

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

CONDENSED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED

30TH SEPTEMBER 2019

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF NAN FUNG TREASURY (II) LIMITED**
(incorporated in the British Virgin Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 14, which comprises the condensed statement of financial position of Nan Fung Treasury (II) Limited (the “Company”) as at 30th September 2019 and the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Company is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26th November 2019

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2019**

		Unaudited	
		For the six months ended 30th September 2019 HK\$	For the six months ended 30th September 2018 HK\$
	Note		
Interest income		119,092,733	116,091,209
Interest expenses		(107,751,134)	(107,845,810)
Net interest income	5	11,341,599	8,245,399
Other gains, net	6	133,933,175	18,225,117
Change in fair value on perpetual capital securities		(205,076,664)	321,633,833
Other operating expenses	7	(934,760)	(958,743)
(Loss)/profit before income tax		(60,736,650)	347,145,606
Income tax	8	(23,000,420)	(233,483)
(Loss)/profit and total comprehensive (loss)/income for the period		(83,737,070)	346,912,123

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30TH SEPTEMBER 2019**

		Unaudited as at 30th September 2019 HK\$	Audited as at 31st March 2019 HK\$
	Note		
ASSETS			
Non-current assets			
Amount due from a fellow subsidiary company	9	3,862,352,625	3,862,352,625
Deferred income tax assets		-	145,587
		<u>3,862,352,625</u>	<u>3,862,498,212</u>
		-----	-----
Current assets			
Amounts due from fellow subsidiary companies	10	126,720,184	43,969,449
Derivative financial instruments	11	120,902,086	1,909,088
Cash at bank		497,244	70,016,604
		<u>248,119,514</u>	<u>115,895,141</u>
		-----	-----
Total assets		<u><u>4,110,472,139</u></u>	<u><u>3,978,393,353</u></u>

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

CONDENSED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30TH SEPTEMBER 2019

	Note	Unaudited as at 30th September 2019 HK\$	Audited as at 31st March 2019 HK\$
EQUITY			
Share capital	12	7,784	7,784
Retained profits		126,752,017	210,489,087
Total equity		<u>126,759,801</u>	<u>210,496,871</u>
LIABILITIES			
Non-current liabilities			
Perpetual capital securities	13	3,886,484,482	3,685,857,818
Deferred income tax liabilities		19,948,844	-
		<u>3,906,433,326</u>	<u>3,685,857,818</u>
Current liabilities			
Accrual		90,846	60,564
Interest payable	14	73,073,298	73,156,241
Amounts due to fellow subsidiary companies	15	877,989	5,699,534
Derivative financial instruments	11	-	2,791,435
Tax payable		3,236,879	330,890
		<u>77,279,012</u>	<u>82,038,664</u>
Total liabilities		<u>3,983,712,338</u>	<u>3,767,896,482</u>
Total equity and liabilities		<u>4,110,472,139</u>	<u>3,978,393,353</u>

On behalf of the Board

.....
Lo Ngan Ying
Director

.....
Tang Chun Wai Nelson
Director

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2019**

	Unaudited		
	Share capital	Retained profits	Total
	HK\$	HK\$	HK\$
At 1st April 2018	7,784	141,227,492	141,235,276
Comprehensive income			
Profit for the period	-	346,912,123	346,912,123
At 30th September 2018	<u>7,784</u>	<u>488,139,615</u>	<u>488,147,399</u>
At 1st April 2019	7,784	210,489,087	210,496,871
Comprehensive loss			
Loss for the period	-	(83,737,070)	(83,737,070)
At 30th September 2019	<u>7,784</u>	<u>126,752,017</u>	<u>126,759,801</u>

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2019**

	Unaudited	
	For the six months ended 30th September 2019 HK\$	For the six months ended 30th September 2018 HK\$
Cash flows from operating activities		
(Loss)/profit before income tax	(60,736,650)	347,145,606
Interest income	(119,092,733)	(116,091,209)
Interest expenses	107,751,134	107,845,810
Change in fair value on perpetual capital securities	205,076,664	(321,633,833)
Unrealised (gain)/loss on derivative financial instruments	(121,784,433)	5,803,758
Net exchange gain	(4,851,100)	(16,968,839)
Changes in working capital:		
Increase in accrual	30,282	29,400
Decrease in amounts due to fellow subsidiary companies	(4,821,545)	(763,381)
(Increase)/decrease in amounts due from fellow subsidiary companies	(80,955,652)	5,500,149
Net cash (used in)/from operations	(79,384,033)	10,867,461
Interest received	117,791,173	97,059,863
Interest paid	(107,926,500)	(107,917,180)
Net cash (used in)/from operating activities	(69,519,360)	10,144
Net (decrease)/increase in cash and cash equivalents	(69,519,360)	10,144
Cash and cash equivalents at the beginning of the period	70,016,604	6,067
Cash and cash equivalents at the end of the period	497,244	16,211

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

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.

The condensed interim financial information (“interim financial information”) has been approved for issue by the Board of Directors on 26th November 2019.

2 Basis of preparation and summary of significant accounting policies

The condensed interim financial information for the six months ended 30th September 2019 has been prepared in accordance with the International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standard Board.

The condensed interim financial information should be read in conjunction with the Company’s financial statements for the year ended 31st March 2019, which were prepared in accordance with International Financial Reporting Standards (“IFRSs”). The accounting policies applied are consistent with those of the Company’s financial statements for the year ended 31st March 2019.

