695
Changes that relate to current services				
Contractual service margin recognised for services provided	-	-	-	-
Risk adjustment recognised for the risk expired	-	(9,561)	-	(9,561)
Experience adjustments	(54,804)	-	-	(54,804)
Changes that relate to future services				
Contracts initially recognised in the period	1,989,641	122,983	-	2,112,624
Changes in estimates that do not adjust the contractual service margin	(239,349)	2,045	-	(237,304)
Insurance service result	1,695,488	115,467	-	1,810,955
Insurance finance expenses a	2,447,882	-	-	2,447,882
Total changes in the statement of profit or loss	4,143,370	115,467	-	4,258,837
Cash flows				
Premiums received	8,892,490	-	-	8,892,490
Claims and other expenses paid (including investment components and premium refunds)	(1,768,631)	-	-	(1,768,631)
Insurance acquisition cash flows	(169,605)	-	-	(169,605)
Total cash flows	6,954,254	-	-	6,954,254
Net insurance contract liabilities as at 31/12/2025	29,717,425	329,361	-	30,046,786
Insurance contract liabilities as at 31/12/2025	29,717,425	329,361	-	30,046,786
Insurance contract assets as at 31/12/2025	-	-	-	-
Net insurance contract liabilities as at 31/12/2025	29,717,425	329,361	-	30,046,786

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	2024			
	Estimates of the present value of future cash flows HK\$'000	Risk adjustment for non- financial risk HK\$'000	CSM HK\$'000	Total HK\$'000
Insurance contract liabilities as at 01/01/2024	14,150,143	146,086	-	14,296,229
Insurance contract assets as at 01/01/2024	-	-	-	-
Net insurance contract liabilities as at 01/01/2024	14,150,143	146,086	-	14,296,229
Changes that relate to current services				
Contractual service margin recognised for services provided	-	-	-	-
Risk adjustment recognised for the risk expired	-	(8,102)	-	(8,102)
Experience adjustments	(24,498)	-	-	(24,498)
Changes that relate to future services				
Contracts initially recognised in the period	1,378,199	59,512	-	1,437,711
Changes in estimates that do not adjust the contractual service margin	(132,006)	16,398	-	(115,608)
Insurance service result	1,221,695	67,808	-	1,289,503
Insurance finance expenses a	282,884	-	-	282,884
Total changes in the statement of profit or loss	1,504,579	67,808	-	1,572,387
Cash flows				
Premiums received	4,259,102	-	-	4,259,102
Claims and other expenses paid (including investment components and premium refunds)	(1,180,048)	-	-	(1,180,048)
Insurance acquisition cash flows b	(113,975)	-	-	(113,975)
Total cash flows	2,965,079	-	-	2,965,079
Net insurance contract liabilities as at 31/12/2024	18,619,801	213,894	-	18,833,695
Insurance contract liabilities as at 31/12/2024	18,619,801	213,894	-	18,833,695
Insurance contract assets as at 31/12/2024	-	-	-	-
Net insurance contract liabilities as at 31/12/2024	18,619,801	213,894	-	18,833,695

Notes:

- a The Company does not disaggregate insurance finance expense between profit or loss and other comprehensive income and does not disaggregate changes in the risk adjustment for non-financial risk between insurance service result and insurance finance expenses.
- b Insurance acquisition cash flows paid after the related group is initially recognised are adjusted to the liability for remaining coverage.

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(c) The components of new business

(i) Insurance contracts issued

The components of new business for insurance contracts issued included in the insurance unit is disclosed in the table below:

	2025			2024		
	Non- onerous HK\$'000	Onerous HK\$'000	Total HK\$'000	Non- onerous HK\$'000	Onerous HK\$'000	Total HK\$'000
Insurance contract issued						
Estimate of present value of future cash outflows, excluding insurance acquisition cash flows	-	10,545,279	10,545,279	-	5,431,687	5,431,687
Estimates of insurance acquisition cash flows	-	472,792	472,792	-	296,122	296,122
Estimate of present value of future cash outflows	-	11,018,071	11,018,071	-	5,727,809	5,727,809
Estimates of present value of future cash inflows	-	(9,028,430)	(9,028,430)	-	(4,349,610)	(4,349,610)
Risk adjustment	-	122,983	122,983	-	59,512	59,512
Losses on onerous contracts at initial recognition	-	2,112,624	2,112,624	-	1,437,711	1,437,711

