

NAN FUNG TREASURY LIMITED

(Incorporated in the British Virgin Islands with limited liability)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST MARCH 2021

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

Opinion

What we have audited

The financial statements of Nan Fung Treasury Limited (the "Company") set out on pages 5 to 28, which comprise:

- the statement of financial position as at 31st March 2021;
- 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 flows 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 2021, 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 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 2021, the Company had an amount due from a fellow subsidiary company of HK\$16,381,528,539.

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 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 2021", 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 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 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 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, 24th June 2021

NAN FUNG TREASURY LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST MARCH 2021**

	Note	2021 HK\$	2020 HK\$
Interest income		766,300,451	674,684,114
Interest expenses		(673,943,946)	(593,116,539)
Net interest income	5	92,356,505	81,567,575
Other (losses)/gains, net	6	(37,129,432)	299,997,394
Other operating expenses	7	(8,639,378)	(9,405,633)
Profit before income tax		46,587,695	372,159,336
Income tax expense	8	(8,099,412)	(60,466,431)
Profit and total comprehensive income for the year		38,488,283	311,692,905

NAN FUNG TREASURY LIMITED

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STATEMENT OF FINANCIAL POSITION**AS AT 31ST MARCH 2021**

	Note	2021 HK\$	2020 HK\$
ASSETS			
Non-current asset			
Amount due from a fellow subsidiary company	9	16,381,528,539	12,566,333,926
Current assets			
Amount due from a fellow subsidiary company	10	135,917,308	108,684,476
Derivative financial instruments	11	284,765,708	374,484,676
Other receivable		12,502,466	10,926,433
Tax recoverable		622,690	-
Cash at bank	12	382,394,821	240,887,704
		816,202,993	734,983,289
Total assets		17,197,731,532	13,301,317,215

NAN FUNG TREASURY LIMITED

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STATEMENT OF FINANCIAL POSITION (CONTINUED)**AS AT 31ST MARCH 2021**

	Note	2021 HK\$	2020 HK\$
EQUITY			
Share capital	13	7,800	7,800
Retained earnings		398,144,493	359,656,210
Total equity		<u>398,152,293</u>	<u>359,664,010</u>
LIABILITIES			
Non-current liabilities			
Medium term notes	14	16,451,998,613	12,618,382,517
Deferred income tax liabilities	17	30,178,179	40,961,254
		<u>16,482,176,792</u>	<u>12,659,343,771</u>
Current liabilities			
Accruals		335,904	70,392
Interest payable	15	124,980,756	112,189,905
Amounts due to fellow subsidiary companies	16	90,218,133	29,971,800
Derivative financial instruments	11	101,867,654	126,234,652
Tax payable		-	13,842,685
		<u>317,402,447</u>	<u>282,309,434</u>
Total liabilities		<u>16,799,579,239</u>	<u>12,941,653,205</u>
Total equity and liabilities		<u>17,197,731,532</u>	<u>13,301,317,215</u>

On behalf of the Board

Berry Connie Charlotte
DirectorTang Chun Wai Nelson
Director

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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST MARCH 2021**

	Share capital HK\$	Retained earnings HK\$	Total HK\$
At 1st April 2019	7,800	47,963,305	47,971,105
Comprehensive income			
Profit for the year	-	311,692,905	311,692,905
At 31st March 2020 and 1st April 2020	7,800	359,656,210	359,664,010
Comprehensive income			
Profit for the year	-	38,488,283	38,488,283
At 31st March 2021	<u>7,800</u>	<u>398,144,493</u>	<u>398,152,293</u>

NAN FUNG TREASURY LIMITED

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**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST MARCH 2021**

