Shenhua International Limited
ACN 134 436 730

# Annual Financial Report for the year ended 30 June 2014

# Contents

# CORPORATE DIRECTORY

**DIRECTORS**
Ms. Xiaohong, Chen
Mr. Philip Widjaya
Ms. Lijuan, Wang
Mr. James Yong, Wan
Mr. Pierre Lau

**COMPANY SECRETARY**
Ms. Sherry Tao, Xue

**REGISTERED OFFICE**
Level 41, ANZ Tower, 55 Collins Street
Melbourne, VIC 3000
Phone: +61 3 9654 1988
Fax: +61 3 9650 3958

**SHARE REGISTRY**
Link Market Services Ltd
Level 12, 680 George Street
Sydney, NSW 2000
Phone: +61 2 8280 7111

**AUDITOR**
Grant Thornton Audit Pty Ltd
Level 1, 67 Greenhill Road
Wayville SA 5034
Phone: +61 8 8372 6666
Fax: +61 8 8372 6677

**SOLICITORS**
Chambers and Company
Level 41, ANZ Tower, 55 Collins Street
Melbourne, VIC 3000
Phone: +61 3 9654 1988
Fax: +61 3 9650 3958

**BANKERS**
HSBC Bank Australia Ltd
Castle Hill Branch
Shop 500, Castle Towers S/C
3 Old Castle Hill Road
Castle Hill NSW 2154

Shanghai Pudong Development Bank
Hangzhou Branch
No. 129 Yanan Road
Hangzhou
China

# DIRECTORS' REPORT

Your directors present this report (**Report**) together with the financial statements of Shenhua International Ltd (**Company**) and its controlled entities (collectively, **Consolidated Group** or **Group**) for the financial year ended 30 June 2014.

## Directors

The Directors in office during the year and at the date of this Report are as follows:

***Ms. Xiaohong, Chen***
*Non-executive Chairman (Appointed 30 November 2009 and re-appointed on 15 November 2012)*

Xiaohong Chen has over 20 years experience in accounting, enterprise management and financing. She brings to the Company her strong and acute business acumen together with her extensive knowledge of accounting and credit rating. She is the Chief Accountant in Shaoxing Xin Yuan Enterprise Ratings Co. Ltd, which is a leading credit rating firm in the Shaoxing area in China.

Ms Chen is a member and the chairperson of the Audit and Risk Management Committee and a member of the Remuneration Committee.

***Mr. Philip Widjaya***
*Executive and Managing Director (Appointed 2 December 2008 and re-appointed on 15 November 2012)*

Philip is the co-founder and Chairman of Shaoxing Shenhua Textiles Co., Ltd (**SST**) as well as the Managing Director of the Company.

Philip has accumulated 30 years of operational experience in sales and management within the home textile products sector. He was amongst the first Chinese businessmen to successfully take their textile trading business to the international arena and thus possesses a strong knowledge of the global home textile product industry and its development trends. Philip holds a professional title of Senior Economist in China.

Philip is a member of the Remuneration Committee.

***Ms. Lijuan, Wang***
*Executive Director (Appointed 2 December 2008 and re-appointed 1 November 2013)*

Ms Wang holds the position of Assistant General Manager of SST and is also an executive director of the Company. Ms Wang is in charge of financial management of the Group's business, which includes supervision of financial managers and being responsible for asset management, cost profit management and financial accounting of the Group.

Ms Wang is a member of the Audit and Risk Management Committee and the Nomination Committee.

***Mr. James Yong, Wan***
*Non-executive Director (Appointed 23 February 2009 and re-appointed 1 November 2013)*

James is a successful business entrepreneur who has developed several successful businesses in Australia and China, including an investment company and a home textile company (focusing on export sales). He has carried out various corporate executive roles in a number of companies both in Australia and China. One of his business accolades was having his home textile company, Jiangxi Home Textile Co. Ltd, awarded as one of the top ten "Best Foreign Trade Enterprises" by Nanchang City Government and the Jiangxi Provincial Government respectively in 2004. James brings to the Group his rich experience operating businesses in both Australia and China, including his management skills in running several successful home textile businesses.

James is a member of the Audit and Risk Management Committee and the chairperson of the Nomination Committee.

***Mr. Pierre Lau***
*Non-executive Director (Appointed 2 December 2008 and re-appointed 26 October 2011)*

Pierre Lau is an Australian qualified senior commercial lawyer with Australian law firm Chambers & Company. He is experienced in advising and working with private and public companies on a broad range of commercial and legal matters.

Pierre is the chairperson of the Remuneration Committee and a member of the Nomination Committee.

None of the directors above have held any other directorships with any other listed company during the period.

## Company Secretary

***Sherry Tao, Xue*** *(Appointed 2 December 2008)*

Sherry continues to hold the position of Company Secretary and Public Officer of the Company during the financial year.

She has more than 20 years experience in the financial industry in Australia, Singapore and China at senior management levels with companies including China Commodity Futures Exchange, China Galaxy Securities Corporation, Kinghing Securities Co. Ltd and one of Singapore's commercial banks.

## Principal Activities

The principal activity of the Consolidated Group during the financial period was the manufacture and distribution of medium to high quality textiles and finished products using the same fabrics, which products are suitable for internal furnishing and decorative purposes in domestic and commercial settings. The Consolidated Group's business and manufacturing base is in Shaoxing County, Zhejiang Province, China and operated through SST.

There has been no significant change in the nature of the principal activities undertaken during the financial period.

# REVIEW OF OPERATIONS

## Operating Results

The results for the year ended 30 June 2014 show revenues of $84,335,000 and profit after taxation of $7,398,000, compared to revenues of $87,056,000 and profit after taxation of $7,777,000 for the period ended 30 June 2013.

## Performance and highlights

The Board is pleased to report that the Group's business continues to show good performance in its international and domestic markets. The main points on operational activities and performance are presented below:

i. The Company continued to concentrate on developing countries, including China and internationally the fast-growing emerging markets of South America and Central America (such as Brazil and Mexico).

ii. The Company attended the Russian Textiles Exhibition to further develop its European client base.

iii. The Group improved its scientific and standardized management, cultivated its staff's sense of social responsibility, and actively developed its corporate social responsibility management system. The Group continues working to improve the welfare of its employees and to nurture a sense of ownership among them.

iv. The Group remains committed to increasing its sales of finished goods using its home textiles (such as curtains, pillows and quilts) as finished goods, which compared to fabrics, still proves to yield a relatively higher gross profit margin. The Company is happy to report that it has achieved increased production and sales in finished goods in the past financial year which now makes up for approximately 40% of revenues.

v. The Group also continued to focus on new products and design development and rationalise product pricing increases despite challenging market conditions and increasing costs.

## Future Developments, Prospects and Business Strategies

The Directors expect the Group's profitable performance to continue in FY2015. The Management believes that the Group can maintain positive profit levels in the following year despite the challenging economic environment.

The Group will continue to focus on increasing penetration of the expanding China market. The Group currently sells products to wholesale and retail customers within China. With driving factors such as China's high rate of urbanisation, the Group believes that its familiarity with its business home market will enable it to further capture more market share.

The Group expects to further increase the sales of its finished goods through direct sales to retailers. The Group's business has experienced strong sales growth for its finished goods which commands a relatively higher gross profit margin compared with its fabrics.

The Group plans to further strengthen its focus on emerging export markets which, compared to developed countries, have better potential for the Group to increase its market share and volume. In particular, countries in Africa and South America will be key target export markets in the next few years.

The Group is working on to develop e-commerce capability through www.taobao.com to sell its products directly.

The Group plans to go to Dubai to attend the Chinese Textiles Exhibition.

The Group's export clients are primarily made up of wholesalers who may on sell to local and overseas markets. The Group still plans to establish overseas sales offices to maintain and expand international market share and further gain local market knowledge.

At the same time, the Group will also actively explore other emerging markets in order to maintain its existing market share as well as improve its market penetration.

## Significant changes in affairs

There was no significant change in the Company's affairs during the financial year.

## After balance date events

No significant events have occurred within the Group since the balance date, other than the declaration of final dividend as noted below in the 'Dividends' section.

# REMUNERATION REPORT - AUDITED

This Remuneration Report details the nature and amount of remuneration for each director of the Company, and for the Group's executives receiving the highest remuneration.

## Remuneration policy

The remuneration policy of the Group is designed to align executive objectives with shareholders' and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The board of the Company believes the remuneration policy should be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

## Board remuneration

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. Non-executive directors are entitled to remuneration as determined by the directors in which remuneration must not exceed in aggregate the maximum amount determined by the Group in the general meeting. This maximum amount remains unchanged and is currently not to exceed $150,000 per annum, to be apportioned among the non-executive directors as determined by the Board in its absolute discretion.

The remuneration of non-executive Directors must not include a commission on, or a percentage of, profits or operating revenue. Directors may also be reimbursed for reasonable travelling, hotel and other expenses incurred in performance of their duties. Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra services or makes special exertions for the benefit of the Group.

It is noted that Mr James Yong Wan and Ms Xiaohong Chen have agreed with the Group not to receive any remuneration for their respective appointments as non-executive directors of the Group in FY2013-2014. Mr Philip Widjaya and Ms Lijuan Wang will not receive any remuneration from the Company, but will instead be remunerated under their existing executive employment contracts with SST (see sections below – Employment contracts of the Company's executive directors for Philip Widjaya and Lijuan Wang). Mr Pierre Lau will receive $30,000 per annum for his services as a non-executive director.

## Key management remuneration

The remuneration of the employees of the Group are principally determined by the employment policies of the Group and in accordance with applicable labour laws in Australia, Hong Kong or China (as the case may be) and formalised under written contracts. The principal factors for determining remuneration include the length of service and the level of experience and skills of the employee as well as the overall performance of the Group. The Group's key management executives are based in Shaoxing where the Group's operating subsidiary, SST is based. The standard Chinese Government three year contracts for service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future.

## Voting and comments made at the company's 2013 Annual General Meeting

Shenhua International Ltd received more than 90% of "yes" votes on its remuneration report for the 2013 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration or nomination practices.

## Employment details of the Group's key management personnel

The following table provides details of persons who were, during the financial year, members of key management personnel of the consolidated Group, receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options (if any).

| Group key management personnel | Position held as at 30 June 2014 and any change during the year | Proportion of elements of remuneration related to performance – Fixed salary/fees % | Position(s) held with which entity |
|---|---|---|---|
| ***Company Directors*** | | | |
| Chen Xiaohong | Non-executive Chairman | 0% | The Company |
| Philip Widjaya | Managing Director of the Company and Chairman of SST | 0% | The Company and SST |
| Wang Lijuan | Executive Director of the Company and Assistant General Manager of SST | 0% | The Company and SST |
| Wan Yong | Non-Executive Director | 0% | The Company |
| Pierre Lau | Non-Executive Director | 0% | The Company |
| ***Executives*** | | | |
| Wang Juan | General Manager | 0% | SST |
| Zhang Lijiang | Assistant General Manager | 0% | SST |
| Chen Jianjun | Financial Manager | 0% | SST |
| Zheng Jinyao | Assistant General Manager | 0% | SST |
| Sherry,Xue Tao | Company secretary | 0% | The Company |

There were no changes to directors and executives subsequent to year end.

## Securities Received that are not performance related

No members of the key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

## Cash Bonuses, performance-related bonuses and share-based payments

No options or bonuses were granted as remuneration during the year to key management personnel and other executives. No options were exercised in the issue of ordinary shares during the year.