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NOTES TO THE FINANCIAL STATEMENTS

9 Insurance and reinsurance contracts

9.2 Reinsurance contracts issued

(a) Roll-forward of net asset or liability for reinsurance contracts issued showing the liability for remaining coverage and the liability for incurred claims

(i) Reinsurance contracts issued

The roll-forward of the net asset or liability for reinsurance contracts issued, showing the liability for remaining coverage and the liability for incurred claims for portfolios, is disclosed in the table below:

		2025			
		Liabilities for remaining coverage	Liabilities for incurred claims		
		Excluding loss component	Loss component	Total	
		HK\$'000	HK\$'000	HK\$'000	
Insurance contract liabilities as at 01/01/2025		166,486	27,595	928	195,009
Insurance contract assets as at 01/01/2025		-	-	-	-
Net insurance contract liabilities as at 01/01/2025		166,486	27,595	928	195,009
Insurance revenue		(8,021)	-	-	(8,021)
Contracts under fair value approach		-	-	-	-
Other contracts		(8,021)	-	-	(8,021)
Insurance service expenses		-	14,642	10,100	24,742
Incurred claims and other expenses		-	(2,482)	10,100	7,618
Amortisation of insurance acquisition cash flows		a	-	-	-
Losses on onerous contracts and reversals of those losses		-	17,124	-	17,124
Investment components		(6,629)	-	6,629	-
Insurance service result		(14,650)	14,642	16,729	16,721
Insurance finance expenses		b	1,466	-	26,536
Total changes in the statement of profit or loss		10,420	16,108	16,729	43,257
Cash flows					
Premiums received		101,920	-	-	101,920
Claims and other expenses paid		-	-	(16,152)	(16,152)
Insurance acquisition cash flows		c	-	-	-
Total cash flows		101,920	-	(16,152)	85,768
Net insurance contract liabilities as at 31/12/2025		278,826	43,703	1,505	324,034
Insurance contract liabilities as at 31/12/2025		278,826	43,703	1,505	324,034
Insurance contract assets as at 31/12/2025		-	-	-	-
Net insurance contract liabilities as at 31/12/2025		278,826	43,703	1,505	324,034

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		2024		
		Liabilities for remaining coverage	Liabilities for incurred claims	Total
		Excluding loss component	Loss component	
		HKS'000	HKS'000	HKS'000
Insurance contract liabilities as at 01/01/2024		79,310	7,938	400
Insurance contract assets as at 01/01/2024		-	-	-
Net insurance contract liabilities as at 01/01/2024		79,310	7,938	400
Insurance revenue		(4,762)	-	-
Contracts under fair value approach		-	-	-
Other contracts		(4,762)	-	-
Insurance service expenses		-	18,714	6,043
Incurred claims and other expenses		-	(1,241)	6,043
Amortisation of insurance acquisition cash flows	a	-	-	-
Losses on onerous contracts and reversals of those losses		-	19,955	-
Investment components		(3,659)	-	3,659
Insurance service result		(8,421)	18,714	9,702
Insurance finance expenses	b	938	943	-
Total changes in the statement of profit or loss		(7,483)	19,657	9,702
Cash flows				
Premiums received		94,659	-	-
Claims and other expenses paid		-	-	(9,174)
Insurance acquisition cash flows	c	-	-	-
Total cash flows		94,659	-	(9,174)
Net insurance contract liabilities as at 31/12/2024		166,486	27,595	928
Insurance contract liabilities as at 31/12/2024		166,486	27,595	928
Insurance contract assets as at 31/12/2024		-	-	-
Net insurance contract liabilities as at 31/12/2024		166,486	27,595	928

Notes:

- a Acquisition cash flows were allocated based on the ratio of current coverage unit over the future coverage units of the respective group of contracts.
- b The Company does not disaggregate insurance finance expense between profit or loss and other comprehensive income and does not disaggregate changes in the risk adjustment for non-financial risk between insurance service result and insurance finance expenses.
- c Insurance acquisition cash flows paid after the related group is initially recognised are adjusted to the liability for remaining coverage.

