

**BAOSTEEL HONG KONG
INVESTMENT COMPANY LIMITED**

Report of the Directors and Financial Statements

For the year ended 31 December 2018



BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

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BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2018.

Principal activities and business review

The principal activity of the Company is Investment holding. There were no significant changes in the nature of the Company's principal activities during the year.

A discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Company and an indication of likely future development in the Company's business, can be found in the Management Discussion and Analysis set out in note 20 to the financial statements and attached Business Review. This discussion forms part of this directors' report.

Recommended dividend

The directors do not recommend the payment of any dividend in respect of the year.

Shares issued

Details of the Company's share capital are set out in note 16 to the financial statements. There was no movement in the Company's share capital during the year.

Directors

The directors of the Company during the year were:

Mr. Hu Aimin (resigned on 11 January 2019)

Mr. Zhang Yi (resigned on 11 January 2019)

Mr. Shen Yan (resigned on 11 January 2019)

In accordance with articles 11,18,19 and 20 of the Company's articles of association, all directors will be appointed by shareholders through ordinary resolution and are not subject to rotation or retirement at the annual general meetings.

Liu Wenxin, Cai Donghui and Yan Yao were appointed by shareholders of the Company to be the new directors which effect on 11 January 2019.

Directors' interests

At no time during the year was the Company or any of its holding companies, or fellow subsidiaries a party to any arrangement to enable the Company's directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which the Company or any of the Company's holding companies or fellow subsidiaries was a party during the year.

Events after the reporting period

Details of the Company's significant events after the reporting period are set out in note 20 to the financial statements.

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

REPORT OF THE DIRECTORS

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



.....
Liu Wenxin
Chairman

Hong Kong
12 August 2019



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Independent auditor's report
To the members of Baosteel Hong Kong Investment Company Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Baosteel Hong Kong Investment Company Limited (the "Company") set out on pages 5 to 30, which comprise the statement of financial position as at 31 December 2018 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. 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 are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the report of the directors.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance 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 HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Independent auditor's report (continued)
To the members of Baosteel Hong Kong Investment Company Limited
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, 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 HKSA's 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 HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of 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.

Ernst & Young

Certified Public Accountants

Hong Kong

12 August 2019

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 US\$	2017 US\$
Revenue	4	10,174,005	8,879,036
Other gains	5	-	21,008,737
Administrative expenses		(187,973)	(364,513)
Finance costs	7	<u>(7,335,155)</u>	<u>(7,243,141)</u>
PROFIT BEFORE TAX	6	2,650,877	22,280,119
Income tax expense	9	<u>-</u>	<u>-</u>
PROFIT FOR THE YEAR		<u>2,650,877</u>	<u>22,280,119</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		-	43,043,710
Reclassification adjustments for gains included in the statement of profit or loss		<u>-</u>	<u>(21,008,737)</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		<u>-</u>	<u>22,034,973</u>
Equity investments at fair value through other comprehensive income:			
Changes in fair value		9,571,672	-
Gains on disposal		<u>(15,690,576)</u>	<u>-</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		<u>(6,118,904)</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		<u>(6,118,904)</u>	<u>22,034,973</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(3,468,027)</u>	<u>44,315,092</u>

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 US\$	2017 US\$
NON-CURRENT ASSETS			
Available-for-sale investments	10	-	191,604,813
Equity investments at fair value through other comprehensive income	11	<u>110,366,483</u>	<u>-</u>
Total non-current assets		<u>110,366,483</u>	<u>191,604,813</u>
CURRENT ASSETS			
Interest receivables	12	-	1,150,081
Cash and cash equivalents	13	<u>4,954,109</u>	<u>343,403,775</u>
Total current assets		<u>4,954,109</u>	<u>344,553,856</u>
CURRENT LIABILITIES			
Other payables and accruals	14	60,617,864	17,663
Exchangeable Bond	15	-	<u>493,660,827</u>
Total current liabilities		<u>60,617,864</u>	<u>493,678,490</u>
NET CURRENT LIABILITIES		<u>(55,663,755)</u>	<u>(149,124,634)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>54,702,728</u>	<u>42,480,179</u>
Net assets		<u>54,702,728</u>	<u>42,480,179</u>
EQUITY			
Share capital	16	516,129	516,129
Reserves		<u>54,186,599</u>	<u>41,964,050</u>
Total equity		<u>54,702,728</u>	<u>42,480,179</u>



