

NAN FUNG TREASURY (III) LIMITED
(incorporated in the British Virgin Islands with limited liability)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST MARCH 2024

INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF NAN FUNG TREASURY (III) LIMITED
(incorporated in the British Virgin Islands with limited liability)

Opinion

What we have audited

The financial statements of Nan Fung Treasury (III) Limited (the “Company”), which are set out on pages 6 to 24, comprise:

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

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31st March 2024, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

**INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF NAN FUNG TREASURY (III) LIMITED
(CONTINUED)**
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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is the amount due from a fellow subsidiary company:

Amount due from a fellow subsidiary company

Refer to note 9 to the financial statements

As at 31st March 2024, the Company had an amount due from a fellow subsidiary company of HK\$3,837,815,085.

Our audit focused on the amount due from a fellow subsidiary company due to its size and the relative significance of our audit effort on such balance and also the inherent estimation uncertainty in respective recoverability assessment.

We have performed the following procedures in relation to amount due from a fellow subsidiary company:

- we understood management's processes of the recoverability assessment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and the judgements involved in determining assumptions to be applied;
- we obtained direct confirmation from the fellow subsidiary company to confirm the outstanding balance as at year end;
- we checked the principal amount to the agreements signed with the fellow subsidiary company;
- we assessed the reasonableness of the methodology and related parameters of expected credit loss assessment, including probability of default, loss given at default, risk exposure, and whether there was a significant increase in credit risk; and
- we assessed the forward-looking information used by management, including macroeconomic variables, assumptions and weightings of multiple macroeconomic scenarios.

Based on the audit procedures performed, we found the amount due from a fellow subsidiary company is supportable by available evidence.

**INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF NAN FUNG TREASURY (III) LIMITED
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Other Information

The directors are responsible for the other information. The other information comprises the information included in the appendix "Detailed statement of comprehensive income for the year ended 31st March 2024" but does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs, 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF NAN FUNG TREASURY (III) LIMITED
(CONTINUED)**
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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 ISAs 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 ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

**INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF NAN FUNG TREASURY (III) LIMITED
(CONTINUED)**

(incorporated in the British Virgin Islands with limited liability)

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wan Sau Mei.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25th June 2024

NAN FUNG TREASURY (III) LIMITED
(incorporated in the British Virgin Islands with limited liability)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST MARCH 2024**

	Note	2024 HK\$	2023 HK\$
Interest income		202,037,306	201,485,292
Interest expenses		(195,622,635)	(195,978,323)
Net interest income	5	6,414,671	5,506,969
Other gain/(loss)	6	1,486,269	(1,154,658)
Change in fair value on perpetual capital securities		284,711,748	685,487,125
Other operating expenses	7	(1,482,300)	(1,293,721)
Profit before income tax		291,130,388	688,545,715
Income tax	8	(790,193)	(650,350)
Profit for the year		290,340,195	687,895,365
Other comprehensive income/(loss)			
<i>Items that may not be reclassified subsequently to profit or loss</i>			
Change in fair value on perpetual capital securities attributable to the change in the credit risk		47,463,154	(1,726,225)
Other comprehensive income/(loss) for the year		47,463,154	(1,726,225)
Total comprehensive income for the year		337,803,349	686,169,140

NAN FUNG TREASURY (III) LIMITED
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STATEMENT OF FINANCIAL POSITION
AS AT 31ST MARCH 2024

	Note	2024 HK\$	2023 HK\$
ASSETS			
Non-current assets			
Amount due from a fellow subsidiary company	9	3,837,815,085	3,837,815,085
Deferred income tax asset	15	4,448,636	5,238,829
		3,842,263,721	3,843,053,914
Current assets			
Amount due from a fellow subsidiary company	9	33,120,870	32,568,855
Amount due from immediate holding company		7,826	7,850
Cash and cash equivalents		349,060	349,814
		33,477,756	32,926,519
Total assets			
		3,875,741,477	3,875,980,433

NAN FUNG TREASURY (III) LIMITED

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STATEMENT OF FINANCIAL POSITION (CONTINUED)**AS AT 31ST MARCH 2024**

	Note	2024 HK\$	2023 HK\$
EQUITY			
Share capital	10	7,793	7,793
Other reserve		(323,851,160)	(371,314,314)
Retained profit		1,498,364,033	1,208,023,838
Shareholder's equity		<u>1,174,520,666</u>	<u>836,717,317</u>
LIABILITIES			
Non-current liability			
Perpetual capital securities	11	<u>2,677,125,338</u>	<u>3,009,300,240</u>
Current liabilities			
Accrual		90,970	51,000
Interest payable	12	11,413,281	11,447,479
Amounts due to fellow subsidiary companies	13	12,591,222	18,464,397
		<u>24,095,473</u>	<u>29,962,876</u>
Total liabilities		<u>2,701,220,811</u>	<u>3,039,263,116</u>
Total equity and liabilities		<u>3,875,741,477</u>	<u>3,875,980,433</u>