	Note	2021 HK\$	2020 HK\$
Cash flows from operating activities			
Profit before income tax		46,587,695	372,159,336
Interest income		(766,300,451)	(674,684,114)
Interest expenses		673,943,946	593,116,539
Net exchange gain		(1,503,023)	(4,459,234)
Unrealised loss/(gain) on derivatives financial instruments		65,351,970	(261,950,427)
Loss on repurchase of medium term notes		4,133,380	-
		22,213,517	24,182,100
Changes in working capital:			
(Increase)/decrease in other receivables		(1,576,033)	3,224,890
Increase in accruals		265,512	1,759
Increase/(decrease) in amounts due to fellow subsidiary companies		67,643,378	(55,229,096)
Increase in amount due from a fellow subsidiary company		(3,777,645,046)	-
Net cash used in operations		(3,689,098,672)	(27,820,347)
Interest received		739,067,619	675,532,775
Interest paid		(642,684,666)	(577,007,313)
Tax paid		(33,347,862)	(10,567,433)
Net cash (used in)/from operating activities		(3,626,063,581)	60,137,682
Cash flows from financing activities			
Proceeds from issuance of medium term notes, net of transaction cost	18	3,822,296,241	-
Repurchase of medium term notes	14	(54,725,543)	-
Net cash from financing activities		3,767,570,698	-
Net increase in cash and cash equivalents		141,507,117	60,137,682
Cash and cash equivalents at beginning of the year		240,887,704	180,750,022
Cash and cash equivalents at end of the year		382,394,821	240,887,704

NAN FUNG TREASURY LIMITED

(Incorporated in the British Virgin Islands with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

1 General information¹

Nan Fung Treasury 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 medium term notes.

These financial statements have been approved for issue by the board of directors on 24th June 2021.

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, which is 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 adopted by the Company

The amendments to standards which are mandatory for the financial year beginning 1st April 2020 and are relevant to the Company’s operations are as follows:

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
IAS 1 and IAS 8 (Amendments)	Definition of Material
IAS 39, IFRS 7 and IFRS 9 (Amendments)	Interest Rate Benchmark Reform
IFRS 3 (Amendments)	Definition of a Business

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

The Company has early adopted IFRS 16 (Amendment) “COVID-19-Related Rent Concessions”, which does not have significant impact on the Company.

NAN FUNG TREASURY LIMITED

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NOTES TO THE FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****(c) New standard, amendments to standards and interpretation 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 standard, amendments to standards and interpretation that have been issued but are not yet effective for the year ended 31st March 2021:

		Effective for accounting periods beginning on or after
Annual Improvements to IFRSs (Amendments)	Annual Improvements to IFRSs 2018 - 2020 Cycle	1 January 2022
IAS 16 (Amendments)	Property, Plant and Equipment	1 January 2022
IAS 37 (Amendments)	Provisions, Contingent Liabilities and Contingent Assets	1 January 2022
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
HK – Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
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, amendments to standards and interpretation 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.

NAN FUNG TREASURY 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

(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 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 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 LIMITED

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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.

(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 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 debt instruments carried at amortised cost and 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.

(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.

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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(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) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the statement of comprehensive income in the period in which they are incurred.

(i) Other payable

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

(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.

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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(j) Current and deferred income tax (Continued)

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) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(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.

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.

NAN FUNG TREASURY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(l) Revenue recognition (Continued)

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.

Management fee income is recognised over time in the accounting period in which the services are rendered.

(m) 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.

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 amount due from a fellow subsidiary company, other receivable and cash at bank. 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 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.

NAN FUNG TREASURY LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk (Continued)

With respect to credit risk arising on the amount due from a fellow subsidiary 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 at bank and other receivable arising from derivative, the Company has limited its credit exposure by restricting their selection of financial institutions and banks with good credit rating.

Management considers amount due from a fellow subsidiary company, other receivable 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, accruals, medium term notes, 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.

(iii) Liquidity risk

The Company's cash management policy is to regularly monitor its current and expected liquidity positions to ensure adequate funds are available for its short term and long term requirements. In order to maintain liquidity, the Company obtains funding from issuance of medium term notes and 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.

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

	Less than 1 year HK\$	Between 1 and 2 years HK\$	Between 2 and 5 years HK\$	Over 5 years HK\$
At 31st March 2021				
Interest payable	124,980,756	-	-	-
Amounts due to fellow subsidiary companies	90,218,133	-	-	-
Medium term notes	711,361,963	4,253,347,050	3,045,591,348	12,857,737,314
	<u>926,560,852</u>	<u>4,253,347,050</u>	<u>3,045,591,348</u>	<u>12,857,737,314</u>
At 31st March 2020				
Interest payable	112,189,905	-	-	-
Amounts due to fellow subsidiary companies	29,971,800	-	-	-
Medium term notes	571,574,244	571,574,244	6,468,635,169	8,650,337,606
	<u>713,735,949</u>	<u>571,574,244</u>	<u>6,468,635,169</u>	<u>8,650,337,606</u>

