

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

FINANCIAL STATEMENTS

FOR THE PERIOD FROM 8TH MAY 2017 (DATE OF INCORPORATION) TO
31ST MARCH 2018

**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 20, which comprise:

- the statement of financial position as at 31st March 2018;
- the statement of comprehensive income for the period from 8th May 2017 (date of incorporation) to 31st March 2018;
- the statement of changes in equity for the period from 8th May 2017 (date of incorporation) to 31st March 2018;
- the statement of cash flow for the period from 8th May 2017 (date of incorporation) to 31st March 2018; 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 2018, and of its financial performance and its cash flows for the period from 8th May 2017 (date of incorporation) to 31st March 2018 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 2018, 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. We noted no material issues from the procedures performed above.

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)**

(Incorporated in the British Virgin Islands with limited liability)

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)**

(Incorporated in the British Virgin Islands with limited liability)

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 Mr. Ho Chi Keung.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26th June 2018

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

**STATEMENT OF COMPREHENSIVE INCOME
FOR PERIOD FROM 8TH MAY 2017 (DATE OF INCORPORATION) TO
31ST MARCH 2018**

	Note	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Interest income		193,485,348
Interest expenses		(180,340,654)
Net interest income	5	13,144,694
Other gains	6	24,932,690
Change in fair value on perpetual capital securities		176,658,480
Net exchange loss		(28,504,442)
Other operating expenses	7	(45,003,930)
Profit before income tax		141,227,492
Income tax expense	8	-
Profit and total comprehensive profit for the period		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 2018

	Note	2018 HK\$
ASSETS		
Non-current asset		
Amount due from a fellow subsidiary company	9	3,862,352,625

Current assets		
Amounts due from fellow subsidiary companies	10	79,204,609
Derivative financial instruments	11	21,875,885
Cash at bank		6,067

		101,086,561

Total assets		<u><u>3,963,439,186</u></u>
EQUITY		
Share capital	12	7,784
Retained profits		141,227,492

Total equity		<u>141,235,276</u>

LIABILITIES		
Non-current liability		
Perpetual capital securities	13	3,747,341,520

Current liabilities		
Accrual		58,800
Interest payable	14	73,139,000
Amount due to a fellow subsidiary company	15	1,664,590

		74,862,390

Total liabilities		<u><u>3,822,203,910</u></u>

Total equity and liabilities		<u><u>3,963,439,186</u></u>

On behalf of the Board

.....
Director

.....
Director

NAN FUNG TREASURY (II) LIMITED

(Incorporated in the British Virgin Islands with limited liability)

STATEMENT OF CHANGES IN EQUITY**FOR PERIOD FROM 8TH MAY 2017 (DATE OF INCORPORATION)****TO 31ST MARCH 2018**

	Share capital HK\$	Retained profits HK\$	Total HK\$
At 8th May 2017 (date of incorporation)	-	-	-
Transaction with owner			
Issue of shares (note 12)	7,784	-	7,784
Comprehensive profit			
Profit for the period	-	141,227,492	141,227,492
At 31st March 2018	<u>7,784</u>	<u>141,227,492</u>	<u>141,235,276</u>

NAN FUNG TREASURY (II) LIMITED
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STATEMENT OF CASH FLOWS
FOR PERIOD FROM 8TH MAY 2017 (DATE OF INCORPORATION)
TO 31ST MARCH 2018

	Note	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Cash flows from operating activities		
Profit before income tax		141,227,492
Interest income		(193,485,348)
Interest expenses		180,340,654
Change in fair value on perpetual capital securities		(176,658,480)
Unrealised gain on derivative financial instruments		(21,875,885)
Net exchange loss		28,504,442
Changes in working capital:		
Increase in accrual		58,800
Increase in amount due to a fellow subsidiary company		1,664,590
Increase in amounts due from fellow subsidiary companies		(3,922,486,052)
Net cash used in operation		(3,962,709,787)
Interest received		173,819,624
Interest paid		(107,411,554)
Net cash used in operating activities		(3,896,301,717)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares		7,784
Proceeds from issuance of perpetual capital securities	17	3,896,300,000
Net cash from financing activities		3,896,307,784
Net increase in cash and cash equivalents		6,067
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period		6,067

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

NOTES TO THE FINANCIAL STATEMENTS

1 General information

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

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

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 13 to the financial statements.