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NOTES TO THE FINANCIAL STATEMENTS

- (b) Roll-forward of the net asset or liability for reinsurance contracts issued showing estimates of the present value of future cash flows, risk adjustment and CSM.

- (i) Reinsurance contracts issued

The table below presents a roll-forward of the net asset or liability for reinsurance contracts issued showing estimates of the present value of future cash flows, risk adjustment and CSM.

	2025			
	Estimates of the present value of future cash flows HK\$'000	Risk adjustment for non- financial risk HK\$'000	CSM HK\$'000	Total HK\$'000
Insurance contract liabilities as at 01/01/2025	192,736	2,273	-	195,009
Insurance contract assets as at 01/01/2025	-	-	-	-
Net insurance contract liabilities as at 01/01/2025	192,736	2,273	-	195,009
Changes that relate to current services				
Contractual service margin recognised for services provided	-	-	-	-
Risk adjustment recognised for the risk expired	-	(72)	-	(72)
Experience adjustments	(331)	-	-	(331)
Changes that relate to future services				
Contracts initially recognised in the period	14,882	1,371	-	16,253
Changes in estimates that do not adjust the contractual service margin	850	21	-	871
Insurance service result	15,401	1,320	-	16,721
Insurance finance expenses a	26,536	-	-	26,536
Total changes in the statement of profit or loss	41,937	1,320	-	43,257
Cash flows				
Premiums received	101,920	-	-	101,920
Claims and other expenses paid (including investment components and premium refunds)	(16,152)	-	-	(16,152)
Insurance acquisition cash flows	-	-	-	-
Total cash flows b	85,768	-	-	85,768
Net insurance contract liabilities as at 31/12/2025	320,441	3,593	-	324,034
Insurance contract liabilities as at 31/12/2025	320,441	3,593	-	324,034
Insurance contract assets as at 31/12/2025	-	-	-	-
Net insurance contract liabilities as at 31/12/2025	320,441	3,593	-	324,034

NOTES TO THE FINANCIAL STATEMENTS

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(c) The components of new business

(i) Reinsurance contracts issued

The components of new business for reinsurance contracts issued included in the reinsurance unit is disclosed in the table below:

	2025			2024		
	Non- onerous HK\$'000	Onerous HK\$'000	Total HK\$'000	Non- onerous HK\$'000	Onerous HK\$'000	Total HK\$'000
Insurance contract issued						
Estimate of present value of future cash outflows	-	118,635	118,635	-	114,398	114,398
Estimates of insurance acquisition cash flows	-	-	-	-	-	-
Estimate of present value of future cash outflows	-	118,635	118,635	-	114,398	114,398
Estimates of present value of future cash inflows	-	(103,753)	(103,753)	-	(95,639)	(95,639)
Risk adjustment	-	1,371	1,371	-	1,189	1,189
Losses on onerous contracts at initial recognition	-	16,253	16,253	-	19,948	19,948

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NOTES TO THE FINANCIAL STATEMENTS

10 Expenses by nature

An analysis of the expenses incurred by the Company in the reporting period is included in the table below:

	2025 HK\$'000	2024 HK\$'000
Staff costs:		
- Salaries and benefits	84,536	82,116
- Pension costs – defined contribution plans	3,029	4,884
Auditor's remuneration:		
- Audit services	1,738	1,573
- Other services	722	987
Marketing and advertising expenses	27,225	23,963
Corporate service fees (Note 20)	37,595	36,082
Other operating expenses	60,984	38,320
	<u>215,829</u>	<u>187,925</u>
Net commission and levy	4,512	3,092
Other acquisition costs	16,673	-
Claims and benefits	909,341	557,347
Losses on onerous insurance contracts	1,494,599	1,071,255
Amounts attributed to insurance acquisition cash flows incurred during the year	(164,245)	(124,815)
Amortisation of insurance acquisition cash flows	26,868	16,209
	<u>2,503,577</u>	<u>1,711,013</u>
Represented by:		
Insurance service expenses	<u>2,503,577</u>	<u>1,711,013</u>

Emoluments in respect of directors' other services in connection with the management of the affairs of the Company formed part of the corporate service fee.