Liu Wenxin
Director



Cai Donghui
Director

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

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Notes	Share capital US\$	Equity component of exchangeable Bond US\$	Available-for-sale investments revaluation US\$	Fair value reserve US\$	(Accumulated losses) retained profits US\$	Total equity US\$
At 1 January 2017	516,129	15,706,051	(16,058,002)	-	(1,999,091)	(1,834,913)
Profit for the year	-	-	-	-	22,280,119	22,280,119
Other comprehensive income for the year:						
Changes in fair value of available-for-sale investments			43,043,710			43,043,710
Reclassification adjustments for gains included in the consolidated statement of profit or loss			(21,008,737)			(21,008,737)
Total comprehensive income for the year			(21,008,737)			(21,008,737)
At 31 December 2017	516,129	15,706,051	5,976,971	-	20,281,028	42,480,179
At 31 December 2017 (as originally presented)	516,129	15,706,051	5,976,971	-	20,281,028	42,480,179
Effect of adoption of HKFRS 9 (note 2.3)				7,301,801		7,301,801
At 1 January 2018 (restated)	516,129	15,706,051	(5,976,971)	7,301,801	20,281,028	43,805,009
Profit for the year	-	-	-	-	2,650,877	2,650,877
Other comprehensive income for the year:						
Changes in fair value of equity investments at fair value through other comprehensive income				8,246,842		8,246,842
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income				(15,690,576)	15,690,576	-
Total comprehensive income for the year				(7,443,734)	18,341,453	10,897,719
Settlement of exchangeable bonds		(1,951,000)			1,951,000	
At 31 December 2018	516,129	13,755,051*	-	(141,933)*	40,573,481*	54,702,728

* These reserve accounts comprise the reserves of US\$54,186,599 (2017: US\$41,964,050) in the statement of financial position.

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 US\$	2017 US\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,650,877	22,280,119
Adjustments for:			
Finance costs	7	6,559,867	6,835,669
Interest income	4	(6,144,023)	(3,516,492)
Dividend income from:			
Listed investments	4	(3,431,695)	(5,362,544)
An unlisted investment	4	(598,287)	-
Gain on disposal of available-for-sale investments		-	(21,008,737)
		(963,261)	(771,985)
Increase in other payables and accruals		1,868	134
Cash generated from operations		(961,393)	(771,851)
Net cash flows used in operating activities		(961,393)	(771,851)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	4	7,294,104	2,366,411
Dividends received from:			
Listed investments	4	3,431,696	5,362,544
An unlisted investment	4	598,287	-
Purchase of available-for-sale investments		-	(10,892,300)
Purchase of equity investments at fair value through other comprehensive income		(39,612,274)	-
Proceeds from disposal of available-for-sale investments		-	117,988,965
Proceeds from disposal of equity investments at fair value through other comprehensive income		130,422,275	-
Repayment from the ultimate holding company		-	222,095,583
Placement of short term bank deposit with original maturity over three months		70,351,382	(70,351,382)
Net cash flows from investing activities		172,485,470	266,569,821

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2018

	Notes	2018 US\$	2017 US\$
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of exchangeable bond		(499,600,000)	-
Proceeds from loans from a fellow subsidiary		70,000,000	-
Repayment of loans from a fellow subsidiary		(10,000,000)	-
Interest paid		<u>(22,361)</u>	-
Net cash flows used in financing activities		<u>(439,622,361)</u>	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year	13	<u>273,052,393</u>	<u>265,797,970</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	13	<u>4,954,109</u>	<u>273,052,393</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	13	4,954,109	273,052,393
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	13	<u>-</u>	<u>70,351,382</u>
		<u>4,954,109</u>	<u>343,403,775</u>

31 December 2018

1. CORPORATE INFORMATION

Baosteel Hongkong Investment Company Limited (the "Company") is a limited company incorporated in Hong Kong. In the opinion of the directors, the Company's ultimate holding company is China Baowu Steel Group Corporation Limited (formerly known as Baosteel Group Corporation("Baosteel Group")), which was established in the People's Republic of China (the "PRC"). The address of the registered office and the principal place of business of the Company is 29/F, Office tower, Convention Plaza, 1 harbour Road, Wanchai, Hongkong.

The principle activity of the Company is investment holding.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

2.2 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention, except for equity investments which have been measured at fair value. These financial statements are presented in United States dollars ("US\$") , which is also the functional currency of the Company.

As at 31 December 2018, the Company had net current liabilities of US\$55,663,755, these financial statements have been prepared on a going concern basis as the ultimate holding company of the Company has undertaken to ensure that the Company has adequate capital to pay its debts as and when due.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following new and revised HKFRSs for the first time in the current year's financial statements, which are applicable to the Company.

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>

Except for the HKFRS 15, amendments to HKFRS 15 and amendments to HKAS 40, which are not relevant to the preparation of the Company's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for the classification and measurement of financial assets and financial liabilities; impairment for financial assets; and general hedge accounting.

The Company has applied the classification and measurement requirements (including impairment) of HKFRS 9 retrospectively as at 1 January 2018 (date of initial application) to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between the carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 is recognised in the opening retained profits and other components of equity as at 1 January 2018, without restating comparative information.

31 December 2018

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Changes to classification and measurement

On 1 January 2018, the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate HKFRS 9 categories.

