

CALIFORNIA INSURANCE COMPANY, LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2025

CALIFORNIA INSURANCE COMPANY, LIMITED

REPORT OF DIRECTORS

The directors of CALIFORNIA INSURANCE COMPANY, LIMITED (the “Company”) present their annual report together with the audited financial statements for the year ended 31 December 2025 (“Current Financial Year”).

PRINCIPAL ACTIVITIES

The Company is principally engaged in underwriting of general insurance business in Hong Kong.

RESULTS AND APPROPRIATIONS

The financial results of the Company for the Current Financial Year are set out in the statement of profit or loss and other comprehensive income on page 4.

The directors do not recommend the payment of a dividend.

SHARE CAPITAL AND RESERVES

There was no movement in the Company’s share capital for the Current Financial Year.

Movements in the reserves of the Company during the Current Financial Year are set out in the statement of changes in equity on page 6.

PROPERTY AND EQUIPMENT

Details of the movements during the Current Financial Year in the property and equipment of the Company are set out in note 17 to the financial statements.

INVESTMENT IN A SUBSIDIARY

Details of investment in a subsidiary are set out in note 18 to the financial statements.

DIRECTORS

The names of the Directors during the Current Financial Year and up to the date of this report were:

Directors

Ms. Leung Bo Yee Nancy

Mr. Lau Lyon

Mr. Tse Shu Pui, Antonio

Mr. Chan Man Hon

Non-executive directors

Mr. Kwan Ka Wo Wilson

Mr. Tan Bong Loo

In accordance with clause 22 of the Company’s amended and restated Articles of Association, the existing directors retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

CALIFORNIA INSURANCE COMPANY, LIMITED

REPORT OF DIRECTORS

DIRECTORS' MATERIAL INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed in note 22 to the financial statements, no transactions, arrangements or contracts that is significant in relation to the Company's business to which the Company was a party and in which a director of the Company or its connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

MANAGEMENT CONTRACTS

No contracts for management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

BUSINESS REVIEW

(A) Financial results and review of the Company's performance

Insurance revenue

The insurance revenue increased by 13.5% to approximately HK\$53.3 million (Prior Financial Year: HK\$47.0 million).

Insurance service result

The insurance service result decreased by 43.5% to approximately HK\$6.9 million (Prior Financial Year: HK\$12.1 million). The decrease is mainly caused by the increase in claims incurred in the Current Financial Year.

Net investment results and other income, other gains and losses, net

The net investment income and other income, other gains and losses, net was approximately HK\$5.6 million (Prior Financial Year: HK\$4.8 million).

Total operating expenses (including insurance acquisition cash flows, other incurred expenses directly attributable to insurance contracts and other operating expenses)

The total operating expenses were approximately HK\$31.1 million (Prior Financial Year: HK\$30.5 million).

Profit before tax

During the Current Financial Year, the Company's profit before tax was approximately HK\$4.4 million (Prior Financial Year: HK\$11.5 million). The decrease in profit before tax was due to increase in net claims incurred in the Current Financial Year.

Taxation

For the Current Financial Year, the Company's income tax expenses were HK\$0.6 million (Prior Financial Year: HK\$0.6 million), which mainly represented the deferred tax charge for the Current Financial Year.

CALIFORNIA INSURANCE COMPANY, LIMITED

REPORT OF DIRECTORS

BUSINESS REVIEW (Continued)

Accumulated losses

Accumulated losses carried forward at 31 December 2025 and 2024 was approximately HK\$50.1 million and HK\$54.4 million, respectively.

(B) Key performance indicators

Financial KPIs	Formula Used	Current Financial Year	Prior Financial Year
Investment Yield	Annualised Total Investment Income / Average Investment Assets ¹	8.0%	4.7%
Underwriting Combined Ratio	[insurance service expenses + net expenses/(income) from reinsurance contracts held + (finance expenses/(income) from insurance contracts issued – finance income/(expenses) from reinsurance contracts held)] / insurance revenue	89.7%	71.7%
Solvency Margin Ratio ²	Eligible Capital / Prescribed Capital Requirements	300.0%	215.7%
Net Assets to Total Assets Ratio	Net Assets / Total Assets	46.4%	46.4%
Asset to Debt Ratio	Total Assets / Total Liabilities	186.7%	186.5%

¹. Average Investment Assets = (Beginning balance of investment assets + Ending balance of investment assets) / 2

². Solvency Margin Ratio is determined in accordance with Insurance (Valuation and Capital) Rules (“IVCR”).

(C) Environmental policies and performance

The Company advocate several resources saving initiatives in its daily operation as below:

- (1) Encourage double-sided printing
- (2) Encourage electronic documentation and communication
- (3) Maintain air-conditioning at an average temperature of 25 degrees Celsius
- (4) Switch off lights, air-conditioners and computers when they are not in use

CALIFORNIA INSURANCE COMPANY, LIMITED

REPORT OF DIRECTORS

BUSINESS REVIEW (Continued)

(D) Key statutory requirements for the Company

The Company is under the supervision of the Insurance Authority (IA). The principal function of IA is to regulate and supervise the insurance industry to promote the general stability of the insurance industry and protect policy holders.

According to the Guideline on Application for Authorization to Carry on Insurance Business in or from Hong Kong (GL5) by IA, authorization to carry on insurance business in or from Hong Kong will only be granted to those insurers who meet the authorization requirements stipulated under section 8 of the Ordinance, which focus mainly on the following criteria:

Capital requirements – Rule 5(1) of IVCR sets out the capital requirements of an applicable insurer. The applicable insurer must ensure at all times that its capital base as determined under IVCR is not less than each of –

- the prescribed capital amount of the insurer as determined under IVCR;
- the minimum capital amount of the insurer as determined under IVCR; and
- HK\$20,000,000.

Fitness and Properness of Directors and Controllers – IA has to be satisfied that the directors and controllers of the applicant are fit and proper persons to hold such positions. In consideration, the IA will take into account all relevant factors as set out in section 14A of the Ordinance, including qualifications, experience, ability to act competently, honestly and fairly, reliability and integrity, as well as financial status. The Guideline on “Fit and Proper” criteria under the Insurance Ordinance (Cap.41) (GL 4) containing details in this connection has also been issued by the IA.

Adequacy of Reinsurance Arrangements – According to the Ordinance, the insurer is required to ensure adequate arrangements are in force for the reinsurance of risks of those classes of insurance being carried on. The insurer must also ensure the Company is financially sound and competent to provide adequate level of services to the insuring public. The Company has arranged reinsurance treaties and facultative outward with local renowned reinsurers to diversify the insurance risk.

(E) Risks and uncertainties facing the Company

The Company faces both internal risks arising from events taking place within the organization that are controllable and external risks arising due to the uncertainties of the business environment which are uncontrollable.

Technology risk – the new IT technology and common use of mobile device and applications has transformed the insurance business models and customers’ behaviors. The Company has planned for increasing use of Web-based platform and mobile application in product promotion, product sale and customer servicing in the insurance industry. The Company will continue to upgrade our technologies, to improve customers’ experience and operational efficiency as well as to support the adoption of Insurance Fraud Prevention Claims Database, risk-based capital framework and new accounting standards.

CALIFORNIA INSURANCE COMPANY, LIMITED

REPORT OF DIRECTORS

BUSINESS REVIEW (Continued)

(F) Future development of the Company

The Company has laid down a lot of directives in the coming few years so as to make the Company financially stronger and more sustainable. These include the launching of several IT-related projects to streamline the sales and claim process, enhance cost-effectiveness, uplift customers experience; and also the Company to has a 360 degree review and assessment of the current & upcoming risk profiles, so as to ensure the Company will be in a ready state to welcome the coming of the ERM and RBC regime as mentioned in Para (E).

On top of that, the Company will continue to develop online business platforms which provides a convenient customer journey to our customers. The Company will also expand our underwriting capabilities and distribution channels and provide professional and quality services to our customer.

(G) The Company's key relationships with its customers, employees, suppliers and others that have a significant impact on the Company and on which the Company's success depends

Relationship with Customers

The Company endeavors to offer a wide range of general insurance services that provide quality protection with value pricing which cater to the needs of individuals and corporate customers of Hong Kong. With our current management team which comprises well qualified insurance professionals with wealth of experience and expertise, we are competent to provide quality services that exceeds customers' expectations.

Relationship with Employees

The Company believes that its employees are valuable and vital assets to its business. There were no material non-compliance cases concluded regarding Employment and Discrimination laws and regulations.

Going beyond legal compliance, the Company adopt a people-centric philosophy in our human resources strategy and policies to create a respectful, productive and rewarding working environment for our employees. Fair recruitment and promotion processes are implemented based on factors such as experience and performance. Moreover, we make a great effort in training our employees while also providing opportunities for professional and personal advancement.

Relationship with Business Partners (Reinsurers, Agents, Brokers, Suppliers)

Throughout the years, the Company has gained strong support from world-class renowned reinsurers in achieving balanced portfolio with appropriate risk management and has not experienced any reinsurers wishing to terminate business relationship with us.

The Company is endowed with a group of competent agents and brokers, working closely to build a healthy business portfolio and, at the same time, provide professional services to customers. Over the past year, the Company had been working more closely with some international brokers, aiming to broaden the Company's business opportunities.

It is the Company's policy to go through a proper procurement process for any non-routine and significant purchases for goods and/or services and to maintain good relationships with suppliers whereby all payments are made promptly with no significant disputes noted.

CALIFORNIA INSURANCE COMPANY, LIMITED

REPORT OF DIRECTORS

DIRECTORS' PERMITTED INDEMNITY PROVISION

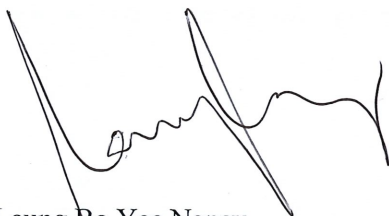
Pursuant to the amended and restated Articles of Association of the Company and the Companies Ordinance, every director may be indemnified out of the Company's assets against any liability incurred by the director to a person other than the Company or an associated company of the Company in connection with any negligence, default, breach of duty or breach of trust in relation to the Company or associated company (as the case may be).

Throughout the Current Financial Year, the Company has maintained directors' and officers' liability insurance policy to indemnify potential liability that a director and/or officer may incur as a result of their office.

AUDITOR

The financial statements have been audited by Messrs. Graham H. Y. Chan & Co. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



Leung Bo Yee Nancy
Chairman
Hong Kong, 25 June 2026



GRAHAM H. Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)
HONG KONG

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CALIFORNIA INSURANCE COMPANY, LIMITED**
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of California Insurance Company Limited (the "Company") set out on pages 4 to 65 which comprise the statement of financial position as at 31 December 2025, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2025, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2025, and of its financial performance and its cash flow for the year then ended in accordance with HKFRS Accounting 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.

Other Information

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

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

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

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

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CALIFORNIA INSURANCE COMPANY, LIMITED - CONTINUED**
(incorporated in Hong Kong with limited liability)

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

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

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

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. This 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 HKSAAs 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 HKSAAs, we exercise professional judgment 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CALIFORNIA INSURANCE COMPANY, LIMITED - CONTINUED**
(incorporated in Hong Kong with limited liability)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement principal on the audit resulting in this independent auditor's report is Lui Siu Hon, Mathew (P05780).

Graham H.Y. Chan & Co.