## Details of Remuneration for the Year Ended 30 June 2014

The following table of benefits and payments details, in respect of the financial year, the components of remuneration for each member of the key management personnel of the consolidated Group receiving the highest remuneration.

*(i) Remuneration of Key Management Personnel for the year ended 30 June 2014*

| | Short-Term | | | Share-based Payment | | | |
|---|---|---|---|---|---|---|---|
| **30 June 2014** | **Salary & Fees $** | **Bonus $** | **Other $** | **Shares $** | **Options $** | **Total $** | **% Performance Related** |
| **Directors** | | | | | | | |
| Chen Xiaohong | - | - | - | - | - | - | N/A |
| Philip Widjaya*+ | 33,421 | - | - | - | - | 33,421 | N/A |
| Wang Lijuan*+ | 21,497 | - | - | - | - | 21,497 | N/A |
| Wan Yong*+ | - | - | - | - | - | - | N/A |
| Pierre Lau** | 10,905 | - | - | - | - | 10,905 | N/A |
| **Other key management personnel** | | | | | | | |
| Zhang Lijiang*+ | 30,469 | - | - | - | - | 30,469 | N/A |
| Chen Jianjun*+ | 27,638 | - | - | - | - | 27,638 | N/A |
| Zheng Jinyao*+ | 29,831 | - | - | - | - | 29,831 | N/A |
| Wang Ju An*+ | 31,134 | - | - | - | - | 31,134 | N/A |
| Sherry, Tao Xue | 31,500 | - | - | - | - | 31,500 | N/A |
| **Total** | **241,616** | - | **-** | **-** | **-** | **241,616** | |

*(ii) Remuneration of Key Management Personnel for the year ended 30 June 2013*

| | **Short-Term** | | | **Share-based Payment** | | | |
|---|---|---|---|---|---|---|---|
| **30 June 2013** | **Salary & Fees $** | **Bonus $** | **Other $** | **Shares $** | **Options $** | **Total $** | **% Performance Related** |
| **Directors** | | | | | | | |
| Chen Xiaohong | - | - | - | - | - | - | N/A |
| Philip Widjaya*+ | 24,099 | - | - | - | - | 24,099 | N/A |
| Wang Lijuan*+ | 21,497 | - | - | - | - | 21,497 | N/A |
| Wan Yong*+ | - | - | - | - | - | - | N/A |
| Pierre Lau** | 10,905 | - | - | - | - | 10,905 | N/A |
| **Other key management personnel** | | | | | | | |
| Zhang Lijiang*+ | 23,702 | - | - | - | - | 23,702 | N/A |
| Chen Jianjun*+ | 21,172 | - | - | - | - | 21,172 | N/A |
| Zheng Jinyao*+ | 28,756 | - | - | - | - | 28,756 | N/A |
| Wang Ju An*+ | 24,017 | - | | - | - | 24,017 | N/A |
| Sherry, Tao Xue | 31,500 | - | - | - | - | 31,500 | N/A |
| **Total** | **185,648** | **-** | **-** | **-** | **-** | **185,648** | |

** Salaries of SST senior executives are reviewed annually and actual paid amounts may vary from contracted amounts.*
*** Pierre Lau is an employee of Chambers and Company, which provided legal work to the Company in the ordinary course of business at a value of $26,400 (2013: $31,200) during the year.*
*+ Amounts stated are A$ equivalent of RMB for those directors and key management personnel paid by SST*
*There were no termination payments made during the year.*

# Employment contracts of the Company's executive directors

**Managing Director – Philip Widjaya**
Mr Widjaya entered into an Executive Employment Deed dated 20 January 2009 with the Company. Under this deed, Mr Widjaya is appointed as Managing Director of the Company. The deed has a 3-year term which began on 1 February 2009 and expired on 1 February 2012. In recognition of Philip's continued leadership and service to the Company, this deed has been renewed for a further 3 years commencing on 1 February 2012 without significant change to its terms.

As part of the deed, the Managing Director is required to operate the Company's business in accordance with the Company's business plans and budgets. The duties of the Managing Director are commensurate with the executive's role as the Managing Director of the Company, as well as any duties that may, from time to time be assigned to him by the Board.

The Managing Director may terminate his employment by giving 4 weeks' written notice to the Company. The Company may terminate the Managing Director's employment by giving 4 weeks' written notice to the Managing Director or immediately without giving notice if the Managing Director engages in serious and wilful negligence or misconduct.

Mr Widjaya will not be remunerated by the Company pursuant to the deed he has executed with the Company. He will however receive remuneration through the following existing employment contracts with SST:

- for his role as chairman of SST, Mr Philip Widjaya has entered into a separate employment agreement with Shenhua which commenced on 1 January 2008 under which he is entitled to receive payment of a base salary as well as performance based commission. This employment agreement contains standard employment provisions which comply with China's employment and legal requirements; and
- on 10 May 2014, SST entered into a supplementary employment agreement with Mr. Philip Widjaya for his rights, obligations and remuneration as the chairman of the board of directors of Shenhua which commenced on 10 May 2008 and will operate until 9 May 2017. According to this supplementary agreement, Mr Widjaya will be entitled to receive up to CNY 200,000 per year as remuneration for acting as chairman of SST but actual amount paid is reviewed year by year and may therefore vary.

**Executive Director - Lijuan Wang**

Ms Wang will be remunerated through the following existing employment contracts with SST:

- for her role as assistant general director, Ms Lijuan Wang entered into an employment agreement with SST . Under this employment agreement, Ms Wang is entitled to receive payment of a base salary as well as performance based commission. This employment agreement contains standard employment provisions which comply with China's employment and legal requirements– it is expected that this employment agreement will be further extended without significant change to its terms; and
- on 1 January 2008, Shenhua entered into a supplementary employment agreement with Ms Wang for her rights, obligations and remuneration as the assistant general manager of SST which commenced on 1 January 2008 and will operate until 31 December 2018. According to this supplementary agreement, Ms Lijuan Wang will be entitled to receive up to CNY 100,000 per year as remuneration for her role with SST but actual amount paid is reviewed year by year and may therefore vary.

## Interests of Key Management Personnel (KMP)

**Shares held in Shenhua International Limited (number)**

| 30 June 2014 | Balance 1 July 2013 Ordinary | Granted as Remuneration Ordinary | Net Change Other Ordinary | Balance 30 June 2014 Ordinary |
|---|---|---|---|---|
| **Directors** | | | | |
| Chen Xiaohong | - | - | - | - |
| Philip Widjaya* | 73,350,000 | - | - | 73,350,000 |
| Wang Lijuan | - | - | - | - |
| Wan Yong | - | - | - | - |
| Pierre Lau | 10,000 | - | - | 10,000 |
| **Other Key Management Personnel #** | | | | |
| Zhang Lijiang | 144,000 | - | - | 144,000 |
| Chen Jianjun | 117,000 | - | - | 117,000 |
| Zheng Jinyao | 173,000 | - | - | 173,000 |
| Wang Juan | - | - | - | - |
| Xue Tao | 4,000 | - | - | 4,000 |
| **Total** | 73,798,000 | - | - | 73,798,000 |

| 30 June 2013 | Balance 1 July 2012 Ordinary | Granted as Remuneration Ordinary | Net Change Other Ordinary | Balance 30 June 2013 Ordinary |
|---|---|---|---|---|
| **Directors** | | | | |
| Chen Xiaohong | - | - | - | - |
| Philip Widjaya* | 73,350,000 | - | - | 73,350,000 |
| Wang Lijuan | - | - | - | - |
| Wan Yong | - | - | - | - |
| Pierre Lau | 10,000 | - | - | 10,000 |
| **Other Key Management Personnel #** | | | | |
| Zhang Lijiang | 144,000 | - | - | 144,000 |
| Chen Jianjun | 117,000 | - | - | 117,000 |
| Zheng Jinyao | 173,000 | - | - | 173,000 |
| Wang Juan | - | - | - | - |
| Xue Tao | 4,000 | - | - | 4,000 |
| **Total** | 73,798,000 | - | - | 73,798,000 |

* Held through Philip Widjaya's beneficial interest in Joyful Huge Holdings Ltd.

\# For the purposes of this Report, the term 'Other Key Management Personnel' refers to senior executives of the Parent and the Group, and the Company Secretary.

## KMP Shareholdings

*Particulars of directors' interests in the shares of the Company as at the date of this Report are as follows:*

| | **Fully paid shares held** |
|---|---|
| Philip Widjaya (though Joyful Huge Holdings Ltd) | 73,350,000 (ordinary class) |
| Pierre Lau | 10,000 (ordinary class) |
| Zhang Lijiang | 144,000 (ordinary class) |
| Chen Jianjun | 117,000 (ordinary class) |
| Zheng Jinyao | 173,000 (ordinary class) |
| Xue Tao | 4,000 (ordinary class) |

None of the other KMP holds any shares in the Company.

## Share options and Employee Share Option Plan

No director or other key management executive has interests in the options of the Company as at the date of this Report.

The Company's Employee Share Option Plan is called the "Shenhua International Employee Share Option Plan" (**Plan**). The objectives of the Plan are to provide the opportunity for eligible employees to share in the success of the Group and to attract and retain talented employees to ensure the continuing growth and success of the Group. The main features of the Plan are set out below.

- *Eligibility* - The Board or a committee delegated by the Board will determine in its absolute discretion which eligible employees are entitled to participate in the Plan and make an offer to selected eligible employees to apply for options to acquire Company shares.

- *Terms of the Offer* - The offer will be subject to the Terms of Issue and any other conditions (if any) as the Committee (or Board if there is no Committee) may determine in its absolute discretion from time to time including restrictions on the exercise of the options such as length of service by the employee and threshold prices at which the Company shares are traded on the ASX. On accepting an offer (such acceptance must be made within 15 days from the date of the offer), the employee is bound by the Listing Rules.

- *Exercise of Options* - Options can be exercised at any time during the exercise period by lodging the option certificate, a duly completed and signed exercise notice and an amount equal to the exercise price for each option (which will be an amount determined by the Board or a Committee of the Board and set out in an offer). The exercise period will be determined by the Board or relevant Board committee on an offer by offer basis. Any option that is not exercised at the end of the specified expiration date will lapse.

- *Bonus Issues* - If there is a bonus issue to holders of Company shares, the number of Company shares over which an option is exercisable will be increased by the number of shares which a participant would have received if the option had been exercised before the record date for the bonus issue.

- *Rights* - The Plan does not confer on any eligible employee the right to be offered any options or Company shares or to continue as an employee of the Company and does not affect the terms of employment of the employee.

- *Limitation of offers* - If the Company makes an offer where the total number of Company shares the subject of that offer exceeds the limit set out in the class order or the offer does not otherwise comply with the terms and conditions set out in the class order, the Company must comply with Chapter 6D of the Corporations Act.

At the date of this Report, there has yet to be any participation under the Plan by any of the Company's executives or employees.

End of audited remuneration report

## Directors' Meetings

The number of meetings of Directors held during the period and the number of meeting attended by each Director were as follows:

| | ***Board Meetings*** | ***Sub-Committee Meetings*** | | |
|---|---|---|---|---|
| | | *Audit & Risk Management Committee* | *Nomination Committee* | *Remuneration Committee* |
| Ms. Xiaohong, Chen | 0 | 4 | 0 | 1 |
| Mr. Philip Widjaya | 0 | 0 | 0 | 1 |
| Ms. Lijuan, Wang | 0 | 4 | 1 | 0 |
| Mr. James Yong, Wan | 0 | 4 | 1 | 0 |
| Mr. Pierre Lau | 0 | 0 | 1 | 1 |
| Total Number of Meetings | 0 | 4 | 1 | 1 |

It is noted that all significant decisions of the Board have been carried out via circulating resolutions signed by all Board members.

