

NAN FUNG TREASURY (II) LIMITED
(Incorporated in the British Virgin Islands with limited liability)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST MARCH 2020

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

Opinion

What we have audited

The financial statements of Nan Fung Treasury (II) Limited (the "Company") set out on pages 6 to 26, which comprise:

- the statement of financial position as at 31st March 2020;
- 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, which include a summary of significant accounting policies.

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 2020, 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.

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 period. 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.

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

(Incorporated in the British Virgin Islands with limited liability)

Key Audit Matters (Continued)

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

Key audit matter

Amount due from a fellow subsidiary company

Refer to note 9 to the financial statements

As at 31st March 2020, the Company had an amount due from a fellow subsidiary company of HK\$3,862,352,625.

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.

How our audit addressed the key audit matter

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

- 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; and
- we inquired of management the factors that they have considered when determining whether the carrying amount of the amount due was recoverable and corroborated their analysis with supporting evidence obtained from management including the latest available financial information of the fellow subsidiary company.

Based on the work 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 (II) LIMITED
(CONTINUED)**

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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 2020", 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 (II) LIMITED
(CONTINUED)**

(Incorporated in the British Virgin Islands with limited liability)

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 (II) 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, related safeguards.

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 period 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 Liao Weining.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23rd June 2020

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST MARCH 2020**

	Note	2020 HK\$	2019 HK\$
Interest income		238,185,466	233,532,654
Interest expenses		(214,964,276)	(215,665,130)
Net interest income	5	23,221,190	17,867,524
Other gains/(losses), net	6	195,036,011	(8,958,041)
Change in fair value on perpetual capital securities		(1,697,609,870)	62,408,702
Other operating expenses	7	(1,487,586)	(1,871,287)
(Loss)/profit before income tax		(1,480,840,255)	69,446,898
Income tax expense	8	(26,827,034)	(185,303)
(Loss)/profit for the year		(1,507,667,289)	69,261,595
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in fair value on perpetual capital securities attributable to the change in the credit risk		1,470,174,438	-
Other comprehensive income for the year		1,470,174,438	-
Total comprehensive (loss)/income for the year		(37,492,851)	69,261,595

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

STATEMENT OF FINANCIAL POSITION**AS AT 31ST MARCH 2020**

	Note	2020 HK\$	2019 HK\$
ASSETS			
Non-current assets			
Amount due from a fellow subsidiary company	9	3,862,352,625	3,862,352,625
Deferred income tax assets	17	-	145,587
		3,862,352,625	3,862,498,212
Current assets			
Amounts due from fellow subsidiary companies	10	43,182,166	43,969,449
Derivative financial instruments	11	126,234,652	1,909,088
Cash at bank	12	105,588,553	70,016,604
		275,005,371	115,895,141
Total assets		4,137,357,996	3,978,393,353

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

STATEMENT OF FINANCIAL POSITION (CONTINUED)**AS AT 31ST MARCH 2020**

	Note	2020 HK\$	2019 HK\$
EQUITY			
Share capital	13	7,784	7,784
Other reserve		1,470,174,438	-
(Accumulated losses)/retained profits		(1,297,178,202)	210,489,087
Total equity		<u>173,004,020</u>	<u>210,496,871</u>
LIABILITIES			
Non-current liabilities			
Perpetual capital securities	14	3,865,618,250	3,685,857,818
Deferred income tax liabilities	17	20,828,718	-
		<u>3,886,446,968</u>	<u>3,685,857,818</u>
Current liabilities			
Accrual		62,381	60,564
Interest payable	15	72,267,632	73,156,241
Amounts due to fellow subsidiary companies	16	3,284,527	5,699,534
Derivative financial instruments	11	-	2,791,435
Tax payable		2,292,468	330,890
		<u>77,907,008</u>	<u>82,038,664</u>
Total liabilities		<u>3,964,353,976</u>	<u>3,767,896,482</u>
Total equity and liabilities		<u>4,137,357,996</u>	<u>3,978,393,353</u>