Graham H.Y. Chan & Co.
Certified Public Accountants (Practising)
Suite 2604, 26/F, AIA Kowloon Tower,
Landmark East, 100 How Ming Street,
Kwun Tong, Kowloon,
Hong Kong

25 June 2026

CALIFORNIA INSURANCE COMPANY, LIMITED

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2025**

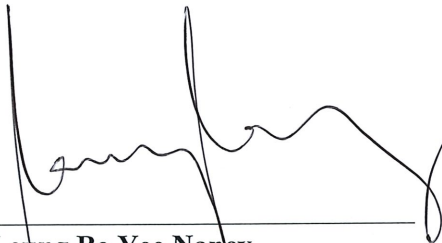
	Note	2025 HK\$	2024 HK\$
Insurance revenue	8	53,327,303	46,969,357
Insurance service expenses		(42,894,668)	(27,372,361)
Net expenses from reinsurance contracts held		(3,568,137)	(7,457,071)
Insurance service result		<u>6,864,498</u>	<u>12,139,925</u>
Finance (expenses)/income from insurance contracts issued		(1,104,441)	1,600,936
Finance expenses from reinsurance contracts held		(248,997)	(432,759)
Interest revenue calculated using the effective interest method	9	4,305,679	4,966,202
Other investment income	9	775,201	175,776
Other income, other gains and losses, net	9	546,941	(306,442)
Other operating expenses	10	(6,749,919)	(6,618,852)
Profit before tax		<u>4,388,962</u>	<u>11,524,786</u>
Income tax expenses	12	(554,377)	(585,863)
Profit for the year		<u><u>3,834,585</u></u>	<u><u>10,938,923</u></u>
Other comprehensive loss for the year, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Changes in the fair value of debt investments at fair value through other comprehensive income		<u>711,550</u>	<u>531,212</u>
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligation		444,131	-
Deficit on revaluation of leasehold land and building		(3,359,859)	(3,550,689)
Income tax relating to revaluation of leasehold land and building	20	<u>554,377</u>	<u>585,863</u>
		<u>(2,361,351)</u>	<u>(2,964,826)</u>
Other comprehensive loss for the year		<u>(1,649,801)</u>	<u>(2,433,614)</u>
Total comprehensive income for the year		<u><u>2,184,784</u></u>	<u><u>8,505,309</u></u>

CALIFORNIA INSURANCE COMPANY, LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2025

	Note	2025 HK\$	2024 HK\$
Assets			
Bank balances and cash	13	99,567,653	95,895,407
Equity investments at fair value through profit or loss	14	4,260,175	1,692,840
Debt investments at fair value through other comprehensive income	15	27,449,471	24,628,947
Reinsurance contract assets	16	19,372,116	19,121,481
Property and equipment	17	33,913,202	38,040,310
Investment in a subsidiary	18	-	-
Deposits, prepayments, interest and other receivables	19	1,102,948	1,854,691
Total assets		<u>185,665,565</u>	<u>181,233,676</u>
Liabilities			
Insurance contract liabilities	16	92,479,799	90,500,901
Reinsurance contract liabilities	16	-	216,385
Cash collateral received from customers		3,022,706	2,162,929
Other payables and accruals		3,780,752	4,316,696
Provision for long service payments		160,759	-
		<u>99,444,016</u>	<u>97,196,911</u>
Net assets		<u>86,221,549</u>	<u>84,036,765</u>
Capital and reserves			
Share capital	21	104,425,418	104,425,418
Reserves		(18,203,869)	(20,388,653)
Total equity		<u>86,221,549</u>	<u>84,036,765</u>

The financial statements on pages 4 to 65 are approved and authorised for issue by the board of directors on 25 June 2026 and are signed on its behalf by:


Leung Bo Yee Nancy
 Director and Chairman of the Board


Lau Lyon
 Director

CALIFORNIA INSURANCE COMPANY, LIMITED

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

	Share capital HK\$	Property revaluation reserve HK\$	Investment revaluation reserve HK\$	Accumulated losses HK\$	Total HK\$
As at 1 January 2024	104,425,418	37,219,550	(788,995)	(65,324,517)	75,531,456
Profit for the year	-	-	-	10,938,923	10,938,923
Other comprehensive (loss)/income for the year:					
Changes in the fair value of debt investments at fair value through other comprehensive income	-	-	531,212	-	531,212
Deficit on revaluation of leasehold land and building	-	(3,550,689)	-	-	(3,550,689)
Income tax relating to revaluation of leasehold land and building	-	585,863	-	-	585,863
Total comprehensive (loss)/income for the year	-	(2,964,826)	531,212	10,938,923	8,505,309
At 31 December 2024	104,425,418	34,254,724	(257,783)	(54,385,594)	84,036,765
As at 1 January 2025	104,425,418	34,254,724	(257,783)	(54,385,594)	84,036,765
Profit for the year	-	-	-	3,834,585	3,834,585
Other comprehensive (loss)/income for the year:					
Changes in the fair value of debt investments at fair value through other comprehensive income	-	-	711,550	-	711,550
Remeasurement of defined benefit obligation	-	-	-	444,131	444,131
Deficit on revaluation of leasehold land and building	-	(3,359,859)	-	-	(3,359,859)
Income tax relating to revaluation of leasehold land and building	-	554,377	-	-	554,377
Total comprehensive (loss)/income for the year	-	(2,805,482)	711,550	4,278,716	2,184,784
At 31 December 2025	104,425,418	31,449,242	453,767	(50,106,878)	86,221,549

CALIFORNIA INSURANCE COMPANY, LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2025**

	Note	2025 HK\$	2024 HK\$
Cash flows from operating activities:			
Profit before tax		4,388,962	11,524,786
Adjustment for:			
Depreciation	10	767,249	777,110
Impairment of investment in a subsidiary	10	-	150,000
Provision for long service payment		604,890	-
Unrealised gain on fair value changes of investments at fair value through profit or loss	9	(621,460)	(20,240)
Dividend income	9	(153,741)	(155,536)
Finance expenses/(income) from insurance contracts issued		1,104,441	(1,600,936)
Finance expenses from reinsurance contracts held		248,997	432,759
Interest revenue calculated using the effective interest method	9	(4,305,679)	(4,966,202)
Operating cash flows before working capital changes		2,033,659	6,141,741
Decrease in deposits, prepayments and other receivables		448,866	520,204
(Increase)/decrease in reinsurance contract receivables		(499,632)	4,404,739
Increase/(decrease) in insurance and reinsurance contract liabilities		658,072	(7,634,827)
Increase in other payables and accruals		323,833	3,118,159
Net cash generated from operating activities		2,964,798	6,550,016
Cash flows from investing activities			
Dividend received		153,741	155,536
Interest received		4,608,556	5,382,176
Purchase of investments at fair value through other comprehensive income		(14,511,427)	(7,730,176)
Proceeds from investment at fair value through other comprehensive income upon maturity		12,402,453	3,519,805
Net cash generated from investing activities		2,653,323	1,327,341
Net increase in cash and cash equivalents		5,618,121	7,877,357
Cash and cash equivalents at beginning of year		95,895,407	88,018,050
Cash and cash equivalents at end of year	13	101,513,528	95,895,407

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General information

California Insurance Company, Limited (the “Company”) is a limited company incorporated and domiciled in Hong Kong and registered under the Hong Kong Insurance Ordinance (the “Insurance Ordinance”) as duly authorised to write certain categories under general insurance business. The registered office and principal place of business of the Company is located at Rooms 1607-8, 16th Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

The Company is principally engaged in underwriting of general insurance business in Hong Kong.

The financial statements are presented in Hong Kong dollar, which is the same as the functional currency of the Company.

2. Basis of preparation and changes of accounting policy

2.1 Basis of preparation

The financial statements have been prepared in accordance with HKFRS Accounting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. For the purpose of preparation of the financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users.

These financial statements have been prepared on the historical cost basis, except for leasehold land and building and certain financial instruments which are measured at revalued amounts and fair values respectively, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation and changes of accounting policy (continued)

2.2 Application of amendments to HKFRS Accounting Standards

In current year, the Company has applied, for the first time, the following amendments to HKFRS Accounting Standard which are mandatory effective for the annual period beginning on or after 1 January 2025 for the preparation of the Company's financial statements:

Amendments to HKAS 21	Lack of Exchangeability
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The adoption of the above amendments had no material impact on the Company's financial statements.

2.3 Change of accounting policy

In June 2022, the Government of the Hong Kong SAR (the "Government") gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which has come into effect from 1 May 2025 (the "Transition Date"). On the Transition Date, an employer can no longer use any of the accrued benefits derived from its mandatory contributions to mandatory provident fund ("MPF") scheme to reduce the long service payment ("LSP") in respect of an employee's service from the Transition Date (the abolition of the "offsetting mechanism"). In addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published the captioned accounting guidance relating to the abolition of the offsetting mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP. To better reflect the substance of the abolition of the offsetting mechanism, the Company has applied the above HKICPA guidance and changed its accounting policy in connection with its LSP liability, which should result in a catch-up profit or loss adjustment in current year for the service cost up to that date and consequential impacts on current service cost, interest expense and remeasurement effects from changes in actuarial assumptions for the rest of the current year.

The abolition of the offsetting mechanism did not have a material impact on the Company's profit or loss for the year ended 31 December 2025 and the Company's financial position as at that date. In light of the immaterial impact, the Company did not apply the change in its accounting policy retrospectively. Alternatively, the catch-up profit or loss adjustment was recognised in the current accounting period with the corresponding increase to the provision for long service payments.

2.4 New standards and amendments to HKFRS Accounting Standards issued but not yet effective not yet adopted

The Company has not early applied the following new standards and amendments to HKFRS Accounting Standards that have been issued but are not yet effective in these financial statements:

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

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of preparation and changes of accounting policy (continued)

2.4 New standards and amendments to HKFRS Accounting Standards issued but not yet effective not yet adopted (continued)

Amendments to HKFRS 9 and HKFRS 7	Contracts Referencing Nature-dependent Electricity ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 21	Translation to a Hyperinflationary Presentation Currency ²

¹ Effective for annual periods beginning on or after 1 January 2026.

² Effective for annual periods beginning on or after 1 January 2027.

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that, except as described below, the application of the new and amendments to HKFRS Accounting Standards will have no material impact on the results and the financial position of the Company.

HKFRS 18 — Presentation and Disclosure in Financial Statements

HKFRS 18 sets out requirements on presentation and disclosures in financial statements and will replace HKAS 1 Presentation of Financial Statements. HKFRS 18 introduces new requirements to present specified categories and defined subtotals in the statement of profit or loss; provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation of information to be disclosed in the financial statements. Minor amendments to HKAS 7 “Statement of Cash Flows” and HKAS 33 “Earnings per Share” are also made. HKFRS 18, and the consequential amendments to other HKFRS Accounting Standards, will be effective for annual periods beginning on or after 1 January 2027, with early application permitted. The application of HKFRS 18 is not expected to have material impact on the financial position of the Company but is expected to affect the presentation of the statement of profit or loss and other comprehensive income and statement of cash flows and disclosures in the future financial statements. The Company will continue to assess the impact of HKFRS 18 on the financial statements of the Company.

3. Material accounting policy information

Insurance contracts

Definition and classification

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

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

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Definition and classification (continued)

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

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

Unit of accounts

Level of aggregation of insurance contracts

The Company categorises insurance contracts subject to similar risks and managed together into the same portfolio. The Company further divides each portfolio into contract groups based on the profitability level, degree of loss, or the possibility of future losses after initial recognition.

The Company divides a portfolio of insurance contracts issued into a minimum of:

- (1) a group of contracts that are onerous at initial recognition, if any;
- (2) a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- (3) a group of the remaining contracts in the portfolio, if any.

The Company divides a portfolio of reinsurance contracts held into a minimum of:

- (1) a group of contracts on which there is a net gain on initial recognition, if any;
- (2) a group of contracts that at initial recognition have no significant possibility of generating a net gain subsequently, if any; and
- (3) a group of the remaining contracts in the portfolio, if any.

The Group does not include contracts issued or held more than one year apart in the same group.

Separation of insurance contracts

If an insurance contract contains multiple components, the Company will separate the following components:

- (1) cash flows relating to embedded derivatives that are required to be separated;
- (2) cash flows relating to distinct investment components; and
- (3) promises to transfer distinct goods or distinct services other than insurance contract services.

The Company applies HKFRS 17 to all remaining components of the contract.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Recognition of insurance contracts

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

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

Groups of reinsurance contracts held are recognised as follows:

- (1) a group of reinsurance contracts held that provide proportionate coverage (quota share reinsurance) is recognised at the later of:
 - i. the beginning of the coverage period of the group; and
 - ii. the initial recognition of any underlying insurance contract;
- (2) all other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts held.

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

Measurement of insurance contracts

Insurance acquisition cash flows

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

Fulfilment cash flows ("FCF") and contract boundary

The FCF, which comprises:

- (1) estimates of future cash flows;
- (2) an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
- (3) a risk adjustment for non-financial risk.

The estimates of future cash flows;

- (1) are based on a probability-weighted mean of the full range of possible outcomes;
- (2) are determined from the perspective of the Company, provided that the estimates are consistent with observable market prices for market variables; and
- (3) reflect conditions existing at the measurement date.

The Company adjusts the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Measurement of insurance contracts (continued)

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

The measurement of the FCF of a group of contracts does not reflect the Company's non-performance risk.

The Company uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts. Estimates of cash flows in a scenario include all cash flows within the boundary of an existing contract and no other cash flows. The Company does not consider any amounts relating to expected premiums or expected claims outside the boundary of the insurance contract.

Insurance contracts issued measured under the GMM

(a) Initial measurement

The Company measures the insurance contracts at group level.

On initial recognition, the Company measures a group of contracts as the total of the FCF and the CSM.

The CSM is a component of the carrying amount of the asset or liability for a group of insurance contracts issued representing the unearned profit that the Company will recognize as it provides insurance contract services in the future.

At initial recognition, the CSM is an amount that results in no income or expenses (unless a group of contracts is onerous) arising from:

- (1) the initial recognition of the FCF;
- (2) cash flows arising from the contracts in the group at that date; and
- (3) the derecognition of any other pre-recognition cash flows.

When the above calculation results in a new outflow, the group of insurance contracts issued is onerous. A loss from onerous insurance contracts is recognised in profit or loss immediately, with no CSM recognised on the statement of financial position on initial recognition, and a loss component is established in the amount of loss recognised.