These financial statements have been approved for issue by the board of directors on 26th June 2018.

2 Basis of preparation and summary of significant accounting policies

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

(a) Basis of preparation

The financial statements for the period from 8th May 2017 (date of incorporation) to 31st March 2018 has 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
(Incorporated in the British Virgin Islands with limited liability)

NOTES TO THE FINANCIAL STATEMENTS

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

(b) New standards and amendments 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 and amendments that have been issued but are not yet effective for the period ended 31st March 2018:

		Effective for accounting periods beginning on or after
Annual Improvements to IFRSs (Amendments)	Annual Improvements to IFRSs 2014 – 2016 Cycle	1st January 2018
Annual Improvements to IFRSs (Amendments)	Annual Improvements to IFRSs 2015 – 2017 Cycle	1st January 2019
IFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1st January 2018
IFRS 9	Financial Instruments	1st January 2018
IFRS 15	Revenue from Contracts with Customers	1st January 2018
IFRS 16	Leases	1st January 2019
IFRIC 22	Foreign Currency, Transactions and Advance Consideration	1st January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1st January 2019
IFRS 10 and IAS 28 (Amendment)	Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture	To be determined

The Company will adopt the new or amendments to standards and is in the process of assessing the impact on the financial statements.

IFRS 9 Financial instruments

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1st April 2018:

Classification of financial liabilities

For financial liabilities there were no changes to classification and measurement except for liabilities designated at fair value through profit or loss. The Company's perpetual capital securities are designated at fair value through profit or loss and the changes in own credit risk will record in other comprehensive income. The Company does not expect the new standard to have a significant impact on the Company's accounting. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

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

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

(c) Financial assets

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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 Basis of preparation and summary of significant accounting policies (continued)

(c) Financial assets (Continued)

(iv) 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.

(d) 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.

(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.

(g) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are initially measured at fair value. Subsequent to initial recognition, all financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income in 'change in fair value of perpetual capital securities'.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of comprehensive income.

(h) 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 (II) LIMITED
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NOTES TO THE FINANCIAL STATEMENTS

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

(i) 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.

(j) 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.

(k) Revenue recognition

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

3 Financial risk management

(a) Financial risk factors

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

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

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.

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.

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.

(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, amounts due from/to fellow subsidiary companies are mainly denominated in Hong Kong dollars and United States dollars. In view of the fact that Hong Kong dollars is pegged to United States dollars, the foreign currency risk on United States dollars transactions and balances is minimal.

(iii) Liquidity risk

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 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\$215,820,000 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.

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NOTES TO THE FINANCIAL STATEMENTS

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(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) Fair value estimation

The financial instruments are measured in the statement of financial position at fair value in accordance with IFRS 13. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

	Valuation Technique			Total HK\$
	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)

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.

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NOTES TO THE FINANCIAL STATEMENTS

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.

5 Net interest income

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

6 Other gains

	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Realised gain on derivative financial instruments	3,056,805
Unrealised gain on derivative financial instruments	21,875,885
	<u>24,932,690</u>

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

NOTES TO THE FINANCIAL STATEMENTS

7 Other operating expenses

	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Auditor's remuneration	58,800
Legal and professional fees	9,168,825
Registration fee	26,090
Preliminary expense	27,513
Administrative costs recharged by a fellow subsidiary company	1,664,590
Issuance cost of perpetual capital securities	34,057,499
Sundry expenses	613
	<u>45,003,930</u>

8 Income tax expense

Hong Kong profits tax has not been made as the Company has no assessable profit for the period.