On behalf of the Board

Berry Connie Charlotte
DirectorTang Chun Wai Nelson
Director

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST MARCH 2020**

	Share capital HK\$	Other reserve HK\$	(Accumulated losses)/ retained profits HK\$	Total HK\$
At 1st April 2018	7,784	-	141,227,492	141,235,276
Profit for the year	-	-	69,261,595	69,261,595
	-----	-----	-----	-----
At 31st March 2019 and 1st April 2019	7,784	-	210,489,087	210,496,871
Loss for the year	-	-	(1,507,667,289)	(1,507,667,289)
Other comprehensive income				
Change in fair value on perpetual capital securities attributable to the change in the credit risk	-	1,470,174,438	-	1,470,174,438
	-----	-----	-----	-----
Total comprehensive income for the year	-	1,470,174,438	-	1,470,174,438
	=====	=====	=====	=====
At 31st March 2020	7,784	1,470,174,438	(1,297,178,202)	173,004,020
	=====	=====	=====	=====

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

STATEMENT OF CASH FLOWS**FOR THE YEAR ENDED 31ST MARCH 2020**

	2020 HK\$	2019 HK\$
Cash flows from operating activities		
(Loss)/profit before income tax	(1,480,840,255)	69,446,898
Interest income	(238,185,466)	(233,532,654)
Interest expenses	214,964,276	215,665,130
Net exchange (gain)/loss	(54,329,700)	1,170,661
Change in fair value on perpetual capital securities	1,697,609,870	(62,408,702)
Unrealised (gain)/ loss on derivative financial instruments	(127,116,999)	22,758,232
	12,101,726	13,099,565
Changes in working capital:		
Increase in accrual	1,817	1,764
Increase in amounts due to fellow subsidiary companies	4,110,558	3,747,200
Decrease in amounts due from fellow subsidiary companies	1,438,063	53,965,454
	17,652,164	70,813,983
Net cash from operations	17,652,164	70,813,983
Interest received	237,534,686	214,802,360
Interest paid	(215,723,750)	(215,605,806)
Tax paid	(3,891,151)	-
	35,571,949	70,010,537
Net cash from operating activities	35,571,949	70,010,537
Net increase in cash and cash equivalents	35,571,949	70,010,537
Cash and cash equivalents at the beginning of the year	70,016,604	6,067
Cash and cash equivalents at the end of the year	105,588,553	70,016,604

NAN FUNG TREASURY (II) LIMITED
(Incorporated in the British Virgin Islands with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Nan Fung Treasury (II) 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.

These financial statements have been approved for issue by the board of directors on 23rd June 2020.

2 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

(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.

(b) Amendments to standards and interpretations adopted by the Company

Amendments to standards and interpretations which are mandatory for the financial year beginning 1st April 2019 and are relevant to the Company’s operations are as follows:

IFRIC-Int 23	Uncertainty over Income Tax Treatments
Annual Improvements to IFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle
(Amendments)	

The Company has assessed the impact of the adoption of these amendments to standards and interpretations, there is no significant impact on the Company’s results and financial position.

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

2 Summary of significant accounting policies (Continued)

(c) 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 amendments to standards that have been issued but are not yet effective for the year ended 31st March 2020:

		Effective for accounting periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1st January 2020
IAS 1 and IAS 8 (Amendments)	Amendments of Definition of Material	1st January 2020
IFRS 3 (Amendments)	Definition of a Business	1st January 2020
IFRS 9, IAS 39 and IFRS 7 (Amendments)	Interest Rate Benchmark Reform	1st January 2020
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 amendments to standards as and when they become effective. The Company has already commenced the assessment of the impact of these amendments to standards to the Company, these amendments to standards would not be expected to have a material impact on the Company.

(d) 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.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(e) Financial assets

(i) Classification of financial assets

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 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 gains/(losses), net”, together with foreign exchange gains and losses and impairment losses.
- **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 gains/(losses), net”.