(b) Subsequent measurement

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

- (1) the liability for remaining coverage ("LRC"), comprising:
 - i. the FCF related to future service allocated to the group at that date; and
 - ii. the CSM of the group at that date.
- (2) the liability for incurred claims ("LIC"), comprising the FCF related to past service allocated to the group at that date.

For insurance contracts issued, the carrying amount of the CSM of a group of contracts at the end of the reporting period equals the carrying amount at the start of the reporting period adjusted for:

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Measurement of insurance contracts (continued)

Insurance contracts issued measured under the GMM (continued)

(b) Subsequent measurement (continued)

- (1) the effect of any new contracts added to the group during the reporting period;
- (2) interest accreted on the carrying amount of the CSM during the reporting period;
- (3) the changes in FCF relating to future services as, except to the extent that:
 - i. such increases in the FCF exceed the carrying amount of the CSM, giving rise to a loss; or
 - ii. such decreases in the FCF are allocated to the loss component of the LRC.
- (4) the effect of any currency exchange differences on the CSM; and
- (5) the amount recognised as insurance revenue because of the transfer of the insurance contract services in the period, determined by the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period.

For the following changes in FCF that relate to future service, an adjustment to the CSM is required:

- (1) experience adjustments arising from premiums received in the period that relate to future services, and related cash flows such as insurance acquisition cash flows and premium-based taxes;
- (2) changes in estimates of the present value of future cash flows in the LRC, except the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risks;
- (3) difference between any investment component expected to become payable in the period and the actual investment component that becomes payable in the period. Those differences are determined by comparing (i) the actual investment component that becomes payable in the period with (ii) the payment in the period that was expected at the start of the period plus any insurance finance income or expenses related to that expected payment before it becomes payable; and
- (4) changes in the risk adjustment for non-financial risk that relate to future service.

(c) Measurement of onerous contracts

An insurance contract is onerous at the date of initial recognition if the FCF allocated to the contract, any previously recognised insurance acquisition cash flows and any cash flows arising from the contract at the date of initial recognition in total are a net outflow. The Company recognises a loss in profit or loss for the net outflow for the group of onerous contracts, resulting in the carrying amount of the liability for the group being equal to the FCF and the CSM of the group being zero.

If estimates of future cash flows and the risk adjustment for non-financial risk relating to future service resulting changes and a group of insurance contracts become onerous on subsequent measurement because of the increase of FCF exceeds the carrying amount of the CSM, the Company recognises a loss in profit or loss to the extent of that excess.

The Company reverses the loss component of LRC and insurance service expenses for the decrease of the estimates in FCF and non-financial risk adjustments relating to future services. If the decrease of LRC exceeds the loss component amount, the CSM is recognised.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Measurement of insurance contracts (continued)

Insurance contracts issued measured under the GMM (continued)

(c) Measurement of onerous contracts (continued)

After the Company has recognised a loss on an onerous group of insurance contracts, the Company allocates the subsequent changes in the LRC on a systematic basis between the loss component and the others. The subsequent changes in the LRC to be allocated are:

- (1) estimates of the present value of future cash flows for claims and expenses released from the LRC because of incurred insurance service expenses;
- (2) changes in the risk adjustment for non-financial risk recognised in profit or loss because of the release from risk; and
- (3) insurance finance income or expenses.

The amounts allocated to loss component are not recognised in insurance revenue during the reporting period.

Insurance contracts issued measured under the PAA

(a) Initial measurement

The Company simplifies the measurement of a group of insurance contracts using the PAA if, and only if any of the conditions below is satisfied, at the inception of the group:

- (1) the Company reasonably expects that the resulting measurement of the LRC would not differ materially from the result of applying the accounting policies for insurance contracts measured under the GMM.
- (2) the coverage period of each contract in the group is one year or less.

For insurance contracts issued, on initial recognition, the Company measures the LRC at the amount of premiums received, less any acquisition cash flows on that date.

(b) Subsequent measurement

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

- (1) the LRC; and
- (2) the LIC, comprising the FCF related to past service allocated to the group at the reporting date.

For insurance contracts issued, at the end of each subsequent reporting period, the carrying amount of the LRC is the carrying amount at the start of the reporting period:

- plus the premiums received in the period;
- minus insurance acquisition cash flows;
- plus any amounts relating to the amortization of insurance acquisition cash flows recognised as an expense in the reporting period;
- plus any adjustment to a financing component;
- minus the amount recognised as insurance revenue for services provided in that period;
- minus any investment component paid or transferred to the LIC.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Measurement of insurance contracts (continued)

Insurance contracts issued measured under the PAA (continued)

(b) Subsequent measurement (continued)

The Company adjusts the carrying amount of the LRC to reflect the time value of money and the effect of financial risk using the discount rates determined on initial recognition. The LRC calculated as such is treated as the LRC without loss component for the onerous group of insurance contracts issued measured under the PAA.

For contracts measured under the PAA, the LIC is measured similarly to the LIC's measurement under the GMM. Future cash flows are adjusted for the time value of money and other financial risks.

(c) Measurement of onerous contracts

If facts and circumstances indicate that a group of insurance contract is onerous on initial recognition or become onerous subsequently, the Company increases the carrying of the LRC to the amount of the FCF determined under the GMM with the amount of such an increase recognised in the insurance service expenses, and a loss component is established for the amount of the loss recognised.

In subsequent periods, the loss component is remeasured at each reporting date in the same way as that for initial recognition, being the difference between the current estimates of the FCF that relate to the remaining coverage and the carrying amount of the LRC without loss component, subject to minimum of zero. The changes in the amount of loss component are recognised within the insurance service expenses.

Reinsurance contracts held measured under the GMM

On initial recognition, the Company measures a group of reinsurance contracts held as the total of the FCF and the CSM.

For reinsurance contracts held, the CSM represents a deferred gain or loss that the Company will recognise as a reinsurance expense as it receives insurance contract services from the reinsurer in the future.

The Company uses consistent assumptions to measure the estimates of the present value of the future cash flows for the group of reinsurance contracts held and the estimates of the present value of the future cash flows for the group(s) of underlying insurance contracts. In addition, the Company includes in the estimates of the present value of the future cash flows for the group of reinsurance contracts held the effect of any risk of non-performance by the issuer of the reinsurance contract.

The Company determines the risk adjustment for non-financial risk so that it represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts.

On initial recognition, the Company recognises any net cost or net gain on purchasing the group of reinsurance contracts held as a CSM measured at an amount equal to the sum of the following items:

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Measurement of insurance contracts (continued)

Reinsurance contracts held measured under the GMM (continued)

- (1) the FCF;
- (2) the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held;
- (3) any cash flows arising at that date; and
- (4) any income recognised in profit or loss when the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts.

The carrying amount at the end of each reporting period of a group of reinsurance contracts held is the sum of the asset for remaining coverage ("ARC") and the asset for incurred claims ("AIC").

The ARC comprises the FCF related to future service allocated to the group at that date and the CSM of the group at that date.

The AIC comprises the FCF related to past service allocated to the group at the reporting date.

The Company adjusts the CSM of the group to which a reinsurance contract held belongs and as a result recognise income when it recognises a loss on initial recognition of onerous underlying contracts, if the reinsurance contract held is entered into before or at the same time as the onerous underlying contracts are recognised. The adjustment to the CSM, whereby a loss-recovery component is established, is determined by multiplying:

- (1) the loss recognised on the underlying insurance contracts; and
- (2) the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held.

Subsequently, the loss-recovery component is adjusted to reflect changes in the loss component of an onerous group of underlying insurance contracts. The loss-recovery component is further adjusted, if required, to ensure that it does not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the Company expects to recover from the group of reinsurance contracts held.

The Company measures the CSM at the end of the reporting period for a group of reinsurance contracts held as the carrying amount determined at the start of the reporting period, adjusted for:

- (1) the effect of any new contracts added to the group;
- (2) interest accreted on the carrying amount of the CSM; and
- (3) income recognised in profit or loss when the Company recognises a loss on addition of onerous underlying insurance contracts to that group. A loss-recovery component is established or adjusted within the ARC for reinsurance contracts held for the amount of income recognised;
- (4) reversals of a loss-recovery component other than changes in the FCF of reinsurance contracts held;
- (5) changes in the FCF, to the extent that the change relates to future service, unless the change results from (i) a change in FCF allocated to a group of underlying insurance contracts that does not adjust the CSM for the group of underlying insurance contracts; or (ii) the recognition and remeasurement of loss component for the group of underlying insurance contracts issued measured under the PAA;
- (6) the effect of any currency exchange differences; and

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Measurement of insurance contracts (continued)

Reinsurance contracts held measured under the GMM (continued)

- (7) the amount recognised in profit or loss for insurance contract services received during the period, determined by the allocation of the CSM remaining at the end of the reporting period (before any allocation) over the current and remaining coverage period of the group of reinsurance contracts held.

Reinsurance contracts held measured under the PAA

For certain groups of reinsurance contracts held that are eligible for the PAA, the Company applies the same accounting principles used to measure a group of insurance contracts issued under the PAA and also develops certain accounting policies for the areas that are unique to the reinsurance contracts held.

On initial recognition, the Company measures the ARC at the amount of ceded premiums paid plus or minus the amount derecognised at that date of any asset or liability previously recognised for cash flows related to the group of reinsurance contracts held.

At the end of each subsequent reporting period, the carrying amount of the ARC is the carrying amount at the start of the reporting period:

- plus the ceded premiums paid in the period;
- plus any adjustment to a financing component;
- minus the amount recognised as an allocation of reinsurance premiums for services received in that period;
- minus any investment component received or transferred to the AIC.

The company adjusts the carrying amount of the ARC to reflect the time value of money and the effect of financial risk using the discount rates determined on initial recognition.

If a loss-recovery component is established for a group of reinsurance contracts held measured under the PAA, the Company adjusts the carrying amount of the ARC instead of adjusting the CSM. At the end of each subsequent reporting period, the carrying amount of the loss-recovery component is remeasured in the same way as that for the initial recognition, determined by multiplying the amount of loss component on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held which will be updated based on the latest available information as at the period end.

The AIC is measured similarly to the AIC's measurement under the GMM. Future cash flows are adjusted for the time value of money and other financial risks.

Derecognition of insurance contracts

The Company derecognises an insurance contract when the obligation specified in the insurance contract expires or is discharged or cancelled.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Presentation

Insurance contract asset and liability

Portfolios of insurance contracts issued and reinsurance contracts held in an asset position are presented separately from those in a liability position. Portfolios of insurance contracts issued are presented separately from portfolios of reinsurance contracts held. Any assets or liabilities for cash flows arising before the recognition of the related group of reinsurance contracts held are included in the carrying amount of the related portfolios of reinsurance contracts held.

Insurance revenue

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

For contracts measured under the GMM, insurance revenue comprises the following:

- (1) amounts relating to the changes in the LRC:
 - (i) claims and other directly attributable expenses incurred in the period measured at the amounts expected at the beginning of the period, excluding:
 - amounts allocated to the loss component;
 - repayments of investment components;
 - amounts of transaction-based taxes collected in a fiduciary capacity;
 - insurance acquisition expenses; and
 - amounts related to the risk adjustment for non-financial risk (see (ii));
 - (ii) changes in the risk adjustment for non-financial risk, excluding
 - changes included in insurance finance income or loss;
 - changes that relate to future coverage (which adjust the CSM); and
 - amounts allocated to the loss component;
 - (iii) amounts of the CSM recognised for the services provided in the period; and
 - (iv) other amounts, e.g. experience adjustments arising from premiums received in the period other than those that relate to future services.
- (2) insurance acquisition cash flows recovery, which is determined by allocating the portion of premiums relating to recovering of those cash flows over the coverage period in a systematic way on the basis of the passage of time.

For contracts measured under the PAA, insurance revenue is an allocation of total expected premium receipts (excluding any investment component, refund of premiums, cash shortfalls due to policyholder's credit risk and adjusted to reflect the time value of money and the effect of financial risk) over the coverage period of a group of contracts on the basis of the passage of time.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Presentation (continued)

Insurance service expenses

Insurance service expenses include the following:

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

For contracts measured under the GMM, amortization of insurance acquisition cash flows is reflected in insurance service expenses in the same amount as insurance acquisition cash flows recovery reflected within insurance revenue, as described above.

For contracts measured under the PAA, insurance acquisition cash flows are amortised over the coverage period on the same basis as the insurance revenue earning pattern for the contracts to which the cash flows relate.

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

Net income/(expenses) from reinsurance contracts held

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

- (1) allocation of reinsurance premiums;
- (2) incurred claims recovery, excluding investment components;
- (3) other incurred directly attributable expenses;
- (4) effect of changes in the risk of reinsurers' non-performance;
- (5) amounts relating to the recognition and reversal of the loss-recovery component; and
- (6) changes that relate to past service – changes in the FCF relating to incurred claims recovery.