	At 31 December 2017 US\$	Reclassified from available-for-sale investments to equity investments at fair value through other comprehensive income (Note (a)) US\$	At 1 January 2018 US\$
Available-for-sale investments			
– Listed equity investments	180,712,513	(180,712,513)	-
– Unlisted equity investments	10,892,300	(10,892,300)	-
Equity investments at fair value through other comprehensive income			
– Listed equity investments	-	180,712,513	180,712,513
– Unlisted equity investments	-	12,217,130	12,217,130
Financial assets at amortised cost			
– Cash and cash equivalents	343,403,775	-	343,403,775
– Interest receivables	1,150,081	-	1,150,081
		Available-for-sale investment revaluation reserve US\$	Fair value reserve US\$
Balance at 31 December 2017		5,976,971	-
– Reclassified from available-for-sale investments to equity investments at fair value through other comprehensive income (note (a))		(5,976,971)	7,301,801
Balance at 1 January 2018 (as restated)		-	7,301,801

Note:

(a) *Reclassification of available-for-sale investments to equity investments at fair value through other comprehensive income – unlisted equity investments*

The Company elected to designate its equity investments previously classified as available-for-sale investments to equity investments at fair value through other comprehensive income as these are long-term and strategic investments that are not expected to be sold in the short to medium term. As at 1 January 2018, unlisted equity investments measured at fair value and at cost amounting to US\$180,712,513 and US\$10,892,300, respectively, were reclassified from available-for-sale investments to equity investments at fair value through other comprehensive income. Accordingly, the related cumulative fair value gain of US\$5,976,971 were reclassified from available-for-sale investment revaluation reserve, to the fair value reserve on 1 January 2018. As at 1 January 2018, the fair value of the unlisted equity investments amounting to US\$12,217,130, is higher than its carrying amount of US\$10,892,300, as it is in a fast-growing industry with its own value increased steadily

There has been no impact on the Company's accounting for financial liabilities as the new requirements under HKFRS 9 only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities.

As a result of the application of HKFRS 9, the Company has changed its accounting policies with respect to financial instruments, as further explained in note 2.5 to the financial statements.

31 December 2018

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied any of the new and revised HKFRSs that have been issued but are not yet effective for the accounting year ended 31 December 2018 in these financial statements.

HKFRS 16 *Leases*¹

¹ Effective for annual periods beginning on or after 1 January 2019

HKFRS 16 was issued in May 2016 and replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees that they can elect as practical expedients – leases of low-value assets and short-term leases (i.e., where the lease term is 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40 Investment Property and to which the fair value model is applied, or relates to a class of property, plant and equipment to which the revaluation model is applied and the lessee elects to apply that model to the right-of-use asset. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. HKFRS 16 also requires lessees to make more extensive disclosures than under HKAS 17. The Company may adopt HKFRS 16 on 1 January 2019 depends on its operating activities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Company measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company;or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Company are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Company are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

Financial assets

All the financial assets are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the Company commits to purchase or sell the assets.

- (a) Classification and measurement
 - (i) Under HKFRS 9

Equity investments are measured at fair value through profit or loss unless, on initial recognition, the Company has irrevocably elected to designate such investments that are not held for trading as equity investments at fair value through other comprehensive income. Dividends of such investments are recognised in the statement of profit or loss when the Company's right to receive payment is established. Changes in the fair value of such investments are recognised in other comprehensive income and are never recycled to the statement of profit or loss even when the assets are sold.
 - (ii) Under HKAS 39

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment allowances.

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities and debt securities. Such investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Available-for-sale financial investments are initially measured at fair value plus directly attributable transaction costs. Subsequently, they are remeasured at fair value with changes in fair value recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the securities are either sold or impaired. On disposal of available-for-sale securities, cumulative gains or losses are recognised in the statement of profit or loss and removed from the available-for-sale investment revaluation reserve.

31 December 2018

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(a) Classification and measurement (continued)

(ii) Under HKAS 39 (continued)

When the fair value of unquoted equity securities cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value, such securities are stated at cost less any impairment losses.

(b) Impairment

(i) Under HKFRS 9

The Company applies the expected credit loss model on all the financial assets that are subject to impairment.

For other financial assets, impairment allowances are recognised under the general approach where expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Company is required to provide for credit losses that result from possible default events within the next 12 months. For those credit exposures where there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure irrespective of the timing of the default.

(ii) Under HKAS 39

The Company recognises losses for impaired loans promptly where there is objective evidence that an impairment of a loan or a portfolio of loans has occurred. Impairment allowances are assessed either individually for individually significant loans or collectively for loan portfolios with similar credit risk characteristics including those individually assessed balances for which no impairment provision is made on an individual basis.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to [finance costs in] the statement of profit or loss.

If an available-for-sale financial asset measured at fair value is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair values after impairment are recognised directly in other comprehensive income. Impairment losses on debt instruments are reversed through the statement of profit or loss, if the increase in the fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

If there is objective evidence that an impairment loss has been incurred for unquoted equity investments measured at cost less impairment, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

- (c) Derecognition (under HKFRS 9 and HKAS 39)
Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities

Financial liabilities include other payables and accruals and exchangeable bond. They are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities are derecognised when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

Exchangeable bond

Exchangeable bond contain liability and equity component.