## Committee Membership

As at the date of this Report, the Company had established the Audit and Risk Management Committee, Remuneration Committee and Nomination Committee pursuant to its Corporate Governance Policy (a copy of this policy can be found on the Company's website www.zjhdbl.com).

Members acting on the Committees of the Board at the date of this Report were as follows:

*Audit and Risk Management Committee*

- Ms. Xiaohong, Chen (Chairman)
- Mr. James Yong, Wan
- Ms. Lijuan, Wang

*Remuneration Committee*

- Mr. Pierre Lau (Chairman)
- Mr. Philip Widjaya
- Ms. Xiaohong, Chen

*Nomination Committee*

- Mr. James Yong, Wan (Chairman)
- Mr. Pierre Lau
- Ms Lijuan, Wang

## Diversity

As at the date of this Report, the Company had adopted a Diversity Policy (a copy of this policy can be found on the Company's website www.zjhdbl.com.)

The measurable objectives for achieving gender diversity includes:

- Representation at each role level including board and senior management by gender and age;
- Gender salary comparison by role level;
- Parental leave return dates;
- Representation by age, role level and gender on flexible work arrangements;
- Representation by age and gender in leadership programs; and
- Gender representation in the talent and succession planning process.

The Company is working towards implementing and achieving each of the above objectives. As at the date of this Report, two of the five Board members are women, representing 40% of the Board and the Company seeks to retain this proportion. The proportion of women in the whole organisation is approximately 60% and the Company expects to maintain similar levels in the next three to five years.

## Dividends

On 30 September 2013 the Company declared an unfranked ordinary dividend of $3,146,425 ($0.025 per share), in respect of the year ending 30 June 2013. The dividend was paid in 29 November 2013.

## Subsequent Events

On 15 October 2014, one of the Company's wholly-owned subsidiaries, Shaoxing Shenhua Textile Co., Ltd. finalised negotiation of a secured loan of $80.272 million ("the Loan") to Shaoxing Shenhua Decoration Co., Ltd. ("SDL"), a director related entity. The loan was used by SDL to fund investment and working capital in metal fabrication operations owned by its subsidiary, Zhejiang Binhai Metal Products, ("BHMP").

The Loan carries a fixed interest rate of 6%p.a. (consistent with market rate of similar loan in PRC) payable every six month and is secured against land use rights and non-current assets of SDL and BHMP with the carrying value of approximately RMB 414.66 million as of 30 June 2014 (and total asset value of RMB715.5m). Currently, management is undertaking the process to lodge the security documents on the non-current assets of these entities.

The Loan term is ends on 30 June 2022 and all principal needs to be repaid in full by end of the term. The directors expect SDL and BHMP to make yearly repayment to reduce the amount owed. The Loan is approved by the Board of Directors on 15 October 2014.

On 7 November 2014 the Group declared a final unfranked dividend out of FY2014 profits of $0.015 per share. The record date is 17 November 2014 and the payment date is 5 December 2014.

For Australian taxation purposes, the whole of the dividend will be treated as Conduit Foreign Income (CFI) which means that there will be no withholding tax in Australia for foreign shareholders.

## Environmental issues

The Company was not subject to any particular or significant environmental regulations of the People's Republic of China or Australia during the financial year.

## Proceedings

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## Rounding of Amounts

The Consolidated Group has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report and the director's report have been rounded off to the nearest $1,000.

## Indemnification of officers and auditors

The Company has entered into a Deed of Indemnity with each director.

At the time of this report the Company has entered into an insurance contract to provide directors and officers liability insurance.

Other than that stated above, the Company has not during or since the financial period ended, agreed to indemnify an officer or auditor of the Company against a liability as such an officer or auditor.

## Auditor

Grant Thornton Audit Pty Ltd continues in office to act as the auditor of the Company.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 17 and forms part of this directors' report.

## Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or Group are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services during the year are set out below in Note 3 accompanying the Financial Statements.

The board of directors has considered the position and in accordance with the advice received from the Audit and Risk Management committee, is satisfied that the position of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the position of the non-audit services by the auditor, as set out below did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the board to ensure that they do not impact the impartiality and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional accountants set by the Accounting Profession and Ethical Standards Board.

This Report has been signed in accordance with a resolution of the directors made pursuant to s.298(2) of the Corporations Act 2001.

For and on behalf of the directors

**Philip Widjaya**

*Managing Director*

7 November 2014

Level 1,
67 Greenhill Rd
Wayville SA 5034

Correspondence to:
GPO Box 1270
Adelaide SA 5001

**T** 61 8 8372 6666
**F** 61 8 8372 6677
**E** info.sa@au.gt.com
**W** www.grantthornton.com.au

**AUDITOR'S INDEPENDENCE DECLARATION**
**TO THE DIRECTORS OF SHENHUA INTERNATIONAL LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Shenhua International Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Partner – Audit & Assurance

Adelaide, 7 November 2014

Grant Thornton Audit Pty Ltd ACN 130 913 594
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# Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Shenhua International Limited and its Controlled Entities ('the Group') have adopted a corporate governance framework and practices to ensure they meet the interests of shareholders.

The Group complies with the Australian Securities Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd Edition ('the ASX Principles'). This statement incorporates the disclosures required by the ASX Principles under the headings of the eight (8) core principles. All of these practices, unless otherwise stated, were in place for the full reporting period. Further information on the Group's corporate governance policies and practices can be found on Shenhua International Limited's website at www.zjhdbl.com.

## Principle 1: Lay solid foundations for management and oversight Functions of the board and management

The Board of Directors is responsible for the corporate governance of the Group and operates in accordance with the principles set out in its Charter, which is available in the corporate governance section of Shenhua International Limited's website. To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of Directors and for the operation of the Board. These responsibilities include:

- setting the strategy for the Group, including operational and financial objectives and ensuring that there are sufficient resources for this strategy to be achieved
- appointing and, where appropriate, removing the Chief Executive Officer ('CEO'), approving other key executive appointments and planning for executive succession
- overseeing and evaluating the performance of the CEO and the Executive Team through a formal performance appraisal process having regard to the Group's business strategies and objectives
- monitoring compliance with legal, regulatory and occupational health and safety requirements and standards
- overseeing the identification of key risks faced by the Group and the implementation of an appropriate internal control framework to ensure those risks are managed to an acceptable level
- approving the Group's budgets, including operational and capital budgets, and the approval of significant acquisitions, expenditures or divestitures
- approval of the annual and half-yearly financial reports; and
- Ensuring the market and shareholders are fully informed of material developments.

The responsibility for the operation and administration of the Group is delegated by the Board to the Managing Director ('MD') and the Executive Management Team. The Board ensures that both the MD and Executive Team are appropriately qualified and experienced to discharge their responsibilities and, as discussed above, has in place procedures to monitor and assess their performance.

To ensure that the responsibilities of the Board are upheld and executed to the highest level, the Board has established the following sub-committees:

- Audit and Risk Committee
- Nomination Committee; and
- Remuneration Committee

Sub-committees are able to focus on a particular responsibility and provide informed feedback to the Board. Each of these sub-committees have established Charters and operating procedures in place, which are reviewed on a regular basis. The Board may also establish other sub-committees from time to time to deal with issues of special importance.

## Senior executive performance evaluation

The Board reviews the performance of the MD and Executive Team on a yearly basis. Performance is measured against a set of key performance indicators which have been established with reference to the Group's strategy and the individual's responsibilities.

The Remuneration Committee annually reviews and determines the remuneration arrangements for the MD and Executive Team, submitting their recommendations to the Board for approval.

## Principle 2: Structure the board to add value

## Board composition

The names of the members of the Board as at the date of this report are as follows:

- Ms Xiaohong Chen (Chairman) – Independent Non-Executive Director
- Mr Philip Widjaya – Executive and Managing Director
- Ms Lijuan Wang – Executive Director
- Mr James Yong Wan – Independent Non-Executive Director
- Mr Pierre Lau – Non-Executive Officer

The Board's composition is determined with regard to the following criteria:

- a majority of Non-Executive Directors and an independent Non-Executive Director as Chairman
- a majority of Directors having extensive experience in the industries that the Group operates in, with those that do not, having extensive experience in significant aspects of financial reporting and risk management in large ASX Listed Companies
- re-election of Directors at least every three (3) years (except for the Managing Director and Chief Executive Officer)
- the size of the Board is appropriate to facilitate effective discussion and efficient decision making
- there are a sufficient number of Directors to serve on Board sub-committees without overburdening the Directors of making it difficult for the Directors to effectively discharge their responsibilities.

With regards to Director Independence, the Board has adopted specific principles which state that an Independent Director must not be a member of management and must comply with the following criteria:

- not, within the last three (3) years, have been employed in an executive capacity by Shenhua International Limited or any other member of the Group
- not be a substantial shareholder or be associated either directly or indirectly with a substantial shareholder
- not, within the last three (3) years, have been a professional advisor to the Group either as a principal, or material consultant, or an employee materially associated with the service provided
- are not a material supplier or customer of the Group or associated either directly or indirectly with a material supplier or customer of the Group

- have no material contractual relationship with any Entity within the Group other than in the capacity as a Director.

At the commencement of this reporting period, the Board comprised of five Directors, two (2) of whom were Independent Non-Executive Directors, with the Chairman, who is independent, having a casting vote.

The Board undertakes an annual review of the extent to which each Non-Executive Director is independent, having regard to the criteria set out in its Charter. As part of this review, each Director is required to make an annual declaration stating their compliance with the independence criteria to the Board. As at the date of this report, the two (2) Non-Executive Directors have submitted their annual declaration to the Board, and the Board is satisfied that they have retained their independence throughout the reporting period.

Individual details of the Directors, including period in office, Board committee memberships, qualifications, experience and skills are set out in the information on Directors section of the Directors' Report.

## Role of the chairman

The Board Charter provides that the Chairman should be an Independent Non-Executive Director. The Chairman is responsible for the leadership of the Board. This includes taking responsibility for ensuring that the Board functions effectively and that they comply with the continuous disclosure requirements of the ASX with regard to communicating the operations and activities of the Group to shareholders. The Chairman's responsibilities are set out in the Board Charter and include:

- setting the agenda for Board meetings
- managing the conduct, frequency and length of Board meetings to ensure that all Directors have had the opportunity to establish a detailed understanding of the issues affecting the Group
- facilitating the Board meetings to ensure effective communication between the Directors and that all Directors have contributed to the decision making process thereby leading to a considered decision being made in the best interest of the Group and its shareholders

## Nomination committee

The Nomination and Remuneration Committee oversees the appointment and induction process for Directors and the selection, appointment and succession planning process of the Group's Managing Director and Chief Executive Officer. A copy of the Committee's Charter is available on Shenhua International Limited's website at www.zjhdbl.com.

When a vacancy exists or there is a need for a particular skill, the Nomination Committee, in consultation with the Board, determines the selection criteria that will be applied. The Committee will then identify suitable candidates, with assistance from an external consultant if required, and will assist the Board in interviewing and assessing the selected candidates.

Directors are initially appointed to office by the Board and must stand for re-election at the Group's next annual general meeting of shareholders. Directors must then retire from office and nominate for re-election at least once every three years with the exception of the Managing Director and Chief Executive Officer.

The Nomination Committee comprises of Mr James Yong Wan (Committee Chairman), Mr Pierre Lau and Mr Lijuan Wang, being a majority of Non-Executive Directors. Details of attendance at

Nomination Committee meetings are set out in the Meetings of Directors section of the Directors' Report.