	2025 HK\$'000	2024 HK\$'000
Emoluments in respect of directors' other services in connection with the management of the affairs of the Company:		
- Salaries, allowances and bonus	4,656	6,673
- Retirement scheme contributions	442	631
	<u>5,098</u>	<u>7,304</u>

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NOTES TO THE FINANCIAL STATEMENTS

11 Taxation

Taxation in the income statement represents:

	2025 HK\$'000	2024 HK\$'000
Hong Kong profits tax		
- Current tax	-	-
- Adjustment in respect of prior years	-	-
	-	-
Deferred taxation		
- Credit for current period	251,799	105,915
	251,799	105,915

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the period. Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2024: 16.5%).

The deferred tax assets include an amount of HK\$534.0 million (31 December 2024: HK\$170.1 million) which mainly relates to carried-forward tax losses of the Company. The Company has incurred the losses over the past years which relate to the prudent statutory reserves based on actuarial assumptions. The Company has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Company. The Company is expected to generate taxable income in the future. The losses can be carried forward indefinitely and have no expiry date.

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

	2025 HK\$'000	2024 HK\$'000
Loss before taxation	(1,890,404)	(518,654)
Calculated at a taxation rate of 16.5%	311,917	85,578
Tax effect of:		
- Expenses not deductible for taxation purposes	(27)	(14)
- Other temporary differences	-	347
- Difference on loss before taxation between accounting and adjusted surplus	(60,091)	20,004
Taxation credit	251,799	105,915

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The movements in deferred tax assets/(liabilities) during the year are as follows:

	Accelerated tax depreciation HK\$'000	Insurance contract liabilities HK\$'000	Accumulated tax losses HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
As at 1 January 2024	(1,433)	(246,666)	143,639	-	(104,460)
Credited to income statement	762	78,371	26,435	347	105,915
As at 31 December 2024	(671)	(168,295)	170,074	347	1,455
(Charged)/credited to income statement	(8,047)	(104,116)	363,962	-	251,799
As at 31 December 2025	(8,718)	(272,411)	534,036	347	253,254

12 Cash and short-term funds

	2025 HK\$'000	2024 HK\$'000
Cash at banks	159,161	272,382
Short-term deposit	-	561,000
Gross cash and short-term funds	159,161	833,382
Impairment allowance on cash and short-term funds (Note 4.4)	(55)	(287)
	159,106	833,095

Cash at banks earns interest at floating rates based on daily short-term deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

13 Placements with the Exchange Fund

The Holding Company has classified the placements of the Company with the Exchange Fund as financial assets at fair value through profit or loss. As at 31 December 2025, the balance of the placements with the Exchange Fund amounted to HK\$55.9 billion (2024: HK\$33.5 billion), comprising a total principal sum of HK\$47.5 billion (2024: HK\$27.5 billion) plus income earned and accrued but not yet withdrawn as at the reporting date.

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The placements with the Exchange Fund are invested in the Investment Portfolio (**IP**) and Long-Term Growth Portfolio (**LTGP**) of the Exchange Fund, subject to a lock-up period. The rate of return on the placements with the Exchange Fund is determined annually. For IP, the rate of return is calculated on the basis of the average annual rate of return on the portfolio over the past six years or the average annual yield of three-year government bond in the previous year (subject to a minimum of zero percent), whichever is the higher. With respect to the LTGP, the rate of return is determined based on the current year time-weighted rate of return.

As at 31 December 2025, the balance of the capital placed with the Exchange Fund amounted to HK\$28.2 billion (**Capital Placement**) (31 December 2024: HK\$14.7 billion), comprising a total principal sum of HK\$24.9 billion (31 December 2024: HK\$12.4 billion) plus income earned and accrued but not yet withdrawn as at the balance sheet date.

The Capital Placement between the Company and the HKMA, has a term of six years from the respective date of placement. In general, the Company is not able to withdraw the principal amounts before the maturity date. The principal amount of HK\$2.5 billion, HK\$2.5 billion, HK\$2.5 billion, HK\$4.9 billion and HK\$12.5 billion will be repaid by the HKMA in 2027, 2028, 2029, 2030 and 2031 respectively.

The rate of return on the Capital Placement is to be determined annually in January, and payable annually in arrears on 31 December, and is calculated on the basis of the average annual rate of return on the IP of the Exchange Fund over the past six years or the average annual yield of three-year government bond in the previous year (subject to a minimum of zero percent), whichever is the higher.