The allocation of reinsurance premiums is recognised similarly to insurance revenue. The amount of allocation of reinsurance premiums recognised in the reporting period depicts the transfer of received insurance contract services at an amount that reflects the portion of ceding premiums that the Company expects to pay in exchange for those services.

For contracts measured under the GMM, allocation of reinsurance premium comprises the following amounts relating to the changes in the remaining coverage:

- (1) claims recovery in the period, measured at the amounts expected to be incurred at the beginning of the period, excluding repayments of investment components;
- (2) changes in the risk adjustments for non-financial risk, excluding:
 - (i) changes included in finance income/(expenses) from reinsurance contracts held;
 - (ii) changes that relate to future coverage (which adjust the CSM) and amounts allocated to the loss-recovery component;
- (3) amounts of the CSM recognised for the services received in the period; and

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Insurance contracts (continued)

Presentation (continued)

Net income/(expenses) from reinsurance contracts held (continued)

- (4) other amounts, e.g. experience adjustments arising from premiums paid in the period other than those that relate to future services.

For groups of reinsurance contracts held measured under the PAA, the Company recognises the allocation of reinsurance premiums:

- (1) on the basis of the passage of time; but
- (2) if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then on the basis of the expected timing of incurred insurance service expenses recovery.

Ceding commissions that are not contingent on claims of the underlying contracts issued reduce ceding premiums and are accounted for as part of allocation of reinsurance premiums. Reinsurance cash flows that are contingent on claims of the underlying contracts, for examples profit or sliding commissions, are accounted for part of the claims that are expected to be reimbursed under the reinsurance contract held.

Insurance finance income or expenses

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

- (1) the effect of the time value of money and changes in the time value of money; and
- (2) the effect of financial risk and changes in financial risk.

The Company has chosen to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses.

The Company chooses to present insurance finance income or expenses for the period in profit or loss, and applies the choice of accounting policy to all portfolios of insurance contracts.

Investment in a subsidiary

Investment in a subsidiary is included in the Company's statement of financial position at cost less any identified impairment loss. The results of the subsidiary are accounted for by the Company on the basis of dividends received or receivable.

The Company is a holding company as it has one subsidiary. However, the Company regards this subsidiary as immaterial and therefore, in accordance with section 381(3)(a) of the Hong Kong Companies Ordinance (Cap. 622), is not required to prepare consolidated financial statements.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Property and equipment

Property and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property 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 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 capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

An item of leasehold land and building, office equipment, furniture and fixtures and motor vehicles is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the asset is derecognised.

Leasehold land and building

Leasehold land and building thereon are stated at valuation less accumulated depreciation and any 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. Changes in the revalued amounts of leasehold land and buildings are dealt with as movements in the property 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 property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation of the Company's leasehold land and building is calculated to write off their valuation using the straight line method over their estimated useful lives as follows:

- Leasehold land is amortised over the unexpired term of the lease;
- Building situated on leasehold land is depreciated over the shorter of the unexpired term of the lease and its estimated useful live.

Other items of property and equipment

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

Furniture and fixtures	13%
Office equipment	25%
Motor vehicle	20%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

The Company applies single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use asset representing the right to use the underlying assets.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of storage rental and car park space (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). When the Company enters into a lease in respect of a low-value asset, the Company decides whether to capitalise the lease on a lease-by-lease basis. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

As lessor

When the Company acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Company allocates the consideration in the contract to each component on a relative standalone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in "net investment income and other income" in the statement of profit or loss and other comprehensive income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as investment income in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Investments and other financial assets

Classification

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

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

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVTOCI").

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

Measurement

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

Debt investments

Subsequent measurement of debt investments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising from derecognition or impairment is recognised directly in profit or loss.
- **FVTOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss on the instrument's amortised cost previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in interest income using the effective interest rate method.
- **FVTPL:** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. The gains or losses arisen from fair value changes on the debt investments measured at FVTPL are recognised in profit or loss.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Investments and other financial assets (continued)

Measurement (continued)

Equity investments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends, representing a return on such investments continue to be recognised in profit or loss when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in "net investment income and other income" in the statement of profit or loss and other comprehensive income as applicable.

Impairment

The Company recognises loss allowances for ECLs on the financial instruments that are neither measured at FVTPL nor equity instruments designated at FVTOCI which are subject to impairment under HKFRS 9.

ECLs are required to be measured through a loss allowance at an amount equal to:

- (a) 12-month ECLs ("12m ECLs"), i.e. lifetime ECLs that result from those default events on the financial instrument that are possible within 12 months after the reporting date (referred to as Stage 1); or
- (b) Lifetime ECLs, i.e. lifetime ECLs that result from all possible default events over the life of the financial instrument (referred to as Stage 2 and Stage 3).

Lifetime ECLs represents the ECLs that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECLs represents the portion of lifetime ECLs that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The Company always recognises lifetime ECLs for interest and other receivables. The ECLs on these assets are assessed collectively for debtors with shared risk characteristics. For all other instruments, the Company measures the loss allowance equal to 12m ECLs, unless when there has been a significant increase in credit risk since initial recognition, the Company recognises lifetime ECLs. The assessment of whether lifetime ECLs should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition. ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate. The Company measures ECLs on an individual basis, or on a collective basis for portfolios of financial instruments that share similar economic risk characteristics. The measurement of loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Investments and other financial assets (continued)

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Company considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Investments and other financial assets (continued)

Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collaterals held by the Company).

Irrespective of the above analysis, the Company considers that 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 lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit impairment includes observable data about the following events:

- (a) significant financial difficulty of the borrower or issuer;
- (b) a breach of contract such as a default or past due event;
- (c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- (d) the disappearance of an active market for a security because of financial difficulties; or
- (e) the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off policy

The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECLs

The measurement of ECLs is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Investments and other financial assets (continued)

Measurement and recognition of ECLs (continued)

For financial assets, the ECLs is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

Where lifetime ECLs is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors;
- Nature of collaterals for receivables; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each separate group continues to share similar credit risk characteristics.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECLs in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECLs are no longer met, the Company measures the loss allowance at an amount equal to 12m ECLs at the current reporting date.

The Company recognises an impairment gain or loss in profit or loss. For debt investments at FVTOCI, impairment gain or loss are included in the net impairment loss on financial instruments and correspondingly reduce the accumulated changes in fair value included in investment revaluation reserve of equity.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for ECLs are presented in the statement of financial position as follows:

- (a) for financial assets measured at amortised cost; loss allowances for ECLs are presented in the statement of financial position as a deduction from the gross carrying amount of the assets;
- (b) for debt instruments measured at FVTOCI, no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investment revaluation reserve.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Investments and other financial assets (continued)

Derecognition of financial assets (continued)

Where the Company has transferred its rights to receive cash flows from a financial asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

Financial liabilities within the scope of HKFRS 9 are classified as financial liabilities at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities measured at amortised costs, net of directly attributable transaction costs.

Other financial liabilities, including other creditors and accruals, are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amount is recognised in profit or loss.

Offsetting of financial instruments

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

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, short-term bank deposits and certificate of deposit with an original maturity period of within three months when acquired, and investments in highly liquid money market funds redeemable on demand and subject to insignificant risk of changes in value.

Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities for the year are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss and other comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor the taxable profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right exists to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Income tax (continued)

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Employee benefits

Retirement benefits costs

Contributions to Mandatory Provident Fund Scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense when the employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans including the long service payment ("LSP") under the Hong Kong Employment Ordinance, the cost of providing benefits is determined using the projected unit credit method. In determining the present value of the Company's defined benefit obligations and the related current service cost and, where applicable, past service cost, the Company attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than earlier years, the Company attributes the benefit on a straight-line basis from:

- (a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until
- (b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in accumulated losses and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Employee benefits (continued)

Retirement benefits costs (continued)

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Company remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Company determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability or asset.
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the Company reduces service cost by attributing the contributions to periods of service using the attribution method required by HKAS 19 paragraph 70 for the gross benefits.

For LSP obligation, the Company accounts for the employer Mandatory Provident Fund ("MPF") contributions expected to be offset as a deemed employee contribution towards the LSP obligation in terms of HKAS 19.93(a) and it is measured on a net basis. The estimated amount of future benefit is determined after deducting the negative service cost arising from the accrued benefits derived from the Company's MPF contributions that have been vested with employees, which are deemed to be contributions from the relevant employees.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Material accounting policy information (continued)

Related parties

- (a) A person or a close member of that person's family is related to the Company if 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 the Company's parent.
- (b) An entity is related to the Company if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities 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); or
 - (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).

4. Significant accounting judgements and estimates

In the process of applying the Company's accounting policies, which are described in note 3, the directors of the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on past experience, expectations of the future and other factors that are considered to be relevant. Actual results may differ from these estimates.

Judgements

In the process of applying the Company's accounting policies, the directors of the Company have made the following judgements, apart from those involving estimations and assumptions, which have significant effect on the amounts recognised in the financial statements:

Classification of financial assets

The judgments in determining the classification of financial assets include the analysis of business models and the characteristics of contractual cash flows.

An entity's business model refers to how an entity manages its financial assets in order to generate cash flows. That is, the entity's business model determines whether cash flows are arising from collecting contractual cash flows, selling financial assets or both. The business model of managing financial assets is not determined by a single factor or activity. Instead, the entity should consider all relevant evidence available when making the assessment. Relevant evidence mainly includes, but not limited to, how the cash flow of the group of assets is collected, how the performance of the group of assets is reported to key management personnel, and how the risk of group of assets is being assessed and managed.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4. Significant accounting judgements and estimates (continued)

Judgements (continued)

Classification of financial assets (continued)

The contractual cash flows characteristics of financial assets refer to the cash flow attributes of the financial assets reflecting the economic characteristics of the relevant financial assets (i.e. whether the contractual cash flows generated by the relevant financial assets on a specified date solely represents the payments of principal and interest). The principal amount refers to the fair value of the financial asset at initial recognition. The principal amount may change throughout the lifetime of the financial assets due to prepayment or other reasons. The interest includes the time value of money, the credit risk associated with the outstanding principal amount for a specific period, other basic lending credit risks, and the consideration of costs and profits.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years, are described below:

Valuation of insurance contract liabilities

Estimates of future cash flows

The Company's objective in estimating future cash flows is to determine the expected value or probability-weighted mean of the full range of possible outcomes. The Company incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

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

When estimating future cash flows, the Company takes into account current expectations of future events that might affect those cash flows. However, expectations of future changes in legislation that would change or discharge a present obligation or create new obligations under existing contracts are not taken into account until the change in legislation is substantively enacted.

Cash flows are within the boundary of a contract if they arise from substantive right and obligations that exist during the reporting period. They relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of contracts that are directly attributable to the portfolio of contracts to which the group belongs. Other costs that are incurred in fulfilling the contracts include claims handling, maintenance and administration costs, and recurring commissions payable on instalment premiums receivable within the contract boundary.

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

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4. Significant accounting judgements and estimates (continued)

Valuation of insurance contract liabilities (continued)

Expense assumptions

The Company develops its expense assumption on its expense analysis and future expectation for policy acquisition costs, maintenance expenses and claim expenses.

The Company's expense assumption is determined based on the Company's historical expense experience and economic environment. The Company's expense assumption is affected by certain factors, such as inflation, market competition and other factors. The Company uses information currently available at the balance sheet date to determine expense assumption and a risk adjustment is considered.

Expected loss ratios and future claim development pattern

The major assumptions applied in measuring LIC include the expected loss ratios and future claim development pattern. The expected loss ratios and future claim development pattern of each measurement unit are based on the Company's historical claims development experience and loss ratios, with consideration of adjustments to company policies such as underwriting policies, level of premium rates, claims handling processes, and the changing trends in external environment such as macroeconomic, regulations, and legislation.

Discount rate

All cash flows are discounted using risk-free yield curves adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts.

The table below set out the spot rates used to discount the cash flows of insurance contracts as at 31 December 2025.

Discount rates	2.63% - 2.72%
----------------	---------------

Risk adjustments for non-financial risk

Risk adjustments for non-financial risk are determined to reflect the compensation that the Company would require for bearing non-financial risk.

Risk adjustments are determined using a confidence level technique. The Company estimates the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the 75% (the target confidence level) over the expected present value of the future cash flows.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value of leasehold land and building

Fair value of leasehold land and buildings are based on valuation performed by independent professional valuer. The determination of the fair value involves assumption of market conditions. The directors of the Company have exercised their judgement and are satisfied that the method of valuation is reflective of the

current market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Company's leasehold land and buildings and corresponding adjustments to the change in fair value recognised in other comprehensive income. The movements of fair value of the leasehold land and buildings are set out in note 17.