On behalf of the Board

Hui Him Yeung Billy
DirectorTung Chun Wai Nelson
Director

NAN FUNG TREASURY (III) LIMITED

(incorporated in the British Virgin Islands with limited liability)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST MARCH 2024**

	Share capital HK\$	Other reserve HK\$	Retained profit HK\$	Total HK\$
1st April 2022	7,793	(369,588,089)	520,128,473	150,548,177
Profit for the year	-	-	687,895,365	687,895,365
Other comprehensive loss Change in fair value on perpetual capital securities attributable to the change in the credit risk	-	(1,726,225)	-	(1,726,225)
Total comprehensive income for the year	-	(1,726,225)	687,895,365	686,169,140
At 31st March 2023 and 1st April 2023	7,793	(371,314,314)	1,208,023,838	836,717,317
Profit for the year	-	-	290,340,195	290,340,195
Other comprehensive income Change in fair value on perpetual capital securities attributable to the change in the credit risk	-	47,463,154	-	47,463,154
Total comprehensive income for the year	-	47,463,154	290,340,195	337,803,349
At 31st March 2024	7,793	(323,851,160)	1,498,364,033	1,174,520,666

NAN FUNG TREASURY (III) LIMITED
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST MARCH 2024

	2024 HK\$	2023 HK\$
Cash flows from operating activities		
Profit before income tax	291,130,388	688,545,715
Interest income	(202,037,306)	(201,485,292)
Interest expenses	195,622,635	195,978,323
Change in fair value on perpetual capital securities	(284,711,748)	(685,487,125)
Net exchange (gain)/loss	(1,486,269)	1,154,658
	(1,482,300)	(1,293,721)
Changes in working capital:		
Increase/(decrease) in accrual	39,970	(38,700)
Decrease in amounts due to fellow subsidiary companies	(4,386,882)	(4,131,979)
Net cash used in operating activities	(5,829,212)	(5,464,400)
Interest received	201,485,291	201,485,292
Interest paid	(195,656,833)	(195,945,729)
Net cash (used in)/generated from operating activities	(754)	75,163
Net (decrease)/increase in cash and cash equivalents	(754)	75,163
Cash and cash equivalents at the beginning of the year	349,814	274,651
Cash and cash equivalents at the end of the year	349,060	349,814

NAN FUNG TREASURY (III) LIMITED
(incorporated in the British Virgin Islands with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Nan Fung Treasury (III) Limited (the “Company”) is a limited liability company incorporated in the British Virgin Islands. The address of the Company’s registered office is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands. The principal activity of the Company is the provision of treasury services to group companies through the issuance of guaranteed senior perpetual capital securities.

The immediate holding company is NF Treasury Holdings Limited and the ultimate holding company is Chen’s Group International Limited, which is incorporated in the British Virgin Islands.

On 10th September 2020, the Company issued US\$500 million 5% guaranteed senior perpetual capital securities (“perpetual capital securities”). The perpetual capital securities were issued for general corporate funding purposes and were guaranteed by Nan Fung International Holdings Limited (“NFIHL”), the intermediate holding company. Details of which are set out in note 11 to the financial statements.

These financial statements have been approved for issue by the Board of Directors on 25th June 2024.

2 Summary of material accounting policies

The material accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments and perpetual capital securities, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(i) New Standard and amendments to standards adopted by the Company

The Company has adopted the following new standard and amendments to standards which are mandatory for the financial year beginning 1st April 2023 and are relevant to its operation.

IAS 1 and IFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies
IAS 8 (Amendments)	Definition of Accounting Estimates
IAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities Arising from a Single Transaction
IAS 12 (Amendments)	International Tax Reform – Pillar Two Model Rules
IFRS 17 and IFRS 17 (Amendments)	Insurance contracts
IFRS 17	Initial Application of IFRS 17 and IFRS 9 – Comparative Information

NAN FUNG TREASURY (III) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policies (Continued)

(a) Basis of preparation (Continued)

(i) New Standard and amendments to standards adopted by the Group (Continued)

The Company has assessed the impact of the adoption of these new standard and amendments to standards, there is neither significant impact on the Company's results and financial position nor any substantial changes in the Company's accounting policies and presentation of the financial statements.