The component parts of the exchangeable bond issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Transaction costs that relate to the issue of the exchangeable bond are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the exchangeable bond using the effective interest method.

Deferred tax

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (under HKAS 18)

Revenue is recognised when it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts.

Interest income is recognised using the effective interest rate method.

Dividend income is recognised when the right to receive payment has been established.

Revenue recognition (under HKFRS 15)

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired, less bank overdrafts.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the retranslation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements apart from those involving estimations which have the most significant effect on the amounts recognised in the financial statements.

(a) Classification of the Company's equity investment in a private company

On 16 February 2017, the Company, 华宝投资有限公司 ("Huabao", being a fellow subsidiary of the Company) and an independent third party entered into an agreement (the "Shareholders' Agreement") in relation to the formation of a company (the "Investee") to be established in the PRC to engage in finance lease business and related financial activities in the PRC. Pursuant to the Shareholders' Agreement, the Company had made a capital contribution of RMB75,000,000 (equivalent to approximately US\$10,892,300) in return for 25.0% equity interest in the Investee, while Huabao has 69.8% equity interest in the Investee. Pursuant to the Shareholders' Agreement, all significant decisions about the relevant activities, including but not limited to business, financial and operational matters of the Investee will be made by the board of directors of the Investee and the Company was entitled to appoint or remove one director out of the three directors at the board of directors of the Investee.

In making the judgement in relation to whether the Company has significant influence over the Investee, the directors of the Company considered the Company's ultimate holding company has authorised Huabao to exercise the voting right at the board of the Investee on behalf of the Company. Taken into account that the Company has irrecoverably surrendered the voting right at the board of directors of the Investee, the directors of the Company are of the opinion that the Company does not have significant influence over the Investee and the Company's investment in equity interest in the Investee is accounted for as an available-for-sale investment in 2017.

On 20 August 2018, the Company made additional capital contribution of RMB 272,207,625 (equivalent to approximately US\$39,612,274) and remain 25.0% equity interest in the Investee. The directors of the Company consider that the investment to the Investee is accounted for the equity investments at fair value through other comprehensive income based on the adoption of HKFRS 9 from 1 Jan 2018.

(b) Income taxes

Significant judgements on the future tax treatment of certain transactions are required in determining income tax provisions. The Company carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 18 to the financial statements. The valuation requires the Company to determine the comparable public companies (peers) and select the price multiple. In addition, the Company makes estimates about the discount for illiquidity and size differences. The Company classifies the fair value of these investments as Level 3. Further details are included in note 18 to the financial statements.

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. REVENUE

	2018 US\$	2017 US\$
Bank interest income	6,144,023	3,265,048
Interest income on amount due from the ultimate parent (note: 18)	-	251,444
Dividend income from equity investments at fair value through other comprehensive income	4,029,982	-
Dividend income from available-for-sale investments	<u>-</u>	<u>5,362,544</u>
	<u>10,174,005</u>	<u>8,879,036</u>

5. OTHER GAINS

Other income and gains include the following:

	2018 US\$	2017 US\$
Gain on disposal of available-for-sale investments	<u>-</u>	<u>21,008,737</u>

6. PROFIT BEFORE TAX

The Company's profit before tax is arrived at after charging:

	2018 US\$	2017 US\$
Auditor's remuneration	16,592	13,449
Foreign exchange differences, net	775,288	407,472
Dividend income from equity investments at fair value through other comprehensive income	(4,029,982)	-
Dividend income from available-for-sale investments	-	(5,362,544)
Bank interest income	(6,144,023)	(3,265,048)
Interest income on amount due from the ultimate parent	-	(251,444)
Gain on disposal of equity investments at fair value through other comprehensive income	<u>-</u>	<u>(21,008,737)</u>

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

7. FINANCE COSTS

	2018 US\$	2017 US\$
Interest on effective interest expense on exchangeable bond	6,339,173	6,835,669
Interest expense on loans from a fellow subsidiary	220,694	-
Net foreign exchange loss	<u>775,288</u>	<u>407,472</u>
	<u>7,335,155</u>	<u>7,243,141</u>

8. DIRECTORS' REMUNERATION

No director received any fees or emoluments in respect of their services rendered to the Company during the year (2017: Nil)

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	2018 US\$	2017 US\$
Profit before tax	<u>2,650,877</u>	<u>22,280,119</u>
Tax at the statutory tax rate of 16.5%	437,395	3,676,220
Income not subject to tax	(1,678,711)	(4,889,994)
Expenses not deductible for tax	1,173,886	1,227,530
Tax losses utilised from previous periods	<u>67,430</u>	<u>(13,756)</u>
Tax charge at the effective rate of 16.5% (2017: 16.5%)	<u>-</u>	<u>-</u>

At 31 December 2018, the Company had estimated unused tax losses of approximately US\$2,169,000 (2017: USD1,760,000), available for offset against future profits. No deferred tax asset was recognised in respect of such unused tax losses due to the unpredictability of future profit streams of the Company. All tax losses may be carried forward indefinitely.