Measurement of ECL allowance for financial assets measured at amortised cost and at fair value through other comprehensive income

When measuring ECL allowance the Company uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Estimated impairment loss of non-financial assets (other than reinsurance contract assets)

The Company assesses whether there are any indicators of impairment for all non-financial assets other than reinsurance contract assets at the end of each reporting period. Such assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the assets or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Categories of financial instruments

	2025 HK\$	2024 HK\$
<u>Financial assets</u>		
Financial assets at fair value through:		
- profit or loss	4,260,175	1,692,840
- other comprehensive income	27,449,471	24,628,947
	<u>31,709,646</u>	<u>26,321,787</u>
Financial assets at amortised costs:		
Interest and other receivables	811,122	1,549,410
Bank balances and cash	99,567,653	95,895,407
	<u>100,378,775</u>	<u>97,444,817</u>
	<u>132,088,421</u>	<u>123,766,604</u>
<u>Financial liabilities</u>		
Financial liabilities measured at amortised cost:		
Financial liabilities included in other payables and accruals	2,943,227	3,324,946
Cash collateral received from customers	3,022,706	2,162,929
	<u>5,965,933</u>	<u>5,487,875</u>

6. Management of insurance and financial risks

The Company's activities expose it to a variety of risks, including insurance risk, market risk (including equity price risk, currency risk and interest rate risk), credit risk and liquidity risk. The management policies for these types of risks are as follows:

Insurance risk

The risk under an insurance contract arises from the possibility of occurrence of an insured event and the uncertainty of the amount and timing of any resulting claim. By the very nature of the insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This occurs when the frequency or severity of claims and benefits exceeds the estimates. Insurance events are random and the actual number of claims and the amount of benefits paid will vary each year from estimates established using statistical techniques.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Management of insurance and financial risks (continued)

Insurance risk (continued)

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Company manages insurance risk through its underwriting strategy, adequate reinsurance arrangements and claims handling.

The Company cedes reinsurance in the normal course of business for the purpose of limiting exposure to underwriting losses under various reinsurance treaties and facultative reinsurance agreements. These reinsurance agreements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Company's evaluation of the specific risk, subject to certain circumstances, to maximum limits based on characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurers agree to reimburse the ceded amounts in the event the claim is paid. The reinsurance protections are chosen after careful consideration of reinsurers' reputation and credit worthiness.

Concentration of insurance risks

The Company runs its insurance business in Hong Kong. Geographically, there is an inherent concentration of insurance risks in the Company's insurance portfolio.

The table below sets out the concentration of insurance policies being sold by type of contract, expressed in terms of written premium.

	<u>Year ended</u> <u>31 December 2025</u>		<u>Year ended</u> <u>31 December 2024</u>	
	Gross HK\$	Net HK\$	Gross HK\$	Net HK\$
Accident and health	19,552,788	19,549,303	18,896,067	18,622,203
Goods in transit	43,085	15,080	49,203	17,221
Property damage	1,221,963	777,715	943,143	729,468
General liability	15,356,616	14,179,593	18,420,746	14,678,336
Motor	5,849,757	4,744,679	5,238,714	4,249,043
Pecuniary loss	4,131,979	4,131,979	3,513,647	3,513,647
	<u>46,156,188</u>	<u>43,398,349</u>	<u>47,061,520</u>	<u>41,809,918</u>

Sensitivities

It is not possible to quantify the sensitivity of certain variables like legislative change and uncertainty in the estimation process with any degree of confidence. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the insurance contract balances are not quantifiable with certainty.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Management of insurance and financial risks (continued)

Insurance risk (continued)

Sensitivities (continued)

The LIC's sensitivity to unpaid claims and expenses is outlined below. The analysis is performed for possible movements in unpaid claims and expenses with all other variables held constant, showing the pre-tax impact on profit and equity before and after risk mitigation by reinsurance contracts held.

	Change in assumptions	Pre-tax impact on equity as at 31 December 2025 and the profit for the year then ended		Pre-tax impact on equity as at 31 December 2024 and the profit for the year then ended	
		Gross HK\$	Net HK\$	Gross HK\$	Net HK\$
Unpaid claims	+10%	(7,106,000)	(5,220,000)	(6,442,000)	(4,481,000)
and expenses	-10%	7,106,000	5,220,000	6,442,000	4,481,000
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

Reproduced below is an analysis that shows the development of the undiscounted claims over a period of time on a gross basis:

Gross claims development

Accident year	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000	2024 HK\$'000	2025 HK\$'000	Total HK\$'000
Estimated cumulative claims								
- End of current year	29,704	47,621	29,376	24,090	30,185	22,294	22,921	
- One year later	36,683	40,425	24,784	17,217	22,456	20,788		
- Two years later	32,340	36,017	21,144	12,326	20,490			
- Three years later	33,063	34,746	18,890	12,208				
- Four years later	30,537	31,345	19,246					
- Five years later	28,560	29,856						
- Six years later	27,535							
Estimated cumulative claims	27,535	29,856	19,246	12,208	20,490	20,788	22,921	153,044
Less: cumulative gross claims paid	(26,091)	(22,288)	(13,715)	(7,480)	(8,475)	(4,974)	(3,873)	(86,896)
Sub-total								66,148
Liabilities in respect of years before 2019								1,373
Unallocated loss adjustment expenses, discounting, risk adjustment for non-financial risk								7,740
Gross LIC								<u>75,261</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Management of insurance and financial risks (continued)

Insurance risk (continued)

Net claims development

Accident year	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	2023 HK\$'000	2024 HK\$'000	2025 HK\$'000	Total HK\$'000
Estimated cumulative claims								
- End of current year	25,929	33,227	23,537	19,537	26,069	19,674	19,607	
- One year later	31,157	29,791	18,874	14,543	19,403	19,400		
- Two years later	28,307	27,141	16,354	9,793	18,044			
- Three years later	29,646	26,166	14,834	10,216				
- Four years later	28,287	24,237	14,553					
- Five years later	25,993	22,743						
- Six years later	25,251							
Estimated cumulative claims	25,251	22,743	14,553	10,216	18,044	19,400	19,607	129,814
Less: cumulative net claims paid	(24,920)	(20,921)	(12,569)	(6,684)	(8,296)	(4,820)	(3,740)	(81,950)
Sub-total								47,864
Liabilities in respect of years before 2019								806
Unallocated loss adjustment expenses, discounting, risk adjustment for non-financial risk								6,645
Net LIC								55,315

The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from the re-assessment of the ultimate liabilities are recognised in subsequent years' financial statements.

Financial risks

The Company is exposed to certain financial risks, including credit risks, liquidity risk and market risk (including interest rate risk, currency risk and equity price risk). The following section summarises the Company's key risk exposures and the primary policies and processes used by the Company to manage its exposures to these risks.

(1) Credit risk

Credit risks refer to the risk of losses incurred by the inability of debtors or counterparties to fulfil their contractual obligations or by the adverse changes in their credit conditions. The Company is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in debt instruments and money market fund, and reinsurance arrangements with reinsurers.

The Company's maximum exposure to credit risk in the event of the counterparties' failure to meet their obligations as at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

The Company evaluated the credit quality of the reinsurance companies before signing the reinsurance contracts and choose the reinsurance companies with higher credit quality to reduce credit risk.

The Company considered the credit risk associated with this money market fund to be historically low, as it is managed by a highly reputable international financial institution and the fund's underlying investments consist primarily of high-credit-quality, short-term debt instruments and government securities.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Management of insurance and financial risks (continued)

Financial risks (continued)

(1) Credit risk (continued)

Credit quality of bank balances

The following table details the credit quality of bank balances which are assessed by reference to external credit ratings by S&P. All banks are registered under Banking Ordinance in Hong Kong.

	Credit ratings by S&P	2025 HK\$	2024 HK\$
Bank A	AA-	15,413,067	10,191,279
Bank B	A-	90,948	27,071
Bank C	A-	123,025	123,178
Bank D	A+	81,483,231	2,127,143
Bank E	A-	186,581	186,664
Bank F	AA-	2,260,301	4,871,473
Bank G	A	-	78,358,099
Cash on hand	N/A	10,500	10,500
Total bank balances and cash		<u>99,567,653</u>	<u>95,895,407</u>

Credit quality of debt investments

The following table details the credit quality of the unlisted debt investments which are assessed by reference to external credit ratings by Moody's / S&P as appropriate:

	2025 HK\$	2024 HK\$
Credit ratings by Moody's:		
A3	17,584,056	14,682,453
A2	3,085,722	-
Baa1	6,779,693	1,943,148
Baa2	-	2,310,790
Credit ratings by S&P:		
A-	-	2,314,144
Unrated	-	3,378,412
	<u>27,449,471</u>	<u>24,628,947</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Management of insurance and financial risks (continued)

(1) Credit risk (continued)

Expected credit loss on financial assets

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

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Company and changes in the operating results of the customer.

The Company measures loss allowances for interest and other receivables at an amount equal to lifetime ECLs and debt investments and bank balances at an amount equal to 12-month ECLs. Given that there is no history of significant defaults from debtors, the Company assesses that the ECLs for financial assets are minimal.

The following table presents the credit risk exposure of debt investment and bank balances and cash:

At 31 December 2025

	Stage 1 HK\$	Stage 2 HK\$	Stage 3 HK\$	Total HK\$
Bank balances and cash	99,567,653	-	-	99,567,653
Debt investments	27,449,471	-	-	27,449,471
	<u>127,017,124</u>	<u>-</u>	<u>-</u>	<u>127,017,124</u>

At 31 December 2024

	Stage 1 HK\$	Stage 2 HK\$	Stage 3 HK\$	Total HK\$
Bank balances and cash	95,895,407	-	-	95,895,407
Debt investments	24,628,947	-	-	24,628,947
	<u>120,524,354</u>	<u>-</u>	<u>-</u>	<u>120,524,354</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Management of insurance and financial risks (continued)

Financial risks (continued)

(2) Liquidity risk

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

The Company's objective is to maintain a balance between continuity of funding and flexibility. In the opinion of the directors, the Company is able to generate adequate funds to finance its operations and to cover the claims at unexpected levels of demand.

The following table details the Company's remaining contractual maturities of its financial liabilities at the end of the reporting period, which are based on contractual undiscounted cash flows of the financial liabilities and the earliest date on which the Company can be required to pay.

	Carrying amount HK\$	Repayable on demand or within one year HK\$	Total HK\$
<u>As at 31 December 2025</u>			
Financial liabilities included in other payables and accruals	2,943,227	2,943,227	2,943,227
Cash collateral received from customers	3,022,706	3,022,706	3,022,706
	<u>5,965,933</u>	<u>5,965,933</u>	<u>5,965,933</u>
<u>As at 31 December 2024</u>			
Financial liabilities included in other payables and accruals	3,324,946	3,324,946	3,324,946
Cash collateral received from customers	2,162,929	2,162,929	2,162,929
	<u>5,487,875</u>	<u>5,487,875</u>	<u>5,487,875</u>

The following table presented the estimated amount and timing of the remaining contractual undiscounted cash flows arising from insurance contracts and reinsurance contracts measured under the GMM as at 31 December 2025 and 2024 (the LRC for insurance contracts issued and the ARC for reinsurance contracts held measured under the PAA are not included in the table).

	Within 1 year HK\$	1 to 2 years HK\$	2 to 3 years HK\$	3 to 4 years HK\$	4 to 5 years HK\$	Total HK\$
<u>As at 31 December 2025</u>						
Insurance contract liabilities	(4,367,143)	(2,682,072)	(1,277,846)	-	-	(8,327,061)
Reinsurance contract liabilities	415,784	1,210,476	576,719	-	-	2,202,979
Net gap	<u>(3,951,359)</u>	<u>(1,471,596)</u>	<u>(701,127)</u>	<u>-</u>	<u>-</u>	<u>(6,124,082)</u>
<u>As at 31 December 2024</u>						
Insurance contract liabilities	(642,259)	(5,629,468)	(3,306,363)	(1,810,423)	-	(11,388,513)
Reinsurance contract liabilities	(2,084,479)	515,137	280,629	187,594	-	(1,101,119)
Net gap	<u>(2,726,738)</u>	<u>(5,114,331)</u>	<u>(3,025,734)</u>	<u>(1,622,829)</u>	<u>-</u>	<u>(12,489,632)</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Management of insurance and financial risks (continued)

Financial risks (continued)

(3) Market risk

(i) Currency risk

The Company operates mainly in Hong Kong with most of the transactions denominated and settled in Hong Kong dollar. Certain financial assets of the Company are denominated in currencies other than its functional currency (“foreign currencies”). The Company currently does not hedge its currency risk. However, the management monitors foreign currency exposure on an ongoing basis and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Company’s major exposure at the end of the reporting period to currency risk arising from recognised assets denominated in foreign currencies, expressed in Hong Kong dollar equivalent:

	2025 HK\$	2024 HK\$
Assets		
Renminbi (“RMB”)	45,058	42,997
United States Dollar (“USD”)	110,943,115	105,609,086

If RMB had strengthened/weakened by 5% (2024: 5%) against Hong Kong dollar with all other variables held constant, there would be no material effect on the Company’s profit for the years ended 31 December 2025 and 2024 and its equity as at 31 December 2025 and 2024.