(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 medium term notes 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, other receivable, interest payable, amounts due from/to fellow subsidiary companies and accruals 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			
	Level 1	Level 2	Level 3	Total
	HK\$	HK\$	HK\$	HK\$
As at 31st March 2021				
Derivative financial instruments				
– Assets	-	284,765,708	-	284,765,708
Derivative financial instruments				
– Liabilities	-	(101,867,654)	-	(101,867,654)
As at 31st March 2020				
Derivative financial instruments				
– Assets	-	374,484,676	-	374,484,676
Derivative financial instruments				
– Liabilities	-	(126,234,652)	-	(126,234,652)

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 assets held by the Company is the current bid price. These instruments are included in level 1.

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(c) Fair value estimation (Continued)

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 year.

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.

5 Net interest income

	2021 HK\$	2020 HK\$
Interest income from a fellow subsidiary company	766,300,451	674,684,114
Interest expenses on medium term notes	(673,943,946)	(593,116,539)
	<u>92,356,505</u>	<u>81,567,575</u>

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NOTES TO THE FINANCIAL STATEMENTS

6 Other (losses)/gains, net

	2021 HK\$	2020 HK\$
Net realised gain on derivative financial instruments	30,852,895	33,587,733
Net unrealised (loss)/gain on derivative financial instruments	(65,351,970)	261,950,427
Net (loss)/gain on derivative financial instruments	(34,499,075)	295,538,160
Loss on repurchase of medium term notes (note 14)	(4,133,380)	-
Net exchange gain	1,503,023	4,459,234
	<u>(37,129,432)</u>	<u>299,997,394</u>

7 Other operating expenses

	2021 HK\$	2020 HK\$
Auditor's remuneration	58,632	70,392
Bank charges	3,835	3,289
Legal and professional fees	4,440,139	3,937,106
Administrative costs recharged by a fellow subsidiary company	4,054,517	5,134,692
Donation	10,000	-
Sundry expenses	72,255	260,154
	<u>8,639,378</u>	<u>9,405,633</u>

8 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the year.

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

	2021 HK\$	2020 HK\$
Current tax		
Hong Kong profits tax		
- provision for current year	18,902,487	19,525,177
- over-provision of prior years	-	(2,260,566)
- tax rebate	(20,000)	(20,000)
Deferred income tax (credit)/charge	(10,783,075)	43,221,820
	<u>8,099,412</u>	<u>60,466,431</u>

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NOTES TO THE FINANCIAL STATEMENTS

8 Income tax expense (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:

	2021 HK\$	2020 HK\$
Profit before income tax	46,587,695	372,159,336
Calculated at a tax rate of 16.5% (2020: 16.5%)	7,686,970	61,406,290
Income not subject to tax	(249,565)	(919,859)
Expenses not deductible for tax purposes	682,007	-
Over-provision of prior years	-	(2,260,566)
Recognition of previously unrecognised temporary differences	-	2,260,566
Tax rebate	(20,000)	(20,000)
Income tax expense	8,099,412	60,466,431

9 Amount due from a fellow subsidiary company

The balances are denominated in Hong Kong dollars and United States dollars, interest bearing at rates ranging from 4.10% to 5.35% per annum (2020: from 4.10% to 5.35% per annum) and the maturity dates are as follows:

Principal amounts	Maturity date	2021 HK\$	2020 HK\$
HK\$795,200,000	22nd August 2022	795,200,000	795,200,000
US\$123,815,000	13th September 2022	962,698,770	960,123,418
HK\$1,329,573,263	13th September 2022	1,329,573,263	1,329,573,263
HK\$296,970,000	3rd October 2022	296,970,000	296,970,000
HK\$109,098,660	1st November 2022	109,098,660	109,098,660
HK\$100,000,000	23rd January 2023	100,000,000	100,000,000
US\$191,055,575 (note)	21st May 2024	1,485,514,412	1,531,513,750
HK\$497,915,000	13th September 2027	497,915,000	497,915,000
US\$404,555,200	27th September 2027	3,145,538,047	3,137,123,298
US\$491,175,000	5th September 2028	3,819,032,977	3,808,816,537
US\$493,870,000	20th August 2030	3,839,987,410	-
		16,381,528,539	12,566,333,926

Note:

On 21st August 2020, the fellow subsidiary company repaid the loan of US\$6,444,425 (equivalent to HK\$49,944,938) to the Company.