(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 2019 and are relevant to its operation.

Annual Improvements to IFRSs (Amendments)	Annual Improvements to IFRSs 2015 – 2017 Cycle
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
IFRS 16	Leases
IFRS 9 (Amendments)	Prepayment Features with Negative Compensation

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 interim financial information.

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

2 Basis of preparation and summary of significant accounting policies (Continued)

- (ii) Amendments to standards which are not yet effective for this financial period and have not been early adopted by the Company.

The Group has not early adopted the following amendments to standards that have been issued but are not yet effective for the period and are relevant to its operation:

		Effective for accounting periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 January 2020
IFRS 3 (Amendments)	Definition of a Business	1 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, the revised IFRSs would not be expected to have a material impact on the Company.

3 Financial risk management

(a) Financial risk factors

The Company's activities expose it to various types of financial risk which include derivative price risk, 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.

The condensed interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's financial statements for the year ended 31st March 2019.

There have been no change in the risk management programme or in any risk management policies since year end.

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3 Financial risk management (Continued)

(b) Fair value estimation

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 represent the Company's financial instruments measured at fair value:

	Valuation Hierarchy			
	Level 1	Level 2	Level 3	Total
	HK\$	HK\$	HK\$	HK\$
As at 30th September 2019				
Derivative financial instruments	-			
- Assets	-	120,902,086	-	120,902,086
Perpetual capital securities	(3,886,484,482)	-	-	(3,886,484,482)
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)

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

3 Financial risk management (Continued)

(b) 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.

Unlisted investments are stated at fair values which are estimated using other prices observed in recent transactions or valuation techniques when the market price is not readily available. 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.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed interim financial information, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31st March 2019.

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

5 Net interest income

	For the six months ended 30th September 2019 HK\$	For the six months ended 30th September 2018 HK\$
Interest income from a fellow subsidiary company	119,092,733	116,091,209
Interest expenses on perpetual capital securities	(107,751,134)	(107,845,810)
	<u>11,341,599</u>	<u>8,245,399</u>

6 Other gains, net

	For the six months ended 30th September 2019 HK\$	For the six months ended 30th September 2018 HK\$
Realised gain on derivative financial instruments	7,297,642	7,060,036
Unrealised gain/(loss) on derivative financial instruments	121,784,433	(5,803,758)
Net exchange gain	4,851,100	16,968,839
	<u>133,933,175</u>	<u>18,225,117</u>

7 Other operating expenses

	For the six months ended 30th September 2019 HK\$	For the six months ended 30th September 2018 HK\$
Auditor's remuneration	30,282	29,400
Legal and professional fees	25,869	27,459
Administrative costs recharged by a fellow subsidiary company	877,989	901,209
Others	620	675
	<u>934,760</u>	<u>958,743</u>

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

8 Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2018:16.5%) on the estimated assessable profits for the period ended 30th September 2019.

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

	For the six months ended 30th September 2019 HK\$	For the six months ended 30th September 2018 HK\$
Current income tax		
- Hong Kong profit tax	2,905,989	-
Deferred income tax	20,094,431	233,483
	<u>23,000,420</u>	<u>233,483</u>

9 Amount due from a fellow subsidiary company

The balance is denominated in Hong Kong dollars, bears interest at 6.15% (31st March 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 unsecured, interest free, have no fixed terms of repayment and are denominated in Hong Kong dollars and United States dollars.

11 Derivative financial instruments

	As at 30th September 2019		As at 31st March 2019	
	Notional amount HK\$	Fair value HK\$	Notional amount HK\$	Fair value HK\$
Current assets:				
- Cross currency swap contracts	<u>3,875,000,000</u>	<u>120,902,086</u>	<u>1,550,000,000</u>	<u>1,909,088</u>
Current liabilities:				
- Cross currency swap contract	<u>-</u>	<u>-</u>	<u>2,325,000,000</u>	<u>(2,791,435)</u>

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 16 to the financial statement. The derivative financial instruments are denominated in United States dollars.

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

12 Share capital

	Number of shares	Share capital HK\$
Ordinary shares at US\$1 each issued:		
At 31st March and 30th September 2019	1,000	7,784

13 Perpetual capital securities

	Fixed interest yield per annum	Principal amount (million)	As at 30th September 2019 HK\$	As at 31st March 2019 HK\$
Perpetual capital securities				
- Listed on Singapore Exchange Securities Trading Limited	5.5%	US\$500	3,886,484,482	3,685,857,818

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 at the discretion of the Company and there is no limit as to the number of times of deferral of coupon payment. When the Guarantor and 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 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.

14 Interest payable

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

15 Amounts due to fellow subsidiary companies

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

16 Related party transactions

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

	For the six months ended 30th September 2019 HK\$	For the six months ended 30th September 2018 HK\$
Interest income from a fellow subsidiary company (note (i))	119,092,733	116,091,209
Realised and unrealised gain on derivative financial instruments from a fellow subsidiary company (note (ii))	129,082,075	1,256,278
Administrative costs recharged by a fellow subsidiary company (note (iii))	877,989	901,209
	<u>877,989</u>	<u>901,209</u>

Notes:

- (i) Interest receivable from a fellow subsidiary company as at 30th September 2019 was HK\$39,697,578 (31st March 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 cross currency rate swap transaction ("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) Administration costs were recharged by Nan Fung Enterprises (HK) Limited for the administrative service provided. The amount was determined by and agreed between both parties.