As at 31 December 2025, the balance of the premium placed with the Exchange Fund (**Premium Placement**) amounted to HK\$27.7 billion (31 December 2024: HK\$18.7 billion), comprising a total principal sum of HK\$22.6 billion (31 December 2024: HK\$15.1 billion) plus income earned and accrued but not yet withdrawn at the balance sheet date.

The term of Premium Placement is perennial and the principal is subjected to a 10 years lock-up period.

Premium will be placed with IP and LTGP of the Exchange Fund based on the long-term target asset allocation. Interest rate for the IP proportion is determined and calculated according to the same terms as those of the Capital Placement. The interest rate for the LTGP portion of the placement shall be the current year time-weighted rate of return of the LTGP.

The Company has classified the placements with the Exchange Fund as “financial assets at fair value through profit or loss”. The financial assets are denominated in Hong Kong dollars.

14 Prepayment, deposits and other assets

	2025 HK\$'000	2024 HK\$'000
Prepayment	666	402
Deposits and other assets	1,524	54,272
	<u>2,190</u>	<u>54,674</u>

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15 Fixed assets

	Leasehold improvement HK\$'000	Office equipment, furniture and fixtures HK\$'000	Computers HK\$'000	Right of use asset HK\$'000	Total HK\$'000
Cost					
As at 1 January 2024	7,283	3,570	56,216	29,290	96,359
Additions	579	116	1,430	7,411	9,536
Written off/disposals	(284)	(5)	-	(23,589)	(23,878)
As at 31 December 2024	7,578	3,681	57,646	13,112	82,017
Additions	749	-	68,793	-	69,542
Written off/disposals	(147)	(336)	(34,088)	-	(34,571)
As at 31 December 2025	8,180	3,345	92,351	13,112	116,988
Accumulated depreciation					
As at 1 January 2024	(6,258)	(3,017)	(44,336)	(22,619)	(76,230)
Depreciation	(1,008)	(334)	(6,357)	(4,510)	(12,209)
Written off/disposals	284	5	-	23,589	23,878
As at 31 December 2024	(6,982)	(3,346)	(50,693)	(3,540)	(64,561)
Depreciation	(433)	(242)	(20,134)	(4,370)	(25,179)
Written off/disposals	134	336	32,869	-	33,339
As at 31 December 2025	(7,281)	(3,252)	(37,958)	(7,910)	(56,401)
Net book value					
As at 31 December 2024	596	335	6,953	9,572	17,456
As at 31 December 2025	899	93	54,393	5,202	60,587

16 Accounts payable and accrued expenses

	2025 HK\$'000	2024 HK\$'000
Temporary receipt	221,686	424,921
Accrued expenses	2,635	9,386
	224,321	434,307

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17 Borrowings

	2025 HK\$'000	2024 HK\$'000
Credit facility	<u>2,700,000</u>	<u>2,642,000</u>

The Company entered into a credit facility offered by the Holding Company on 26 June 2018. Interest expense shall be payable and calculated based on the average daily principal amount outstanding of all the advances for the month. Interest expense on borrowings is shown in note 7.

The borrowings were unsecured and interest bearing of 3.09% (2024: 4.47%).

18 Amount due from or to the related company

The amount from a fellow subsidiary was unsecured, interest free and represented mainly license fee receivable by the Company.

The amount due to the Holding Company was unsecured, interest free and represented mainly corporate service fee payable to the Holding Company and operating expenses paid by the Holding Company on behalf of the Company.

19 Share capital

	2025 HK\$'000	2024 HK\$'000
Ordinary shares, issued and fully paid:		
As at 1 January	12,500,000	12,500,000
Capital injection	12,500,000	-
As at 31 December	<u>25,000,000</u>	<u>12,500,000</u>

20 Material related party transactions

- (a) The Company is a wholly-owned subsidiary of the Holding Company to carry on long-term insurance business.

The Company maintained respective arrangements with the HKMA on the Capital Placement and the Premium Placement with the Exchange Fund. As at 31 December 2025, the respective balances of the Capital Placement and the Premium Placement with the Exchange Fund were HK\$28.2 billion (2024: HK\$14.7 billion) and HK\$27.7 billion (2024: HK\$18.7 billion).