If USD had strengthened/weakened by 5% (2024: 5%) against Hong Kong dollar with all other variables held constant, the Company’s profit for the year ended 31 December 2025 would have increased/decreased by approximately HK\$4,175,000 (2024: HK\$4,049,000) and the Company’s equity as at 31 December 2025 would have increased/decreased by approximately HK\$5,547,000 (2024: HK\$5,280,000).

The sensitivity analysis above has been determined based on the exposure to currency risk arising from RMB and USD at the end of the reporting period. The 5% increase or decrease represents management’s assessment of a reasonably possible change in exchange rates. The analysis is performed on the same basis for year ended 31 December 2024.

(ii) 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.

The Company has exposure to interest rate risk through the impact of the interest rate changes on its investment in debt securities, money market fund, and bank deposits. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s fair value interest rate risk relates primarily to its investment in fixed-rate debt securities. The Company’s cash flow interest rate risk relates primarily to its bank deposits which are repriced at intervals of within one week to twelve months and the money market fund whose return fluctuates based on prevailing short-term market interest rates.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6. Management of insurance and financial risks (continued)

Financial risks (continued)

(3) Market risk (continued)

(ii) Interest rate risk (continued)

The Company currently does not have any interest rate hedging policy. The directors monitor the Company's exposure on ongoing basis and will consider shortening the maturity period of time deposits or hedging interest rate risk should the need arise.

Sensitivity analysis

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit after tax and equity.

	Increase / decrease in interest rates	<u>31 December 2025</u>		<u>31 December 2024</u>	
		Increase/ (decrease) in profit after tax HK\$	Increase/ (decrease) in equity HK\$	Increase/ (decrease) in profit after tax HK\$	Increase/ (decrease) in equity HK\$
Financial instruments	+ 50 bp	91,300	(741,000)	65,000	(258,000)
	- 50 bp	(91,300)	741,000	(65,000)	258,000
Insurance contracts	+ 50 bp	1,123,000	1,123,000	673,000	673,000
	- 50 bp	(1,123,000)	(1,123,000)	(673,000)	(673,000)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the Company's exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates. The analysis is performed on the same basis for the year ended 31 December 2024.

(iii) Equity price risk

The Company is exposed to equity price risk through its equity investments. The Company manages equity price risk by maintaining an appropriately diversified investment portfolio designed to reduce the risk of concentration in any one specific industry or issuer and by closely monitoring equity investments for price changes.

As at 31 December 2025, if the prices of the respective equity instruments had been 5% (2024: 5%) higher/lower, the Company's profit for the year ended 31 December 2025 would have increased/decreased by approximately HK\$116,000 (2024: HK\$85,000) as a result of the changes in fair value of equity investments.

The sensitivity analysis above had been determined assuming that the change in equity prices had occurred at the end of the reporting period and had been applied to the Company's exposure to equity price risk for financial instruments in existence at that date. The 5% increase or decrease represents management's assessment of a reasonably possible change in equity price.

In the opinion of the directors of the Company, the sensitivity analysis was unrepresentative of the inherent equity price risk as it only reflects the impact of equity price changes to equity securities held as at the end of the reporting period.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Fair value and fair value hierarchy of financial instruments

(a) Fair value of the financial assets that are measured at fair value on a recurring basis

Some of the Company's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 2025 HK\$	2024 HK\$	Fair value hierarchy	Valuation technique(s) and key input(s)
Listed equity securities	2,314,300	1,692,840	Level 1	Quoted bid prices in an active market
Unlisted fund	1,945,875	-	Level 1	Published net asset value per unit published by custodian
Debt investments	<u>27,449,471</u>	<u>24,628,947</u>	Level 1	Quoted bid prices in an active market

During the years ended 31 December 2025 and 2024, the Company does not have any assets transferred between Level 1 and Level 2 fair value hierarchy and no transfer into and out of Level 3 fair value hierarchy.

The following table provides an analysis of the Company's financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	Total HK\$
<u>As at 31 December 2025</u>				
Financial assets at fair value through profit or loss	4,260,175	-	-	4,260,175
Financial assets at fair value through other comprehensive income	<u>27,449,471</u>	<u>-</u>	<u>-</u>	<u>27,449,471</u>
	<u>31,709,646</u>	<u>-</u>	<u>-</u>	<u>31,709,646</u>
<u>As at 31 December 2024</u>				
Financial assets at fair value through profit or loss	1,692,840	-	-	1,692,840
Financial assets at fair value through other comprehensive income	<u>24,628,947</u>	<u>-</u>	<u>-</u>	<u>24,628,947</u>
	<u>26,321,787</u>	<u>-</u>	<u>-</u>	<u>26,321,787</u>

(b) Fair value measurement and valuation process

The management of the Company is responsible for determining appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Financial assets such as money market funds are valued using unadjusted quoted prices (published net asset values) in active markets, which are classified as Level 1 inputs, regardless of whether the pricing is obtained directly from the fund administrator or via a custodian bank. Where Level 1 inputs are not available, the Company relies on alternative valuation techniques, including fair value information provided by brokers or agents or fund managers.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Insurance revenue

	2025 HK\$	2024 HK\$
Amounts relating to the changes in the LRC		
Expected incurred claims and other directly attributable expenses	1,886,248	617,264
Change in the risk adjustment for non-financial risk for the risk expired	541,138	112,959
CSM recognised for the service provided	267,508	128,456
Insurance acquisition cash flows recovery	815,301	167,442
Insurance revenue from contracts measured under the GMM	3,510,195	1,026,121
Insurance revenue from contracts measured under the PAA	49,817,108	45,943,236
	<u>53,327,303</u>	<u>46,969,357</u>

9. Net investment income and other income, other gains and losses, net

	2025 HK\$	2024 HK\$
Interest income from:		
Current bank deposits, fixed term deposits and certificate of deposits	3,099,191	4,020,148
Debt investments at fair value through other comprehensive income	1,206,488	946,054
	4,305,679	4,966,202
Income from investments at fair value through profit or loss:		
Dividend income	153,741	155,536
Unrealised gain on fair value changes	621,460	20,240
	775,201	175,776
Other income, other gains or losses, net:		
Rental income	166,320	166,320
Exchange gain/(losses)	334,247	(561,797)
Sundry income	46,374	89,035
	546,941	(306,442)
	<u>5,627,821</u>	<u>4,835,536</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Other operating expenses

The following expenses for the years ended 31 December 2025 and 2024 were analysed by nature. Expenses incurred that were fulfillment cash flows are not presented in other operating expenses, but either presented as insurance service expenses or recognised as insurance acquisition cash flows according to HKFRS 17.

	2025 HK\$	2024 HK\$
Staff costs including directors' remuneration		
- salaries, allowances and other benefits	7,161,569	7,427,491
- retirement benefits scheme contributions	150,430	146,692
- provision for long service payments	604,890	-
	<u>7,916,889</u>	<u>7,574,183</u>
Commission and referral expenses	19,009,967	18,530,204
Auditor's remuneration	699,000	742,000
Depreciation	767,249	777,110
Impairment of investment in a subsidiary	-	150,000
License and registration fees	317,548	317,548
Other expenses	2,410,011	2,454,246
	<u>31,120,664</u>	<u>30,545,291</u>
Subtotal	31,120,664	30,545,291
Less: insurance acquisition cash flows	(19,009,967)	(18,530,204)
Less: Other incurred expenses directly attributable to insurance contracts	(5,360,778)	(5,396,235)
	<u>6,749,919</u>	<u>6,618,852</u>
Other operating expenses	<u>6,749,919</u>	<u>6,618,852</u>

11. Directors' remuneration

Remuneration of the Company's directors disclosed pursuant to section 383 of the Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) is as follows:

	2025 HK\$	2024 HK\$
Directors' emoluments for services as directors of the Company:		
- Directors' fees	<u>360,000</u>	<u>360,000</u>

12. Income tax charge

No provision for Hong Kong profits tax has been made in the financial statements for the years ended 31 December 2025 and 2024, as the Company has tax losses brought forward from previous year which exceed the assessable profit for both years.

Income tax for the year can be reconciled to the profit before tax per the statement of profit or loss and other comprehensive income:

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Income tax charge (continued)

	2025 HK\$	2024 HK\$
Profit before tax	<u>4,388,962</u>	<u>11,524,786</u>
Tax at the domestic income tax rate of 16.5%	724,179	1,901,590
Tax effect of non-deductible expenses	781,232	98,887
Tax effect of non-taxable income	-	(147,370)
Utilisation of tax losses previously not recognised	<u>(951,034)</u>	<u>(1,267,244)</u>
Income tax charge for the year	<u>554,377</u>	<u>585,863</u>

Income tax credit recognised in other comprehensive income for the year represents:

	2025 HK\$	2024 HK\$
Deferred tax (note 20):		
- Arising on revaluation of leasehold land and building	<u>554,377</u>	<u>585,863</u>
Total income tax recognised in other comprehensive income	<u>554,377</u>	<u>585,863</u>

13. Bank balances and cash

	2025 HK\$	2024 HK\$
Fixed-term deposits with banks in Hong Kong with original maturity of three months or less	1,804,411	1,956,717
Certificate of deposit with original maturity of three months or less	-	78,358,099
Current and savings accounts held at banks and financial institutions in Hong Kong	97,752,742	15,570,091
Cash in hand	<u>10,500</u>	<u>10,500</u>
Bank balances and cash	99,567,653	95,895,407
Unlisted money market fund (note 14)	<u>1,945,875</u>	<u>-</u>
Cash and cash equivalents	<u>101,513,528</u>	<u>95,895,407</u>

As at 31 December 2025, the fixed-term bank deposits carry fixed interest rates of 3.33% per annum (2024: 4.19% per annum). As at 31 December 2025, there is no certificate of deposit. As at 31 December 2024, the certificate of deposit carried fixed interest rate of 4.55% per annum.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Equity investments at fair value through profit or loss

	2025 HK\$	2024 HK\$
Equity securities listed in Hong Kong, at fair value	2,314,300	1,692,840
Unlisted money market fund, at fair value	1,945,875	-
	<u>4,260,175</u>	<u>1,692,840</u>

15. Debt investments at fair value through other comprehensive income

	2025 HK\$	2024 HK\$
Unlisted debt securities, at fair value	<u>27,449,471</u>	<u>24,628,947</u>

As at 31 December 2025, the debt investments carried fixed interest ranging from 4.19% to 6.16% (2024: from 3.08% to 6.16%) per annum.

16. Insurance contracts

(1) Movement of insurance contract assets and liabilities of contracts issued measured under the PAA

	For the year ended 31 December 2025				
	LRC		LIC		Total HK\$
	Excluding loss component HK\$	Loss component HK\$	Present value of future cash flows HK\$	Risk adjustment for non- financial risk HK\$	
As at 1 January 2025					
Insurance contract liabilities	(13,174,888)	(20,600)	(58,977,123)	(7,990,519)	(80,163,130)
Insurance revenue (note 8)	49,817,108	-	-	-	49,817,108
Insurance service expenses					
- incurred claims and other directly attributable expenses	-	-	(13,850,318)	(705,669)	(14,555,987)
- insurance acquisition cash flows amortisation	(19,932,458)	-	-	-	(19,932,458)
- losses on onerous contracts and reversals of those losses	-	(1,195,725)	-	-	(1,195,725)
- adjustments to liabilities for incurred claims	-	-	(1,005,060)	2,742,134	1,737,074
Insurance service result	<u>29,884,650</u>	<u>(1,195,725)</u>	<u>(14,855,378)</u>	<u>2,036,465</u>	<u>15,870,012</u>
Insurance finance income or expenses from insurance contracts recognised in profit or loss	<u>(50,615)</u>	<u>202,623</u>	<u>(1,078,428)</u>	<u>(225,827)</u>	<u>(1,152,247)</u>
Total changes in the statement of comprehensive income	<u>29,834,035</u>	<u>(993,102)</u>	<u>(15,933,806)</u>	<u>1,810,638</u>	<u>14,717,765</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Insurance contracts (continued)

(1) Movement of insurance contract assets and liabilities of contracts issued measured under the PAA (continued)