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

10. AVAILABLE-FOR-SALE INVESTMENTS

	2018 US\$	2017 US\$
Listed equity investments, at fair value:(note b)		
-Equity securities listed in Hong Kong	-	120,520,513
-Equity securities not listed in Hong Kong	<u>-</u>	<u>60,192,000</u>
	-	180,712,513
Unlisted equity investments,		
-at cost	<u>-</u>	<u>10,892,300</u>
	<u>-</u>	<u>191,604,813</u>

Note:

- (a) During the year ended 31 December 2017, the fair value gains in respect of the Company's available-for-sale investments recognised in other comprehensive income amounted to US\$5,976,971.
- (b) Fair values of the listed investments were determined by reference to quoted market bid prices quoted in active markets.

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 US\$	2017 US\$
Listed equity investments, at fair value:(note: b)	<u>58,806,000</u>	<u>-</u>
Unlisted equity investments, at fair value (note: c)	<u>51,560,483</u>	<u>-</u>
	<u>110,366,483</u>	<u>-</u>

Note:

- (a) The above equity investments were irrevocably designated at fair value through other comprehensive income as the Company considers these investments to be strategic in nature.
- (b) In 2018, the Company sold its listed equity investment with proceeds to repay the exchangeable bond due in 2018.
- (c) During the year ended 31 December 2018, the Company received dividends in the amounts of US\$3,431,696 from listed equity investment and US\$598,287 from unlisted equity investments.

12. INTEREST RECEIVABLES

	2018 US\$	2017 US\$
Interests receivables	<u>-</u>	<u>1,150,081</u>

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 US\$	2017 US\$
Cash and bank balances	4,954,109	273,052,393
Time deposits	<u>-</u>	<u>70,351,382</u>
	<u>4,954,109</u>	<u>343,403,775</u>

Bank balances bear interest ranged from 0.13% to 0.45% (2017: 0.01% to 2.10%) per annum. Short term bank deposit represents bank deposit with fixed interest rate at 1.25% per annum and an original maturity between three months and twelve months in 2017, while no short term bank deposit at the end of 2018.

Included in the short term bank deposit and bank balances, US\$1,324,094 (2017:US\$120,293,506) are denominated in HK\$ and US\$628(2017:US\$228,390) are denominated in RMB respectively, currencies other than the functional currency of the Company.

The carrying amounts of cash and cash equivalents and pledged deposits approximate to their fair values.

14. OTHER PAYABLES AND ACCRUALS

	2018 US\$	2017 US\$
Other payables	19,531	17,663
Due to the ultimate holding company (note a) (note 18)	400,000	-
Loans from a fellow subsidiary (note b) (note 18)	60,000,000	-
Interest payables	<u>198,333</u>	<u>-</u>
	<u>60,617,864</u>	<u>17,663</u>

Note:

- (a) The exchangeable bond holders converted a total amount of US\$400,000 in exchangeable bonds and received 408,437.40 ordinary shares of China Construction Bank Corporation ("CCB") which was held by the ultimate holding company of the Company. The Company was required to compensate the value of the converted shares to its ultimate holding company for the cost of the conversion.
- (b) The balances with a fellow subsidiary are borrowings from Baosteel Resources International Company Limited in the amount of US \$60,000,000, which are unsecured and repayable within one year. The effective interest rate is 3.5% per annum.

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15. EXCHANGEABLE BOND

The company issued US\$500,000,000 zero coupon exchangeable bonds on 1 December 2015, which were denominated in US\$. The Company and Baosteel Group, its ultimate holding company of the Company, had entered into a Keepwell and liquidity support deed as part of the conditions to facilitate the issuance of the exchangeable bonds by the Company. The holders of the exchangeable bonds would be entitled to receive 1,021,0935 ordinary shares of CCB for each US\$1,000 principal amount of exchangeable bonds if the exchange right was exercised. The exercise period commenced from 11 January 2016 to 21 November 2018.

The shares of CCB is held by its ultimate parent in physical paper form. Before the commencement of the exchange period, the physical shares of CCB should be deposited into the Central Clearing and Settlement System "CCASS" to be transferred into electronic form. The delivery of the H-shares of CCB upon the exercise of the exchange rights would be made through CCASS without recharging to the Company. The difference between fair value of the H-shares of CCB at the exercise date over the exercise of the exchange rights would be treated as shareholders' contributions. At initial date, the exchangeable bonds contained two components, liability component and equity components.

On 1 December 2015, the fair value of the liability component should be US\$486,094,000, which had been determined by the discounted cashflow approach using the prevailing market interest rate of similar non-convertible bonds and taking into account the credit risk of the Company. The fair value of the exchangeable right of US\$13,906,000 was classified as equity component, which was calculated using the Binomial Model. Transaction costs of US\$4,608,744 and US\$150,949 were allocated to the liability and equity component respectively. The effective interest rate of the liability component is 1.40%.