The fair value of the amount due from a fellow subsidiary company was approximate to the corresponding carrying amount.

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NOTES TO THE FINANCIAL STATEMENTS

10 Amount due from a fellow subsidiary company

The balance is denominated in Hong Kong dollars and United States dollars, unsecured, interest free and repayable on demand.

The fair value of the amount due from a fellow subsidiary company was approximate to the corresponding carrying amount.

11 Derivative financial instruments

	2021		2020	
	Notional Amount HK\$	Fair value HK\$	Notional amount HK\$	Fair value HK\$
Current assets:				
– Cross currency swap contract	14,846,750,000	284,765,708	14,846,750,000	374,484,676
Current liabilities:				
– Cross currency swap contract	3,875,000,000	(101,867,654)	3,875,000,000	(126,234,652)

The Company has entered into a cross currency rate swap transactions (“CCS Transaction”) contract with the bank. Of which, CCS Transaction contract with notional amount totalling HK\$3,875,000,000 (31st March 2020: HK\$3,875,000,000) was entered on behalf of Nan Fung Treasury (II) Limited (‘NFT (II)’), a fellow subsidiary company, the fair value of such cross currency swaps as at 31st March 2021 was a gain of HK\$101,867,654 (31st March 2020: HK\$126,234,652).

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:

	2021 HK\$	2020 HK\$
Hong Kong dollars	57,947,241	240,547,243
United States dollars	324,447,580	340,461
	<u>382,394,821</u>	<u>240,887,704</u>

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NOTES TO THE FINANCIAL STATEMENTS

13 Share capital

	Number of shares	Share capital HK\$
Ordinary shares at US\$1 each issued:		
At 31st March 2020 and 2021	1,000	7,800

14 Medium term notes

	2021 HK\$	2020 HK\$
Medium term notes (note)		
- listed	14,644,985,002	10,812,567,808
- unlisted	1,807,013,611	1,805,814,709
	16,451,998,613	12,618,382,517

Note:

The Company has established a Medium Term Note Programme ('MTN'). The aggregate principal amount increased from US\$2 billion to US\$3 billion on 24th August 2018. As at 31st March 2021, the Company has drawdown of totalling HK\$16,610,000,000 of which US\$1,903,474,000 is listed on Singapore Exchange Securities Trading Limited. The details of the drawdowns are as follows:

Issue dates	Principal loan drawdown amounts	Maturity date	Fixed interest yield per annum	Interests in arrear	2021 HK\$	2020 HK\$
29th August 2012	HK\$800 million	29th August 2022	4.425%	quarterly	799,162,692	798,598,103
20th September 2012	US\$300 million	20th September 2022	4.50%	semi- annually	2,326,067,681	2,315,664,454
10th October 2012	HK\$300 million	10th October 2022	4.125%	quarterly	299,452,862	299,111,714
8th November 2012	HK\$110 million	8th November 2022	3.95%	quarterly	109,830,342	109,729,710
30th January 2013	HK\$100 million	30th January 2023	3.85%	quarterly	100,000,000	100,000,000
29th May 2014	US\$193 million (note)	29th May 2024	4.875%	semi- annually	1,498,382,111	1,543,034,136
13th September 2017	HK\$500 million	13th September 2027	3.65%	quarterly	498,567,715	498,375,182
3rd October 2017	US\$410 million	3rd October 2027	3.875%	semi- annually	3,155,467,960	3,142,766,349
5th September 2018	US\$500 million	5th September 2028	5%	semi- annually	3,827,764,466	3,811,102,869
27th August 2020	US\$500 million	27th August 2030	3.625%	semi- annually	3,837,302,784	-
					16,451,998,613	12,618,382,517

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NOTES TO THE FINANCIAL STATEMENTS**14 Medium term notes (Continued)**

The MTN is guaranteed unconditionally and irrevocably by Nan Fung International Holdings Limited, the Company's intermediate holding company. As at 31st March 2021, the fair values of the MTN are HK\$17,497,213,000 (31st March 2020: HK\$13,490,869,000). Of which, HK\$15,602,707,000 (31st March 2020: HK\$11,598,965,000) is within level 1 of fair value hierarchy and the remaining is within level 2 of fair value hierarchy which is estimated using other comparable prices observed in the market. Total remaining capacity of the MTN amounted to US\$863,737,000 (31st March 2020: US\$1,356,587,000).