## Directors' performance evaluation

The Board undertakes an assessment of its collective performance, the performance of the Board committees and the Chairman on an annual basis.

The Chairman meets each Director on an individual basis to discuss their performance and to provide feedback. The results of this discussion including any key areas for development are formally documented.

Each Board Committee annually reviews the fulfilment of its responsibilities as set out in its Charter and provides a report with a summary of issues and recommendations for the Board's review. Upon review the Board will then provide their feedback to the Committee including an endorsement of the recommendations made.

These performance evaluations were carried out in June 2014 and were compliant with the Group's established practices.

## Independent professional advice and access to information

Each Director has the right of access to all relevant information in the Group in addition to access to the Group's executives. Each Director also has the right to seek independent professional advice subject to prior consultation with, and approval from, the chairman. This advice will be provided at the Group's expense and will be made available to all members of the Board.

## Insurance

The Group has in place a Directors and Officers liability insurance policy providing a specified level of cover for current and former Directors and Executive Officers of the Group against liabilities incurred whilst acting in their respective capacity.

## Principle 3: Promote ethical and responsible decision making

## Code of conduct

The Group recognises the importance of establishing and maintaining high ethical standards and decision making in conducting its business and is committed to increasing shareholder value in conjunction with fulfilling its responsibilities as a good corporate citizen. All Directors, managers and employees are expected to act with the utmost integrity, honesty and objectivity, striving at all times to enhance the reputation and performance of the Group.

The Group has established a Code of Conduct and a Directors and Officers Code of Conduct, copies of which are available on Shenhua International Limited's website under the corporate governance section. New employees are introduced to the Code of Conduct as part of their induction training. Employees sign a declaration confirming receipt of the Code of Conduct and their compliance with it. Periodical training is then provided throughout the course of their employment.

Unethical practices, including fraud, legal and regulatory breaches, and policy breaches are required to be reported on a timely basis to management. Reporting parties are able to do so without fear of reprisal or retribution as their identity and report are kept in the strictest confidence. External third party reporting procedures are available to employees to provide them with the assurance that their identity will be kept confidential at all times.

## Whistle-blower policy

The Code of Conduct includes a Whistle-blower Policy and the Group operates a Whistle-blower policy to facilitate reporting of potential misconduct within the Group.

Employees are therefore provided with a secure service through which they can report potential misconduct such as illegal activity, fraudulent activity, corrupt practices, harassment or discrimination, misleading or deceptive conduct of any kind, unethical behaviour and health, safety or environmental hazards.

Matters raised under the Whistle-blower policy are reported to the Board through the Audit and Risk Committee and the policy and service are reviewed periodically for their effectiveness.

## Share trading policy

The Group has established a share trading policy which governs the trading in the Group's shares and applies to all Directors and employees of the Group. A copy of this policy is available on Shenhua International Limited's website under www.zjhdbl.com.

Under this share trading policy, an employee, Executive or Director must not trade in any securities of the Group at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Before commencing to trade, an Executive or employee must first obtain the permission of the Company Secretary to do so, and a Director must obtain the permission of the Chairman. The trading windows are four weeks after the release of the half year results, full year results and the holding of the Annual General Meeting. Trading of securities outside the trading windows can only occur in exceptional circumstances and with the approval of the Company Secretary.

As required by the ASX listing rules, the Group notifies the ASX of any transaction conducted by Directors in the securities of the Group.

## Diversity policy

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. The Company is committed to diversity and recognises the benefits arising from employee and Board diversity and the importance of benefiting from all available talent. A copy of the Company's Diversity Policy is available on Shenhua International Limited's website at www.zjhdbl.com. This Diversity Policy outlines the requirements for the Board to develop measurable objectives for achieving diversity, and annually assess both the objectives and the progress in achieving those objectives. Accordingly, the Board has developed the following objectives regarding gender diversity and aims to achieve these objectives over the next few years as Director and Senior Executive positions become vacant and appropriately qualified candidates become available:

| **Gender Diversity Objective** | **2014** | | **2015-2016** | |
|---|---|---|---|---|
| | **No.** | **%** | **No.** | **%** |
| Women on the Board | 2 | 40% | 2 | 40% |
| Women in Senior Management roles | 1 | 20% | 1 | 20% |
| Women employees in the Company | 380 | 56% | 400 | 57% |

# Principle 4: Safeguard integrity in financial reporting

## Audit and risk committee

An Audit and Risk Committee has been established by the Board. The Committee's role and operations are documented in a Charter which is approved by the Board. This Charter is available on Shenhua International Limited's website under www.zjhdbl.com.

The Committee's Charter provides that all members of the Audit and Risk Committee must be Independent Non-Executive Directors and that the Chair cannot be the Chairman of the Board. Members of the Committee throughout the period and at the date of this report are Ms Xiaohong Chen (Chair), Mr James Yong Wan and Mr Lijuan Wang, two of whom are Independent Non-Executive Directors of the Group.

The purpose of the Committee is to:

- ensure the integrity of the Group's internal and external financial reporting including compliance with applicable laws and regulations
- ensure that financial information provided to the Board is of a sufficiently high quality to allow the Board to make informed decisions
- ensure that appropriate and effective internal systems and controls are in place to manage the Group's exposure to risk
- oversee the appointment, compensation, retention and oversight of the external auditor, and review of any non-audit services provided by the external auditor
- regularly review the performance of the external auditor regarding quality, costs and independence.

The Audit and Risk Committee is required under the Charter to meet at least quarterly and otherwise as necessary. The Committee met four times during the year and Committee members' attendance records are disclosed in the Directors' Meetings section of the Directors' Report.

The Managing Director, Chief Financial Officer and external auditor also regularly attend the Committee meetings by standing invitation. Other Directors and management are invited to attend Committee meetings and participate in discussion relating to specific issues that they have an interest in.

The Committee is authorised to obtain independent legal advice at the Group's expense if it considers it necessary in fulfilling its duties.

# Principle 5: Make timely and balanced disclosure

Shenhua International Limited has established policies and procedures to ensure timely and balanced disclosure of all material matters concerning the Group, and ensure that all investors have access to information on the Group's financial performance. This ensures that the Group is compliant with the information disclosure requirements under the ASX Listing Rules.

These policies and procedures include a comprehensive Disclosure Policy that includes identification of matters that may have a material impact on the price of Shenhua International Limited's securities, notifying them to the ASX, posting relevant information on the Group's website and issuing media releases. These policies are available on Shenhua International Limited's website under www.zjhdbl.com.

Matters involving potential market sensitive information must first be reported to the Managing Director either directly or via the Company Secretary. The Managing Director will advise the other Directors if the issue is important enough to warrant the consideration of the full Board. In all cases the appropriate action must be determined and carried out in a timely manner in order for the Group to comply with the Information Disclosure requirements of the ASX.

Once the appropriate course of action has been agreed upon, either the Managing Director or Company Secretary, being the only authorised officers of the Group who are able to disclose such information, will disclose the information to the relevant authorities. Board approval is required for market sensitive information such as financial results, material transactions or upgrading/downgrading financial forecasts. This approval is minuted in the meetings of the Board of Directors.

## Principle 6: Respect the rights of shareholders

Shenhua International Limited has established a Shareholder Communication Policy which describes the Group's approach to promoting effective communication with shareholders which includes:

- the Annual Report, including relevant information about the operations of the Group during the year, key financial information, changes in the state of affairs and indications of future developments. The Annual Report can be accessed either through the ASX website or Shenhua International Limited's website under www.zjhdbl.com
- the half year and full year financial results are announced to the ASX and are available to shareholders via the Shenhua International Limited and ASX websites
- All announcements made to the market and related information (including presentations to investors and information provided to analysts or the media during briefings), are made available to all shareholders under the investor information section of Shenhua International Limited's website after they have been released to the ASX
- detailed notices of shareholder meetings are sent to all shareholders in advance of the meeting
- shareholding and dividend payment details are available through the Group's share register, Link Market Services Ltd.

The Board encourages full participation by shareholders at the Annual General Meeting to ensure a high level of Director accountability to shareholders and shareholder identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on matters such as the adoption of the Group's remuneration report, the granting of options and shares to Directors and changes to the Constitution.

The external auditor attends the Annual General Meeting to answer any questions concerning the audit of the Group and the contents of the Auditor's Report.

## Principle 7: Recognise and manage risk

### Risk management framework

Shenhua International Limited recognises that a robust risk management framework is essential for corporate stability, protecting the interests of its stakeholders and for sustaining its competitive market position and long term performance.

The following objectives drive the Group's approach to risk management:

- having a culture that is risk aware and supported by high standards of accountability at all levels

- promoting and achieving an integrated risk management approach whereby risk management forms a part of all key organisational processes
- supporting more effective decision making through better understanding and consideration of risk exposures
- increasing shareholder value by protecting and improving share price and earnings per share in the short to medium term while building a sustainable business in the longer term;
- safeguarding the Group's assets
- enabling the Board to fulfil its governance and compliance requirements
- supporting the sign off for ASX Principles four and seven by the Chief Executive Officer and Chief Financial Officer.

In achieving effective risk management, Shenhua International Limited recognises the importance of leadership. As such, the Board and executive management have responsibility for driving and supporting risk management across the Group. Each subsidiary then has responsibility for implementing this approach and adapting it, as appropriate, to its own circumstances.

## Audit and risk committee

Under its Charter, the Audit and Risk Committee has been delegated responsibility by the Board to oversee the implementation and review of risk management and related internal compliance and control systems throughout the Group.

The Committee reviews the appropriateness and adequacy of internal processes for determining, assessing and monitoring risk areas including the assessment of the effectiveness of the Group's internal compliance and controls including:

- the existence and adequacy of key policies and procedures
- the adequacy of disclosures and processes for regular reporting of information to the appropriate parties, including the Board.

The Committee is also responsible for monitoring the Group's compliance with applicable laws and regulations including:

- ensuring that management is reviewing developments and changes in applicable laws and regulations relating to the Group's responsibilities
- reviewing management's actions and responses to ensure that the Group's practices are compliant with all new developments
- reviewing material actual and suspected breaches of applicable laws and regulations, and any breaches of Group policies
- reviewing material litigation, legal claims, contingencies or significant risks relating to the Group
- reviewing Director and executive management related party transactions.

Major issues and findings that are presented and discussed at the Committee meetings are reported to the Board by the Audit and Risk Committee.

## Corporate reporting

The Board has required management to design and implement a risk management and internal control system to manage the Group's material business risks and to report on whether those risks are being effectively managed.

The Managing Director, Chief Executive Officer and Chief Financial Officer have reported and declared in writing to the Board as to the effectiveness of the Group's management of its material business risks, in accordance with Recommendation 7.2 of the ASX Corporate Governance Principles.

The Board has received the relevant declarations from the Managing Director, Chief Executive Officer and Chief Financial Officer in accordance with s295A of the *Corporations Act 2001* and the relevant assurances required under Recommendation 7.3 of the ASX Corporate Governance Principles.

## Principle 8: Remunerate fairly and responsibly

### Remuneration committee

As previously stated in Principle 2, the Board has established a Remuneration Committee whose role is documented in a Charter which is approved by the Board.

The objective of the Committee with respect to its remuneration function is to assist the Board in determining appropriate remuneration arrangements for the Directors and Executive management.