The Inputs into the Binomial Model were as follows:

	1 December 2015
Stock price	US\$0.694
Exercise price (note a)	-
Discount rate	1.08%
Risk-free rate (note b)	1.31%
Expected validity (note c)	23.74%

Note:

- (a) The bondholder is entitled to receive 1,021.0935 ordinary H-shares of CCB for each USD1,000 principal amount of Bonds upon the exercise of exchange rights.
- (b) The rate was determined with reference to the yields of the US 3-year Treasury Note.
- (c) Based on validity of CCB's share price over the same time period as the remaining life of exchangeable bond.

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

15. EXCHANGEABLE BOND (continued)

The movement of the liability component of the exchangeable bond during the current and prior years is set out as below:

	Liability component US\$
At 1 January 2017	486,825,158
Interest charge (note 7)	<u>6,835,669</u>
At 31 December 2017	493,660,827
Interest charge (note 7)	6,339,173
Repayment	(499,600,000)
Due to the ultimate holding company	<u>(400,000)</u>
At 31 December 2018	<u><u>-</u></u>

The exchangeable bond have been converted in the amount of US\$400,000 in total and the rest were redeemed on 1 December 2018.

16. SHARE CAPITAL

	Number of shares	Share capital US\$
Issued and fully paid		
At 1 January 2017, 31 December 2017 and 31 December 2018	<u>4,000,000</u>	<u>516,219</u>

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17. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the exchangeable bond holders converted a total amount of US\$400,000 in exchangeable bonds and received 408,437.40 ordinary H-shares of CCB which was held by the ultimate holding company of the Company. The Company was required to compensate the value of the converted shares to the Company's ultimate holding company for the cost of the conversion as payable, which did not result in any cash flow.

(b) Reconciliation of liabilities arising from financing activities

	Loans from a fellow subsidiary US\$	Exchangeable bond US\$
At 1 January 2018	-	493,660,827
Changes from financing cash flows		
Repayment of exchangeable bonds	-	(499,600,000)
Proceeds from loans from a fellow subsidiary	70,000,000	-
Repayment of loans from a fellow subsidiary	(10,000,000)	-
Interest paid	(22,361)	-
Other changes		
Interest on effective interest expense	-	6,339,173
Interest expenses on loan from a fellow subsidiary	<u>220,694</u>	<u>-</u>
At 31 December 2018	<u>60,198,333</u>	<u>400,000</u>

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18. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company had the following material transactions and balances with related parties during the year:

Notes	2018	2017	
		US\$	US\$
Fellow subsidiary:			
Interest expense	(i)	220,694	-
Management fees	(ii)	<u>30,630</u>	<u>30,809</u>
		<u>251,324</u>	<u>30,809</u>
The ultimate holding company:			
Interest income	(iii)	<u>-</u>	<u>251,444</u>
Fellow subsidiary:			
Loans from fellow subsidiary (note 14)		60,000,000	-
Interest payables (note 14)		<u>198,333</u>	<u>-</u>
		<u>60,198,333</u>	<u>-</u>
The ultimate holding company:			
Compensate conversion cost (note 14)		<u>400,000</u>	<u>-</u>

Note:

- (i) The interest expense generated from borrowings in the amount of US\$60,000,000 from a fellow subsidiary, which bore effective interest rate 3.5% per annum and expired within one year.
- (ii) The management fee paid to Baosteel Resource International Company was determined mutually between the parties.
- (iii) The interest income generated from loans to the ultimate holding company of the Company in the amount of US\$22,095,583 in 2016, which bore at a fixed rate of 0.5% per annum and expired within six months from the drawdown date.
- (b) Compensation of key management personnel of the Company

The management of the Company is concurrently held by the management of the Company's ultimate holding company, and the management compensation is borne by the ultimate holding company.

NOTES TO FINANCIAL STATEMENTS

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19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The following table provides the fair value measurement hierarchy of the Company's financial instruments as at 31 December 2018 and 2017:

31 December 2018*Financial assets measured at fair value*

	Fair value measurement categorised into			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Equity investments at fair value through other comprehensive income				
Listed equity investments (The United States of America (the "USA"))	58,806,000	-	-	58,806,000
Unlisted equity investments (the PRC)	-	-	51,560,483	51,560,483

31 December 2017*Financial assets measured at fair value*

	Fair value measurement categorised into			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Available-for-sale investments				
Listed equity investments (Hong Kong)	120,520,513	-	-	120,520,513
Listed equity investments (the USA)	60,912,000	-	-	60,912,000
Unlisted equity investments (the PRC)	-	-	10,892,300	10,892,300

There have been no transfers between Level 1 and Level 2 during the year (2017: Nil). the movements in fair value measurement in Level 3 during the year were as follows:

	2018 US\$	2017 US\$
Equity investments at fair value through other comprehensive income/available-for-sale investments – unlisted:		
At 1 January	10,892,300	-
Effect of adoption of HKFRS 9	<u>1,324,830</u>	<u>-</u>
At 1 January (restated)	12,217,130	-
Total losses recognised in other comprehensive income	(268,920)	-
Purchases	<u>39,612,273</u>	<u>10,892,300</u>
At the end of the year	<u>51,560,483</u>	<u>10,892,300</u>

The fair values of listed equity investments in Hong Kong are derived from quoted prices in active markets.

