

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST MARCH 2019

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 5 to 28, which comprise:

- the statement of financial position as at 31st March 2019;
- 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 2019, 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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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	How our audit addressed the key audit matter
Amount due from a fellow subsidiary company <i>Refer to note 9 to the financial statements</i> As at 31st March 2019, 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.	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.

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", 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.

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

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.

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.

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

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

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

We communicate with 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, 25th June 2019

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST MARCH 2019**

	Note	For the year ended 31st March 2019 HK\$	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Interest income		233,532,654	193,485,348
Interest expenses		(215,665,130)	(180,340,654)
Net interest income	5	17,867,524	13,144,694
Other losses, net	6	(8,958,041)	(3,571,752)
Change in fair value on perpetual capital securities		62,408,702	176,658,480
Other operating expenses	7	(1,871,287)	(45,003,930)
Profit before income tax		69,446,898	141,227,492
Income tax expense	8	(185,303)	-
Profit and total comprehensive profit for the year/period		69,261,595	141,227,492

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

STATEMENT OF FINANCIAL POSITION
AS AT 31ST MARCH 2019

	Note	2019 HK\$	2018 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	-
		<u>3,862,498,212</u>	<u>3,862,352,625</u>
Current assets			
Amounts due from fellow subsidiary companies	10	43,969,449	79,204,609
Derivative financial instruments	11	1,909,088	21,875,885
Cash at bank	12	70,016,604	6,067
		<u>115,895,141</u>	<u>101,086,561</u>
Total assets		<u><u>3,978,393,353</u></u>	<u><u>3,963,439,186</u></u>
EQUITY			
Share capital	13	7,784	7,784
Retained profits		210,489,087	141,227,492
Total equity		<u>210,496,871</u>	<u>141,235,276</u>
LIABILITIES			
Non-current liability			
Perpetual capital securities	14	3,685,857,818	3,747,341,520
Current liabilities			
Accrual		60,564	58,800
Interest payable	15	73,156,241	73,139,000
Amounts due to fellow subsidiary companies	16	5,699,534	1,664,590
Derivative financial instruments	11	2,791,435	-
Tax payable		330,890	-
		<u>82,038,664</u>	<u>74,862,390</u>
Total liabilities		<u><u>3,767,896,482</u></u>	<u><u>3,822,203,910</u></u>
Total equity and liabilities		<u><u>3,978,393,353</u></u>	<u><u>3,963,439,186</u></u>

On behalf of the Board

Lo Ngan Ying
Director

Tang Chun Wai Nelson
Director

NAN FUNG TREASURY (II) LIMITED

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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST MARCH 2019**

	Share capital HK\$	Retained profits HK\$	Total HK\$
At 8th May 2017 (date of incorporation)	-	-	-
Transaction with owner			
Issue of shares (note 13)	7,784	-	7,784
Comprehensive income			
Profit for the period	-	141,227,492	141,227,492
At 31st March 2018 and 1st April 2018	7,784	141,227,492	141,235,276
Comprehensive income			
Profit for the year	-	69,261,595	69,261,595
At 31st March 2019	7,784	210,489,087	210,496,871

NAN FUNG TREASURY (II) LIMITED

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**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST MARCH 2019**

	Note	For the year ended 31st March 2019 HK\$	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Cash flows from operating activities			
Profit before income tax		69,446,898	141,227,492
Interest income		(233,532,654)	(193,485,348)
Interest expenses		215,665,130	180,340,654
Net exchange loss		1,170,661	28,504,442
Change in fair value on perpetual capital securities		(62,408,702)	(176,658,480)
Unrealised loss/(gain) on derivative financial instruments		22,758,232	(21,875,885)
		<u>13,099,565</u>	<u>(41,947,125)</u>
Changes in working capital:			
Increase in accrual		1,764	58,800
Increase in amounts due to fellow subsidiary companies		3,747,200	1,664,590
Decrease/(increase) in amounts due from fellow subsidiary companies		53,965,454	(3,922,486,052)
		<u>70,813,983</u>	<u>(3,962,709,787)</u>
Net cash from/(used) in operation		214,802,360	173,819,624
Interest received		(215,605,806)	(107,411,554)
Interest paid			
		<u>70,010,537</u>	<u>(3,896,301,717)</u>
Net cash from/(used in) operating activities			
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		-	7,784
Proceeds from issuance of perpetual capital securities	18	-	3,896,300,000
		<u>-</u>	<u>3,896,307,784</u>
Cash from financing activities			
		<u>70,010,537</u>	<u>6,067</u>
Net increase in cash and cash equivalents			
		6,067	-
Cash and cash equivalents at the beginning of the year/period			
		<u>70,016,604</u>	<u>6,067</u>
Cash and cash equivalents at the end of the year/period			

NAN FUNG TREASURY (II) LIMITED
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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.