These objectives include:

- reviewing the adequacy and form of remuneration of Independent Non-Executive Directors
- ensuring that the remuneration of the Independent Non-Executive Directors is reflective of the responsibilities and the risks of being a Director of the Group
- reviewing the contractual arrangements of the Managing Director and the executive management team including their remuneration
- comparing the remuneration of the Managing Director and executive management to comparable groups within similar industries to ensure that the remuneration on offer can attract, retain and properly reward performance which will translate into long term growth in shareholder value
- annually review key performance indicators of the Managing Director and Executive Team to ensure that they remain congruent with the Group's strategies and objectives
- reviewing the basis for remuneration of other Executive Directors of the Group for their services as Directors
- reviewing incentive performance arrangements when instructed by the Board; and
- reviewing proposed remuneration arrangements for new Director or Executive appointments

The Remuneration Committee will submit their recommendations to the Board regarding the remuneration arrangements and performance incentives for the Managing Director and Executive Team. The Board will review these recommendations before providing their approval.

Details of the Group's remuneration structure and details of Senior Executives' remuneration and incentives are set out in the Remuneration Report contained within the Directors' Report. The Remuneration Report also contains details on the structure of Non-Executive Director Remuneration.

# FINANCIAL STATEMENTS

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| For the year ended 30 June 2014 | Note | Consolidated Group 2014 $000 | 2013 $000 |
|---|---|---|---|
| **Revenue** | 2(a) | 84,335 | 87,056 |
| Cost of sales | | (69,239) | (69,175) |
| Gross profit | | 15,096 | 17,881 |
| Other income | 2(b) | 1,851 | 1,050 |
| Distribution costs | | (721) | (581) |
| Administration costs | | (4,821) | (3,309) |
| Finance costs | | (991) | (4,467) |
| **Profit before income tax** | 3 | 10,414 | 10,574 |
| Taxation | 4 | (3,016) | (2,797) |
| **Profit for the year** | | 7,398 | 7,777 |
| | | | |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified into profit or loss:* Exchange differences on translating foreign controlled entities | | (2,738) | 11,254 |
| **Total comprehensive income for the year** | | 4,660 | 19,031 |
| Profit for the year attributable to | | | |
| Owners of the Parent | | 7,398 | 7,777 |
| | | | |
| Total comprehensive income attributable to: | | | |
| Owners of the Parent | | 4,660 | 19,031 |
| | | | |
| **Earnings per share** | | | |
| Earnings per share attributable to Owners of the Parent | | | |
| Basic and diluted earnings per share (cents) | 5 | 5.9 | 6.2 |

*The accompanying notes should be read in conjunction with the financial statements.*

# STATEMENT OF FINANCIAL POSITION

| As at 30 June 2014 | Note | Consolidated Group | |
|---|---|---|---|
| | | 2014 | 2013 |
| | | $000 | $000 |
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 6 | 48,464 | 71,360 |
| Trade and other receivables | 7 | 97,487 | 46,443 |
| Inventories | 8 | 6,038 | 7,340 |
| Other financial assets | 9 | 206 | 212 |
| Land use rights | 10(b) | 165 | 169 |
| TOTAL CURRENT ASSETS | | 152,360 | 125,524 |
| NON-CURRENT ASSETS | | | |
| Financial assets | 9 | 642 | 659 |
| Property, plant and equipment | 10(a) | 13,050 | 15,804 |
| Land use rights | 10(b) | 8,969 | 9,399 |
| TOTAL NON-CURRENT ASSETS | | 22,661 | 25,862 |
| TOTAL ASSETS | | 175,021 | 151,386 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 22,639 | 17,878 |
| Borrowings | 12 | 14,104 | 14,489 |
| Notes payable | 13 | 57,339 | 39,285 |
| Current tax liabilities | 4 | 1,486 | 1,795 |
| TOTAL CURRENT LIABILITIES | | 95,568 | 73,447 |
| TOTAL LIABILITIES | | 95,568 | 73,447 |
| NET ASSETS | | 79,453 | 77,939 |
| **EQUITY** | | | |
| Issued capital | 14 | 38,439 | 38,439 |
| Reserves | 15 | (11,736) | (8,998) |
| Retained earnings | | 52,750 | 48,498 |
| TOTAL EQUITY | | 79,453 | 77,939 |

*The accompanying notes should be read in conjunction with the financial statements.*

# STATEMENT OF CHANGES IN EQUITY

| For the year ended 30 June 2014 | | | Consolidated Group Reserves | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Issued capital $000 | Statutory common reserve $000 | Common control reserve $000 | Foreign currency translation reserve $000 | Retained Earnings $000 | Total $000 |
| **Balance at 1 July 2012** | | 38,439 | 3,454 | (19,440) | (4,266) | 43,867 | 62,054 |
| Total profit or loss for the year | | - | - | - | - | 7,777 | 7,777 |
| Other comprehensive income for the period | | | | | 11,254 | - | 11,254 |
| **Total comprehensive income** | | - | - | - | 11,254 | 7,777 | 19,031 |
| Dividends paid or provided for | 16 | - | - | - | - | (3,146) | (3,146) |
| **Balance at 30 June 2013** | | 38,439 | 3,454 | (19,440) | 6,988 | 48,498 | 77,939 |
| | | | | | | | |
| **Balance at 1 July 2013** | | 38,439 | 3,454 | (19,440) | 6,988 | 48,498 | 77,939 |
| Total profit or loss for the year | | - | - | - | - | 7,398 | 7,398 |
| Other comprehensive income for the period | | | | | (2,738) | - | (2,738) |
| **Total comprehensive income** | | - | - | - | (2,738) | 7,398 | 4,660 |
| Dividends paid or provided for | 16 | - | - | - | - | (3,146) | (3,146) |
| **Balance at 30 June 2014** | | 38,439 | 3,454 | (19,440) | 4,250 | 52,750 | 79,453 |

*The accompanying notes should be read in conjunction with the financial statements.*

## STATEMENT OF CASH FLOWS

| **For the year ended 30 June 2014** | **Note** | **Consolidated Group** | |
|---|---|---|---|
| | | **2014** | **2013** |
| | | **$000** | **$000** |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 94,810 | 72,125 |
| Payments to suppliers and employees | | (67,621) | (73,151) |
| Interests received | | 974 | 1,029 |
| Finance costs | | (991) | (3,494) |
| Income tax paid | | (3,278) | (2,601) |
| Net cash provided by operating activities | 19 | 23,894 | (6,092) |
| | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of non-current asset | | - | (7,060) |
| Net cash used in investing activities | | - | (7,060) |
| | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | - | 2,120 |
| Dividends paid | | (11) | (805) |
| Proceeds from notes payables | | 19,099 | 32,134 |
| Advances to related parties | | (63,671) | (804) |
| Net cash (used in) / provided by financing activities | | (44,583) | 32,645 |
| | | | |
| Net (decrease) / increase in cash held | | (20,689) | 19,493 |
| | | | |
| Cash and cash equivalents at beginning of financial year | 6 | 71,360 | 43,545 |
| Effect of exchange rates on cash holdings in foreign currencies | | (2,207) | 8,322 |
| Cash and cash equivalents at end of financial year | 6 | 48,464 | 71,360 |

*The accompanying notes should be read in conjunction with the financial statements.*

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

## Note 1: Summary of significant accounting policies

**Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. Shenhua International Ltd is a for-profit entity for the purpose of preparing the financial statements.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated. Shenhua is a for-profit entity for purposes of preparing the financial statements.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. **Principles of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Shenhua International Ltd at the end of the reporting period. A controlled entity is any entity over which Shenhua International Ltd has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 27 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and Statement of Profit or Loss and Other Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

b. **Business combinations**

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

## Note 1: Summary of significant accounting policies (cont.)

b. **Business combinations (cont.)**

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

c. **Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

d. **Operating segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

e. **Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

## Note 1: Summary of significant accounting policies (cont.)

f. **Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(k) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all property, plant and equipment is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

| **Class of Fixed Asset** | **Useful life** |
|---|---|
| Buildings | 20 years |
| Plant and Machinery | 10 years |
| Office equipment | 5 years |
| Motor vehicles | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Profit or Loss and Other Comprehensive Income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

Land use rights have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of land use rights over their estimated useful lives, which vary from 38 to 45 years

## Note 1: Summary of significant accounting policies (cont.)

g. **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

h. **Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

i. **Trade and other payables**

Trade payables and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

j. **Financial Instruments**

**Recognition and initial measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified “at fair value through profit or loss”, in which case transaction costs are expensed to profit or loss immediately.

**Classification and subsequent measurement**

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

*Amortised cost* is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

## Note 1: Summary of significant accounting policies (cont.)

j. **Financial Instruments (cont.)**

*Fair value* is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as current assets.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (ie gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

## Note 1: Summary of significant accounting policies (cont.)

j. **Financial Instruments (cont.)**

(v) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

**Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

**Financial guarantees**

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

– the likelihood of the guaranteed party defaulting in a year period;
– the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
– the maximum loss exposed if the guaranteed party were to default.

**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

k. **Impairment of Assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

# Note 1: Summary of significant accounting policies (cont.)

l. **Share-based payment transactions**

The Group provides benefits to employees and consultants of the Group in the form of share-based payments, whereby employees or consultants receive option incentives (equity-settled transactions). There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP) which provides benefits to directors and employees. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model. The cost of equity-settled transactions is recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income, together with a corresponding increase in the share option reserve, when the options are issued. Upon the exercise of options, the balance of the shared based payments reserve relating to those options is transferred to share capital.

m. **Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

**Group companies**

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

– assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;

– income and expenses are translated at average exchange rates for the period; and

– retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed.

n. **Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

# Note 1: Summary of significant accounting policies (cont.)

o. **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

p. **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

q. **Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period, where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST) or Value Added Tax (VAT).

r. **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

s. **Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST and VAT, except:

- when the GST or VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense items as applicable; and
- receivables and payables are stated inclusive of the amount of GST/VAT.

Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the tax authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

Commitments and contingencies are disclosed net of the amount of GST and VAT recoverable from, or payable to, the taxation authority.

# Note 1: Summary of significant accounting policies (cont.)

t. **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

u. **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

**Key estimates**

(i) *Income taxes*

The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(ii) *Depreciation of property, plant and equipment*

Property, plant and equipment are depreciated on a straight line basis over their useful life. Management estimated the useful life of these assets to be within 3 to 25 years. Changes in the expected level of usage and technological developments could impact the economic useful life and the residual values of these assets, therefore future depreciation charges could be revised.

(iii) Impairment of financial assets

The Group assess impairment at each reporting date by evaluation conditions specific to the Group that may lead to impairment of financial assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

v. **Contributed equity**

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

w. **Adoption of new and revised accounting standards**

During the current year, the following standards became mandatory and have been adopted retrospectively by the Group:

- AASB 10 Consolidated Financial Statements
- AASB 12 Disclosure of Interests in Other Entities
- AASB 13 Fair Value Measurement
- AASB 119 Employee Benefits

The accounting policies have been updated to reflect changes in the recognition and measurement of assets, liabilities, income and expenses and the impact of adoption of these standards is discussed below.

AASB 10 Consolidated Financial Statements is effective for annual reporting periods beginning on or after 1 January 2013 and therefore the Group has applied it for the first time in these financial statements. AASB 10 includes a new definition of control, including additional guidance for specific situations such as control in a principal / agent situation and when holding less than majority voting rights may give control. AASB 10 supersedes the previous requirements of AASB 127 Consolidated and Separate Financial Statements and Interpretation 112 Consolidation Special Purpose Entities and resulted in consequential amendments to a number of other standards.