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19. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to price of recent investment methodology and price to book value ("P/B") multiple, for each comparable company identified. The P/B ratio reflects the value that market participants attach to a company's equity relative to its book value of equity. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value.

On 20 August 2018, the Company, Huabao and an independent third party made an additional capital contribution to the Investee at a price of RMB1.09 per share. The directors of the Company adopted the recent transaction period method to estimate the fair value of unlisted equity investments at the end of 2018.

The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 1 January 2018 :

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average P/B multiple of peers	2017: 0.8 to 1.6	0.4 increase (decrease) in average P/B would result in increase(decrease) in fair value by US\$4,055,479
		Discount for lack of marketability	2017:10% to 30%	10% increase (decrease) in discount would result in increase (decrease)in fair value by US\$1,527,141

*Financial liabilities for which fair values are disclosed***31 December 2018**

	Carrying amount US\$	Fair value US\$	Fair value measurement categorised into		
			Level 1 US\$	Level 2 US\$	Level 3 US\$
Loans from fellow subsidiary	60,000,000	60,000,000	-	-	60,000,000

Management has assessed that the fair values of cash and cash equivalents, other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the Company's loans from fellow subsidiary are determined by using the DCF method using the discount rate that reflects the Company's borrowing rates as at the end of the reporting period. Changes in the Company's own non-performance risk as at 31 December 2018 were assessed to be insignificant.

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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's exposure to market risk (including interest rate risk and foreign currency risk), credit risk, equity price risk and liquidity risk arises in the normal course of its business. These risks are managed by the Company's financial management policies and practices described below:

Interest rate risk

The Company's exposure to interest rate risk relates principally to the Company's loans from a fellow subsidiary and bank deposits. The Company has not used any interest rate swap to hedge its exposure to interest rate risk. However, management considers the interest rate risk exposure is limited and will consider hedging significant interest rate exposure should the need arise. The directors of the Company consider that the Company's sensitivity to interest rates is insignificant.

Foreign currency risk

The Company has monetary assets and liabilities denominated in RMB and HK\$ which expose the Company to foreign currency risk. The Company did not enter into any derivative contracts to hedge its foreign currency exposure and would consider hedging significant foreign currency exposure should the need arise.

Since the United States dollar is pegged to the Hong Kong dollar, the Company is mainly exposed to RMB and the currency risk of Hong Kong dollar is considered to be minimal.

Equity price risk

The Company's exposure to equity price risk relates principally to the Company's investments in listed equity securities. Management manages this exposure by maintaining a portfolio of investments with different risks.

If the prices of the respective equity investments had been 1% higher/lower, with all other variables held constant, the Company's fair value reserve would have increased/decreased by approximately US\$588,060 at 31 December 2018 (2017: US\$1,807,125) as a result of the changes in the fair value of listed equity investments.

Credit risk

In order to minimise the credit risk, the management of the Company reviews the recoverable amount of the balance at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The Company aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Company finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

The table below summarises the maturity profile of the Company's non-derivative financial liabilities at 31 December based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period.

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20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Year ended 31 December 2018	On demand US\$	Less than 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Total US\$
Other payables and accruals	-	19,531	-	-	19,531
Due to the ultimate holding company	400,000	-	-	-	400,000
Loans from a fellow subsidiary	-	-	61,948,333	-	61,948,333
	<u>400,000</u>	<u>19,531</u>	<u>61,948,333</u>	<u>-</u>	<u>62,367,864</u>
Year ended 31 December 2017	On demand US\$	Less than 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Total US\$
Other payables and accruals	-	17,663	-	-	17,663
Exchangeable Bond	-	-	500,000,000	-	500,000,000
	<u>-</u>	<u>17,663</u>	<u>500,000,000</u>	<u>-</u>	<u>500,017,663</u>

Capital management

The Company's objectives for managing capital are to safeguard the Company's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the years ended 31 December 2018 and 31 December 2017.

The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the total of other payables and accruals and exchangeable bond, less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

	2018 US\$	2017 US\$
Other payables and accruals	60,617,864	17,663
Exchangeable bond	-	493,660,827
Less: Cash and cash equivalents	<u>(4,954,109)</u>	<u>(343,403,775)</u>
Net debt	55,663,755	150,274,715
Equity	<u>54,702,728</u>	<u>42,480,179</u>
Net debt and equity	<u>110,366,483</u>	<u>192,754,894</u>
Gearing ratio	<u>50%</u>	<u>78%</u>

31 December 2018

21. EVENTS AFTER THE REPORTING PERIOD

The shareholders of the Company appointed Liu Wenxin, Cai Donghui and Yan Yao as directors of the Company on 11 January 2019.

