

Report of the Directors and Audited Financial Statements

AVO INSURANCE COMPANY LIMITED

Year ended 31 December 2024

AVO INSURANCE COMPANY LIMITED

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# AVO INSURANCE COMPANY LIMITED

## REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of Avo Insurance Company Limited (the "Company") for the year ended 31 December 2024.

### Principal activity

The principal activity of the Company is underwriting general insurance business in Hong Kong and accepting general insurance reinsurance business from overseas. There were no significant changes in the nature of the Company's principal activities during the year. The Company is exempted from preparing business review of its activities under section 388(3)(c) of the Hong Kong Companies Ordinance.

### Results and dividends

The Company's result for the year ended 31 December 2024 and the Company's financial position as at 31 December 2024 are set out in the financial statements on pages 6 to 59.

The directors do not recommend the payment of any dividend in respect of the year.

### Share capital

Details of movements in the share capital of the Company during the year, together with the reasons therefor, are set out in note 10 to the financial statements.

### Directors

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

CHAN Bernard Charnwut  
WONG Chi Shun  
TAN Stephanie Joyce  
LI Haixiang  
YUNG Wai Kee Michael  
LI Liang  
KWOK Ying Kit  
YANG Gerard Tak Ho

In accordance with Article 11 of the Company's Articles of Association, directors are not subject to rotation or retirement. All the present directors shall remain in office for the ensuing year.

### Arrangements to purchase shares or debentures

At no time during the year was the Company a party to any arrangements to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### Share-based payment expense

The Company has adopted a Share Award Scheme and a Share Option Scheme. Details of movements in the share-based expense during the year are set out in note 12 to the financial statements.

# AVO INSURANCE COMPANY LIMITED

## REPORT OF THE DIRECTORS

### Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which the Company was a party during the year.

### Permitted indemnity provision

As at the date hereof and during the financial year, there is a permitted indemnity provision in force for the benefit of one or more directors of the Company.

### Auditor

Ernst & Young retire and a resolution for the reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to be 'Chan Bernard Charnwut', written over a dotted line.

CHAN Bernard Charnwut  
Chairman

Hong Kong  
25 March 2025

**Independent auditor's report****To the members of Avo Insurance Company Limited**

(Incorporated in Hong Kong with limited liability)

**Opinion**

We have audited the financial statements of Avo Insurance Company Limited (the "Company") set out on pages 6 to 59, which comprise the statement of financial position as at 31 December 2024, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a material accounting policies information.

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

**Basis for opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Information other than the financial statements and auditor's report thereon**

The directors are responsible for the other information. The other information comprises the information included in the report of the directors.

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 the directors for the financial statements**

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

**Independent auditor's report (continued)**  
**To the members of Avo Insurance Company Limited**  
(Incorporated in Hong Kong with limited liability)

**Responsibilities of the directors for the financial statements (continued)**

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.

Those charged with governance are 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. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism 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.

**Independent auditor's report (continued)**  
**To the members of Avo Insurance Company Limited**  
(Incorporated in Hong Kong with limited liability)

**Auditor's responsibilities for the audit of the financial statements (continued)**

- 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.

A handwritten signature in black ink, which appears to read 'Ernst & Young', is positioned above the printed name of the firm.

Certified Public Accountants  
Hong Kong  
25 March 2025

AVO INSURANCE COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2024

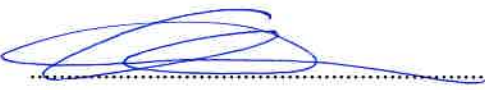
	Notes	2024 HK\$	2023 HK\$
Insurance revenue	3	242,458,604	97,704,743
Insurance service expenses	3	(267,630,340)	(129,630,269)
Net (expenses)/income from reinsurance contracts held	3	(550,171)	419,819
<b>Insurance service result</b>		<b><u>(25,721,907)</u></b>	<b><u>(31,505,707)</u></b>
<b>Net investment income</b>	4	<b><u>14,045,894</u></b>	<b><u>13,090,862</u></b>
Finance expenses from insurance contracts issued		(1,805,631)	(713,589)
Finance income from reinsurance contracts held		27,417	9,845
<b>Net insurance financial result</b>	5	<b><u>(1,778,214)</u></b>	<b><u>(703,744)</u></b>
<b>Net insurance and investment result</b>		<b>(13,454,227)</b>	<b>(19,118,589)</b>
Operating and administrative expenses		(31,855,862)	(38,424,788)
Other income		4,642	5,443
Share of losses of joint ventures		(3,254,976)	(917,964)
<b>LOSS BEFORE TAX</b>	6	<b>(48,560,423)</b>	<b>(58,455,898)</b>
Income tax expense	7	-	-
<b>LOSS FOR THE YEAR</b>		<b><u>(48,560,423)</u></b>	<b><u>(58,455,898)</u></b>
<b>LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>(48,560,423)</u></b>	<b><u>(58,455,898)</u></b>




AVO INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2024 HK\$	31 December 2023 HK\$
<b>ASSETS</b>			
Property, plant and equipment	8	3,325,142	3,669,085
Right-of-use assets	8	6,204,756	3,550,532
Interests in joint ventures	13	8,156,376	8,488,227
Due from joint ventures	13	355,369	508,398
Intercompany balance		750,194	488,888
Reinsurance contract assets	11	1,290,496	1,192,238
Prepayments, sundry deposits and other receivables		8,875,687	8,260,059
Financial assets at fair value through profit or loss	14	36,337,744	35,329,015
Deposits	9	269,373,392	289,695,100
Cash and cash equivalents	9	12,290,185	21,224,915
<b>LOANS</b>			
Loan to a related company	19	5,407,000	-
<b>Total assets</b>		<b><u>352,366,341</u></b>	<b><u>372,406,457</u></b>
<b>EQUITY</b>			
Share capital	10	517,809,344	517,809,344
Accumulated losses		(276,996,503)	(228,436,080)
Share-based payment reserve	12	21,401,907	20,863,292
<b>Total equity</b>		<b><u>262,214,748</u></b>	<b><u>310,236,556</u></b>
<b>LIABILITIES</b>			
Insurance contract liabilities	11	79,637,668	54,381,439
Other payables		3,910,969	4,102,549
Lease liabilities	8	6,602,956	3,685,913
<b>Total liabilities</b>		<b><u>90,151,593</u></b>	<b><u>62,169,901</u></b>
<b>Total equity and liabilities</b>		<b><u>352,366,341</u></b>	<b><u>372,406,457</u></b>

  
 WONG Chi Shun  
 Director

  
 TAN Stephanie Joyce  
 Director

AVO INSURANCE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2024

	Share capital HK\$	Accumulated losses HK\$	Share-based payment reserve HK\$	Total HK\$
At 1 January 2023	517,809,344	(169,980,182)	16,191,798	364,020,960
Loss for the year and total comprehensive income for the year	-	(58,455,898)	-	(58,455,898)
Recognition of equity-settled share-based payment expense	<u>-</u>	<u>-</u>	<u>4,671,494</u>	<u>4,671,494</u>
At 31 December 2023 and 1 January 2024	517,809,344	(228,436,080)	20,863,292	310,236,556
Loss for the year and total comprehensive income for the year	-	(48,560,423)	-	(48,560,423)
Recognition of equity-settled share-based payment expense	<u>-</u>	<u>-</u>	<u>538,615</u>	<u>538,615</u>
At 31 December 2024	<u>517,809,344</u>	<u>(276,996,503)</u>	<u>21,401,907</u>	<u>262,214,748</u>

AVO INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2024

	Notes	2024 HK\$	2023 HK\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		(48,560,423)	(58,455,898)
Adjustments for:			
Depreciation charge on property, plant and equipment	6	2,019,546	1,655,005
Depreciation charge on right-of-use assets	6	3,289,744	2,729,111
Gain on right-of-use assets		(22,573)	(51,042)
Interest income		(13,037,166)	(13,423,126)
Net unrealized (gains)/losses on financial assets at fair value through profit or loss		(1,008,728)	332,264
Interest expense charged on lease liabilities	6	281,651	264,898
Share-based payment expense	12	538,615	4,671,494
Net foreign exchange differences		1,204,890	474,244
Share of losses of joint ventures		3,254,976	917,964
Due from /(to) joint ventures		153,029	(89,654)
		(51,886,439)	(60,974,740)
Increase in reinsurance contract assets		(98,258)	(761,662)
Increase in prepayments, sundry deposits and other receivables		(615,629)	(2,746,252)
Increase in insurance contract liabilities		25,256,229	39,908,460
(Decrease)/increase in other payables		(191,580)	1,813,616
Increase in intercompany balance		(261,306)	(488,888)
Cash used in operating activities		(27,796,983)	(23,249,466)
Interest element on lease liabilities		(281,651)	(264,898)
Net cash flows used in operating activities		(28,078,634)	(23,514,364)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Capital element of lease payment and net cash flows used in financing activity	8	(3,004,352)	(2,612,062)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		13,037,166	13,423,126
Purchase of items of property, plant and equipment	8	(1,691,499)	(2,679,843)
Proceeds from sale of property, plant and equipment		15,896	119,356
Increase in time deposits with original maturity of more than three months when acquired	9	20,321,708	30,326,355
Advances of loan to a related company	19	(5,407,000)	-
Acquisition of a joint venture	13	(2,923,125)	(5,000,000)
Net cash flows from investing activities		23,353,146	36,188,994

AVO INSURANCE COMPANY LIMITED

STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2024

	Note	2024 HK\$	2023 HK\$
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(7,729,840)	10,062,568
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		21,224,915	11,636,591
Effect of foreign exchange rate changes, net		(1,204,890)	(474,244)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>12,290,185</u>	<u>21,224,915</u>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS			
Cash at bank	9	<u>12,290,185</u>	<u>21,224,915</u>
		<u>12,290,185</u>	<u>21,224,915</u>

# AVO INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

### 1. CORPORATE INFORMATION

Avo Insurance Company Limited is a limited liability company incorporated in Hong Kong. Its registered office is located at 16th Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong.