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

	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Profit before income tax	141,227,492
Calculated at a tax rate of 16.5%	23,302,536
Income not subject to tax	(29,148,649) ✓
Expenses not deductible for tax purposes	4,696,512
Tax loss not recognised	1,149,601 ✓
	<u>-</u>

As at 31st March 2018, the Company has unrecognised tax losses of HK\$6,967,281 to carry forward against future taxable profits. The tax losses have no expiry date. These tax losses have not agreed by the Inland Revenue Department.

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

9 Amount due from a fellow subsidiary company

The balance is denominated in Hong Kong dollars. The balance of HK\$3,862,352,625 bear interest at a rate 5.995% per annum and is not expected to be repaid in one year or less.

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

NOTES TO THE FINANCIAL STATEMENTS

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

	Notional amount HK\$	2018 HK\$
Current assets:		
- Cross currency swap contract	3,875,000,000	21,875,885

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

12 Share capital

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

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 5th August 2017.

13 Perpetual capital securities

			As at 31st March 2018
	Fixed interest yield per annum	Principal amount (million)	Fair value HK\$
Perpetual capital securities			
- Listed on Singapore Exchange Securities Trading Limited	5.5%	US\$500	3,747,341,520

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 at the discretion of the Company and there is no limit as to the number of times of deferral of coupon payment. When the Guarantor and Company elect to declare dividends to their ordinary shareholders, the Company shall make distribution to the holders of perpetual securities at the distribution rates as defined in the subscription agreement. The perpetual capital securities have no fixed maturity and are redeemable at Company's option on or after 29th May 2020 at their principal amounts together with any accrued, unpaid or deferred distributions. It is designated as financial liabilities at fair value through profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS

14 Interest payable

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

15 Amount due to a fellow subsidiary company

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

16 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 16.5%.

The movement in deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

<u>Deferred income tax liabilities</u>	Unrealised gains on derivative financial instruments 2018 HK\$
At 8th May 2017 (date of incorporation)	-
Charged to the statement of comprehensive income	(3,609,521)
At 31st March 2018	(3,609,521)
<u>Deferred income tax assets</u>	Tax loss 2018 HK\$
At 8th May 2017 (date of incorporation)	-
Credited to the statement of comprehensive income	3,609,521
At 31st March 2018	3,609,521

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.

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NOTES TO THE FINANCIAL STATEMENTS

17 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

18 Related party transactions

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

	For the period from 8th May 2017 (date of incorporation) to 31st March 2018 HK\$
Interest income from a fellow subsidiary company (note 1)	193,485,348
Realised and unrealised gain on derivative financial instruments from a fellow subsidiary company (note 2)	24,932,690
Administrative costs recharged by a fellow subsidiary company (note 3)	(1,664,590)

Notes:

- Interest receivable from a fellow subsidiary company as at 31st March 2018 was HK\$19,665,724. The terms of advance to the fellow subsidiary company are set out in note 9 to the financial statements.
- 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.
- Administration costs were recharged by Nan Fung Development Limited for the administrative service provided. The amount was determined by and agreed between both parties.

APPENDIX**NAN FUNG TREASURY (II) LIMITED**

(Incorporated in the British Virgin Islands with limited liability)

**DETAILED STATEMENT OF COMPREHENSIVE INCOME
FOR PERIOD FROM 8TH MAY 2017 (DATE OF INCORPORATION)
TO 31ST MARCH 2018****(FOR MANAGEMENT INFORMATION PURPOSES ONLY)**

	2018 HK\$
Income/gains	
Interest income	193,485,348
Change in fair value on perpetual capital securities	176,658,480
Other gains	24,932,690
	395,076,518
Less: Expenses/loss	
Interest expenses	180,340,654
Auditor's remuneration	58,800
Exchange loss	28,504,442
Legal and professional fees	9,168,825
Issuance cost of perpetual capital securities	34,057,499
Administrative costs recharged by Nan Fung Development Limited	1,664,590
Registration fee	26,090
Sundry expenses	613
Preliminary expenses	27,513
	253,849,026
Profit before income tax	141,227,492