The Monetary Authority through the Exchange Fund maintained its commitment to inject additional funds up to HK\$20 billion in aggregate (which was fully drawn for six capital injections into the Company on 28 June 2021, 27 June 2022, 27 June 2023, 24 February 2025, 23 June 2025 and 24 November 2025 respectively) into the Holding Company as equity for the sole purpose of financing the Holding Company's additional capital injection into the Company, and the Holding Company maintained its commitment to inject such additional funds into the Company as equity for the sole purpose of maintaining the Company's solvency ratio above a certain level.

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To ride on the well-established banking network of the Holding Company, the Company maintained a cash placement arrangement with the Holding Company to manage the initial capital and surplus funds generated in the normal course of business operation of the Company. Under such arrangement, the interest income of the Company for the period was HK\$9.1 million (2024: HK\$8.5 million), and as at 31 December 2025, no outstanding principal balance together with the accrued interest (2024: HK\$561 million).

To better satisfy regulatory requirements and liquidity management needs, the Company maintained a credit facility up to HK\$10 billion from the Holding Company. Under such arrangement, the interest expense of the Company for the period was HK\$76.4 million (2024: HK\$154.2 million) and as at 31 December 2025, the aggregate amount of the outstanding principal balance together with the accrued interest was HK\$2,702.6 million (2024: HK\$2,642.0 million).

The Company incurred service charges of HK\$37.6 million (2024: HK\$36.1 million) in respect of corporate support services from the Holding Company.

The Company incurred a secondment fee of HK\$1.3 million (2024: HK\$1.3 million) in respect of secondees from the Holding Company.

The Company licensed HKMC Premier Solutions Limited (**HPSL**) (a fellow subsidiary of the Company) to use at a fee for business purposes part of the Company's office premises. The licence fee income of the Company for the period was HK\$1.5 million (2024: HK\$1.7 million).

Respective balances of placements with the Exchange Fund, cash placement with and credit facility from the Holding Company, respective amounts due from the HKMA and the HPSL, and amount due to the Holding Company are as follows:

	2025 HK\$'000	2024 HK\$'000
Placements with Exchange Fund	55,933,232	33,454,116
Cash placement with Holding Company	-	561,000
Credit facilities from Holding Company	2,702,635	2,642,000
Amount due from HPSL	1,545	1,740
Amount due to Holding Company	38,362	37,151

The Holding Company issued a parental guarantee in favour of each policyholder and reinsured for the Company's due performance of obligations arising from the insurance contracts issued by the Company and the reinsurance agreement entered into between the reinsured and the Company respectively.

(b) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including directors and senior officers.

Key management personnel of the Company consisted of directors and senior officers of the Holding Company during the year.

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Compensation of the Company's key management personnel for 2025 and 2024 comprised:

	2025 HK\$'000	2024 HK\$'000
Salaries and other short-term employee benefits	4,656	6,673
Post-employment benefits	442	631
	<u>5,098</u>	<u>7,304</u>

21 Commitments

Capital

	2025 HK\$'000	2024 HK\$'000
Authorised and contracted for	<u>7,022</u>	<u>15,632</u>

As at 31 December 2025, the Company entered into several service agreements with several vendors to enhance the workflow of the administrative system. The balance represents the outstanding fulfilment of the service agreements by those vendors.

22 Directors' material interests in transactions, arrangements or contracts

Apart from those disclosed in Note 20 on material related party transaction, there is no other transactions, arrangements or contracts of significance in relation to the Company's business, to which the Company, the Holding Company or any subsidiary of the Holding Company was a party, and in which any person who was a director of the Company at any time during the year or a connected entity (as defined in the Companies Ordinance) of any such person had, directly or indirectly, a material interest at the end of the year or at any time during the year.

23 Post Balance Sheet Event

In January 2026, the Monetary Authority entered into a capital commitment arrangement with the Holding Company and the Company to inject additional funds of up to HK\$25 billion in aggregate from the Exchange Fund into the Holding Company as equity for the sole purpose of financing the Holding Company's additional capital injection into the Company, and the Holding Company has committed to inject such funds into the Company as equity to maintain the Company's capital base above a certain level.

24 Approval of Financial Statements

The financial statements were approved by the Board of Directors on 17 April 2026.