The principal activity of the Company is underwriting general insurance business in Hong Kong and accepting general reinsurance business from overseas.

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for land and buildings, investment properties and certain equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") which is also the Company's functional currency.

### 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following revised HKFRSs, which are applicable to the Company for the first time for the current year's financial statements.

Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> <i>(the "2020 Amendments")</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i>

The nature and the impact of the revised HKFRSs that are applicable to the Company are described below:

#### Amendments to HKFRS16 Lease Liability in a Sale and Leaseback

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Company has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of HKFRS 16, the amendments did not have any impact on the financial position or performance of the Company.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

### Amendments to HKAS 1 Classification of Liabilities as Current or Non-current

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Company has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Company.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied any of the revised HKFRSs that have been issued but are not yet effective for the accounting year ended 31 December 2024 in these financial statements. Among these HKFRSs, the following are expected to be relevant the Company's financial statements upon becoming effective:

HKFRS 18	<i>Presentation and Disclosure in Financial Statements<sup>2</sup></i>
HKFRS 19	<i>Subsidiaries without Public Accountability: Disclosures<sup>2</sup></i>
Amendments to HKFRS 9 and HKFRS 7	<i>Amendments to the Classification and Measurement of Financial Instruments<sup>1</sup></i>
Annual Improvements to HKFRS Accounting Standards – Volume 11	<i>Amendments to HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKAS 7<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2026

<sup>2</sup> Effective for annual/reporting periods beginning on or after 1 January 2027

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS  
(CONTINUED)

Further information about those HKFRSs that are expected to be applicable to the Company is described below.

HKFRS 18 Presentation and Disclosure in Financial Statements

HKFRS 18 replaces HKAS 1 Presentation of Financial Statements. While a number of sections have been brought forward from HKAS 1 with limited changes, HKFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Entities are required to classify all income and expenses within the statement of profit or loss into one of the five categories: operating, investing, financing, income taxes and discontinued operations and to present two new defined subtotals. It also requires disclosures about management-defined performance measures in a single note and introduces enhanced requirements on the grouping (aggregation and disaggregation) and the location of information in both the primary financial statements and the notes. Some requirements previously included in HKAS 1 are moved to HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, which is renamed as HKAS 8 Basis of Preparation of Financial Statements. As a consequence of the issuance of HKFRS 18, limited, but widely applicable, amendments are made to HKAS 7 Statement of Cash Flows, HKAS 33 Earnings per Share and HKAS 34 Interim Financial Reporting. In addition, there are minor consequential amendments to other HKFRSs. HKFRS 18 and the consequential amendments to other HKFRSs are effective for annual periods beginning on or after 1 January 2027 with earlier application permitted. Retrospective application is required. The Company is currently analysing the new requirements and assessing the impact of HKFRS 18 on the presentation and disclosure of the Company's financial statements.

HKFRS 19 Subsidiaries without Public Accountability: Disclosures

HKFRS 19 allows eligible entities to elect to apply reduced disclosure requirements while still applying the recognition, measurement and presentation requirements in other HKFRSs. To be eligible, at the end of the reporting period, an entity must be a subsidiary as defined in HKFRS 10 Consolidated Financial Statements, cannot have public accountability and must have a parent (ultimate or intermediate) that prepares consolidated financial statements available for public use which comply with HKFRSs. Earlier application is permitted. The Company is currently considering the application of HKFRS 19 in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS  
(CONTINUED)

Amendments to HKFRS 9 and HKFRS 7 for the classification and measurement of financial instruments

Amendments to HKFRS 9 and HKFRS 7 clarify the date on which a financial asset or financial liability is derecognised and introduce an accounting policy option to derecognise a financial liability that is settled through an electronic payment system before the settlement date if specified criteria are met. The amendments clarify how to assess the contractual cash flow characteristics of financial assets with environmental, social and governance and other similar contingent features. Moreover, the amendments clarify the requirements for classifying financial assets with non-recourse features and contractually linked instruments. The amendments also include additional disclosures for investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features. The amendments shall be applied retrospectively with an adjustment to opening retained profits (or other component of equity) at the initial application date. Prior periods are not required to be restated and can only be restated without the use of hindsight. Earlier application of either all the amendments at the same time or only the amendments related to the classification of financial assets is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.

Annual Improvements to HKFRS Accounting Standards – Volume 11

*Annual Improvements to HKFRS Accounting Standards – Volume 11* set out amendments to HKFRS 1, HKFRS 7 (and the accompanying *Guidance on implementing HKFRS 7*), HKFRS 9, HKFRS 10 and HKAS 7. Details of the amendments that are expected to be applicable to the Company are as follows:

- *HKFRS 7 Financial Instruments: Disclosures*: The amendments have updated certain wording in paragraph B38 of HKFRS 7 and paragraphs IG1, IG14 and IG20B of the *Guidance on implementing HKFRS 7* for the purpose of simplification or achieving consistency with other paragraphs in the standard and/or with the concepts and terminology used in other standards. In addition, the amendments clarify that the *Guidance on implementing HKFRS 7* does not necessarily illustrate all the requirements in the referenced paragraphs of HKFRS 7 nor does it create additional requirements. Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.
- *HKFRS 9 Financial Instruments*: The amendments clarify that when a lessee has determined that a lease liability has been extinguished in accordance with HKFRS 9, the lessee is required to apply paragraph 3.3.3 of HKFRS 9 and recognise any resulting gain or loss in profit or loss. In addition, the amendments have updated certain wording in paragraph 5.1.3 of HKFRS 9 and Appendix A of HKFRS 9 to remove potential confusion. Earlier application is permitted. The amendments are not expected to have any significant impact on the Company's financial statements.



## AVO INSURANCE COMPANY LIMITED

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

#### 2.4 MATERIAL ACCOUNTING POLICIES

##### Insurance contracts and reinsurance contracts held

##### *Initial and subsequent measurement*

The Company uses the Premium Allocation Approach (“PAA”) for measuring contract with coverage period of one year or less. The Company also uses PAA for measuring group of contracts with coverage period of greater than one year as there will be no material difference in the measurement of the liability for remaining coverage between PAA and the General Measurement Model (“GMM”).

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

Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or the Company has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation ends when:

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

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

The reinsurance contracts held provide coverage on the insurance contracts originated for claims incurred during an accident year and are accounted for under the PAA.

For insurance contracts issued, on initial recognition, the Company measures the Liability for Remaining Coverage (“LRC”) at the amount of premiums received and less any acquisition cash flows paid.

For reinsurance contracts held, on initial recognition, the Company measures the remaining coverage at the amount of ceding premiums paid net of ceding commissions received from the reinsurer.

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

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Insurance contracts and reinsurance contracts held (continued)

The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of:

- a. the LRC; and
- b. the Liability for Incurred Claims ("LIC"), comprising the Fulfilment Cash Flows ("FCF") related to past service allocated to the Company at the reporting date.

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of:

- a. the remaining coverage; and
- b. the incurred claims, comprising the FCF related to past service allocated to the Company at the reporting date.

For insurance contracts issued, at each of the subsequent reporting dates, the LRC is:

- a. increased for premiums received in the period;
- b. decreased for insurance acquisition cash flows paid in the period;
- c. decreased for the amounts of expected premium receipts recognised as insurance revenue for the services provided in the period; and
- d. increased for the amortisation of insurance acquisition cash flows in the period recognised as insurance service expenses.

For reinsurance contracts held, at each of the subsequent reporting dates, the remaining coverage is:

- a. increased for ceding premiums paid in the period;
- b. decreased for ceding commissions received in the period; and
- c. decreased for the expected amounts of ceding premiums and broker fees recognised as reinsurance expenses for the services received in the period.

Unless when measuring a loss component, the Company does not adjust the LRC for insurance contracts issued and the remaining coverage for reinsurance contracts held for the effect of the time value of money, because financing component is not considered to be significant.

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

There are investment components within insurance contracts issued and reinsurance contracts held that are measured under the PAA.

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

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Insurance contracts and reinsurance contracts held (continued)

If facts and circumstances indicate that a group of insurance contracts measured under the PAA is onerous on initial recognition or becomes onerous subsequently, the Company increases the carrying amount of the LRC to the amounts of the FCF determined under the GMM with the amount of such an increase recognised in insurance service expenses, and a loss component is established for the amount of the loss recognised. Subsequently, the loss component is remeasured at each reporting date as the difference between the amounts of the FCF determined under the GMM relating to the future service and the carrying amount of the LRC without the loss component.