(ii) New standards and amendments to standards which are not yet effective for this financial year and have not been early adopted by the Company

The Company has not early adopted the following new standards and amendments to standards that have been issued but are not yet effective for the year ended 31st March 2024:

		Effective for accounting periods beginning on or after
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1st January 2024
IAS 1 (Amendments)	Non-current Liabilities with Covenants	1st January 2024
IAS 7 and IFRS 7	Supplier Finance Arrangements	1st January 2024
IAS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1st January 2024
IAS 21 (Amendments)	Lack of Exchangeability	1st January 2025
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its Associate or Joint Venture	To be determined

The Company will adopt the above new standard and amendments to standards and is in the process of assessing the impact on the financial statements.

NAN FUNG TREASURY (III) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policies (Continued)

(b) Foreign currency translation

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

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

(c) Financial assets

(i) Classification of financial asset

The Company classifies its financial assets in the following categories: at fair value either through profit or loss or through other comprehensive income (“OCI”) or those to be measured at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. The classification of debt financial assets depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies debt investments when and only when its business model for managing those assets changes. 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 (“FVOCI”).

(ii) Measurement of financial assets

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.

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

(1) Debt instruments

Subsequent measurement of debt instruments 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 on derecognition is recognised directly in profit or loss and presented in “other gain/(loss)”, together with foreign exchange gains and losses and impairment losses.

NAN FUNG TREASURY (III) LIMITED
(incorporated in the British Virgin Islands with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policies (Continued)

(c) Financial assets (Continued)

(ii) Measurement of financial assets (Continued)

(1) Debt instruments (Continued)

- FVOCI: 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 FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "other gains/(losses), net". Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses and impairment expenses are presented in "other gain/(loss)".
- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of comprehensive income within "other gain/(loss)" in the period in which it arises. Interest income is recognised in the profit or loss.

(2) Equity instruments

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 from such investments continue to be recognised in the 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 "other gain/(loss)" in the statement of comprehensive income as applicable.

(iii) Impairment of financial assets

The Company assesses on a forward looking basis the expected credit loss ("ECL") associated with its financial assets measured at amortised cost and debt instruments at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition.

Impairment on debt instruments at amortised cost and FVOCI are measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of material accounting policies (Continued)

(d) Cash and cash equivalents

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

(e) Other payable

Other payable is recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(f) Financial liabilities at fair value through profit or loss

Financial liabilities shall be classified as subsequently measured at amortised cost. At initial recognition, the Company may irrevocably designate a financial liability as measured at FVTPL. The perpetual capital securities of the Company are designated as at FVTPL. Changes in the fair value of the perpetual capital securities designated as at FVTPL are recognised in profit or loss except for the change in fair value of the perpetual capital securities attributable to the changes in the credit risk of the financial liabilities designated as at FVTPL. Fair value change attributable to the changes in the credit risk of the financial liabilities designated as at FVTPL shall be presented in other comprehensive income.

(g) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

NAN FUNG TREASURY (III) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management

(a) Financial risk factors

The Company's activities expose it to various types of financial risk which include credit risk, foreign exchange risk and liquidity risk. The Company's overall risk management programme seeks to minimise the potential adverse effects it may have on the Company's financial performance.

(i) Credit risk

At each end of reporting period, the Company's maximum exposure to credit risk in the event of the counterparties failure to discharge their obligations are in relation to each class of recognised financial assets as stated in the statement of financial position.

The Company's financial assets which are potentially subject to credit risk consist principally of the amounts due from a fellow subsidiary company, immediate holding company and cash and cash equivalents. The exposures to these credit risks are closely monitored on an ongoing basis by established credit control procedures.

The directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the period. To assess whether there is a significant increase in credit risk the Company compares risk of a default occurring on the assets as at the end of the reporting period with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

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

With respect to credit risk arising on the amounts due from a fellow subsidiary company and immediate holding company, managements regularly assess credit risk for these amounts and consider the Company's credit risk arising from intercompany balances to be minimal.

With respect to credit risk arising on cash and cash equivalents, the Company has limited its credit exposure by restricting their selection of financial institutions and banks with good credit rating.

Management considers amounts due from a fellow subsidiary company, immediate holding company and cash and cash equivalents as low credit risk as counterparties have a strong capacity to meet its contractual cash flow obligations in the near future. The Company has assessed that the financial assets are performing without significant increase in credit risk. Hence, ECL is assessed based on 12-month ECL method. The impairment provision recognised for these balances is close to zero.