For the year ended 31 December 2025					
	LRC		LIC		Total HK\$
	Excluding loss component HK\$	Loss component HK\$	Present value of future cash flows HK\$	Risk adjustment for non- financial risk HK\$	
Premiums received	(43,792,381)	-	-	-	(43,792,381)
Insurance acquisition cash flows	19,380,622	-	-	-	19,380,622
Claims and other insurance service expenses paid	-	-	14,573,432	-	14,573,432
Total cash flows	(24,411,759)	-	14,573,432	-	(9,838,327)
Net insurance contract liabilities as at 31 December 2025, represented by insurance contract liabilities	(7,752,612)	(1,013,702)	(60,337,497)	(6,179,881)	(75,283,692)
For the year ended 31 December 2024					
	LRC		LIC		Total HK\$
	Excluding loss component HK\$	Loss component HK\$	Present value of future cash flows HK\$	Risk adjustment for non- financial risk HK\$	
As at 1 January 2024					(95,008,366)
Insurance contract liabilities	(14,449,912)	(220,039)	(70,103,328)	(10,235,087)	(95,008,366)
Insurance revenue (note 8)	45,943,236	-	-	-	45,943,236
Insurance service expenses - incurred claims and other directly attributable expenses	-	-	(14,122,977)	(1,169,160)	(15,292,137)
- insurance acquisition cash flows amortisation	(17,122,911)	-	-	-	(17,122,911)
- losses on onerous contracts and reversals of those losses	-	199,439	-	-	199,439
- adjustments to liabilities for incurred claims	-	-	4,790,288	3,383,533	8,173,821
Insurance service result	28,820,325	199,439	(9,332,689)	2,214,373	21,901,448
Insurance finance income or expenses from insurance contracts recognised in profit or loss	945,000	-	435,781	30,195	1,410,976
Total changes in the statement of comprehensive income	29,765,325	199,439	(8,896,908)	2,244,568	23,312,424

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Insurance contracts (continued)

(1) Movement of insurance contract assets and liabilities of contracts issued measured under the PAA (continued)

	For the year ended 31 December 2024				
	LRC		LIC		Total HK\$
	Excluding loss component HK\$	Loss component HK\$	Present value of future cash flows HK\$	Risk adjustment for non- financial risk HK\$	
Premiums received	(46,977,533)	-	-	-	(46,977,533)
Insurance acquisition cash flows	18,487,232	-	-	-	18,487,232
Claims and other insurance service expenses paid	-	-	20,023,113	-	20,023,113
Total cash flows	(28,490,301)	-	20,023,113	-	(8,467,188)
Net insurance contract liabilities as at 31 December 2024, represented by insurance contract liabilities	(13,174,888)	(20,600)	(58,977,123)	(7,990,519)	(80,163,130)

(2) Movement of insurance contract assets and liabilities of contracts issued measured under the GMM

	For the year ended 31 December 2025		
	LRC (Excluding loss component) HK\$	LIC HK\$	Total HK\$
As at 1 January 2025			
Insurance contract liabilities	(8,158,128)	(2,179,643)	(10,337,771)
Insurance revenue (note 8)	3,510,195	-	3,510,195
Insurance service expenses			
- incurred claims and other directly attributable expenses	-	(7,919,696)	(7,919,696)
- insurance acquisition cash flows amortisation	(815,301)	-	(815,301)
- adjustments to liabilities for incurred claims		(212,575)	(212,575)
Insurance service result	2,694,894	(8,132,271)	(5,437,377)
Insurance finance income or expenses from insurance contracts recognised in profit or loss	(223,251)	271,057	47,806
Total changes in the statement of comprehensive income	2,471,643	(7,861,214)	(5,389,571)
Premiums received	(3,367,680)	-	(3,367,680)
Insurance acquisition cash flows	601,982	-	601,982
Claims and other insurance service expenses paid	-	1,296,933	1,296,933
Total cash flows	(2,765,698)	1,296,933	(1,468,765)
Net insurance contract liabilities as at 31 December 2025, represented by insurance contract liabilities	(8,452,183)	(8,743,924)	(17,196,107)

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Insurance contracts (continued)

(2) Movement of insurance contract assets and liabilities of contracts issued measured under the GMM (continued)

	For the year ended 31 December 2024		
	LRC (Excluding loss component) HK\$	LIC HK\$	Total HK\$
As at 1 January 2024			
Insurance contract liabilities	(4,916,435)	-	(4,916,435)
Insurance revenue (note 8)	1,026,121	-	1,026,121
Insurance service expenses			
- incurred claims and other directly attributable expenses	-	(3,163,131)	(3,163,131)
- insurance acquisition cash flows amortisation	(167,442)	-	(167,442)
Insurance service result	858,679	(3,163,131)	(2,304,452)
Insurance finance income or expenses from insurance contracts recognised in profit or loss	(1,168)	191,128	189,960
Total changes in the statement of comprehensive income	857,511	(2,972,003)	(2,114,492)
Premiums received	(4,938,800)	-	(4,938,800)
Insurance acquisition cash flows	839,596	-	839,596
Claims and other insurance service expenses paid	-	792,360	792,360
Total cash flows	(4,099,204)	792,360	(3,306,844)
Net insurance contract liabilities as at 31 December 2024, represented by insurance contract liabilities	(8,158,128)	(2,179,643)	(10,337,771)

(3) Movement of reinsurance contract assets and liabilities of contracts held measured under the PAA

	For the year ended 31 December 2025			
	ARC	AIC		
	Excluding loss component HK\$	Present value of future cash flows HK\$	Risk adjustment for non- financial risk HK\$	Total HK\$
As at 1 January 2025:				
Reinsurance contract assets	(2,323,947)	18,821,494	2,623,934	19,121,481
Allocation of reinsurance premiums	(3,298,639)	-	-	(3,298,639)
Amounts recovered from reinsurers				
- incurred claims recovery	-	510,868	88,876	599,744
- changes in expected recoveries on past claims	-	(1,917,109)	(978,316)	(2,895,425)
Net expenses from reinsurance contracts held	(3,298,639)	(1,406,241)	(889,440)	(5,594,320)
Insurance finance income or expenses from reinsurance contracts recognised in profit or loss	(221,563)	28,967	34,126	(158,470)
Total changes in the statement of comprehensive income	(3,520,202)	(1,377,274)	(855,314)	(5,752,790)

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Insurance contracts (continued)

(3) Movement of reinsurance contract assets and liabilities of contracts held measured under the PAA (continued)

	For the year ended 31 December 2025			
	ARC	AIC		Total
	Excluding loss component HK\$	Present value of future cash flows HK\$	Risk adjustment for non-financial risk HK\$	HK\$
Premiums paid net of ceding commissions	4,562,605	-	-	4,562,605
Recoveries from reinsurance	-	(1,313,451)	-	(1,313,451)
Total cash flows	4,562,605	(1,313,451)	-	3,249,154
Net reinsurance contract assets as at 31 December 2025, represented by reinsurance contract assets	(1,281,544)	16,130,769	1,768,620	16,617,845

	For the year ended 31 December 2024				
	ARC		AIC		Total
	Excluding loss component HK\$	Loss component HK\$	Present value of future cash flows HK\$	Risk adjustment for non-financial risk HK\$	HK\$
As at 1 January 2024:					
Reinsurance contract assets	(1,736,464)	447,265	21,185,441	4,062,737	23,958,979
Allocation of reinsurance premiums	(4,754,366)	-	-	-	(4,754,366)
Amounts recovered from reinsurers					
- incurred claims recovery	-	-	556,627	245,401	802,028
- recognition and reversal of loss recovery component	-	(447,265)	-	-	(447,265)
- changes in expected recoveries on past claims	-	-	(1,172,022)	(1,696,924)	(2,868,946)
Net expenses from reinsurance contracts held	(4,754,366)	(447,265)	(615,395)	(1,451,523)	(7,268,549)
Insurance finance income or expenses from reinsurance contracts recognised in profit or loss	(155,000)	-	(290,864)	12,720	(433,144)
Total changes in the statement of comprehensive income	(4,909,366)	(447,265)	(906,259)	(1,438,803)	(7,701,693)
Premiums paid net of ceding commissions	4,321,883	-	-	-	4,321,883
Recoveries from reinsurance	-	-	(1,457,688)	-	(1,457,688)
Total cash flows	4,321,883	-	(1,457,688)	-	2,864,195
Net reinsurance contract assets as at 31 December 2024, represented by reinsurance contract assets	(2,323,947)	-	18,821,494	2,623,934	19,121,481

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Insurance contracts (continued)

(4) Movement of reinsurance contract assets and liabilities of contracts held measured under the GMM

	For the year ended 31 December 2025		
	ARC Excluding loss component HK\$	AIC HK\$	Total HK\$
As at 1 January 2025:			
Reinsurance contract liabilities	(216,385)	-	(216,385)
Allocation of reinsurance premiums	(107,805)	-	(107,805)
Amounts recovered from reinsurers - incurred claims recovery	-	2,133,988	2,133,988
Net (expenses)/income from reinsurance contracts held	(107,805)	2,133,988	2,026,183
Insurance finance income or expenses from reinsurance contracts recognised in profit or loss	(5,240)	(85,287)	(90,527)
Total changes in the statement of comprehensive income	(113,045)	2,048,701	1,935,656
Premiums paid net of ceding commissions	1,036,800	-	1,036,800
Recoveries from reinsurance	-	(1,800)	(1,800)
Total cash flows	1,036,800	(1,800)	1,035,000
Net reinsurance contract assets as at 31 December 2025, represented by reinsurance contract assets	707,370	2,046,901	2,754,271
	For the year ended 31 December 2024		
	ARC Excluding loss component HK\$	AIC HK\$	Total HK\$
As at 1 January 2024:			
Reinsurance contract liabilities	(28,248)	-	(28,248)
Allocation of reinsurance premiums	(188,522)	-	(188,522)
Net expenses from reinsurance contracts held	(188,522)	-	(188,522)
Insurance finance income or expenses from reinsurance contracts recognised in profit or loss	385	-	385
Total changes in the statement of comprehensive income	(188,137)	-	(188,137)
Premiums paid net of ceding commissions	-	-	-
Recoveries from reinsurance	-	-	-
Total cash flows	-	-	-
Net reinsurance contract assets as at 31 December 2024, represented by reinsurance contract liabilities	(216,385)	-	(216,385)

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Insurance contracts (continued)

(5) Analysis by measurement component of insurance contract issued measured under the GMM

	For the year ended 31 December 2025			
	Estimates of the Present value of FCF HK\$	Risk adjustment for non- financial risk HK\$	CSM HK\$	Total HK\$
Net insurance contract liabilities as at 1 January 2025	(6,910,820)	(1,675,816)	(1,751,135)	(10,337,771)
CSM recognised for the service provided	-	-	267,508	267,508
Change in the risk adjustment for non-financial risk for the risk expired	-	5,473	-	5,473
Experience adjustments – relating to insurance service expenses	(5,497,783)	-	-	(5,497,783)
Changes that relate to current service	<u>(5,497,783)</u>	<u>5,473</u>	<u>267,508</u>	<u>(5,224,802)</u>
Change in estimate that adjust the CSM	(1,591,853)	520,418	1,071,435	-
Changes that relate to future service	<u>(1,591,853)</u>	<u>520,418</u>	<u>1,071,435</u>	<u>-</u>
Change in the FCF relating to LIC	(267,047)	54,472	-	(212,575)
Changes that relate to past service	<u>(267,047)</u>	<u>54,472</u>	<u>-</u>	<u>(212,575)</u>
Insurance service result	<u>(7,356,683)</u>	<u>580,363</u>	<u>1,338,943</u>	<u>(5,437,377)</u>
Insurance finance expenses from insurance contracts issued	142,681	(24,902)	(69,973)	47,806
Total changes in the statement of comprehensive income	<u>(7,214,002)</u>	<u>555,461</u>	<u>1,268,970</u>	<u>(5,389,571)</u>
Premiums received	(3,367,680)	-	-	(3,367,680)
Claims and other directly attributable expenses paid	1,296,933	-	-	1,296,933
Insurance acquisition cash flows	601,982	-	-	601,982
Total cash flows	<u>(1,468,765)</u>	<u>-</u>	<u>-</u>	<u>(1,468,765)</u>
Net insurance contract liabilities as at 31 December 2025, represented by insurance contract liabilities	<u>(15,593,587)</u>	<u>(1,120,355)</u>	<u>(482,165)</u>	<u>(17,196,107)</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Insurance contracts (continued)

(5) Analysis by measurement component of insurance contract issued measured under the GMM (continued)