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

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

Where applicable, changes in the loss-recovery component are presented in the net income from reinsurance contracts held.

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

*Insurance revenue*

As the Company provides insurance contract services under the group of insurance contracts, it reduces the LRC and recognises insurance revenue. The amount of insurance revenue recognised in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration that the Company expects to be entitled to in exchange for those services.

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

# AVO INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

### 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### Insurance contracts and reinsurance contracts held (continued)

##### *Insurance service expenses*

Insurance service expenses include the following:

- a. incurred claims and benefits, excluding investment components;
- b. other incurred directly attributable expenses;
- c. insurance acquisition cash flows amortisation;
- d. changes that relate to past service – changes in the FCF relating to the LIC; and
- e. changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses.

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

##### *Net income (expense) from reinsurance contracts held*

The Company presents financial performance of groups of reinsurance contracts held on a net basis in net income (expenses) from reinsurance contracts held, comprising the following amounts:

- a. reinsurance expenses;
- b. incurred claims recovery, excluding investment components;
- c. other incurred directly attributable expenses recovery;
- d. changes that relate to past service – changes in the FCF relating to incurred claims recovery and incurred directly attributable expenses; and
- e. income on initial recognition and reversal of loss recovery component of onerous underlying contracts.

Expenses that are not directly attributable are included in other operating expenses in the Statement of Comprehensive Income.

##### *Investment component*

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

Reinsurance contracts held have explicit profit commission. The investment component excluded from insurance revenue and insurance service expenses is determined as the amount that is payable by the Company to the counterparty under all circumstances having considered the profit commission feature of the contracts.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Insurance contracts and reinsurance contracts held (continued)

*Risk adjustments 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.

The Value-at-Risk approach is used to determine the risk adjustment for non-financial risk, where the standard errors estimated by the Bootstrap method will be used to calculate the stand-alone risk adjustment for each portfolio.

The resulting amount of the calculated risk adjustment corresponds to the confidence level of 75% (2023: 75%).

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

Interests in a joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results of a joint venture are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in a joint venture are treated as non-current assets and are stated at cost less any impairment losses. When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5

Fair value measurement

The Company measures its financial assets at fair value through profit or loss at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

# AVO INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

### 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### Property, plant and equipment and depreciation

Items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Land and buildings, classified as right-of-use assets and owned assets, are measured at fair value less any subsequent accumulated depreciation and impairment losses

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus or deficit is dealt with as a movement in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

#### *Owned assets*

Leasehold improvement	Over the lease terms
Computer software	14%
Computer equipment	20%
Furniture and fixtures	20%
Office equipment	20%

#### *Right-of-use asset*

Office premises	Over the lease terms
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The gain or loss on disposal of items of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognized in the statement of profit or loss.

The assets' residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.



# AVO INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

### 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If such an indication exists, the Company makes an estimate of the asset's recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

An impairment loss is recognized in the statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. The reversal of the impairment loss is credited to the statement of profit or loss in the year in which it arises.

#### Leases

##### *Lessee*

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. All leases with a term of more than 12 months are recognized as assets representing the right of use of the underlying asset and liabilities representing the obligation to make lease payments, unless the underlying asset is of low value. Both the assets and the liabilities are initially measured on a present value basis. Right-of-use assets are recognized under property, plant and equipment and are measured at cost or valuation less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of the useful lives of the assets and the lease terms. Lease liabilities are initially measured at the present value of lease payments to be made under the lease terms and subsequently adjusted by the effect of the interest on and the settlement of the lease liabilities, and the re-measurement arising from any reassessment of the lease liabilities or lease modifications.

The Company applies the short-term lease recognition exemption to its short-term leases of office room with lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases is recognized as an expense on a straight-line basis over the lease term.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Financial assets

Trade receivables that do not contain a significant financial component or for which the Company has applied the practical expedient of not adjusting the effect of a significant financial component are measured at the transaction price determined under HKFRS 15. All the other financial assets are initially recognized at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the Company commits to purchase or sell the assets.

*(a) Classification and measurement*

Debt instruments are measured at amortised cost using the effective interest rate method, subject to impairment if the assets are held for the collection of contractual cash flows where those contractual cash flows represent solely payments of principal and interest.

Debt instruments are measured at fair value through other comprehensive income if the assets' contractual cash flows represent solely payments of principal and interest and the assets are held for collection of contractual cash flows and for selling the financial assets. Such financial assets are subsequently measured at fair value with any gains or losses from changes in fair value recognized in other comprehensive income, except for impairment losses and reversal, foreign exchange gains and losses and interest calculated using the effective interest rate method which are recognized in the statement of profit or loss. The cumulative gains or losses previously recognized in other comprehensive income are reclassified from other comprehensive income to the statement of profit or loss when the financial asset is derecognized.

Debt instruments that do not meet the criteria for amortized cost or as financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. Interest income for these financial assets is included in finance income.

Equity investments are measured at fair value through profit or loss unless, on initial recognition, the Company has irrevocably elected to designate such investments that are not held for trading as equity investments at fair value through other comprehensive income. Dividends of such investments are recognized in the statement of profit or loss when the Company's right to receive payment is established. Changes in the fair value of such investments are recognized in other comprehensive income and are never recycled to the statement of profit or loss even when the assets are sold.

*(b) Impairment*

The Company applies the expected credit loss model on all the financial assets that are subject to impairment. For trade receivables and contract assets without a significant financial component, the Company applies the simplified approach which requires impairment allowances to be measured at lifetime expected credit losses.

For other financial assets, impairment allowances are recognized under the general approach where expected credit losses are recognized in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Company is required to provide for credit losses that result from possible default events within the next 12 months. For those credit exposures where there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure irrespective of the timing of the default.



# AVO INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

### 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

#### Financial assets (continued)

##### *(b) Impairment* (continued)

The Company considers a default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

##### *(c) Derecognition*

Financial assets are derecognized when the rights to receive cash flows from the assets have expired; or where the Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

#### Financial liabilities

Financial liabilities include other payables. They are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortized cost using the effective interest rate method.

Financial liabilities are derecognized when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

#### Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the statement of profit or loss.

#### Revenue recognition

##### *Other income*

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

#### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired, less bank overdrafts.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including short-term deposits, and assets similar in nature to cash, which are not restricted as to use.

## AVO INSURANCE COMPANY LIMITED

### NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

#### 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

##### Related parties

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company;
- or
- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Company are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Company are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

##### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Year ended 31 December 2024

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Employees' benefits

(a) Retirement benefit costs

The Company operates a mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as and when the contributions fall due.

(b) Share-based compensation

The Company operates an equity-settled, share-based compensation plan for the purpose of providing incentives and rewards to eligible participants including certain employees (including directors) of the Company and certain other persons (the "Selected Employees") pursuant to the terms of the Share Award Scheme and the Share Option Scheme. Selected Employees (including directors) of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognized, together with a corresponding increase in the "share-based payment reserve" under equity, over the period in which the performance and/or service conditions are fulfilled in share-based compensation expense. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards and options that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award or option is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award or option is recognized immediately. This includes any award or option where non-vesting conditions within the control of either the Company or the employee are not met. However, if a new award or option is substituted for the cancelled award or option, and is designated as a replacement award or option on the date that it is granted, the cancelled and new awards or options are treated as if they were a modification of the original award or option, as described in the previous paragraph.

(c) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is net off against the expense item on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

## 2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures.

### **Judgements**

In the process of applying the Company's accounting policies, management has made the following judgements apart from those involving estimations which have the most significant effect on the amounts recognised in the financial statements.

#### Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Company carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

#### Insurance and reinsurance contracts

The Company applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for remaining coverage, the PAA is broadly similar to the Company's previous accounting treatment under HKFRS 4. However, when measuring liabilities for incurred claims, the Company now discounts cash flows that are expected to occur more than one year after the date on which the claims are incurred and includes an explicit risk adjustment for non-financial risk.

#### Eligibility considerations of the PAA

The Company applies the PAA to simplify the measurement of insurance and reinsurance contracts. In addition to the contracts with coverage of less than one year, the PAA can be used for measurement of groups of contracts where the entity reasonably expects that such a simplification would produce a measurement of the LRC that would not differ materially from the one that would be produced by applying the GMM.

The Company exercises significant judgement to determine whether there the LRC measured under GMM is materially different with the LRC measured under PAA. In the event for a group of insurance contracts, the LRC results between the measurement model differs larger than the thresholds determined by the Company, the PAA will not be eligible and the Company shall apply the GMM to recognise and measure that group of insurance contracts.

The judgements exercised in setting the thresholds to determine 'material difference' in the above assessment fundamentally affect the approach the group of insurance contracts is recognised and presented in the consolidated financial statements. The accounting policy on PPA's recognition and measurement is described in note 2.4.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

**Critical accounting estimates**

It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of ultimate claims is using the past claim settlement trends to predict the future claim settlement trends. At each reporting date, prior year estimates of claims are reassessed for adequacy and any changes from the previous assessment are made to the provision. The Group also applies discounting to the insurance claims provisions and the determination of discount rates involves significant judgement as described below.

Discount rates

The bottom-up approach was applied in the determination of the discounts rates for different products.