## Note 1: Summary of significant accounting policies (cont.)

The Group has reviewed its investment in other entities to determine whether any changes were required to the consolidated entity under AASB 10. The composition of the consolidated entity is the same under AASB 10 and therefore there is no change to the reported financial position and performance.

AASB 12 Disclosure of Interests in Other Entities includes all disclosures relating to an entity's interest in associates, joint arrangements, subsidiaries and structured entities. On adoption of AASB 12, additional disclosures have been included in the financial statements in relation to investments held.

AASB 13 Fair Value Measurement does not change what and when assets or liabilities are recorded at fair value. It provides guidance on how to measure assets and liabilities at fair value, including the concept of highest and best use for non financial assets. AASB 13 has not changed the fair value measurement basis for any assets or liabilities held at fair value, however additional disclosures on the methodology and fair value hierarchy have been included in the financial statements.

AASB 119 Employee benefits changes the basis for determining the income or expense relating to defined benefit plans and introduces revised definitions for short term employee benefits and termination benefits.

The Group reviewed the annual leave liability to determine the level of annual leave which is expected to be paid more than 12 months after the end of the reporting period. Whilst this has been considered to be a long term employee benefits for the purpose of measuring the leave under AASB 119, the effect of discounting was not considered to be material and therefore has not been performed.

x. **New Accounting Standards and Interpretations**

The accounting standards that have not been early adopted for the year ended 30 June 2014, but will be applicable to the group in future reporting periods, are detailed below. Apart from these standards, other accounting standards that will be applicable in future periods have been reviewed, however they have been considered to be insignificant to the group.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the group. Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements is provided below.

***Year ended 30 June 2015:***

***AASB 1031: Materiality***

***AASB 2013-4, Novation of Derivatives and Continuation of Hedge Accounting***

***AASB 2013-5, Investment Entities***

***AASB 2013-9, Conceptual Framework, Materiality and Financial Instruments***

***AASB 2014-1, Amendments to Australian Accounting Standards***

These standards make changes to a number of existing Australian Accounting Standards and are not expected to result in a material change to the manner in which the Group's financial result is determined or upon the extent of disclosures included in future financial reports.

***Year ended 30 June 2017: Amendments to AASB 116 and AASB 138, Clarification of acceptable methods of depreciation and amortisation***

This standard will clarify that revenue based methods to calculate depreciation and amortisation are not considered appropriate. This will not result in a change to the manner in which the Group's financial result is determined as no such method is currently in use.

## Note 1: Summary of significant accounting policies (cont.)

***Year ended 30 June 2018: IFRS 15: Revenue from Contracts with Customers***

This standard will change the timing and in some cases the quantum of revenue received from customers. IFRS 15 requires an entity to recognise revenue by identifying for each customer contract, the performance obligations in the contract and the transaction price. The transaction price is then allocated against the performance obligations in the contract with revenue recognised when (or as) the entity satisfies each performance obligation. Management are currently assessing the impact of the new standard but it is not expected to have a material impact on the financial performance or financial position of the consolidated entity.

***Year ended 30 June 2019: AASB 9: Financial Instruments***

This standard introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; and (2) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss).
- Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted by presenting changes in credit risk in other comprehensive income (OCI) and the remaining change in the statement of profit or loss.

This standard is not expected to result in a material change to the manner in which the Group's financial result is determined or upon the extent of disclosures included in future financial reports although the Group will quantify the effect of the application of AASB 9 when the final standard, including all phases, is issued.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## Note 2: Revenue and Other Income

| | Consolidated Group 2014 $000 | 2013 $000 |
|---|---|---|
| **(a) Revenue** | | |
| Sales revenues | 84,335 | 87,056 |
| **(b) Other income** | | |
| - interest received | 974 | 1,030 |
| - scrap sales | 413 | - |
| - other revenue | 464 | 20 |
| | 1,851 | 1,050 |

## Note 3: Profit before Taxation

| | Consolidated Group 2014 $000 | 2013 $000 |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Interest expenses | 991 | 4,467 |
| Impairment loss on other receivables | 1,093 | - |
| Depreciation of property, plant and equipment | 2,406 | 1,216 |
| Amortisation on land use rights | 185 | 358 |
| Legal fees | 26 | 26 |
| Exchange loss | 641 | 635 |
| **Employment benefit expenses** | | |
| Salary and wages | 479 | 464 |
| Social contribution | 76 | 46 |
| Other employment expenses | 103 | 85 |
| | 658 | 595 |
| **Auditor's remuneration** | | |
| Grant Thornton Audit Pty Ltd | | |
| *Auditing and review of the financial report* | 100 | 110 |

## Note 4: Taxation

| | Consolidated Group 2014 $000 | 2013 $000 |
|---|---|---|
| Current taxation | 3,016 | 2,797 |
| **The prima facie tax on profit before income tax is reconciled to the income tax as follows:** | | |
| Prima facie tax payable on profit before income tax at 30% (2013: 30%) | 3,124 | 3,172 |
| Adjustments of entities not taxed at 30% | (108) | (375) |
| | 3,016 | 2,797 |
| Income tax payable | 1,486 | 1,795 |

## Note 5: Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share.

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$000** | **$000** |
| Net profit attributed to ordinary equity holders of the parent | 7,398 | 7,777 |
| Weighted average number of shares for basic earnings per share | 125,857,000 | 125,857,000 |
| Basic and diluted earnings per share | 5.9 cents | 6.2 cents |

## Note 6: Cash and Cash Equivalents

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$000** | **$000** |
| Short-term bank deposits* | 41,817 | 29,568 |
| Cash and bank balances | 6,647 | 41,792 |
| | 48,464 | 71,360 |

*Short-term bank deposits of $41,817,116 (2013: 29,568,197) were pledged as security deposit for notes payable.

The effective interest rate on short-term bank deposits was 3% per annum (2013: 1.5%).

Cash and cash equivalents are denominated in the following currencies:

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$000** | **$000** |
| Renminbi | 48,229 | 71,286 |
| Australian dollars | 10 | 64 |
| United States dollar | 225 | 10 |
| | 48,464 | 71,360 |

## Note 7: Trade and Other Receivables

| | Note | Consolidated Group 2014 $000 | 2013 $000 |
|---|---|---|---|
| Trade and other receivables | | 97,487 | 46,443 |
| | | 97,487 | 46,443 |

| | | 2014 $000 | 2013 $000 |
|---|---|---|---|
| Trade receivables | (a) | 15,488 | 26,894 |
| Allowance for impairment of trade receivables | | | |
| Balance at beginning | | (100) | (88) |
| Exchange rate gain/(loss) | | 3 | (12) |
| Balance at end | | (97) | (100) |
| Net trade receivables | | 15,391 | 26,794 |
| | | | |
| Other receivables | | | |
| Advances to suppliers | (b) | 2,884 | 2,836 |
| Advances to a related party: | | | |
| (Shaoxing County Shenhua Decoration Co., Ltd) | (c) | 80,272 | 16,354 |
| Sundry receivables | | - | 459 |
| Impairment loss on other receivables | | | - |
| Balance at beginning | | - | - |
| Allowance for the year | | (1,093) | |
| Exchange rate gain/(loss) | | 33 | |
| Balance at end | | (1,060) | - |
| Net other receivables | | 82,096 | 19,649 |
| | | | |
| Total trade and other receivables | | 97,487 | 46,443 |

| | Gross amount $000 | Past due and impaired $000 | Past due but not impaired (days overdue) < 30 $000 | 31–60 $000 | 61–90 $000 | > 90 $000 | Within initial trade terms $000 |
|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | |
| Trade receivables | 15,488 | 97 | 763 | 3,432 | - | 1,476 | 9,720 |
| Total | 15,488 | 97 | 763 | 3,432 | - | 1,476 | 9,720 |

| | Gross amount $000 | Past due and impaired $000 | Past due but not impaired (days overdue) < 30 $000 | 31–60 $000 | 61–90 $000 | > 90 $000 | Within initial trade terms $000 |
|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | |
| Trade receivables | 26,894 | 100 | 6,018 | 930 | - | - | 19,846 |
| Total | 26,894 | 100 | 6,018 | 930 | - | - | 19,846 |

## Note 7: Trade and Other Receivables (Cont.)

(a) The trade receivables' ageing approximates 93 days (2013: 96 days). Impairment on trade and other receivables is made when certain debtors are identified to be irrecoverable.

(b) The advances paid to suppliers which were unsecured, interest-free and repayable on demand, represent down-payment for the supply of raw materials. During the year, an impairment loss of $1,093,279 (2013: nil) recognised on the outstanding advances as they are irrecoverable from the suppliers.

(c) Advances to the related parties are secured interest bearing loan and repayable every six months until 30 June 2022, and are of the purpose of providing working capital. Refer to note 23 and 25 for details.

Trade receivables are denominated in the following currencies:

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$000** | **$000** |
| Renminbi | 1,745 | 1,221 |
| United States dollar | 13,743 | 25,673 |
| | 15,488 | 26,894 |

## Note 8: Inventories

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$000** | **$000** |
| Raw materials at cost | 1,143 | 1,069 |
| Work-in-progress at cost | 441 | 890 |
| Finished goods at cost | 4,454 | 5,381 |
| | 6,038 | 7,340 |

## Note 9: Other Financial Assets

| | | Consolidated Group | |
|---|---|---|---|
| | | **2014** | **2013** |
| | | **$000** | **$000** |
| **Current - available-for-sale financial asset** | | | |
| Quoted equity investment | (a) | 206 | 212 |
| | | 206 | 212 |
| **Non-current - available-for-sale financial asset** | | | |
| Unquoted equity investment | | | |
| - a financial institution | (b) | 271 | 278 |
| - a guarantee company | (c) | 371 | 381 |
| | | 642 | 659 |
| Total | | 848 | 871 |

(a) The fair value of quoted equity investments is determined by reference to Bank of China's quoted bid prices at the reporting date.

(b) The unquoted equity investment comprises 0.25% equity interest in a financial institution in the PRC. This financial institution is not similar in nature and size to any quoted entities. There is also no active market for the equity interest. As such, it is not practicable to determine with sufficient reliability the fair value of the unquoted equity shares. However, the directors do not anticipate that the carrying amount of the unquoted equity investment will be significantly in excess of its fair value.

(c) The unquoted equity investment comprises 1.92% equity interest in a guarantee company in the PRC. The guarantee company is not similar in nature and size to any quoted entities. There is no active market for the equity interest. As such, it is not practicable to determine with sufficient reliability the fair value of the unquoted equity shares. However, the directors do not anticipate that the carrying amount of the unquoted equity investment will be significantly in excess of its fair value.