22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 August 2019

BUSINESS REVIEW

Year ended 31 December 2018

The key operation information of Baosteel Hong Kong Investment Company Limited (the "Company") for the year ended 31 December 2018 is as follows:

I. Subject of financial statements

The Company is a subsidiary of China Baowu Steel Group Corporation Limited. As a public entity in Hong Kong, the Company prepared financial statements and filed documents accordingly in 2018.

Company Name	Number of subjects of financial statements	Auditor
Baosteel Hong Kong Investment Company Limited	One	Ernst & Young

II. Main Financial Information

The exchangeable bonds issued by the Company in 2015 in amount of USD500 million expired in 2018. As an overseas investment platform, the main business of the Company are equity investment of overseas industry and related businesses.

1. Income and profit

Unit: ten thousand USD

Company	Operating income		Cost of Sales		Total profit	
	2017	2018	2017	2018	2017	2018
Baosteel Hong Kong Investment Company Limited	2,989	1,017	761	752	2,228	265

Cost of sales in fiscal year 2017 was equal to that of the previous financial year. Although the interest rate of exchangeable bonds is 0, there was accrued fixed interest each year calculated based on the discounted rate. The cost of sales was credited in 2018, mainly due to that the assets that have been realized for the redemption of the bonds at the end of the year, were turned into fixed-term deposit products.

The profits in fiscal year 2017 and fiscal year 2018 were made up of the dividends of stock investments and the gain on disposal of stocks. One thing to be noted is that, due to the implementation of new accounting standards for financial instruments in 2018, the total profit is USD2.65 million (including dividends and interest income, but excluding the disposal gain or loss on available-for-sale financial assets, as it is classified as other comprehensive income).

2. Assets and Liabilities

Unit: ten thousand USD

Company	Cash and cash equivalent		Financial assets		Total assets	
	2017	2018	2017	2018	2017	2018
Baosteel Hong Kong Investment Company Limited	34,340	495	19,160	11,037	53,616	11,532

The decrease in cash and cash equivalent and financial assets was mainly due to the redemption of exchangeable bonds with nominal value of USD500 million at the end of 2018. The available-for-sale financial assets at the end of 2018 included preferred shares of CCB with a cost of USD60 million and the 25% equity investment in Huabao Duding (Shanghai) Financial Leasing Co., Ltd with a cost of USD50.5 million. (Discrepancy of amount is due to the change in fair value from initial recognition).

BAOSTEEL HONG KONG INVESTMENT COMPANY LIMITED

BUSINESS REVIEW (continued)

Year ended 31 December 2018

Unit: ten thousand USD

Company	Other payables		Non-current liabilities due within one year		Total liabilities	
	2017	2018	2017	2018	2017	2018
Baosteel Hong Kong Investment Company Limited	1.8	6,062	49,366	0	49,368	6061.8

Other payables in amount of USD60 million represents the one-year borrowings from Baosteel Resources International Company Limited, in order to redeem the exchangeable bonds due at the end of fiscal year 2018.

3. Owner's equity

Unit: ten thousand USD

Company	Paid-in capital		Capital reserve		Total liabilities		Owner's equity	
	2017	2018	2017	2018	2017	2018	2017	2018
Baosteel Hong Kong Investment Company Limited	51.6	51.6	1,571	1,376	2,028	4,057	4,248	5,470

In 2018, gains were made on sales of exchangeable bonds from 2015 to 2016, and retained earnings increased accordingly. Meanwhile, the Company invested in Huabao Duding Financial Leasing Co., Ltd. in accordance with the company strategy.

4. Cash flow

Unit: ten thousand USD

Company	Net cash flows from business activities		Net cash flows from investing activities		Net cash flows from financing activities	
	2018	Notes	2018	Notes	2018	Notes
Baosteel Hong Kong Investment Company Limited	-96	Daily capital flow, maintaining the same level as those of previous years.	17,249	The income from the sales of stocks exceeds the investment in Huabao Duding.	-43,962	Redemption of the exchange bonds of USD500 million

5. Outlook for future business

As an international financial center, Hong Kong has a sound banking system, active financial capital and low financing costs. Meanwhile, Hong Kong's administrative procedures are simple, tax rates are low, foreign exchange controls are not regulated, and funds are dispatched quickly. As the overseas investment and financing platform and the capital operation platform of Baowu Group, the Company build a convenient investment channel and financing platform for the Group's global strategic development. In addition, Hong Kong's modern services such as law, accounting, consulting, and information are fully developed. As a gathering point for Chinese and Western cultures, Hong Kong has rich experience in promoting Sino-foreign integration and can play an important role in implementing the "going global" strategy for the Group.