The Company adopts the Hong Kong government bond yields as the source of liquid risk-free yield curve. The yield curve will be constructed through interpolation between market observable maturities which will be performed using the Smith-Wilson method.

The yield curve represents nominal risk-free rates that include future inflation. Hence, the yield curve shall be applied in discounting nominal cash flows (i.e. include the effect of inflation).

Onerous contracts

For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfilment cash flows. Any loss-recovery component is determined with reference to the loss component recognised on underlying contracts and the recovery expected on such claims from reinsurance contracts held.

The Company assess the profitability to identify portfolios of contracts and determine groups of contracts that are onerous on initial recognition and those that have no significant possibility of becoming onerous subsequently.

The readily available information from internal reporting and actuarial valuation that captures information about estimates is used to indicate when a group of contracts may be onerous. The Company estimates the loss component in LRC for onerous groups of contracts at each future reporting period.

Estimation of expected premiums

Premium from reinsurance contracts are based upon reports received from reinsurance brokers and ceding companies, supplemented by the Company's own estimates of premium for which ceding companies' reports have not yet received.



2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

**Critical accounting estimates (continued)**

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.

The Value-at-Risk approach is used to determine the risk adjustment for non-financial risk, where the standard errors estimated by the Bootstrap method will be used to calculate the stand-alone risk adjustment for each portfolio.

The resulting amount of the calculated risk adjustment corresponds to the confidence level of 75% (2023: 75%).

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

Impairment of property, plant and equipment

Items of property, plant and equipment are tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value-in-use calculation requires the Company to estimate the future cash flows expected to arise from the relevant cash-generating unit and a suitable discount rate is used in order to calculate the present value.

Leases – estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Share Award Scheme and Share Option Scheme

The Company estimates the fair value of share award and share option using market-based valuation techniques based on assumptions that are not supported by observable market prices or rates, taking into account the terms and conditions upon which the awards or options were granted. The judgments exercised in the determination of share award and share option fair value affect the amounts recognized in the financial statements as share-based payment expense and share-based payment reserve. Further details of the related accounting policies and movements in outstanding awards and options are provided in notes 2.4 and 12.

# AVO INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

### 2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### Critical accounting estimates (continued)

##### *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised in the foreseeable future. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax asset relating to tax losses was recognised at 31 December 2024 (2023: Nil). The amount of unrecognised tax losses at 31 December 2024 was HK\$310,285,022 (2023: HK\$248,687,433). Further details are contained in note 7 to the financial statements.

### 3. INSURANCE REVENUE AND INSURANCE SERVICE RESULT

An analysis of insurance revenue, insurance service expenses and net income/(expenses) from reinsurance contracts held by product line for 2024 and 2023 is included in the following tables. Additional information on amounts recognised in statement of profit or loss and other comprehensive income is included in the insurance contract balances reconciliations in note 11.

	2024 HK\$	2023 HK\$
<u>Insurance revenue</u>		
Insurance revenue from contracts measured under the PAA	242,458,604	97,704,743
<u>Insurance service expenses</u>		
Incurred claims and other directly attributable expenses	(18,247,567)	(25,403,691)
Changes that relate to past service – changes in the FCF relating to the LIC	(108,622,802)	(52,241,068)
Losses on onerous contracts	(3,837,177)	(589,972)
Insurance acquisition cash flows amortization	(136,922,794)	(51,395,538)
Total insurance service expenses	<u>(267,630,340)</u>	<u>(129,630,269)</u>
<u>Net (expenses)/income from reinsurance contracts held</u>		
Reinsurance expenses – contracts measured under the PAA	(854,394)	(598,173)
Incurred claims recovery	510,354	959,161
Changes that relate to past service – changes in the FCF relating to incurred claims recovery	(615,121)	(136,334)
Income on initial recognition of onerous underlying contracts	408,990	195,165
Total net (expenses)/income from reinsurance contracts held	<u>(550,171)</u>	<u>419,819</u>
Insurance service result	<u>(25,721,907)</u>	<u>(31,505,707)</u>

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

3. INSURANCE REVENUE AND INSURANCE SERVICE RESULT (CONTINUED)

	Inward Accident & Health*	Accident & Health	Property damage	Pecuniary loss	General liability	Total HK\$
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
For the year ended 31 December 2024						
<u>Insurance revenue</u>						
Insurance revenue from contracts measured under the PAA	237,629,216	3,405,265	1,290,505	4,437	129,181	242,458,604
<u>Insurance service expenses</u>						
Incurred claims and other directly attributable expenses	(11,426,714)	(5,057,859)	(1,617,398)	(7,743)	(137,853)	(18,247,567)
Changes that relate to past service – changes in the FCF relating to the LIC	(110,134,397)	1,321,368	165,192	24,941	94	(108,622,802)
Reversal of losses/(losses) on onerous contracts	(3,288,029)	(352,084)	(89,073)	1,912	(109,903)	(3,837,177)
Insurance acquisition cash flows amortisation	(133,358,401)	(2,761,382)	(763,969)	(4,007)	(35,035)	(136,922,794)
Total insurance service (expenses)/income	(258,207,541)	(6,849,957)	(2,305,248)	15,103	(282,697)	(267,630,340)

\* Insurance service result includes insurance revenue adjustments related to past service.



AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

3. INSURANCE REVENUE AND INSURANCE SERVICE RESULT (CONTINUED)

	Inward Accident & Health*	Accident & Health	Direct Property damage	Pecuniary loss	General liability	Total HK\$
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<u>For the year ended 31 December 2023</u>						
<u>Insurance revenue</u>						
Insurance revenue from contracts measured under the PAA	94,449,811	2,348,471	870,224	27,974	8,263	97,704,743
<u>Insurance service expenses</u>						
Incurred claims and other directly attributable expenses	(18,348,756)	(5,812,608)	(1,138,318)	(18,120)	(85,889)	(25,403,691)
Changes that relate to past service – changes in the FCF relating to the LIC	(52,635,183)	348,355	(8,462)	54,202	20	(52,241,068)
Reversal of losses/(losses) on onerous contracts	59,920	(585,545)	(113,195)	79,786	(30,938)	(589,972)
Insurance acquisition cash flows amortisation	(48,943,464)	(1,986,556)	(350,858)	(75,155)	(39,505)	(51,395,538)
Total insurance service (expenses)/income	(119,867,483)	(8,036,354)	(1,610,833)	40,713	(156,312)	(129,630,269)

\* Insurance service result includes insurance revenue adjustments related to past service.

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

3. INSURANCE REVENUE AND INSURANCE SERVICE RESULT (CONTINUED)

	Outward HK\$
<u>For the year ended 31 December 2024</u>	
<u>Net (expenses)/income from reinsurance contracts held</u>	
Reinsurance expenses – contracts measured under the PAA	(854,394)
Incurred claims recovery	510,354
Changes that relate to past service – changes in the FCF relating to incurred claims recovery and incurred directly attributable expenses	(615,121)
Income on initial recognition of onerous underlying contracts	408,990
Total net expenses from reinsurance contracts held	<u>(550,171)</u>
	Outward HK\$
<u>For the year ended 31 December 2023</u>	
<u>Net income/(expenses) from reinsurance contracts held</u>	
Reinsurance expenses – contracts measured under the PAA	(598,173)
Incurred claims recovery	959,161
Changes that relate to past service – changes in the FCF relating to incurred claims recovery and incurred directly attributable expenses	(136,334)
Income on initial recognition of onerous underlying contracts	195,165
Total net income from reinsurance contracts held	<u>419,819</u>

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

4. NET INVESTMENT INCOME

	2024 HK\$	2023 HK\$
Interest income from bank deposits	13,037,166	13,423,126
Unrealized gains/(losses) on financial assets at fair value through profit or loss	1,008,728	(332,264)
	<u>14,045,894</u>	<u>13,090,862</u>

5. NET INSURANCE FINANCIAL RESULT

	2024 HK\$	2023 HK\$
<u>Finance expenses from insurance contracts issued</u>		
Interest accreted	(813,924)	(231,417)
Effect of changes in interest rates and other financial assumptions	(991,707)	(482,172)
Finance expenses from insurance contracts issued	<u>(1,805,631)</u>	<u>(713,589)</u>
<u>Finance income from reinsurance contracts held</u>		
Interest accreted	28,241	9,868
Effect of changes in interest rates and other financial assumptions	(824)	(23)
Finance income from reinsurance contracts held	<u>27,417</u>	<u>9,845</u>
Net insurance financial result	<u>(1,778,214)</u>	<u>(703,744)</u>
<u>Summary of the amounts recognised in profit or loss</u>		
Insurance service result	(25,721,907)	(31,505,707)
Net insurance financial result	<u>(1,778,214)</u>	<u>(703,744)</u>

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

6. LOSS BEFORE TAX

The Company's loss before tax is arrived at after charging/(crediting):

	Note	2024 HK\$	2023 HK\$
Auditor's remuneration		912,000	890,000
Depreciation charge on property, plant and equipment	8	2,019,546	1,655,005
Depreciation charge on right-of-use assets	8	3,289,744	2,729,111
Interest expense charged on lease liabilities	8	281,651	264,898
Loss on exchange in foreign currencies, net		1,204,890	474,244
Directors' remuneration			
Fee		200,001	200,001
Other emoluments:			
Share-based compensation expense		100,219	2,269,119
Others		456,000	456,000
		<u>756,220</u>	<u>2,925,120</u>
Employee benefit expense (excluding directors' remuneration):			
Wages and salaries		28,898,994	26,597,570
Pension scheme contributions		755,487	699,544
Share-based compensation expense		438,396	2,402,375
		<u>30,092,877</u>	<u>29,699,489</u>

7. INCOME TAX

No provision has been made as the Company did not generate any assessable profits arising in Hong Kong during the year (2023: nil).