(ii) Foreign exchange risk

The Company does not expose to foreign exchange risk as most of the transactions are denominated in Hong Kong dollars and United States dollars. Cash and cash equivalents, interest payable, accrual, perpetual capital securities, balances with fellow subsidiary companies are mainly denominated in Hong Kong dollars and United States dollars. In view of the fact that Hong Kong dollars is pegged to United States dollars, the foreign currency risk on United States dollars transactions and balances is minimal.

NAN FUNG TREASURY (III) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

In order to maintain liquidity, the Company obtains funding from its group companies.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year HK\$	Perpetual HK\$
At 31st March 2023		
Interest payable	11,447,479	-
Amounts due to fellow subsidiary companies	18,464,397	-
Perpetual capital securities (Note)	-	3,924,850,000
	<u>29,911,876</u>	<u>3,924,850,000</u>
At 31st March 2024		
Interest payable	11,413,281	-
Amounts due to fellow subsidiary companies	12,591,222	-
Perpetual capital securities (Note)	-	3,913,125,000
	<u>24,004,503</u>	<u>3,913,125,000</u>

Note:

Assuming the perpetual capital securities will be redeemed on the first call date, 10 September 2023 or on any business day thereafter the first call date on the Company giving not less than 30 nor more than 60 days' notice to the Trustee, the interest accruing and payable will be as below:

	Within 1 year HK\$	1 to 2 years HK\$	Over 2 years HK\$
At 31st March 2023			
Interest payable on perpetual capital securities	<u>87,637,062</u>	<u>-</u>	<u>-</u>
At 31st March 2024			
Interest payable on perpetual capital securities	<u>32,162,671</u>	<u>-</u>	<u>-</u>

(b) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company obtains funding from issuance of perpetual capital securities and obtains funding from its group companies.

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(c) Fair value estimation

The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The carrying amounts of cash and cash equivalents, interest payable, amounts due from/to fellow subsidiary companies and immediate holding company and accrual approximate their fair values due to the short-term maturities of these assets and liabilities.

The financial instruments are measured in the statement of financial position at fair value in accordance with IFRS 13. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table represents the Company's financial instruments measured at fair value:

	Valuation hierarchy			Total
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	
At 31st March 2023				
Perpetual capital securities	3,009,300,240	-	-	3,009,300,240
At 31st March 2024				
Perpetual capital securities	2,677,125,338	-	-	2,677,125,338

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to estimate the fair value of an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There is no significant reclassification of financial assets during the period.

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NOTES TO THE FINANCIAL STATEMENTS

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Recoverability of amounts due from a fellow subsidiary company

Management regularly assesses the loss allowances for amounts due from a fellow subsidiary company based on assumptions about risk of default and expected loss rates. Management uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the counterparty's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

5 Net interest income

	2024 HK\$	2023 HK\$
Interest income from a fellow subsidiary company	202,037,306	201,485,292
Interest expenses on perpetual capital securities	(195,622,635)	(195,978,323)
	<u>6,414,671</u>	<u>5,506,969</u>

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6 Other gain/(loss)

	2024 HK\$	2023 HK\$
Net exchange gain/(loss)	1,486,269	(1,154,658)

7 Other operating expenses

	2024 HK\$	2023 HK\$
Auditor's remuneration	53,040	51,000
Donation	-	9,001
Legal and professional fees	105,270	27,451
Registration fee	32,283	28,623
Administrative costs recharged by a fellow subsidiary company (note 16)	1,291,102	1,176,781
Bank service charges	605	615
Sundry expenses	-	250
	1,482,300	1,293,721

8 Income tax

No provision for Hong Kong profits tax has been made as the Company has no assessable profits for the years after utilization of tax losses.

The amount of income tax charged to the statement of comprehensive income represents:

	2024 HK\$	2023 HK\$
Deferred income tax charged	790,193	650,350

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NOTES TO THE FINANCIAL STATEMENTS

8 Income tax (Continued)

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of Hong Kong, the principal place where the Company operates, as follows:

	2024 HK\$	2023 HK\$
Profit before income tax	291,130,388	688,545,715
Calculated at a tax rate of 16.5% (31st March 2023: 16.5%)	48,036,514	113,610,043
Income not subject to tax	(47,246,321)	(114,949,250)
Expenses not deductible for tax purposes	-	1,989,557
Income tax charged	790,193	650,350

9 Amounts due from a fellow subsidiary company

The balances are denominated in Hong Kong dollars. As at 31st March 2024, the balance of HK\$3,837,815,085 (2023: HK\$3,837,815,085) bears interest at a rate of 5.25% (2023: 5.25%) per annum and is not expected to be repaid in one year or less. The remaining balance is unsecured, interest free and has no fixed terms of repayment.