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(e) Financial assets (Continued)

(ii) Measurement of financial assets (Continued)

(1) Debt instruments (Continued)

- 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 gains/(losses), net” in the period in which it arises. Interest income is recognised in the profit or loss presented as part of revenue in the statement of comprehensive income.

(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 income statement as part of revenue when the Company’s right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in “other gains/(losses), net” 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.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which require expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on other 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.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(f) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. For derivative financial instruments do not qualify for hedge accounting, changes in fair value are recognised immediately in income statement.

(g) Cash at bank

Cash at bank 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.

(h) Other payable

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

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(j) 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 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 and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided, 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 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.

(k) 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.

(l) Revenue recognition

Revenues are recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(1) Revenue recognition (Continued)

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Company's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Company to the customer; or
- the Company's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as assets and subsequently amortised when the related revenue is recognised.

The excess of cumulative revenue recognised in profit or loss over the cumulative payments made by customers is recognised as contract assets. The excess of cumulative payments made by customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

Interest income is recognised on a time proportion basis using the effective interest method.

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, liquidity risk and price 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 the end of each 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 fellow subsidiary companies and cash at bank. The exposures to these credit risks are closely monitored on an ongoing basis by established credit control procedures.

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk (Continued)

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 year. 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 fellow subsidiary companies, 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 at bank, 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 fellow subsidiary companies and cash at bank 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 ECL for these balances are immaterial under 12 months ECL method. Thus, 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 at bank, 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 (II) LIMITED
(Incorporated in the British Virgin Islands with limited liability)

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 2020		
Accrual	62,381	-
Interest payable	72,267,632	-
Amounts due to fellow subsidiary companies	3,284,527	
Perpetual capital securities	-	3,865,618,250
	<u>75,614,540</u>	<u>3,865,618,250</u>
At 31st March 2019		
Accrual	60,564	
Interest payable	73,156,241	-
Amounts due to fellow subsidiary companies	5,699,534	-
Perpetual capital securities	-	3,685,857,818
	<u>78,916,339</u>	<u>3,685,857,818</u>

The table above excludes interest accruing and payable on perpetual capital securities which are estimated to be HK\$213,248,750 in every year until maturity. These estimates are calculated assuming no change in aggregate principal amount of perpetual capital securities as reflected in the table.

(iv) Price risk

The Company is exposed to price risk arising from fair value of certain swaps which is determined based on the in-house indexes of banks. Changes in fair value of these swaps are dealt with in the statement of comprehensive income.

(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 at bank, interest payable, amounts due from/to fellow subsidiary companies 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 form 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\$	
As at 31st March 2020				
Derivative financial instruments				
- Assets	-	126,234,652	-	126,234,652
Perpetual capital securities	(3,865,618,250)	-	-	(3,865,618,250)

	Valuation Hierarchy			Total
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	
As at 31st March 2019				
Derivative financial instruments				
- Assets	-	1,909,088	-	1,909,088
Derivative financial instruments				
- Liabilities	-	(2,791,435)	-	(2,791,435)
Perpetual capital securities	(3,685,857,818)	-	-	(3,685,857,818)
	(3,685,857,818)	(2,791,435)	-	(3,688,649,253)

NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(c) Fair value estimation (Continued)

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.

Derivative financial instruments are valued based on dealer quotations or alternative pricing sources supported by observable inputs.

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

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 amount due from a fellow subsidiary company

Management regularly assesses the loss allowances for amount 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.

Fair value of derivative financial instruments

The fair value of the derivative financial instruments is determined using valuation techniques. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the end of the reporting period.

Change in fair value of the perpetual capital securities attributable to the change in credit risk

The perpetual capital securities of the Company are designated as financial liabilities at FVTPL. Changes in fair value of the perpetual capital securities attributable to the changes in the credit risk of the perpetual capital securities are presented in other comprehensive income.

The change in fair value of perpetual capital securities attributable to the change in credit risk is determined using valuation techniques. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions at the date on which there is a change in credit risk.