A reconciliation of the tax position applicable to loss before tax at the statutory rate to the tax at the effective tax rate is as follows:

	%	2024 HK\$	%	2023 HK\$
Loss before tax		<u>(48,560,423)</u>		<u>(58,455,898)</u>
Tax at the statutory tax rate of 16.5%		(8,012,470)		(9,645,223)
Income not subject to tax	4.4	(2,151,132)	3.5	(2,062,676)
Tax loss not recognized	(20.9)	<u>10,163,602</u>	(20.0)	<u>11,707,899</u>
Tax at the effective rate		<u>-</u>		<u>-</u>

The Company has not recognized deferred tax asset in respect of its tax loss of HK\$310,285,022 (2023: HK\$248,687,433) as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity. The unused tax losses does not expire under the current legislation.

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

8. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Owned assets

	Leasehold improvement HK\$	Computer equipment and software HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Total HK\$
<u>2024</u>					
Cost:					
At 1 January	1,969,447	5,323,234	309,007	154,271	7,755,959
Additions	117,297	1,558,787	15,415	-	1,691,499
Disposal	-	-	(23,183)	-	(23,183)
At 31 December	<u>2,086,744</u>	<u>6,882,021</u>	<u>301,239</u>	<u>154,271</u>	<u>9,424,275</u>
Accumulated depreciation:					
At 1 January	631,045	3,215,206	145,646	94,977	4,086,874
Charge for the year	1,080,225	874,457	49,123	15,741	2,019,546
Disposal	-	-	(7,287)	-	(7,287)
At 31 December	<u>1,711,270</u>	<u>4,089,663</u>	<u>187,482</u>	<u>110,718</u>	<u>6,099,133</u>
Net book value:					
At 31 December 2024	<u>375,474</u>	<u>2,792,358</u>	<u>113,757</u>	<u>43,553</u>	<u>3,325,142</u>
<u>2023</u>					
Cost:					
At 1 January	1,482,700	4,801,057	396,453	90,303	6,770,513
Additions	1,969,447	523,057	123,371	63,968	2,679,843
Disposal	(1,482,700)	(880)	(210,817)	-	(1,694,397)
At 31 December	<u>1,969,447</u>	<u>5,323,234</u>	<u>309,007</u>	<u>154,271</u>	<u>7,755,959</u>
Accumulated depreciation:					
At 1 January	1,350,011	2,420,184	165,138	71,577	4,006,910
Charge for the year	760,416	795,387	75,802	23,400	1,655,005
Disposal	(1,479,382)	(365)	(95,294)	-	(1,575,041)
At 31 December	<u>631,045</u>	<u>3,215,206</u>	<u>145,646</u>	<u>94,977</u>	<u>4,086,874</u>
Net book value:					
At 31 December 2023	<u>1,338,402</u>	<u>2,108,028</u>	<u>163,361</u>	<u>59,294</u>	<u>3,669,085</u>
Net book value:					
At 1 January 2023	<u>132,689</u>	<u>2,380,873</u>	<u>231,315</u>	<u>18,726</u>	<u>2,763,603</u>

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

8. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LEASE LIABILITIES  
(CONTINUED)

*Right-of-use assets*

	Office premises HK\$
Cost:	
At 1 January 2023	3,902,735
Additions	6,014,604
Disposals	<u>(580,984)</u>
At 31 December 2023 and 1 January 2024	9,336,355
Additions	7,837,586
Disposals	<u>(1,893,618)</u>
At 31 December 2024	<u>15,280,323</u>
Accumulated depreciation:	
At 1 January 2023	3,056,712
Charge for the year	<u>2,729,111</u>
At 31 December 2023 and 1 January 2024	5,785,823
Charge for the year	<u>3,289,744</u>
At 31 December 2024	<u>9,075,567</u>
Net book value:	
At 31 December 2024	<u>6,204,756</u>
At 31 December 2023	<u>3,550,532</u>
At 1 January 2023	<u>846,023</u>

Note: The Company's right of use assets represented lease for office premises.

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

8. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

Lease liabilities

Maturity profile

	2024 HK\$	2023 HK\$
Within one year	4,377,450	3,202,416
After one year but within five years	2,553,513	620,396
Lease liabilities (undiscounted)	6,930,963	3,822,812
Discount amount	(328,007)	(136,899)
Lease liabilities (discounted)	6,602,956	3,685,913
Current	4,098,722	3,070,562
Non-current	2,504,234	615,351

The weighted average incremental borrowing rate applied to the lease liabilities recognized at 31 December 2024 was 5.75% (2023: 5.75%). The fair value of the Company's non-current lease liabilities with a carrying amount of HK\$2,504,234 (2023: HK\$615,351) was HK\$2,553,513 (2023: HK\$620,396). The fair value was determined by discounting the expected future cash flows at prevailing interest rates.

Movements of carrying amounts of lease liabilities and reconciliation of liabilities arising from financing activities

	HK\$
At 1 January 2023	915,397
Additions	6,014,604
Disposals	(632,026)
Interest expense charged on lease liabilities	264,898
Payments in the changes from financing cash flows	(2,876,960)
As at 31 December 2023 and 1 January 2024	3,685,913
Additions	7,837,586
Disposals	(1,916,191)
Interest expense charged on lease liabilities	281,651
Payments in the changes from financing cash flows	(3,286,003)
As at 31 December 2024	6,602,956

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

8. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

Lease liabilities (continued)

Reconciliation of lease liabilities arising from financing activities

	HK\$
At 1 January 2023	915,397
New leases	6,014,604
Stop leases	(632,026)
Changes from financing cash flow	
Capital element of lease payment	(2,612,062)
Other changes	
Interest expense charged on lease liabilities	264,898
Interest element on lease liabilities	(264,898)
At 31 December 2023 and 1 January 2024	3,685,913
New leases	7,837,586
Stop leases	(1,916,191)
Changes from financing cash flow	
Capital element of lease payment	(3,004,352)
Other changes	
Interest expense charged on lease liabilities	281,651
Interest element on lease liabilities	(281,651)
At 31 December 2024	<u>6,602,956</u>

Amounts recognized in the statement of profit or loss and other comprehensive income

	2024 HK\$	2023 HK\$
Depreciation expense of right-of-use assets	3,289,744	2,729,111
Interest expense charged on lease liabilities	<u>281,651</u>	<u>264,898</u>
	<u>3,571,395</u>	<u>2,994,009</u>

The Company had total cash outflows for leases of HK\$3,286,003 in 2024 (2023: HK\$2,876,960).



AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

9. CASH AND CASH EQUIVALENTS AND DEPOSITS

	2024 HK\$	2023 HK\$
Cash at bank	<u>12,290,185</u>	<u>21,224,915</u>
Cash and cash equivalents	<u>12,290,185</u>	<u>21,224,915</u>
Non-pledged time deposits with original maturity of less than three months when acquired	104,673,842	-
Non-pledged time deposits with original maturity of more than three months when acquired	72,155,500	289,695,100
Certificate of deposits with original maturity of more than three months when acquired	<u>92,544,050</u>	<u>-</u>
	<u>269,373,392</u>	<u>289,695,100</u>
	<u>281,663,577</u>	<u>310,920,015</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and one year depending on the immediate cash requirements of the Company, and earn interest at the respective time deposit rates. The bank balances and deposits are deposited with banks with no recent history of default. The carrying amounts of the cash and cash equivalents and deposits approximate to their fair values.

10. SHARE CAPITAL

	2024 HK\$	2023 HK\$
Issued and fully paid:		
362,809,874 ordinary shares		
(2023: 362,809,874 ordinary shares)	<u>517,809,344</u>	<u>517,809,344</u>

There is no movements in the share capital during the year.