## Note 10(a): Property, Plant and Equipment

| | **Buildings $000** | **Plant and machinery $000** | **Office equipment $000** | **Motor vehicles $000** | **Total $000** |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 July 2013 | 13,999 | 23,169 | 751 | 1,099 | **39,018** |
| Additions | - | - | 1 | - | **1** |
| Foreign exchange difference | (372) | (616) | 16 | (24) | **(996)** |
| At 30 June 2014 | 13,627 | 22,553 | 768 | 1,075 | **38,023** |
| | | | | | |
| Accumulated depreciation | | | | | |
| At 1 July 2013 | 3,441 | 18,273 | 618 | 881 | **23,214** |
| Depreciation | 729 | 1,612 | 30 | 35 | **2,406** |
| Foreign exchange difference | (112) | (534) | 24 | (24) | **(647)** |
| At 30 June 2014 | 4,058 | 19,351 | 672 | 892 | **24,973** |
| | | | | | |
| Net book value | | | | | |
| At 30 June 2014 | 9,569 | 3,202 | 96 | 183 | **13,050** |
| | | | | | |
| At 30 June 2013 | 10,557 | 4,896 | 133 | 218 | **15,804** |

| | **Buildings $000** | **Plant and machinery $000** | **Office equipment $000** | **Motor vehicles $000** | **Total $000** |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 July 2012 | 12,223 | 20,666 | 554 | 961 | **34,404** |
| Additions | - | 6 | 3 | 12 | **21** |
| Foreign exchange difference | 1,776 | 2,497 | 194 | 126 | **4,593** |
| At 30 June 2013 | 13,999 | 23,169 | 751 | 1,099 | **39,018** |
| | | | | | |
| Accumulated depreciation | | | | | |
| At 1 July 2012 | 2,392 | 14,528 | 379 | 738 | **18,037** |
| Depreciation | 638 | 1,760 | 11 | 39 | **2,448** |
| Foreign exchange difference | 412 | 1,985 | 228 | 104 | **2,729** |
| At 30 June 2013 | 3,442 | 18,273 | 618 | 881 | **23,214** |
| | | | | | |
| Net book value | | | | | |
| At 30 June 2013 | 10,557 | 4,896 | 133 | 218 | **15,804** |
| | | | | | |
| At 30 June 2012 | 9,831 | 6,138 | 175 | 223 | **16,367** |

(i) Buildings on leasehold land located at Yangxunqiao Industrial Area, Shaoxing County, Zhejiang Province, The People's Republic of China comprise:

## Note 10(b): Land Use Rights

| | 2014 $000 | 2013 $000 |
|---|---|---|
| Cost | | |
| At 1 July | 10,484 | 2,981 |
| Additions | - | 6,237 |
| Foreign exchange difference | (280) | 1,266 |
| 30 June | 10,204 | 10,484 |
| | | |
| Amortisation | | |
| At 1 July | 916 | 447 |
| Amortisation | 185 | 358 |
| Foreign exchange difference | (31) | 111 |
| At 30 June | 1,070 | 916 |
| | | |
| Net book value | 9,134 | 9,568 |
| | | |
| Current | 165 | 169 |
| Non-current | 8,969 | 9,399 |
| | 9,134 | 9,568 |

(i) Land use rights relate to the following:

| Location | Use of property | Land area (sq. metres) | Tenure |
|---|---|---|---|
| Yangxunqiao Industrial Area Shaoxing County Zhejiang Province | Production plant | 11,195 | 38 years (valid until 29 December 2052) |
| The People's Republic of China | Production plant | 16,989 | 45 years (valid until 20 May 2059) |
| | Production plant | 17,064 | 38 years (valid until 29 December 2052) |
| | Production plant | 37,230 | 45 years (valid until 20 May 2059) |
| | Production plant | 15,255 | 45 years(valid until 7 December 2059)* |
| | | 97,733 | |

* held in trust by a related party, Shaoxing County Shenhua Decoration Co., Ltd.

The land use rights of $9,134,000 (2013: $9,569,000) have been pledged as security for borrowings of the company

## Note 11: Trade and Other Payables

| | | Consolidated Group 2014 $000 | 2013 $000 |
|---|---|---|---|
| Trade and other payables | (a) | 3,536 | 1,500 |
| Amounts owed to related parties | (b) | 19,103 | 16,378 |
| | | 22,639 | 17,878 |

(a) Trade and other payables are denominated in the following currencies:

| | Consolidated Group 2014 $000 | 2013 $000 |
|---|---|---|
| Renminbi | 2,054 | 1,319 |
| Australian dollars | 2,147 | 181 |
| | 4,201 | 1,500 |

(b) Amount due to related parties are unsecured, interest free and repayment on demand. Refer Note 25 for disclosure of related party balances.

## Note 12: Borrowings

| | Consolidated Group 2014 $000 | 2013 $000 |
|---|---|---|
| Bank loans: - | | |
| - China Construction Bank Shaoxing Branch | 14,104 | 14,489 |
| | 14,104 | 14,489 |

The borrowings are all denominated in Chinese Renminbi, with repayment terms ranging from November 2013 to April 2015. Interest is charged at 5.76% (2013: 6%) per annum.

The borrowings are secured by land use rights held by the Group as disclosed in Note 10(b) and a guarantee from Shaoxing Zhong Tai and Zhejiang Zhong Da.

## Note 13: Notes Payable

The notes payable are denominated in RMB and secured against certain bank deposits of the Group as disclosed in Note 6. The note payables mature on varying dates between July 2014 (2013: July 2013) and December 2014 (2013: December 2013).

## Note 14: Issued capital

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$000** | **$000** |
| 125,857,000 (30 June 2013: 125,857,000) fully paid ordinary shares | 38,439 | 38,439 |

| | **2014** | **2013** |
|---|---|---|
| | **Number** | **Number** |
| Ordinary shares | | |
| Balance at beginning of the year | 125,857,000 | 125,857,000 |
| Balance at end of the year | 125,857,000 | 125,857,000 |

**Capital Management**

The Group's debt and capital includes ordinary share capital, financial liabilities, supported by financial assets.

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensue that the Group can fund its operations and continue as a going concern.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

## Note 15: Reserves

| | | Consolidated Group | |
|---|---|---|---|
| | | **2014** | **2013** |
| | | **$000** | **$000** |
| Statutory common reserve | (a) | 3,454 | 3,454 |
| Common control reserve | (b) | (19,440) | (19,440) |
| Foreign currency translation reserve | (c) | 4,250 | 6,988 |
| | | (11,736) | (8,998) |

*(a) Statutory Common Reserve*

According to the current People's Republic of China company law, Shaoxing Shenhua Textile Co., Ltd is required to transfer between 5% - 10% of its profit after taxation to statutory common reserve until the common reserve reaches 50% of the registered capital. For the purpose of calculating the transfer to the reserve, the profit after taxation shall be the amount determined under People's Republic of China accounting standards. The transfer to this reserve must be made before the distribution of dividends.

*(b) Common Control Reserve*

The common control reserve has arisen following the adoption of the pooling of assets method used to account for the acquisition.

*(c) Foreign Currency Translation Reserve*

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

## Note 16: Dividends

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$000** | **$000** |
| Distributions paid | | |
| Unfranked ordinary dividend declared on 30 September 2013 of $0.025 per share, in respect of the year ended 30 June 2013. | 3,146 | 3,146 |

## Note 17: Financial Risk Management Objectives and Policies

The Group's financial instruments carried on the statement of financial position include cash and cash equivalents, receivables, payables and bank borrowings.

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk, price risk and foreign currency risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise potential adverse effects from the unpredictability of financial markets on the Group's financial performance through a system of internal controls set by the Management.

Risk management is carried out by the Finance Division under policies approved by the Board of Directors. The Finance Division identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Group does not have any written financial risk management policies and guidelines.

### 17.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from interest-bearing advances given to third parties and a related party, fixed deposits placed with financial institutions and bank borrowings.

The interest rates of interest-bearing advances given to third parties and a related party, fixed deposits placed with financial institutions and bank borrowings are disclosed in Note 6, Note 7 and Note 12, respectively.

Sensitivity analysis
For the variable rate financial liabilities owing for bank borrowings, a change of 50 basis points ("bp") in interest rate at the reporting date would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Profit or loss | **50bp increase $000** | **50bp decrease $000** | **50bp increase $000** | **50bp decrease $000** |
| Variable rate instruments | (72) | 72 | (144) | 144 |

### 17.2 Price risk

The consolidated entity is not exposed to any significant price risk

# Note 17: Financial Risk Management Objectives and Policies (cont.)

## 17.3 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies, other than the functional currencies of the Group or its controlled entities.

The Group has transactional currency exposures arising from sales or purchases that are denominated in USD. The Group's trade receivable and trade payable balances at the reporting date have similar exposures.

The Group also holds cash and cash equivalents denominated in USD for working capital purposes.

Sensitivity analysis for foreign currency risk

Most of the Group's transactions are carried out in RMB. Exposures to currency exchange rates mainly arise from some trade receivable balances, which are primarily denominated in United States dollars (USD).

Foreign currency denominated financial assets and liabilities which expose the Group to foreign currency risk are disclosed below. The amounts shown are those reported to key management translated into RMB at the closing rate:

| | **USD** |
|---|---|
| | **$'000** |
| 30 June 2014 | |
| Financial assets | 13,968 |
| Financial liabilities | - |
| **Total Exposure** | **13,968** |
| 30 June 2013 | |
| Financial assets | 25,683 |
| Financial liabilities | - |
| **Total Exposure** | **25,683** |

The following table demonstrates the sensitivity to a reasonably possible change in USD, with all other variables held constant, of the Group's profit before taxation and equity.

| | **2014** | | **2013** | |
|---|---|---|---|---|
| | **Profit net of taxation $000** | **Equity $000** | **Profit net of taxation $000** | **Equity $000** |
| United States dollar | | | | |
| - strengthened by 10% (2013: 10%) | 1,764 | 1,764 | 1,844 | 1,844 |
| - weakened by 10% (2013: 10%) | (1,764) | (1,764) | (1,844) | (1,844) |

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risks.

The group functional currency is RMB and the majority of its assets and liabilities are denominated in that currency. No financial instruments are utilised to mitigate this risk.

# Note 17: Financial Risk Management Objectives and Policies (cont.)

### 17.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group's exposure to credit risk arises primarily from trade and other receivables, note receivables and cash placed with financial institutions

Management has a credit control policy in place. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions are conducted with customers with appropriate credit histories. The credit risk and amount outstanding is monitored on an ongoing basis. With this credit evaluation processes, credit control policies and collection procedures in place, the credit risk is mitigated substantially. The Group does not require collateral in respect of financial assets.

The Group performs ongoing credit evaluation of its customers' financial condition. The allowance for doubtful debts is based upon a review of the expected collectability of all trade and other receivables.

As the Group does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

Cash is held with established financial institutions.

The Group's exposure to customer concentration risk relates to its dependence on major customers. The Group's top 10 customers in the financial reporting year generated more than 71% (2013: 68%) of the Group's revenues during the financial period. Other receivable arises mainly from Shaoxing County Shenhua Decoration Co.,Ltd, which is 82.3% (2013:35.2%) of total trade and other receivable balance (net).

Trade and other receivables that are neither past due nor impaired are substantially counterparties with a good collection track record with the Group.

### 17.4 Liquidity risk

Liquidity or funding risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group's exposure to liquidity risk arises primarily from the deposits pledged with banks for providing a note payable facility where the extent of deposits as to the quantum to be called and period covered are at the full discretion of the banks at any time.

The table below analyses the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows:

| | 2014<br>Less than<br>1 year<br>$000 | 2013<br>Less than<br>1 year<br>$000 |
|---|---|---|
| Trade and other payables | 22,639 | 17,878 |
| Note payables | 57,339 | 39,285 |
| Bank borrowings | 14,104 | 14,489 |
| | 94,082 | 71,652 |

The Group reviews its cash flow regularly to ensure that the Group maintains an adequate level of liquidity for its operations to meet this commitment to the banks.

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# Note 18: Financial Instruments

**Fair values**
The carrying amount of financial assets and liabilities with a maturity of less than one year is assumed to approximate their fair values.

The Group does not anticipate that the carrying amounts recorded at the end of the reporting period would be significantly different from the values that would eventually be received or settled.