On 29th May 2017, the Company has issued US\$500 million 5.5% guaranteed senior perpetual capital securities (“perpetual capital securities”). The perpetual capital securities were issued for general corporate funding purposes and were guaranteed by Nan Fung International Holdings Limited (“NFIHL”), the intermediate holding company. Details of which are set out in note 14 to the financial statements.

These financial statements have been approved for issue by the board of directors on 25th June 2019.

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.

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

2 Summary of significant accounting policies (Continued)

(b) New standards, amendments to standards and interpretations adopted by the Company

The new standards, amendments to standards and interpretations which are mandatory for the financial year beginning 1st April 2018 and are relevant to the Company's operations are as follows:

Annual Improvements to IFRSs (Amendments)	Annual Improvements to IFRSs 2014 – 2016 Cycle
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC 22	Foreign Currency, Transactions and Advance Consideration

The Company has assessed the impact of the adoption of these new standards, amendments to standards and interpretations, except for the adoption of IFRS 9 and IFRS 15, there is no significant impact on the Company's results and financial position. The changes in accounting policies and the impacts on the Company's results and financial position for the adoption of IFRS 9 and IFRS 15 are summarised below:

Effect of changes in accounting policies – IFRS 9

Following the adoption of IFRS 9, the Company has made changes to its accounting policies in the classification, measurement and impairment of its financial assets. For details of the new accounting policies of financial assets, please refer to note 2(e).

While the new policies are generally required to be applied retrospectively, the Company has taken transitional provisions in IFRS 9 not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative balances have not been restated. Differences in the carrying amounts resulting from the adoption of IFRS 9 are recognised as adjustments to the opening statement of financial position on 1st April 2018.

(i) Classification and measurement of financial assets and liabilities

Management has assessed the business models and the contractual terms of the cash flows apply to the financial assets held by the Company at the date of initial application of IFRS 9 and has classified its financial instruments into appropriate IFRS 9 categories.

The financial assets held by the Company classified as financial assets at amortised cost and financial instruments (i.e. derivative financial instruments) classified as fair value through profit or loss ("FVTPL") under IAS 39 will continue to be classified on the same basis under IFRS 9. Accordingly, the new guidance does not affect the classification and measurement of these financial assets.

The Company's perpetual capital securities are designated as at FVTPL and the fair value changes attributable to its own credit risk will be recognised in other comprehensive income. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 and have not been changed.

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

2 Summary of significant accounting policies (Continued)

(b) New standards, amendments to standards and interpretations adopted by the Company (Continued)

Effect of changes in accounting policies – IFRS 9 (Continued)

(ii) Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (“ECL”) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (“FVOCI”), contract assets, lease receivables, loan commitments and certain financial guarantee contracts. The adoption of new impairment model does not have a material impact on the Company’s financial position as at 1st April 2018 and/or financial performance as the credit losses calculated pursuant to the new requirements for the Company’s operation are not significantly different from the amount recognised under their current credit loss provision practices.

The adoption of IFRS 9 does not have any significant impact to the Company’s results for the year ended 31st March 2019 and the Company’s financial position as at 31st March 2019.

Effect of changes in accounting policies – IFRS 15

Following the adoption of IFRS 15, the Company has made changes to its accounting policies in revenue recognition. For details of the new accounting policies of revenue recognition, please refer to note 2(l).

The Company has elected the modified retrospective approach for transition to the new revenue standard. There is no significant impact on the Company’s accounting with respect to the timing of revenue recognition and allocation of the transaction price to performance obligations identified. Accordingly, opening balance of retained profits at 1st April 2018 are not adjusted.

The adoption of IFRS 15 does not have any significant impact to the Company’s results for the year ended 31st March 2019 and the Company’s financial position as at 31st March 2019.

NAN FUNG TREASURY (II) LIMITED

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NOTES TO THE FINANCIAL STATEMENTS**2 Summary of significant accounting policies (Continued)****(c) New standards, amendments to standards and interpretation which are not yet effective for this financial period and have not been early adopted by the Company**

The Company has not early adopted the following new standards, amendments to standards and interpretation that have been issued but are not yet effective for the year ended 31st March 2019:

		Effective for accounting periods beginning on or after
Annual Improvements to IFRSs (Amendments)	Annual Improvements to IFRSs 2015 – 2017 Cycle	1st January 2019
IAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1st January 2019
IFRS 16	Leases	1st January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1st January 2019
IAS 1 (Amendments) and IAS 8 (Amendments)	Amendments of Definition of Material	1st January 2020
IFRS 3 (Amendments)	Definition of a Business	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 new standards, amendments to standards and interpretation as and when they become effective. The Company has already commenced the assessment of the impact of these new standards, amendments to standards and interpretation to the Company, these new or revised IFRSs 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 (II) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(e) Financial assets

(i) Classification of financial assets

From 1st April 2018, 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 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 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 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 losses, net".

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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 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 consolidated 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 losses, net” in the statement of comprehensive income as applicable.

(iii) Impairment of financial assets

The Company assesses on a forward looking basis the 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.

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NOTES TO THE FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(e) Financial assets (Continued)

(iv) Accounting policies applied until 31st March 2018

(1) Classification of financial asset

The Company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'amounts due from fellow subsidiary companies' and 'cash at bank' in the statement of financial position.

(2) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(3) Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flow of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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

2 Summary of significant accounting policies (Continued)

(e) Financial assets (Continued)

(iv) Accounting policies applied until 31st March 2018 (Continued)

(3) Impairment of financial assets (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

(v) 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.

(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.

NAN FUNG TREASURY (II) LIMITED
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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.

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)

(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.

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

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, derivative financial instruments and cash at bank. The exposures to these credit risks are closely monitored on an ongoing basis by established credit control procedures.

NAN FUNG TREASURY (II) LIMITED

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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.

As at 31st March 2018, the Company has assessed its exposure to credit risk using the incurred loss model and does not expect a significant loss for these receivables.

(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.

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

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

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

	Within 1 year HK\$	Perpetual HK\$
At 31st March 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>
	Within 1 year HK\$	Perpetual HK\$
At 31st March 2018		
Accrual	58,800	-
Interest payable	73,139,000	-
Amount due to a fellow subsidiary company	1,664,590	-
Perpetual capital securities	-	3,747,341,520
	<u>74,862,390</u>	<u>3,747,341,520</u>

The table above excludes interest accruing and payable on perpetual capital securities which are estimated to be HK\$215,870,875 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, derivative financial instruments, 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 from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

	Valuation Hierarchy			Total
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	
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)

	Valuation Hierarchy			Total
	Level 1 HK\$	Level 2 HK\$	Level 3 HK\$	
As at 31st March 2018				
Derivative financial instruments				
- Assets	-	21,875,885	-	21,875,885
Perpetual capital securities	(3,747,341,520)	-	-	(3,747,341,520)

NAN FUNG TREASURY (II) LIMITED
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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 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 reviews the recoverable amount of the amount due from a fellow subsidiary company at the end of each reporting period. In determination of the recoverable amount of the balance, the management regularly assesses credit risk and reviews the financial information of the fellow subsidiary company. Any change to the estimated recoverable amount may cause a material adjustment to the carrying amount and result in future financial year if the present value of estimated future cash flows is different from expected as a result of change in market condition.

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.

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NOTES TO THE FINANCIAL STATEMENTS

5 Net interest income

	For the year ended 31st March 2019 HK\$	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Interest income from a fellow subsidiary company	233,532,654	193,485,348
Interest expenses on perpetual capital securities	(215,665,130)	(180,340,654)
	<u>17,867,524</u>	<u>13,144,694</u>

6 Other losses, net

	For the year ended 31st March 2019 HK\$	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Net realised gain on derivative financial instruments	14,970,852	3,056,805
Net unrealised (loss)/gain on derivative financial instruments	(22,758,232)	21,875,885
Net (loss)/gain on derivative financial instruments	(7,787,380)	24,932,690
Net exchange loss	(1,170,661)	(28,504,442)
	<u>(8,958,041)</u>	<u>(3,571,752)</u>

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NOTES TO THE FINANCIAL STATEMENTS

7 Other operating expenses

	For the year ended 31st March 2019 HK\$	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Auditor's remuneration	60,564	58,800
Legal and professional fees	61,909	9,168,825
Registration fee	21,330	26,090
Preliminary expenses	-	27,513
Administrative costs recharged by fellow subsidiary companies	1,726,001	1,664,590
Issuance cost of perpetual capital securities	-	34,057,499
Sundry expenses	1,483	613
	<u>1,871,287</u>	<u>45,003,930</u>

8 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2018: Nil) on the estimated assessable profits for the year.

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

	For the year ended 31st March 2019 HK\$	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Current tax		
Hong Kong profits tax		
- provision for current year	330,890	-
Deferred income tax credit	(145,587)	-
	<u>185,303</u>	<u>-</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:

	For the year ended 31st March 2019 HK\$	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Profit before income tax	69,446,898	141,227,492
Calculated at a tax rate of 16.5%	11,458,738	23,302,536
Income not subject to tax	(10,297,436)	(29,148,649)
Expenses not deductible for tax purposes	173,602	4,696,512
Tax loss not recognised	-	1,149,601
Utilisation of previously unrecognised tax loss	(1,149,601)	-
Income tax expense	185,303	-

9 Amount due from a fellow subsidiary company

The balance is denominated in Hong Kong dollars. As at 31st March 2019, the balance of HK\$3,862,352,625 (2018: HK\$3,862,352,625) bears interest at 6.15% (2018: 5.995%) 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.

11 Derivative financial instruments

	2019		2018	
	Notional amount HK\$	Fair value HK\$	Notional amount HK\$	Fair value HK\$
Current assets:				
- Cross currency swap contract	1,550,000,000	1,909,088	3,875,000,000	21,875,885
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 19 to the financial statement. The derivative financial instruments are denominated in United States dollars.

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NOTES TO THE FINANCIAL STATEMENTS

12 Cash at bank

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

	2019 HK\$	2018 HK\$
Hong Kong dollars	70,010,566	-
United States dollars	6,038	6,067
	<u>70,016,604</u>	<u>6,067</u>

13 Share capital

	Number of shares	Share capital HK\$
Ordinary shares at US\$1 each issued:		
At 31st March 2018 and 2019	<u>1,000</u>	<u>7,784</u>

The Company was incorporated on 8th May 2017 with an authorised share capital of 50,000 ordinary shares at US\$1 each. 1,000 shares were issued on 8th May 2017.

14 Perpetual capital securities

	Fixed interest yield per annum	Principal amount (million)	2019 Fair value HK\$	2018 Fair value HK\$
Perpetual capital securities				
- Listed on Singapore Exchange Securities Trading Limited	5.5%	US\$500	<u>3,685,857,818</u>	<u>3,747,341,520</u>

As described in note 1 to the financial statements, 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.

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

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 assets

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 8th May 2017 (date of incorporation)	-	-	-
(Charged)/credited to statement of comprehensive income (note 8)	(3,609,521)	3,609,521	-
At 31st March 2018 and 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	145,587	-	145,587

At 31st March 2018, the Company did not recognise deferred tax assets in respect of tax losses of HK\$6,967,280. The tax losses do not expire under current tax legislation. The tax losses are utilised during the year ended 31st March 2019.

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 Reconciliation of liabilities arising from financing activities

	Perpetual capital securities HK\$
At 8th May 2017 (date of incorporation)	-
Cash flows	3,896,300,000
Non-cash changes:	
Change in fair value on perpetual capital securities	(176,658,480)
Exchange difference	27,700,000
At 31st March 2018	3,747,341,520
As at 1st April 2018	3,747,341,520
Non-cash changes:	
Change in fair value on perpetual capital securities	(62,408,702)
Exchange difference	925,000
At 31st March 2019	3,685,857,818

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NOTES TO THE FINANCIAL STATEMENTS

19 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:

	For the year ended 31st March 2019 HK\$	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Interest income from a fellow subsidiary company (note i)	233,532,654	193,485,348
Realised and unrealised (loss)/gain on derivative financial instruments from a fellow subsidiary company (note ii)	(7,787,380)	24,932,690
Administrative costs recharged by a fellow subsidiary company (note iii)	(1,726,001)	(1,664,590)
	<u>233,532,654</u>	<u>193,485,348</u>

Notes:

- i. Interest receivable from a fellow subsidiary company as at 31st March 2019 was HK\$38,396,018 (2018: HK\$19,665,724). 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 transactions ("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 2019 and Nan Fung Development Limited for the year ended 31st March 2018 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 2019

(FOR MANAGEMENT INFORMATION PURPOSES ONLY)

	2019 HK\$	2018 HK\$
Income/gains		
Interest income	233,532,654	193,485,348
Change in fair value on perpetual capital securities	62,408,702	176,658,480
Net gain on derivative financial instruments	-	24,932,690
	<u>295,941,356</u>	<u>395,076,518</u>
Less: Expenses/losses		
Interest expenses	215,665,130	180,340,654
Auditor's remuneration	60,564	58,800
Net loss on derivative financial instruments	7,787,380	-
Net exchange loss	1,170,661	28,504,442
Legal and professional fees	61,909	9,168,825
Issuance cost of perpetual capital securities	-	34,057,499
Administrative costs recharged by Nan Fung Enterprises (HK) Limited/Nan Fung Development Limited	1,726,001	1,664,590
Registration fee	21,330	26,090
Sundry expenses	1,483	613
Preliminary expenses	-	27,513
	<u>226,494,458</u>	<u>253,849,026</u>
Profit before income tax	<u>69,446,898</u>	<u>141,227,492</u>