10 Share capital

	Number of shares	Share capital HK\$
Ordinary shares at US\$1 each issued:		
At 31st March 2023 and 2024	1,000	7,793

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NOTES TO THE FINANCIAL STATEMENTS

11 Perpetual capital securities

			As at 31st March 2024	As at 31st March 2023
	Fixed interest yield per annum	Principal amount (million)	Fair value HK\$	Fair value HK\$
Perpetual capital securities				
- Listed on Singapore Exchange Securities Trading Limited	5%	US\$500	2,677,125,338	3,009,300,240

As described in note 1 to the financial statements, the Company issued perpetual capital securities on 10th September 2020. The perpetual capital securities bear interests at 5% which are repayable semi-annually in arrear from 10th March 2021 and the coupon payment can be deferred at the discretion of the Company and there is no limit as to the number of times of deferral of coupon payment. The perpetual capital securities are guaranteed by NFIHL ("Guarantor") which is an intermediate holding company of the Company. When the Guarantor and the Company elect to declare dividends to their ordinary shareholders, the Company shall make distribution to the holders of perpetual securities at the distribution rates as defined in the offering circular. The perpetual capital securities have no fixed maturity and are redeemable at Company's option on or after 10th September 2023 at their principal amounts together with any accrued, unpaid or deferred distributions. It is designated as financial liabilities at fair value through profit or loss.

12 Interest payable

The balance represents interest payable on perpetual capital securities and is denominated in United States dollars.

13 Amounts due to fellow subsidiary companies

The balance is unsecured, interest free, has no fixed terms of repayment and is denominated in Hong Kong dollars and United States dollars.

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NOTES TO THE FINANCIAL STATEMENTS

14 Reconciliation of liability arising from financing activities

	Perpetual capital securities HK\$
1st April 2022	3,693,061,140
Non-cash changes:	
Change in fair value on perpetual capital securities other than those attributable to credit risk	(685,487,125)
Change in fair value on perpetual capital securities attributable to credit risk	1,726,225
At 31st March 2023	3,009,300,240
Non-cash changes:	
Change in fair value on perpetual capital securities other than those attributable to credit risk	(284,711,748)
Change in fair value on perpetual capital securities attributable to credit risk	(47,463,154)
At 31st March 2024	2,677,125,338

15 Deferred income tax asset

Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 16.5%. The movement of the deferred income tax assets are as follows:

	Tax losses HK\$
1st April 2022	5,889,179
Charged to statement of comprehensive income (note 8)	(650,350)
At 31st March 2023	5,238,829
Charged to statement of comprehensive income (note 8)	(790,193)
At 31st March 2024	4,448,636

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NOTES TO THE FINANCIAL STATEMENTS

16 Related party transactions

Other than those disclosed elsewhere in the financial statement, significant related party transactions which were carried out in the normal course of the Company's business during the years were as follows:

	2024 HK\$	2023 HK\$
Interest income from a fellow subsidiary company (note i)	202,037,306	201,485,292
Administrative costs recharged by a fellow subsidiary company (note ii)	<u>1,291,102</u>	<u>1,176,781</u>

Notes:

- i. Interest receivable from a fellow subsidiary company as at 31st March 2024 was HK\$33,120,870 (2023: HK\$32,568,855). The terms of advance to the fellow subsidiary company are set out in note 9 to the financial statements.
- ii. Administration costs were recharged by Nan Fung Enterprises (HK) Limited, a fellow subsidiary company, for the administrative service provided. The amount was determined by and agreed between both parties.

APPENDIX**NAN FUNG TREASURY (III) LIMITED**

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**DETAILED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST MARCH 2024****(FOR MANAGEMENT INFORMATION PURPOSES ONLY)**

	2024 HK\$	2023 HK\$
Income/gains		
Interest income	202,037,306	201,485,292
Change in fair value on perpetual capital securities	284,711,748	685,487,125
Net exchange gain	1,486,269	-
	<u>488,235,323</u>	<u>886,972,417</u>
Less: Expenses/losses		
Interest expenses	195,622,635	195,978,323
Auditor's remuneration	53,040	51,000
Bank service charges	605	615
Donation	-	9,001
Net exchange loss	-	1,154,658
Legal and professional fees	105,270	27,451
Administrative costs recharged by Nan Fung Enterprises (HK) Limited	1,291,102	1,176,781
Registration fee	32,283	28,623
Sundry expenses	-	250
	<u>197,104,935</u>	<u>198,426,702</u>
Profit before income tax	<u>291,130,388</u>	<u>688,545,715</u>