**Fair value hierarchy**
The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

| | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|---|
| At 30 June 2014 | | | | |
| Available-for-sale investments | | | | |
| Unquoted investments | | | | |
| - a financial institution | - | - | 271 | 271 |
| - a guarantee company | - | - | 371 | 371 |
| Quoted equity investment | 206 | - | - | 206 |
| | 206 | - | 642 | 848 |

| | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|---|
| At 30 June 2013 | | | | |
| Available-for-sale investments | | | | |
| Unquoted investments | | | | |
| - a financial institution | - | - | 278 | 278 |
| - a guarantee company | - | - | 381 | 381 |
| Quoted equity investment | 212 | - | - | 212 |
| | 212 | - | 659 | 871 |

The fair value of financial instruments traded in active markets (such as available-for-sale quoted equity investment) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by The Group is the current bid price. These instruments are included in Level 1.

As noted in Note 9, it is not practicable to determine with sufficient reliability the fair value of equity interests. Such instruments are included in Level 3.

## Note 19: Cash Flow

| | Consolidated Group | |
|---|---|---|
| | **2014** | **2013** |
| | **$000** | **$000** |
| **Reconciliation of Cash Flow from Operations with Profit after Income Tax** | | |
| Profit after income tax | 7,398 | 7,777 |
| Non-cash flows in profit | | |
| Depreciation/amortisation | 2,591 | 1,574 |
| Impairment loss on other receivables | 1,093 | - |
| Net unrealised foreign currency gains/ (losses) | (853) | 4,165 |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries | | |
| (Increase)/decrease in trade and other receivables | (11,529) | (18,694) |
| (Increase)/decrease in inventories | 1,302 | (295) |
| Increase/(decrease) in trade payables and accruals | 1,393 | (1,005) |
| Increase/(decrease) in income taxes payable | (310) | 386 |
| Cash flows from operations | 23,894 | (6,092) |

## Note 20: Operating Segments

**Segment Information**

**Identification of reportable segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of nature of activities, and operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to each of the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

**Types of products and services by segment**

The Group considers that there is only one segment, being the manufacture and sale of fabric and bedding products, as this is how the Group is managed by the chief operating decision makers.  All assets and liabilities are allocated to this segment.

**Basis of accounting for purposes of reporting by operating segments**

*Accounting policies adopted*
Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

## Note 20: Operating Segments (cont.)

**Major customers**

The Group's major customers are predominantly wholesalers concentrated in China and various regions.

## Note 21: Commitment

At the date of signing this report, the company is not aware of any commitment that should be disclosed.

## Note 22: Contingent Liabilities

At the date of signing this report, the Group is not aware of any contingent liabilities that should be disclosed in accordance with AASB137.

## Note 23: Events Subsequent to Reporting Date

On 15 October 2014, one of the Group's wholly owned subsidiaries, Shaoxing Shenhua Textile Co., Ltd. finalised negotiation of a secured loan of $80.272 million ("the Loan") to Shaoxing Shenhua Decoration Co., Ltd. ("SDL"), a director related entity. The loan was used by SDL to fund investment and working capital in metal fabrication operations owned by its subsidiary, Zhejiang Binhai Metal Products, ("BHMP").

The Loan carries a fixed interest rate of 6%p.a. (consistent with market rate of similar loan in PRC) payable every six month and is secured against land use rights and non-current assets of SDL and BHMP with the carrying value of approximately RMB414.66 million as of 30 June 2014 (and total asset of RMB715.5 million). Currently, management is undertaking the process to lodge the security documents on the non-current assets of these entities.

The Loan term is ends on 30 June 2022 and all principal needs to be repaid in full by end of the term. The directors expect SDL and BHMP to make yearly repayment to reduce the amount owed. The Loan is approved by the Board of Directors on 15 October 2014.

On 7 November 2014 the Directors declared a final unfranked dividend out of $0.015 per share. The record date is 17 November 2014 and the payment date is 5 December 2014. Other than the above, no material events have occurred subsequent to balance date an up to the date of this report.

## Note 24: Shenhua International Limited – Parent Company Information

| | 2014 $000 | 2013 $000 |
|---|---|---|
| **Parent entity** | | |
| **Assets** | | |
| Current assets | 9,704 | 9,544 |
| Non-current assets | 25,068 | 25,068 |
| Total assets | 34,772 | 34,612 |
| **Liabilities** | | |
| Current liabilities | 10,532 | 7,060 |
| Non-current liabilities | - | - |
| Total liabilities | 10,457 | 7,060 |
| **Equity** | | |
| Issued capital | 38,439 | 38,439 |
| Retained earnings | (14,199) | (10,887) |
| Total equity | 24,240 | 27,552 |
| **Financial performance** | | |
| Profit/(Loss) for the year | (166) | (213) |
| Other comprehensive income | - | - |
| Total comprehensive income | (166) | (213) |
| **Guarantees in relation to the debts of subsidiaries** | | |
| Guarantee provided under the deed of cross guarantee | - | - |
| **Contingent liabilities** | - | - |
| **Contractual Commitments** | | |
| Contractual capital commitments for the acquisition of property, plant or equipment | - | - |

## Note 25: Related Party Disclosure

In addition to the related party information disclosed elsewhere in the financial statement, the following are significant related party transactions entered with related parties at mutually agreed amounts:

| **Related Party Transactions** | **Consolidated Group 2014 $000** | **Consolidated Group 2013 $000** |
|---|---|---|
| Utilities charged to a related party – Shaoxing County Shenhua Decoration Co., Ltd [(1)] | 31 | 25 |
| Purchases of services from Chambers and Company [(2)] | (26) | (31) |
| Purchases of inventory from Shaoxing Shenlian Textile Co., Ltd[(3)] | (678) | (62) |
| Sales to Shaoxing Shenlian Textile Co., Ltd[(3)] | 3,062 | - |
| Payments (to)/from Joyful Huge Holdings Limited[(4)] | - | (807) |

| **Related Party Balances** | **Consolidated Group 2014 $000** | **Consolidated Group 2013 $000** |
|---|---|---|
| Related party receivable from Shaoxing County Shenhua Decoration Co.,Ltd[(1)] | 80,272 | 16,354 |
| Related party payable to Joyful Huge Holdings[(4)] | (18,203) | (16,378) |
| Related party payable to Xia Yajun[(5)] | (235) | - |
| Related party payable to Shaoxing Shenlian Textile Co., Ltd[(3)] | (665) | - |

[(1)] Shaoxing Shenhua Decoration Co.,Ltd is a related party of Philip Widjaya, Managing Director of the Group, whose ownership is 58.8%.

[(2)] Chambers and Company is a legal service provider to Shenhua International Ltd, in which Mr Pierre Lau is a director.

[(3)] Shaoxing Shenlian Textile Co., Ltd is a related party of Philip Widjaya, Managing Director of the Group.
[(4)] Joyful Huge Holdings Limited is owned and controlled by Philip Widjaya, Managing Director of the Group.
[(5)] Xia Yajun is son of Philip Widjaya, Managing Director of the Group.

## Note 26: KMP Remuneration

Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

| **Directors** | | **Date appointed** |
|---|---|---|
| Chen Xiaohong | Non-executive Chairman | 15 November 2012 |
| Philip Widjaya | Managing Director of the Company and Chairman of SST | 15 November 2012 |
| Wang Lijuan | Executive Director of the Company and Assistant General Manager of SST | 1 November 2013 |
| Wan Yong | Non-Executive Director | 1 November 2013 |
| Pierre Lau | Non-Executive Director | 26 October 2011 |
| **Executives** | | |
| Wang Ju'an | General Manager | 2 December 2008 |
| Zhang Lijiang | Assistant General Manager | 2 December 2008 |
| Chen Jianjun | Financial Manager | 2 December 2008 |
| Zheng Jinyao | Assistant General Manager | 2 December 2008 |
| Sherry,Xue Tao | Company S secretary | 2 December 2008 |

**Key management personnel remuneration**

The totals of remuneration paid to the key management personnel of the Group during the year are as follows:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Short term benefits | 241,616 | 185,648 |

**Other key management personnel transactions**

There were no other key management personnel transactions incurred by the Group during the financial year.

## Note 27: Controlled entities

**Controlled Entities Consolidated**

| | **Country of Incorporation** | **Percentage Owned (%)*** | |
|---|---|---|---|
| | | **2014** | **2013** |
| Subsidiaries of Shenhua International Limited | | | |
| - Talent and Value International Investment Ltd | Hong Kong | 100 | 100 |
| - Shaoxing Shenhua Textile Co., Ltd | People's Republic of China | 100 | 100 |
| - Shaoxing Shentai Real Estate Co., Ltd** | People's Republic of China | 100 | 100 |

* Percentage of voting power is in proportion to ownership

** Shaoxing Shentai was incorporated during the period in September 2012.

# DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 27 to 60 are in accordance with the Corporations Act 2001, and:

    - Comply with Accounting Standards;
    - Give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the Consolidated Group; and
    - Complies with International Financial Reporting Standards as described in Note 1.

2. The Managing Director and Chief Finance Officer has declared that:
    - The financial records of the Group for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
    - The financial statements and notes for the financial year comply with the Accounting Standards; and
    - The financial statements and notes for the financial year give a true and fair view.

3. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

**Philip Widjaya**

*Managing Director*

7 November 2014

Level 1,
67 Greenhill Rd
Wayville SA 5034

Correspondence to:
GPO Box 1270
Adelaide SA 5001

**T** 61 8 8372 6666
**F** 61 8 8372 6677
**E** info.sa@au.gt.com
**W** www.grantthornton.com.au

# INDEPENDENT AUDITOR'S REPORT
# TO THE MEMBERS OF SHENHUA INTERNATIONAL LIMITED

## Report on the financial report

We have audited the accompanying financial report of Shenhua International Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

## Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

## Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**Auditor's opinion**
In our opinion:

a the financial report of Shenhua International Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**Emphasis of matter**
Without qualification to the audit opinion expressed above, we draw attention to Note 23 to the financial statements. Shaoxing Shenhua Textile Co., Ltd. finalised negotiation of the secured loan of $80.272m to Shaoxing Shenhua Decoration Co., Ltd., a director related entity. The loan documentation was finalised on 15 October 2014 and as at the date of the audit report the security documents are in the process of being lodged.

### Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Shenhua International Limited for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Partner – Audit & Assurance

Adelaide, 7 November 2014

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE PLAN

The Company's board of Directors (**Board**) has adopted a "Corporate Governance Plan" which incorporates a Board Charter and Code of Conduct and establishes committees, disclosure requirements, guidelines for buying and selling securities and a communications strategy. The Corporate Governance Plan is structured as follows:

1. Board Charter
2. Corporate Code of Conduct
3. Board committees
    - Audit and Risk Committee
    - Remuneration Committee
    - Nomination Committee
4. Disclosure
    - Performance Evaluation
    - Continuous Disclosure
    - Risk Management
5. Guidelines for buying and selling securities – share trading policy
6. Shareholder Communications Strategy

A full copy of the Company's Corporate Governance Plan is available for viewing at the Company's website at www.zjhdbl.com or at the Company's registered office.

Guidance will be sought from the *Corporate Governance Principles and Recommendations with 2010 Amendments 2nd Edition* (**Principles and Recommendations**) developed by the ASX Corporate Governance Council to further develop and audit its Corporate Governance Plan from time to time. The Principles and Recommendations relating to issues such as gender diversity, trading policies and briefings were finalized as at 30 June 2010 and took effect from 1 January 2011. The Board adopted the new – Share trading policy on 22 December 2010 to its Corporate Governance Plan.

The board has also adopted a Diversity Policy in January 2011.

## STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE COUNCIL'S RECOMMENDATIONS FOR BEST CORPORATE PRACTICE

(current as at the date of this Report)

| