

NAN FUNG TREASURY (III) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD FROM 27TH FEBRUARY 2020 (DATE OF INCORPORATION)

TO 30TH SEPTEMBER 2020

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

Introduction

We have reviewed the interim financial statements set out on pages 2 to 18, which comprise the statement of financial position of Nan Fung Treasury (III) Limited (the “Company”) as at 30th September 2020 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 27th February 2020 (date of incorporation) to 30th September 2020, and a summary of significant accounting policies and other explanatory notes. The directors are responsible for the preparation of interim financial statements that give a true and fair view in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements do not give a true and fair view of the financial position of the Company as at 30th September 2020, and of its financial performance and its cash flows for the period from 27th February 2020 to 30th September 2020, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8th December 2020

NAN FUNG TREASURY (III) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**STATEMENT OF COMPREHENSIVE INCOME
FOR PERIOD FROM 27TH FEBRUARY 2020 (DATE OF INCORPORATION)
TO 30TH SEPTEMBER 2020**

	Note	Unaudited For the period from 27th February 2020 (date of incorporation) to 30th September 2020 HK\$
Interest income		11,040,290
Interest expenses		(11,302,156)
Net interest expense	5	(261,866)
Other gains	6	223,947
Change in fair value on perpetual capital securities		(15,562,349)
Other operating expenses	7	(42,336,047)
Loss before income tax		(57,936,315)
Income tax	8	-
Loss for the period		(57,936,315)
Other comprehensive income		
<i>Items that may not be reclassified subsequently to profit or loss</i>		
Change in fair value on perpetual capital securities attributable to the change in the credit risk		22,149,891
Other comprehensive income for the period		22,149,891
Total comprehensive loss for the period		(35,786,424)

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

STATEMENT OF FINANCIAL POSITION
AS AT 30TH SEPTEMBER 2020

	Note	Unaudited as at 30th September 2020 HK\$
ASSETS		
Non-current asset		
Amount due from a fellow subsidiary company	9	3,837,815,085

Current assets		
Amounts due from fellow subsidiary companies	9	11,048,040
Cash at bank		271,306

		11,319,346

Total assets		3,849,134,431
		=====
EQUITY		
Share capital	10	7,793
Other reserve		22,149,891
Accumulated losses		(57,936,315)

Total deficit		(35,778,631)

LIABILITIES		
Non-current liability		
Perpetual capital securities	11	3,868,437,458

Current liabilities		
Accrual		231,190
Interest payable	12	11,302,156
Amounts due to fellow subsidiary companies	13	4,942,258

		16,475,604

Total liabilities		3,884,913,062
		=====
Total equity and liabilities		3,849,134,431
		=====

On behalf of the Board

Berry Connie Charlotte
Director

Tang Chun Wai Nelson
Director

NAN FUNG TREASURY (III) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

STATEMENT OF CHANGES IN EQUITY**FOR PERIOD FROM 27TH FEBRUARY 2020 (DATE OF INCORPORATION)****TO 30TH SEPTEMBER 2020**

	Unaudited			
	Share capital HK\$	Other reserve HK\$	Accumulated losses HK\$	Total HK\$
At 27th February 2020 (date of incorporation)	-	-	-	-
Transaction with owner				
Issuance of shares (note 10)	7,793	-	-	7,793
Comprehensive loss				
Loss for the period	-		(57,936,315)	(57,936,315)
Other comprehensive loss				
Change in fair value on perpetual capital securities attributable to the change in the credit risk	-	22,149,891	-	22,149,891
Total comprehensive income/(loss) for the period	-	22,149,891	(57,936,315)	(35,786,424)
At 30th September 2020	7,793	22,149,891	(57,936,315)	(35,778,631)

NAN FUNG TREASURY (III) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

STATEMENT OF CASH FLOWS**FOR PERIOD FROM 27TH FEBRUARY 2020 (DATE OF INCORPORATION)****TO 30TH SEPTEMBER 2020**

	Note	Unaudited For the period from 27th February 2020 (date of incorporation) to 30th September 2020 HK\$
Cash flows from operating activities		
Loss before income tax		(57,936,315)
Interest income		(11,040,290)
Interest expenses		11,302,156
Change in fair value on perpetual capital securities		15,562,349
Net exchange gain		(223,947)
		(42,336,047)
Changes in working capital:		
Increase in accrual		231,190
Increase in amounts due to fellow subsidiary companies		4,841,205
Increase in amounts due from fellow subsidiary companies		(3,837,822,835)
Net cash used in operating activities		(3,875,086,487)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares		7,793
Proceeds from issuance of perpetual capital securities	14	3,875,350,000
Cash from financing activities		3,875,357,793
Net increase in cash and cash equivalents		271,306
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period		271,306

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 General information

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

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

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

The interim financial statements have been approved for issue by the Board of Directors on 8th December 2020.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the interim financial statements are set out below.

(a) Basis of preparation

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The interim financial statements have been prepared under the historical cost convention as modified by the revaluation of perpetual capital securities, 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 interim financial statements are disclosed in note 4.

As of 30th September 2020, the Company had net current liabilities of HK\$5,156,258 and shareholder’s deficit of HK\$35,778,631. NFIHL has confirmed its intention to provide continuing financial support to the Company so as to enable it to meet its liabilities as and when they fall due and to continue its business for the foreseeable future. The directors believe that the Company will continue as a going concern. Consequently, the directors have prepared the financial statements on a going concern basis.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(b) Amendments to standards 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 amendments to standards that have been issued but are not yet effective for the period:

		Effective for accounting periods beginning on or after
IAS 16 (Amendments)	Property, Plant and Equipment	1st January 2022
IAS 37 (Amendments)	Provisions, Contingent Liabilities and Contingent Assets	1st January 2022
Annual Improvements to IFRS (Amendments)	Annual Improvements 2018-2020 Cycle	1st January 2022
IAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1st 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 amendments to standards as and when they become effective. The Company has already commenced the assessment of the impact to the Company and is not yet in a position to state whether these would have a significant impact on the results of operations and financial position of the Company.

(c) 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.

(d) Financial assets

(i) Classification of financial asset

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

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. The classification of debt financial assets depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows. The Company reclassifies debt investments when and only when its business model for managing those assets changes. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”).

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(d) Financial assets (Continued)

(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, 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, 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, net”.
- **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, 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.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

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

(d) Financial assets (Continued)

(ii) Measurement of financial assets (Continued)

(2) Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the income statement as part of revenue when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in "other gains, net" in the statement of comprehensive income as applicable.

(iii) Impairment of financial assets

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

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

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

(iv) Offsetting financial instruments

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

(e) 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.

(f) Other payable

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

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

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

(g) 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.

(h) Current and deferred income tax

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

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

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

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

(i) Share capital

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

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

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

(j) 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.

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

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

3 Financial risk management

(a) Financial risk factors

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

(i) Credit risk

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Credit risk (Continued)

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

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

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

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

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

Management considers amounts due from fellow subsidiary companies and cash at bank as low credit risk as counterparties have a strong capacity to meet its contractual cash flow obligations in the near future. The Company has assessed that the ECL for these balances are immaterial under 12 months ECL method. Thus, the impairment provision recognised for these balances is close to zero.

(ii) Foreign exchange risk

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

NAN FUNG TREASURY (III) LIMITED
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NOTES TO THE INTERIM 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 30th September 2020		
Interest payable	11,302,156	-
Amounts due to fellow subsidiary companies	4,942,258	-
Perpetual capital securities	-	3,868,437,458
	<u>16,244,414</u>	<u>3,868,437,458</u>

The table above excludes interest accruing and payable on perpetual capital securities which are estimated to be HK\$193,751,250 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.

(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.

(c) Fair value estimation

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

The carrying amounts of cash at bank, interest payable and amounts due from/to fellow subsidiary companies 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).

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(c) Fair value estimation (Continued)

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

	Valuation Hierarchy			Total HK\$
	Level 1	Level 2	Level 3	
	HK\$	HK\$	HK\$	
As at 30th September 2020				
Perpetual capital securities	3,868,437,458	-	-	3,868,437,458

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

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

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

4 Critical accounting estimates and judgements

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

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

Recoverability of amounts due from fellow subsidiary companies

Management regularly assesses the loss allowances for amounts due from fellow subsidiary companies 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.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

4 Critical accounting estimates and judgements (Continued)

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

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

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

5 Net interest expense

	Unaudited For the period from 27th February 2020 (date of incorporation) to 30th September 2020 HK\$
Interest income from a fellow subsidiary company	11,040,290
Interest expenses on perpetual capital securities	(11,302,156)
	(261,866)

6 Other gains

	Unaudited For the period from 27th February 2020 (date of incorporation) to 30th September 2020 HK\$
Net exchange gain	223,947

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

7 Other operating expenses

	Unaudited For the period from 27th February 2020 (date of incorporation) to 30th September 2020 HK\$
Auditor's remuneration	31,190
Issuance cost of perpetual capital securities	41,271,433
Legal and professional fees	918,324
Registration fee	4,102
Preliminary expense	28,818
Administrative costs recharged by a fellow subsidiary company	72,160
Bank service charges	10,020
	42,336,047

8 Income tax expense

No provision for Hong Kong profits tax has been made as the Company has no assessable profits for the period.

The tax on the Company's loss 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:

	Unaudited For the period from 27th February 2020 (date of incorporation) to 30th September 2020 HK\$
Loss before income tax	(57,936,315)
Calculated at a tax rate of 16.5%	(9,559,492)
Income not subject to tax	(36,937)
Expenses not deductible for tax purposes	2,572,543
Tax losses not recognised	7,023,886
Income tax expense	-

The Company has unused tax losses of HK\$42,569,008 to carry forward against future taxable profit. These tax losses have no expiry date once agreed by the Inland Revenue Department.

Deferred tax assets have not been recognised in respect of these losses as it is improbable that taxable profits will be available against which the tax losses can be utilised.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

9 Amounts due from fellow subsidiary companies

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

10 Share capital

	Number of shares	Share capital HK\$
Ordinary shares at US\$1 each issued:		
At 30th September 2020	1,000	7,793

The Company was incorporated on 27th February 2020 with an authorised share capital of 50,000 ordinary shares at US\$1 each. 1,000 shares were issued on 27th February 2020.

11 Perpetual capital securities

			As at 30th September 2020
	Fixed interest yield per annum	Principal amount (million)	Fair value HK\$
Perpetual capital securities			
- Listed on Singapore Exchange Securities Trading Limited	5%	US\$500	3,868,437,458

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

12 Interest payable

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

13 Amounts due to fellow subsidiary companies

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

14 Reconciliation of liability arising from financing activities

	Perpetual capital securities HK\$
At 27th February 2020 (date of incorporation)	-
Cash flows	3,875,350,000
Non-cash changes:	
Change in fair value on perpetual capital securities	15,562,349
Change in fair value on perpetual capital securities attributable to credit risk	(22,149,891)
Exchange difference	(325,000)
At 30th September 2020	<u>3,868,437,458</u>

15 Related party transactions

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

	Unaudited For the period from 27th February 2020 (date of incorporation) to 30th September 2020 HK\$
Interest income from a fellow subsidiary company (note (1))	11,040,290
Administrative costs recharged by a fellow subsidiary company (note (2))	<u>72,160</u>

Notes:

- (1) Interest receivable from a fellow subsidiary company as at 30th September 2020 was HK\$11,040,290. The terms of advance to the fellow subsidiary company are set out in note 9 to the interim financial statements.
- (2) Administration costs were recharged by Nan Fung Enterprises (HK) Limited, a fellow subsidiary company, for the administrative service provided. The amount was determined by and agreed between both parties.