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NOTES TO THE FINANCIAL STATEMENTS

5 Net interest income

	2020 HK\$	2019 HK\$
Interest income from a fellow subsidiary company	238,185,466	233,532,654
Interest expenses on perpetual capital securities	(214,964,276)	(215,665,130)
	<u>23,221,190</u>	<u>17,867,524</u>

6 Other gains/(losses), net

	2020 HK\$	2019 HK\$
Net realised gain on derivative financial instruments	13,589,312	14,970,852
Net unrealised gain/(loss) on derivative financial instruments	127,116,999	(22,758,232)
Net gain/(loss) on derivative financial instruments	140,706,311	(7,787,380)
Net exchange gain/(loss)	54,329,700	(1,170,661)
	<u>195,036,011</u>	<u>(8,958,041)</u>

7 Other operating expenses

	2020 HK\$	2019 HK\$
Auditor's remuneration	62,381	60,564
Legal and professional fees	62,720	61,909
Registration fee	-	21,330
Administrative costs recharged by fellow subsidiary companies	1,361,847	1,726,001
Sundry expenses	638	1,483
	<u>1,487,586</u>	<u>1,871,287</u>

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NOTES TO THE FINANCIAL STATEMENTS

8 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits for the year.

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

	2020 HK\$	2019 HK\$
Current tax		
Hong Kong profits tax		
- provision for current year	6,018,316	330,890
- over-provision for prior year	(145,587)	-
- Tax rebate	(20,000)	-
Deferred income tax charge/(credit)	20,974,305	(145,587)
	<u>26,827,034</u>	<u>185,303</u>

The tax on the Company's (loss)/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:

	2020 HK\$	2019 HK\$
(Loss)/profit before income tax	(1,480,840,255)	69,446,898
Calculated at a tax rate of 16.5% (2019: 16.5%)	(244,338,642)	11,458,738
Income not subject to tax	(8,919,952)	(10,297,436)
Expenses not deductible for tax purposes	280,105,628	173,602
Over-provision of prior years	(145,587)	-
Recognition of previously unrecognised temporary differences	145,587	-
Tax rebate	(20,000)	-
Utilisation of previously unrecognised tax loss	-	(1,149,601)
Income tax expense	<u>26,827,034</u>	<u>185,303</u>

9 Amount due from a fellow subsidiary company

The balance is denominated in Hong Kong dollars. As at 31st March 2020, the balance of HK\$3,862,352,625 (2019: HK\$3,862,352,625) bears interest at 6.15% (2019: 6.15%) per annum and is not expected to be repaid in one year or less.

10 Amounts due from fellow subsidiary companies

The balances are denominated in Hong Kong dollars and United States dollars, unsecured, interest free and have no fixed terms of repayment.

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NOTES TO THE FINANCIAL STATEMENTS

11 Derivative financial instruments

	2020		2019	
	Notional amount HK\$	Fair value HK\$	Notional amount HK\$	Fair value HK\$
Current assets:				
- Cross currency swap contract	3,875,000,000	126,234,652	1,550,000,000	1,909,088
Current liabilities:				
- Cross currency swap contract	-	-	2,325,000,000	(2,791,435)

Nan Fung Treasury Limited, a fellow subsidiary company, has assisted in entering into cross currency rate swap transactions ("CCS Transaction") contract with the bank on behalf of the Company. The terms are set out in note 18 to the financial statement. The derivative financial instruments are denominated in United States dollars.