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS

At 31 December 2024

Insurance contract liabilities excluding  
insurance acquisition cash flows assets  
and other pre-recognition cash flows

**Insurance contract liabilities**

	Inward Accident & Health HK\$	Accident & Health HK\$	Direct Property damage HK\$	Pecuniary loss HK\$	General liability HK\$	Total HK\$
	75,731,715	2,849,254	866,309	11,623	178,767	79,637,668
	<u>75,731,715</u>	<u>2,849,254</u>	<u>866,309</u>	<u>11,623</u>	<u>178,767</u>	<u>79,637,668</u>

At 31 December 2023

Insurance contract liabilities excluding  
insurance acquisition cash flows assets  
and other pre-recognition cash flows

**Insurance contract liabilities**

	Inward Accident & Health HK\$	Accident & Health HK\$	Direct Property damage HK\$	Pecuniary loss HK\$	General liability HK\$	Total HK\$
	50,813,641	3,181,653	331,327	31,449	23,369	54,381,439
	<u>50,813,641</u>	<u>3,181,653</u>	<u>331,327</u>	<u>31,449</u>	<u>23,369</u>	<u>54,381,439</u>

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS  
(CONTINUED)

	2024 HK\$
Reinsurance contract assets excluding other pre-recognition cash flows	<u>1,290,496</u>
<b>Reinsurance contract assets</b>	<u><b>1,290,496</b></u>
Reinsurance contract assets excluding other pre-recognition cash flows	<u>1,290,496</u>
	2023 HK\$
Reinsurance contract assets excluding other pre-recognition cash flows	<u>1,192,238</u>
<b>Reinsurance contract assets</b>	<u><b>1,192,238</b></u>
Reinsurance contract assets excluding other pre-recognition cash flows	<u>1,192,238</u>

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (CONTINUED)

Reconciliation of the liability for remaining coverage and the liability for incurred claims - Insurance contracts (under PAA measurement)

	2024				2023					
	LRC		LIC		LRC		LIC			
Insurance contracts issued (in HK\$'000)	Excluding loss component	Loss component	Present value of future cash flows	Risk adjustment for non-financial risk	Total	Excluding loss component	Loss component	Present value of future cash flows	Risk adjustment for non-financial risk	Total
Opening insurance contract assets	-	-	-	-	-	-	-	-	-	-
Opening insurance contract liabilities	5,178	6,282	37,323	5,598	54,381	(3,007)	5,692	10,250	1,538	14,473
Net opening balance	5,178	6,282	37,323	5,598	54,381	(3,007)	5,692	10,250	1,538	14,473
Insurance revenue	(242,459)	-	-	-	(242,459)	(97,705)	-	-	-	(97,705)
Incurred claims and other directly attributable expenses	-	-	16,916	1,332	18,248	-	-	22,950	2,453	25,403
Changes that relate to past service – changes in the FCF relating to the LIC	-	-	107,219	1,404	108,623	-	-	50,634	1,607	52,241
Losses on onerous contracts and reversal of those losses	-	3,837	-	-	3,837	-	590	-	-	590
Insurance acquisition cash flows amortization	136,923	-	-	-	136,923	51,396	-	-	-	51,396
Insurance service expenses	136,923	3,837	124,135	2,736	267,631	51,396	590	73,584	4,060	129,630
Insurance service result	(105,536)	3,837	124,135	2,736	25,172	(46,309)	590	73,584	4,060	31,925
Finance income/(expenses) from insurance contracts recognised in P&L	-	-	1,806	-	1,806	-	-	714	-	714
Total amounts recognised in comprehensive income	(105,536)	3,837	125,941	2,736	26,978	(46,309)	590	74,298	4,060	32,639
Premiums received	249,091	-	-	-	249,091	115,953	-	-	-	115,953
Claims and other directly attributable expenses paid	-	-	(107,707)	-	(107,707)	-	-	(47,225)	-	(47,225)
Insurance acquisition cash flows	(143,106)	-	-	-	(143,106)	(61,459)	-	-	-	(61,459)
Total cash flows	105,985	-	(107,707)	-	(1,722)	54,494	-	(47,225)	-	7,269
Closing insurance contract assets	-	-	-	-	-	-	-	-	-	-
Closing insurance contract liabilities	5,627	10,119	55,557	8,334	79,637	5,178	6,282	37,323	5,598	54,381
Net closing balance	5,627	10,119	55,557	8,334	79,637	5,178	6,282	37,323	5,598	54,381

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

11. INSURANCE CONTRACT LIABILITIES AND REINSURANCE CONTRACT ASSETS (CONTINUED)

Reconciliation of the liability for remaining coverage and the liability for incurred claims - Reinsurance (under PAA measurement)

	2024					2023				
	Assets for remaining coverage		Assets for incurred claims			Assets for remaining coverage		Assets for incurred claims		
Reinsurance contracts held (in HK\$'000)	Excluding loss component	Loss component	Present value of future cash flows	Risk adjustment for non-financial risk	Total	Excluding loss component	Loss component	Present value of future cash flows	Risk adjustment for non-financial risk	Total
Opening reinsurance contract assets	(43)	391	745	99	1,192	(2)	196	206	30	430
Opening reinsurance contract liabilities	(43)	391	745	99	1,192	(2)	196	206	30	430
<b>Net opening balance</b>	<b>(854)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(854)</b>	<b>(598)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(598)</b>
Reinsurance expenses	-	-	-	-	-	-	-	-	-	-
Incurred claims recovery (current service)	-	-	460	50	510	-	-	873	86	959
Changes that relate to past service – changes in the FCF relating to incurred claims recovery and incurred directly attributable expenses	-	-	(533)	(82)	(615)	-	-	(119)	(17)	(136)
Income on initial recognition and reversal of loss recovery component of onerous underlying contracts	-	409	-	-	409	-	195	-	-	195
<b>Total insurance service expenses recoverable</b>	<b>-</b>	<b>409</b>	<b>(73)</b>	<b>(32)</b>	<b>304</b>	<b>-</b>	<b>195</b>	<b>754</b>	<b>69</b>	<b>1,018</b>
<b>Net (expenditures)/income from reinsurance contracts</b>	<b>(854)</b>	<b>409</b>	<b>(73)</b>	<b>(32)</b>	<b>(550)</b>	<b>(598)</b>	<b>195</b>	<b>754</b>	<b>69</b>	<b>420</b>
Net finance expenses from reinsurance contracts held	-	-	27	-	27	-	-	10	-	10
<b>Total amounts recognised in comprehensive income</b>	<b>(854)</b>	<b>409</b>	<b>(46)</b>	<b>(32)</b>	<b>(523)</b>	<b>(598)</b>	<b>195</b>	<b>764</b>	<b>69</b>	<b>430</b>
Premiums paid net of ceding commissions	830	-	-	-	830	557	-	-	-	557
Recoveries from reinsurance	-	-	(209)	-	(209)	-	-	(225)	-	(225)
<b>Total cash flows</b>	<b>830</b>	<b>-</b>	<b>(209)</b>	<b>-</b>	<b>621</b>	<b>557</b>	<b>-</b>	<b>(225)</b>	<b>-</b>	<b>332</b>
Closing reinsurance contract assets	(67)	800	490	67	1,290	(43)	391	745	99	1,192
Closing reinsurance contract liabilities	-	-	-	-	-	-	-	-	-	-
<b>Net closing balance</b>	<b>(67)</b>	<b>800</b>	<b>490</b>	<b>67</b>	<b>1,290</b>	<b>(43)</b>	<b>391</b>	<b>745</b>	<b>99</b>	<b>1,192</b>

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

12. SHARE-BASED PAYMENT EXPENSE

Share Award Scheme

The Company had adopted a share award scheme (the "Share Award Scheme") in which shares of the Company (the "Awarded Shares") may be awarded to selected employees (including directors) and certain other persons (the "Selected Employee(s)") pursuant to the terms of the Share Award Scheme and trust deed of the Share Award Scheme (the "Trust Deed"). The share award scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from that date.

The Share Award Scheme is subject to the administration of the board of directors of the Company and the trustee of the Share Award Scheme (the "Trustee") in accordance with the Share Award Scheme and the Trust Deed.

The Trustee shall not exercise the voting rights in respect of any shares, including but not limited to the Awarded Shares, held by it under the Trust.

Subject to the terms and conditions of the Share Award Scheme and the fulfilment of all relevant vesting conditions, the respective Awarded Shares held by the Trustee on behalf of a Selected Employee pursuant to the provision of the Share Award Scheme shall vest in such Selected Employee in accordance with the vesting schedule (if any).

During the year ended 31 December 2024, the trustee held 14,420,000 Awarded Shares for the Share Award Scheme (2023: 18,690,000) and 9,580,000 Awarded Shares were held by the respective selected employees (including directors) (2023: 5,310,000).

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

12. SHARE-BASED PAYMENT EXPENSE (CONTINUED)

Share Award Scheme (continued)

Details of the Awarded Shares granted and unvested as at 31 December 2024 are set out below:

31 December 2024

<u>Date of Awarded shares granted</u>	<u>Vesting Period</u>	<u>Fair Value per shares</u>	<u>Outstanding as at 31 Dec 2023</u>	<u>Granted during the year</u>	<u>Number of Awarded Shares</u>		
					<u>Vested during the year</u>	<u>Lapsed during the year</u>	<u>Outstanding as at 31 Dec 2024</u>
17 January 2020	17 January 2021 to 17 January 2024 *	HK\$0.9145	16,840,000	-	4,270,000	-	12,570,000
31 January 2024	31 January 2025 to 30 January 2028 *	HK\$0.8582	-	350,000	-	350,000	-

\*25% vested over 4 anniversary date of the grant date

The Company has recognised a share-based compensation expense of HK\$206,953 for the Awarded Shares under the Share Award Scheme in profit or loss (2023: HK\$4,378,461). HK\$350,000 Awarded Shares lapsed prior to their vesting date for the year ended 31 December 2024 (2023: Nil).

Share Option Scheme

The Company had adopted a share option scheme (the "Share Option Scheme") in which the number of options of the Company (the "Options") may be granted to eligible employees (the "Eligible Employee(s)") pursuant to the terms of the Share Option Scheme. The share option scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from that date.

The Share Option Scheme is subject to the administration of the board of directors of the Company in accordance with the Share Option Scheme.

Subject to the terms and conditions of the Share Option Scheme and the fulfilment of all relevant vesting conditions, the respective Options held by the Eligible Employee pursuant to the provision of the Share Option Scheme shall vest in such Eligible Employee in accordance with the vesting schedule (if any).

During the year ended 31 December 2024, HK\$250,000 Options are granted for the Share Option Scheme (2023: nil).



AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

12. SHARE-BASED PAYMENT EXPENSE (CONTINUED)

Share Option Scheme (continued)

Details of the Options granted and unvested as at 31 December 2024 are set out below:

31 December 2024

<u>Date of Awarded options granted</u>	<u>Vesting Period</u>	<u>Fair Value per option</u>	<u>Outstanding as at 31 Dec 2023</u>	<u>Granted during the year</u>	<u>Number of Awarded Options</u>		<u>Outstanding as at 31 Dec 2024</u>
					<u>Vested during the year</u>	<u>Lapsed during the year</u>	
22 March 2021	22 March 2022 to 22 March 2025 *	HK\$0.9016	650,000	-	325,000	-	325,000
30 April 2024	30 April 2024 to 30 April 2028*	HK\$0.9016	-	250,000	-	-	-

\*25% vested over 4 anniversary date of the grant date

The Company has recognised a share-based compensation expense of HK\$331,662 for the Options under the Share Option Scheme in profit or loss (2023: HK\$293,033). Nil Options lapsed prior to their vesting date for the year ended 31 December 2024 (2023: Nil).

13. INTERESTS IN JOINT VENTURES

	2024 HK\$	2023 HK\$
<u>Share of net assets</u>		
Avo Tech	8,038,626	8,488,227
Mobius Holdings	117,750	-
	<u>8,156,376</u>	<u>8,488,227</u>
	2024 HK\$	2023 HK\$
<u>Due from joint ventures</u>		
Avo Tech	<u>355,369</u>	<u>508,398</u>

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

13. INTERESTS IN JOINT VENTURES (CONTINUED)

Particulars of the joint venture as at the end of the reporting period are as follows:

Name	Business structure	Place of incorporation	Issued ordinary share capital	Percentage of equity held by the Company	Principal activities
Avo Tech Limited	Corporate	Hong Kong	12,500,000	50%	Technology Consulting Service
Mobius Holdings Limited	Corporate	Cayman Islands	150,000	16.67%	Holding Company (Securities)

The above investments are directly held by the Company.

The following table illustrates the aggregate financial information of the Company's joint venture that are not individually material:

	2024 HK\$	2023 HK\$
Share of the joint venture's loss for the year	<u>(3,254,976)</u>	<u>(917,964)</u>
Aggregate carrying amount of the Company's interests in Joint Ventures	<u>8,511,745</u>	<u>8,996,625</u>

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2024 HK\$	2023 HK\$
Unlisted investment funds, at fair value	<u>36,337,744</u>	<u>35,329,015</u>
	<u>36,337,744</u>	<u>35,329,015</u>

As at 31 December 2024, the above unlisted investment funds were classified as at fair value through profit or loss as they were held for trading.

# AVO INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

### 15. RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed elsewhere in these financial statements, the Company had the following transactions with related parties during the year:

#### Income and expenses for the year

	2024 HK\$	2023 HK\$
Insurance expense (note a)	341,858	366,000
Insurance expense (note b)	25,030	26,697
Gross premiums written from a shareholder (note c)	220,839,534	112,508,864
Commission expenses paid to a shareholder (note c)	122,559,007	58,202,435
Service fees to a shareholder (note d)	609,000	288,000
Service fees from shareholder (note e)	567,000	756,000
Service fees from a related party (note f)	<u>350,000</u>	<u>-</u>

Notes:

- (a) Insurance expense was paid to a shareholder of the Company based on mutually-agreed terms.
- (b) Insurance expense was paid to a related company of the Company based on mutually-agreed terms.
- (c) The directors of the Company considered that the premium income from and commission expenses paid to policies written with the shareholder was determined according to prices and terms similar to those offered to unrelated customers of the Company.
- (d) Service fees were paid to a shareholder of the Company based on mutually-agreed terms.
- (e) Service fees were received from a shareholder of the Company based on mutually-agreed terms.
- (f) Service fees were received from a related party of the Company based on mutually-agreed terms.

#### Balance at 31 December

Included below are balances with related parties:

	2024 HK\$	2023 HK\$
Amount due from/(to) related parties		
- Insurance receivables (note a)	71	3,614,391
- Insurance payable (note b)	(5,010,305)	(396)
- Expense paid on behalf of a shareholder (note c)	750,194	488,888
- Expenses paid on behalf of a joint venture (note c)	355,369	508,398
- Loan to a related company (note d)	<u>5,407,000</u>	<u>-</u>

Notes:

- (a) The insurance receivables are unsecured, non-interest bearing which are settled on credit term.
- (b) The insurance payable is unsecured, non-interest bearing which is settled on credit term.
- (c) The balance receivable are unsecured, non-interest bearing and no fixed term of payment.
- (d) The loan balance is unsecured, non-interest bearing and repayable on demand.

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

16. FINANCIAL INSTRUMENTS BY CATEGORIES

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2024 HK\$	2023 HK\$
Intercompany balance	750,194	488,888
Sundry deposits and other receivables	7,829,679	7,354,747
Financial assets at fair value through profit or loss	36,337,744	35,329,015
Deposits	269,373,392	289,695,100
Cash and cash equivalents	12,290,185	21,224,915
	<u>326,581,194</u>	<u>354,092,665</u>

Financial liabilities

	2024 HK\$	2023 HK\$
Other payables	3,910,969	4,102,549
Lease liabilities	<u>6,602,956</u>	<u>3,685,913</u>
	<u>10,513,925</u>	<u>7,788,462</u>

17. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, deposits and other receivables, due from a joint venture, loan to a related company, insurance receivables, insurance payables and other payables approximate to their carrying amounts.

Management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major input applied in the valuation.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

17. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Company's financial instruments:

Assets measured at fair value:

At 31 December 2024

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial assets at fair value through profit or loss	-	36,337	-	36,337
	-	36,337	-	36,337

The Company did not have any financial liabilities measured at fair value through profit or loss as at 31 December 2024 and 2023.

During the years ended 31 December 2024 and 2023, there were no transfers of fair value measurements between Level 1 and Level 2 for both financial assets and financial liabilities.

Assets measured at fair value:

At 31 December 2023

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial assets at fair value through profit or loss	-	35,329	-	35,329
	-	35,329	-	35,329

18. INSURANCE RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

**Regulatory framework**

The operation of the Company is subject to local regulatory requirements in Hong Kong. The regulators are interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

**Insurance risk**

The principal risk the Company faces under insurance contracts is that the actual claims or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims and subsequent development of claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company principally issues the following types of general insurance contracts: accident and health, property damage, general liability and pecuniary loss. Risks usually cover a twelve month duration.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to mitigate exposure to catastrophic events.

The majority of insurance business ceded is placed on a treaty basis with retention limits varying by product line. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

*Process used to determine the assumptions*

The Company uses assumptions based on a mixture of internal and market data to measure its expected claims loss. Internal data is derived mostly from the Company's claims reports and screening of the actual insurance experience from prior years.

*Sensitivities*

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions, such as legislative change and uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claims provisions are not known with certainty at the end of the reporting period.

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

18. INSURANCE RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES  
(CONTINUED)

*Sensitivities (continued)*

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent financial statements.

The analysis below is performed for reasonably possible movements in average claim cost with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity, if average claim costs were changed in a single calendar year.

HK\$'000	2024				2023			
	LIC as at 31 December	Impact on LIC	Impact on profit before income tax	Impact on equity	LIC as at 31 December	Impact on LIC	Impact on profit before income tax	Impact on equity
Insurance contract liabilities	63,891				42,921			
Reinsurance contract assets	(557)				(844)			
Net insurance contract liabilities	63,334				42,077			
Unpaid claims and expenses – 5% increase								
Insurance contract liabilities		3,195	(3,195)			2,146	(2,146)	-
Reinsurance contract assets		(26)	(26)			(38)	38	-
Net insurance contract liabilities		3,169	(3,169)			2,108	(2,108)	-
Expenses – 5% increase								
Insurance contract liabilities		122	(122)			121	(121)	-
Reinsurance contract assets		-	-			-	-	-
Net insurance contract liabilities		122	(122)			121	(121)	-



AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

18. INSURANCE RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES  
(CONTINUED)

**Insurance risk (continued)**

*Claim development table*

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date.

Insurance claims – gross

<u>For the year ended 31 December 2024</u>	2020	2021	2022	2023	2024	Total
HK\$'000						
Estimate of ultimate claim costs (gross of reinsurance, undiscounted)						
At end of accident year	345	561	13,047	18,653	10,592	10,592
1 year later	25	2,070	53,336	67,534	-	67,534
2 year later	81	13,194	109,671	-	-	109,671
3 year later	99	15,635	-	-	-	15,635
4 year later	91	-	-	-	-	91
Cumulative gross claims	(85)	(14,662)	(92,852)	(37,657)	(1,454)	(146,710)
Gross cumulative claims liabilities – accident years from 2020 to 2024	6	973	16,819	29,877	9,138	56,813
Gross cumulative claims liabilities – prior accident years						-
Effect of discounting						(1,256)
Effect of the risk adjustment margin for non-financial risk						8,334
Gross LIC for the contracts originated (refer to note LIC)						63,891

Insurance claims – net

<u>For the year ended 31 December 2024</u>	2020	2021	2022	2023	2024	Total
(HK\$'000)	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Estimate of ultimate claim costs (net of reinsurance, undiscounted)						
At end of accident year	301	479	12,828	17,747	10,116	10,116
1 year later	16	2,068	53,230	67,099	-	67,099
2 year later	75	13,196	109,632	-	-	109,632
3 year later	93	15,634	-	-	-	15,634
4 year later	89	-	-	-	-	89
Cumulative net claims	(83)	(14,661)	(92,835)	(37,401)	(1,288)	(146,268)
Net cumulative claims liabilities – accident years from 2020-2024	6	973	16,797	29,698	8,828	56,302
Net cumulative claims liabilities – prior accident years						-
Effect of discounting						(1,236)
Effect of the risk adjustment margin for non-financial risk						8,268
Net LIC for the contracts originated (refer to note LIC)						63,334

Year ended 31 December 2024

18. INSURANCE RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES  
(CONTINUED)

**Market risk**

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (foreign currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

*(a) Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The management considers the Company's transactional currency exposures is minimal as the Company's principal transactions are carried out in Hong Kong dollar ("HKD") and the Company sells policies primarily denominated in HKD. The Company's exposure to foreign currency risk that arise from financial assets at fair value through profit or loss and time deposits denominated in USD amounted to USD23,777K (2023: USD22,948K), in aggregate, at year end. If the Hong Kong dollar weakens/strengthens by 5% against the USD, with all other variables held constant, the Company's profit before tax increases/decreases by USD1,189K (2023: USD1,147K).

*(b) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Company to cash flow interest rate risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk. The Company's interest rate policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets.

At the end of the reporting period, the Company did not hold any variable loans and borrowings, nor variable rate financial assets classified as available for sale and accordingly the interest rate risk for the Company is considered by management as minimal. As the Company has no intention to dispose the fixed interest instruments prior to maturity, the exposure is not significant and accordingly no sensitivity analysis on the Company's interest rate risk is disclosed.

*(c) Price risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices. The Company has no significant exposure to price risk as all of its investments are fixed interest instruments. As the Company has no intention to dispose the fixed interest instruments prior to maturity, the exposure is not significant and accordingly no sensitivity analysis on the Company's price risk is disclosed.

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

18. INSURANCE RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES  
(CONTINUED)

**Financial risk**

*(a) Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty of the Company; right of offset where counterparties are both debtors and creditors and review of credit risk policy for pertinence and changing environment.

Reinsurance

Reinsurance is placed with counterparties that are creditworthy in the opinion of management and concentration of risk is avoided by following guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

Other financial assets

All the Company's cash and cash equivalents are held in major financial institutions located in Hong Kong, which management believes are of high credit quality. The Company has policies in place to evaluate credit risk when accepting new business and to limit its credit exposure to individual customers.

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

18. INSURANCE RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES  
(CONTINUED)

**Financial risk** (continued)

(a) *Credit risk* (continued)

The table below provides information regarding the credit risk exposure of the Company at 31 December 2024 and 2023 by classifying assets according to Standard & Poor's and Moody's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

**31 December 2024**

	AAA HK\$'000	AA HK\$'000	A HK\$'000	BBB HK\$'000	Not rated HK\$'000	Total HK\$'000
Reinsurance contract assets	-	-	-	-	1,290	1,290
Intercompany balance	-	-	-	-	750	750
Due from a joint venture	-	-	-	-	355	355
Sundry deposits and other receivables	-	1,329	3,373	-	1,283	5,985
Financial assets at fair value through profit or loss	-	-	-	-	36,337	36,337
Loan to a related company	-	-	-	-	5,407	5,407
Deposits	-	42,724	228,389	-	-	271,113
Cash and cash equivalents	-	12,093	197	-	-	12,290
	-	56,146	231,959	-	45,422	333,527

**31 December 2023**

	AAA HK\$'000	AA HK\$'000	A HK\$'000	BBB HK\$'000	Not rated HK\$'000	Total HK\$'000
Reinsurance contract assets	-	-	-	-	1,192	1,192
Intercompany balance	-	-	-	-	489	489
Due from a joint venture	-	-	-	-	508	508
Sundry deposits and other receivables	-	4,352	2,082	-	921	7,355
Financial assets at fair value through profit or loss	-	-	-	-	35,329	35,329
Deposits	-	224,383	65,312	-	-	289,695
Cash and cash equivalents	-	20,137	1,088	-	-	21,225
	-	248,872	68,482	-	38,439	355,793

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

18. INSURANCE RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES  
(CONTINUED)

**Financial risk** (continued)

(a) *Credit risk (continued)*

*Maximum exposure and year-end staging*

The tables below show the credit quality and the maximum exposure to credit risk based on the Company's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2024 and 2023. The amounts presented are gross carrying amounts for financial assets.

31 December 2024

	12-month expected <u>credit losses</u>	Lifetime expected <u>credit losses</u>		Simplified approach	Total
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	HK\$'000	HK\$'000
Reinsurance contract assets	1,290	-	-	-	1,290
Intercompany balance	750	-	-	-	750
Due from a joint venture	355	-	-	-	355
Sundry deposits and other receivables	5,985	-	-	-	5,985
Loan to a related company	5,407	-	-	-	5,407
Deposits	271,113	-	-	-	271,113
Cash and cash equivalents	12,290	-	-	-	12,290
	<u>297,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>297,190</u>

31 December 2023

	12-month expected <u>credit losses</u>	Lifetime expected <u>credit losses</u>		Simplified approach	Total
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	HK\$'000	HK\$'000
Reinsurance contract assets	1,192	-	-	-	1,192
Intercompany balance	489	-	-	-	489
Due from a joint venture	508	-	-	-	508
Sundry deposits and other receivables	7,355	-	-	-	7,355
Deposits	289,695	-	-	-	289,695
Cash and cash equivalents	21,225	-	-	-	21,225
	<u>320,464</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320,464</u>

AVO INSURANCE COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

18. INSURANCE RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES  
(CONTINUED)

**Financial risk (continued)**

*(b) Liquidity risk*

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of initial share capital to meet its working capital and capital expenditure requirements.

**Maturity profile**

The following tables present the estimated amount and timing of the remaining contractual discounted cash flows arising from insurance liabilities (the LRC for insurance contracts issued and the remaining coverage for reinsurance contracts held measured under the PAA are not included in the tables).

31 December 2024	1	2	3	4	5	6-10	>10	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Insurance contract balances								
Reinsurance contract assets	456	96	5	-	-	-	-	557
Insurance contract liabilities	(34,529)	(15,742)	(6,464)	(4,550)	(2,259)	(347)	-	(63,891)
Total insurance contract balances	(34,073)	(15,646)	(6,459)	(4,550)	(2,259)	(347)	-	(63,334)

31 December 2023	1	2	3	4	5	6-10	>10	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Insurance contract balances								
Reinsurance contract assets	572	208	64	-	-	-	-	844
Insurance contract liabilities	(15,691)	(14,037)	(8,483)	(3,862)	(848)	-	-	(42,921)
Total insurance contract balances	(15,119)	(13,829)	(8,419)	(3,862)	(848)	-	-	(42,077)

*Capital management*

The primary objective of the Company's capital management is to safeguard the Company's ability to continue as a going concern and to maintain healthy ratios in order to support its business.

In addition, externally imposed capital requirements are set and regulated by the Hong Kong Insurance Ordinance, covering both the overall solvency of the Company and its maintenance of assets in Hong Kong in respect of its Hong Kong general insurance liabilities. These requirements are put in place to ensure sufficient solvency margins. Further objectives have been agreed with the Insurance Authority to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business objectives and maximize shareholder value.

# AVO INSURANCE COMPANY LIMITED

## NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2024

### 18. INSURANCE RISK AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### **Financial risk (continued)**

##### *(b) Liquidity risk (continued)*

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares.

The Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its capital objectives, policies and processes from the previous year. During the year, the Company has not issued any shares (2023: nil) to its new shareholder, resulting no increase in the share capital (2023: nil).

### 19. LOAN TO A RELATED COMPANY

	2024 HK\$	2023 HK\$
Loan to a related company	<u>5,407,000</u>	<u>-</u>

The balance was unsecured, non-interest bearing and repayable on demand. The related company is a related party of the Company. The maximum amount outstanding during the year was HK\$5,407,000 (2023: Nil).

### 20. COMMITMENTS

At 31 December 2024, the Company had commitments of HK\$4,377,450 within one year and HK\$2,553,513 later than one year but within five years relating to the future lease payment for the non-cancellable lease contract that has not yet commenced.

### 21. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company after 31 December 2024 and up to the date of this financial statements.

### 22. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

### 23. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 25 March 2025.