Note :

On 20th July 2020, the Company repurchased MTN of US\$6,526,000 (equivalent to HK\$50,592,163) from third party and subsequently cancelled the drawdown on 12th August 2020 and hence the drawdown balance decreased from US\$200 million to US\$193 million during the year. The repurchase of MTN results in a loss of HK\$4,133,380 (note 6).

15 Interest payable

The balance represents interest payable on medium term notes and is denominated in Hong Kong dollars and 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\$
At 1st April 2019	(2,260,566)
Charged to the statement of comprehensive income	43,221,820
At 31st March 2020	40,961,254
Credited to the statement of comprehensive income	(10,783,075)
At 31st March 2021	30,178,179

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NOTES TO THE FINANCIAL STATEMENTS

18 Reconciliation of liability arising from financing activities

	Medium term notes HK\$
As at 1st April 2019	12,734,145,416
Non-cash changes	
Amortisation of medium term notes	16,994,567
Exchange difference	(132,757,466)
As at 31st March 2020	<u>12,618,382,517</u>
As at 1st April 2020	12,618,382,517
Cash flows	
Proceeds from issuance of medium term notes, net of transaction cost	3,822,296,241
Repurchase of medium term notes	(54,725,543)
Non-cash changes	
Amortisation of medium term notes	18,468,429
Exchange difference	43,443,589
Loss on repurchase of medium term notes	4,133,380
As at 31st March 2021	<u>16,451,998,613</u>

19 Significant related party transactions

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

	2021 HK\$	2020 HK\$
Interest income from a fellow subsidiary company (note i)	766,300,451	674,684,114
Administrative costs recharged by a fellow subsidiary company (note ii)	(4,054,517)	(5,134,692)
Realised and unrealised gain/ (loss) on derivative financial instruments to a fellow subsidiary company (note iii)	<u>12,082,233</u>	<u>(140,706,311)</u>

Notes:

- i. Interest receivable from a fellow subsidiary company as at 31st March 2021 was HK\$135,917,308 (2020: HK\$108,684,476). The terms of advance to the fellow subsidiary company is set out in note 9 to the financial statements.
- ii. Administrative costs were recharged by Nan Fung Enterprises (HK) Limited for the year ended 31st March 2021 for the administrative service provided. The amount was determined by and agreed between both parties.
- iii. The Company entered into an arrangement with NFT (II), a fellow subsidiary company, to have assistance in entering into CCS Transaction contract with the bank on behalf of NFT (II). The gain/loss in respect of CCS Transaction is recharged to NFT (II).

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NOTES TO THE FINANCIAL STATEMENTS**20 Holding companies**

The ultimate holding company is Chen's Group International Limited, a company incorporated in the British Virgin Islands.

The immediate holding company is NF Treasury Holdings Limited, a company incorporated in the British Virgin Islands.

APPENDIX**NAN FUNG TREASURY LIMITED**

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**DETAILED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST MARCH 2021****(FOR MANAGEMENT INFORMATION PURPOSES ONLY)**

	2021 HK\$	2020 HK\$
Income/gains		
Interest income	766,300,451	674,684,114
Net exchange gain	1,503,023	4,459,234
Net gain on derivative financial instruments	-	295,538,160
	<u>767,803,474</u>	<u>974,681,508</u>
Less : Expenses/losses		
Interest expenses	673,943,946	593,116,539
Net loss on derivative financial instruments	34,499,075	-
Loss on repurchase of medium term notes	4,133,380	-
Auditor's remuneration	58,632	70,392
Bank charges	3,835	3,289
Legal and professional fees	4,440,139	3,937,106
Printing and stationery expenses	-	36,926
Sundry expenses	72,255	223,228
Donation	10,000	-
Administrative costs recharged by Nan Fung Enterprises (HK) Limited	4,054,517	5,134,692
	<u>721,215,779</u>	<u>602,522,172</u>
Profit before income tax	<u>46,587,695</u>	<u>372,159,336</u>