12 Cash at bank

The carrying amount of the Company's cash at bank balance is denominated in the following currencies:

	2020 HK\$	2019 HK\$
Hong Kong dollars	105,582,622	70,010,566
United States dollars	5,931	6,038
	<u>105,588,553</u>	<u>70,016,604</u>

13 Share capital

	Number of shares	Share capital HK\$
Ordinary shares at US\$1 each issued:		
At 31st March 2019 and 2020	<u>1,000</u>	<u>7,784</u>

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NOTES TO THE FINANCIAL STATEMENTS

14 Perpetual capital securities

	Fixed interest yield per annum	Principal amount (million)	2020 Fair value HK\$	2019 Fair value HK\$
Perpetual capital securities				
- Listed on Singapore Exchange Securities Trading Limited	5.5%	US\$500	<u>3,865,618,250</u>	<u>3,685,857,818</u>

The Company has issued perpetual capital securities on 29th May 2017. The perpetual capital securities bear interests at 5.5% which are repayable semi-annually in arrear from 29th November 2018 and the coupon payment can be deferred only at the discretion of both the Company and NFIHL (the “Guarantor”), and there is no limit as to the number of times of deferral of coupon payment. When the Guarantor or 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 subscription agreement. The perpetual capital securities have no fixed maturity and are redeemable at the Company’s option on or after 29th May 2020 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.

15 Interest payable

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

16 Amounts due to fellow subsidiary companies

The amounts due to fellow subsidiary companies are unsecured, interest free and have no fixed terms of repayment. The balances are denominated in Hong Kong dollars and United States dollars.

17 Deferred income tax

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 liabilities/(assets) are as follows:

	Unrealised gain/(loss) on derivative financial instruments HK\$	Tax losses HK\$	Total HK\$
At 1st April 2018	3,609,521	(3,609,521)	-
(Credited)/charged to statement of comprehensive income (note 8)	(3,755,108)	3,609,521	(145,587)
At 31st March 2019 and 1st April 2019	(145,587)	-	(145,587)
Charged to statement of comprehensive income (note 8)	20,974,305	-	20,974,305
At 31st March 2020	<u>20,828,718</u>	<u>-</u>	<u>20,828,718</u>

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NOTES TO THE FINANCIAL STATEMENTS

17 Deferred income tax (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

18 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 year were as follows:

	2020 HK\$	2019 HK\$
Interest income from a fellow subsidiary company (note i)	238,185,466	233,532,654
Realised and unrealised gain/(loss) on derivative financial instruments from a fellow subsidiary company (note ii)	140,706,311	(7,787,380)
Administrative costs recharged by a fellow subsidiary company (note iii)	(1,361,847)	(1,726,001)
	<u>236,829,930</u>	<u>223,019,273</u>

Notes:

- i. Interest receivable from a fellow subsidiary company as at 31st March 2020 was HK\$39,046,798 (2019: HK\$38,396,018). The terms of advance to the fellow subsidiary company are set out in note 9 to the financial statements.
- ii. The Company entered into an arrangement with Nan Fung Treasury Limited ("NFT"), a fellow subsidiary company, to have NFT's assistance in entering into CCS Transaction contract with the bank on behalf of the Company. The gain/loss in respect of CCS Transaction is recharged to the Company.
- iii. Administrative costs were recharged by Nan Fung Enterprises (HK) Limited for the year ended 31st March 2020 for the administrative service provided. The amount was determined by and agreed between both parties.

APPENDIX

NAN FUNG TREASURY (II) LIMITED

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DETAILED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST MARCH 2020

(FOR MANAGEMENT INFORMATION PURPOSES ONLY)

	2020 HK\$	2019 HK\$
Income/gains		
Interest income	238,185,466	233,532,654
Change in fair value on perpetual capital securities	-	62,408,702
Net gain on derivative financial instruments	140,706,311	-
Net exchange gain	54,329,700	-
	433,221,477	295,941,356
Less: Expenses/losses		
Change in fair value on perpetual capital securities	1,697,609,870	-
Interest expenses	214,964,276	215,665,130
Auditor's remuneration	62,381	60,564
Net loss on derivative financial instruments	-	7,787,380
Net exchange loss	-	1,170,661
Legal and professional fees	62,720	61,909
Administrative costs recharged by Nan Fung Enterprises (HK) Limited	1,361,847	1,726,001
Registration fee	-	21,330
Sundry expenses	638	1,483
	1,914,061,732	226,494,458
(Loss)/profit before income tax	(1,480,840,255)	69,446,898