	For the year ended 31 December 2024			
	Estimates of the Present value of FCF HK\$	Risk adjustment for non- financial risk HK\$	CSM HK\$	Total HK\$
Net insurance contract liabilities as at 1 January 2024	(1,439,178)	(1,482,052)	(1,995,205)	(4,916,435)
CSM recognised for the service provided	-	-	128,456	128,456
Change in the risk adjustment for non-financial risk for the risk expired	-	(150,460)	-	(150,460)
Experience adjustments – relating to insurance service expenses	(2,282,448)	-	-	(2,282,448)
Changes that relate to current service	<u>(2,282,448)</u>	<u>(150,460)</u>	<u>128,456</u>	<u>(2,304,452)</u>
Insurance service result	<u>(2,282,448)</u>	<u>(150,460)</u>	<u>128,456</u>	<u>(2,304,452)</u>
Insurance finance expenses from insurance contracts issued	117,650	(43,304)	115,614	189,960
Total changes in the statement of comprehensive income	<u>(2,164,798)</u>	<u>(193,764)</u>	<u>244,070</u>	<u>(2,114,492)</u>
Premiums received	(4,938,800)	-	-	(4,938,800)
Claims and other directly attributable expenses paid	792,360	-	-	792,360
Insurance acquisition cash flows	839,596	-	-	839,596
Total cash flows	<u>(3,306,844)</u>	<u>-</u>	<u>-</u>	<u>(3,306,844)</u>
Net insurance contract liabilities as at 31 December 2024, represented by insurance contract liabilities	<u>(6,910,820)</u>	<u>(1,675,816)</u>	<u>(1,751,135)</u>	<u>(10,337,771)</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Insurance contracts (continued)

(6) Analysis by measurement component of reinsurance contract held measured under the GMM

	For the year ended 31 December 2025			
	Estimates of the Present value of FCF HK\$	Risk adjustment for non- financial risk HK\$	CSM HK\$	Total HK\$
Net reinsurance contract liabilities as at 1 January 2025	(720,902)	462,515	42,002	(216,385)
CSM recognised for the service provided	-	-	757,210	757,210
Change in the risk adjustment for non- financial risk	-	(2,775)	-	(2,775)
Experience adjustments for the period	1,271,748	-	-	1,271,748
Changes that relate to current service	<u>1,271,748</u>	<u>(2,775)</u>	<u>757,210</u>	<u>2,026,183</u>
Change in estimates that adjust the CSM	2,111,499	54,209	(2,165,708)	-
Changes that relate to future service	<u>2,111,499</u>	<u>54,209</u>	<u>(2,165,708)</u>	<u>-</u>
Net (expenses)/income from reinsurance contracts held	<u>3,383,247</u>	<u>51,434</u>	<u>(1,408,498)</u>	<u>2,026,183</u>
Insurance finance expenses from reinsurance contracts held	(100,298)	8,095	1,676	(90,527)
Total changes in the statement of comprehensive income	<u>3,282,949</u>	<u>59,529</u>	<u>(1,406,822)</u>	<u>1,935,656</u>
Premiums paid net of ceding commissions	1,296,000	-	-	1,296,000
Recoveries from reinsurance	(261,000)	-	-	(261,000)
Total cash flows	<u>1,035,000</u>	<u>-</u>	<u>-</u>	<u>1,035,000</u>
Net reinsurance contract assets as at 31 December 2025, represented by reinsurance contract assets	<u>3,597,047</u>	<u>522,044</u>	<u>(1,364,820)</u>	<u>2,754,271</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Insurance contracts (continued)

(6) Analysis by measurement component of reinsurance contract held measured under the GMM (continued)

	For the year ended 31 December 2024			
	Estimates of the Present value of FCF HK\$	Risk adjustment for non- financial risk HK\$	CSM HK\$	Total HK\$
Net reinsurance contract assets as at 1 January 2024	(591,396)	479,976	83,172	(28,248)
CSM recognised for the service provided	-	-	(3,081)	(3,081)
Change in the risk adjustment for non- financial risk	-	(36,612)	-	(36,612)
Experience adjustments for the period	(148,829)	-	-	(148,829)
Changes that relate to current service	<u>(148,829)</u>	<u>(36,612)</u>	<u>(3,081)</u>	<u>(188,522)</u>
Net expenses from reinsurance contracts held	<u>(148,829)</u>	<u>(36,612)</u>	<u>(3,081)</u>	<u>(188,522)</u>
Insurance finance expenses from reinsurance contracts held	19,323	19,151	(38,089)	385
Total changes in the statement of comprehensive income	<u>(129,506)</u>	<u>(17,461)</u>	<u>(41,170)</u>	<u>(188,137)</u>
Premiums paid net of ceding Commissions	-	-	-	-
Recoveries from reinsurance	-	-	-	-
Total cash flows	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net reinsurance contract liabilities as at 31 December 2024, represented by reinsurance contract liabilities	<u>(720,902)</u>	<u>462,515</u>	<u>42,002</u>	<u>(216,385)</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Insurance contracts (continued)

(7) Expected release of the contractual service margin

An analysis of expected release of the CSM remaining at the end of the reporting period in profit or loss is provided in the following table:

For the year ended 31 December 2025

	Insurance contracts issued HK\$	Reinsurance contracts held HK\$
Number of years until expected to be released		
Within 1 year	243,710	689,886
More than 1 year but less than 2 years	158,432	448,446
More than 2 years but less than 3 years	80,023	226,488
Total	<u>482,165</u>	<u>1,364,820</u>

For the year ended 31 December 2024

	Insurance contracts issued HK\$	Reinsurance contracts held HK\$
Number of years until expected to be released		
Within 1 year	625,472	15,002
More than 1 year but less than 2 years	589,684	14,144
More than 2 years but less than 3 years	365,124	7,705
More than 3 years but less than 4 years	170,856	5,151
Total	<u>1,751,136</u>	<u>42,002</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Property and equipment

	At valuation	At cost		
	Leasehold land and building held for own use HK\$	Leasehold improvement, furniture and fixtures HK\$	Motor vehicle HK\$	Total HK\$
<u>Cost or valuation</u>				
At 1 January 2024	41,000,000	2,287,434	807,708	44,095,142
Adjustment on revaluation	(4,000,000)	-	-	(4,000,000)
At 31 December 2024 and 1 January 2025	37,000,000	2,287,434	807,708	40,095,142
Adjustment on revaluation	(3,800,000)	-	-	(3,800,000)
At 31 December 2025	33,200,000	2,287,434	807,708	36,295,142
<u>Accumulated depreciation</u>				
At 1 January 2024	-	1,700,109	26,924	1,727,033
Charge for the year	449,311	166,258	161,541	777,110
Adjustment on revaluation	(449,311)	-	-	(449,311)
Eliminated upon disposals				
At 31 December 2024 and 1 January 2025	-	1,866,367	188,465	2,054,832
Charge for the year	440,141	165,565	161,543	767,249
Adjustment on revaluation	(440,141)	-	-	(440,141)
At 31 December 2025	-	2,031,932	350,008	2,381,940
<u>Carrying amount</u>				
At 31 December 2025	33,200,000	255,502	457,700	33,913,202
At 31 December 2024	37,000,000	421,067	619,243	38,040,310

Fair value measurement of the Company's leasehold land and building held for own use

The Company's leasehold land and building held for own use are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. The latest valuation on the Company's leasehold land and building held for own use was performed at 31 December 2025 by B. I. Appraisals Limited, an independent firm of professional valuers not related to the Company. B. I. Appraisals Limited is a member of the Hong Kong Institute of Surveyors, and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations.

The recurring fair value measurement for leasehold land and buildings as at 31 December 2025 and 2024 is categorised as Level 2 of the fair value hierarchy. The fair values of the leasehold land and building held for own use as at 31 December 2025 and 2024 was determined using direct comparison method by making reference to comparable sales evidence of offerings as available in the relevant market. Relevant comparable properties are analysed and considered with adjustments including location, time, size, building quality and others as appropriate. The most significant input into this valuation approach is price per square foot.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Property and equipment (continued)

During the years ended 31 December 2025 and 2024, there is no transfer between the levels of fair value hierarchy.

The revaluation gave rise to a net revaluation deficit of HK\$2,805,482 (2024: HK\$2,964,826) after applicable deferred income tax, which has been debited to the property revaluation reserve as at 31 December 2025.

As at 31 December 2025, if the leasehold land and buildings had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation, which is HK\$5,921,967 (2024: HK\$5,932,452).

18. Investment in a subsidiary

	2025 HK\$	2024 HK\$
At cost, unlisted	150,000	150,000
Less: impairment loss	(150,000)	(150,000)
	<u>-</u>	<u>-</u>

Particular of the subsidiary is as follows:

Name of subsidiary	Place of incorporation and business	Number of ordinary shares issued and fully paid	Paid-in capital	Percentage of equity held	Principal activity
Harbour Faith International Limited	Hong Kong	100 (2024 : 100)	HK\$100 (2024: HK\$100)	100% (2024: 100%)	Inactive

19. Deposits, prepayments, interest and other receivables

	2025 HK\$	2024 HK\$
Deposits	125,651	125,651
Prepayments	166,175	179,630
Interest receivables	353,397	656,274
Levy receivables	457,725	893,136
	<u>1,102,948</u>	<u>1,854,691</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. Deferred tax

	Accelerated tax depreciation HK\$	Unused tax losses HK\$	Insurance contracts HK\$	Fair value adjustment of equity investments at FVTPL HK\$	Revaluation of leasehold land and building HK\$	Total HK\$
At 1 January 2024	53,253	(6,002,022)	130,894	(55,958)	5,873,833	-
(Credited)/charged to profit or loss for the year	(38,895)	410,120	211,298	3,340	-	585,863
Credited to other comprehensive income for the year	-	-	-	-	(585,863)	(585,863)
At 31 December 2024 and 1 January 2025	14,358	(5,591,902)	342,192	(52,618)	5,287,970	-
(Credited)/charged to profit or loss for the year	(40,818)	848,402	(355,748)	102,541	-	554,377
Credited to other comprehensive income for the year	-	-	-	-	(554,377)	(554,377)
At 31 December 2025	(26,460)	(4,743,500)	(13,556)	49,923	4,733,593	-

As at 31 December 2025, the Company had unused tax losses of HK\$59,848,325 (2024: HK\$70,753,994) available for offset against future profits. A deferred tax asset amounting to HK\$4,743,500 (2024: HK\$5,591,902) has been recognised in respect of tax losses of HK\$28,748,485 (2024: HK\$33,890,315). No deferred tax has been recognised in respect of the remaining tax losses of HK\$31,099,840 (2024: HK\$36,863,679) as at 31 December 2025 due to unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

21. Share capital

	Number of ordinary shares	HK\$
Issued and fully paid :		
At 1 January 2024, 31 December 2024, 1 January 2025 and 31 December 2025	7,920,288	104,425,418

There is no change in share capital for both years.

Capital management

The Company's capital includes the components of total equity. The Company's primary objectives when managing capital are to ensure that the Company complies with externally imposed capital requirements and statutory solvency requirements and to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21. Share capital (continued)

Capital management (continued)

The Company manages capital by regularly monitoring its solvency margin and its current and expected liquidity requirements rather than using debt/equity analyses. The Company's operation is mainly sourced from internally generated funds.

The Hong Kong Risk-based Capital ("HKRBC") regime has been effective since 1 July 2024 under the Insurance Ordinance and the Company is required to maintain its capital, which is determined in accordance with the Insurance (Valuation and Capital) Rules ("IVCR"), not less than the prescribed capital amount ("PCA") or HK\$20,000,000, whichever is higher.

As at 31 December 2025 and 2024, the HKRBC solvency margin ratio of the Company is as follows:

	2025 HK\$'000	2024 HK\$'000
Capital base	89,706	84,152
PCA	29,905	39,017
HKRBC Solvency ratio	300.0%	215.7%

The Company defines "capital base" is the eligible capital as determined in accordance with IVCR and "HKRBC solvency ratio" is the ratio of capital base to PCA.

The Company complied with all regulatory capital requirements for both years.

22. Related party transactions

(a) Key management personnel compensation

	2025 HK\$	2024 HK\$
Short-term employee benefits	4,271,230	4,083,431
Post-employment benefits	50,175	50,175
	<u>4,321,405</u>	<u>4,133,606</u>

Further details of directors' emoluments are included in note 11 to the financial statements.

(b) Transactions with other related parties

The following transactions occurred with related parties:

	2025 HK\$	2024 HK\$
Rental income received from a company controlled by a director	166,320	166,320
Legal and professional fee paid to a partnership controlled by a director	<u>727,165</u>	<u>1,627,650</u>

CALIFORNIA INSURANCE COMPANY, LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Related party transactions (continued)

(c) Balance due with related parties

	2025 HK\$	2024 HK\$
Rental deposit received from a company controlled by a director	<u>27,720</u>	<u>27,720</u>

23. Leases

As a lessor

At the end of the reporting period, the Company leases a portion of its leasehold land and buildings under operating lease. The lease typically runs for an initial period of two years. Lease income from lease contracts in which the Company acts as a lessor is as below:

	2025 HK\$	2024 HK\$
Operating leases – fixed rental income received	<u>166,320</u>	<u>166,320</u>

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments under non-cancellable operating leases to be received after the end of the reporting period:

	2025 HK\$	2024 HK\$
Within 1 year	110,880	166,320
Later than 1 year and not later than 5 years	-	110,880
	<u>110,880</u>	<u>277,200</u>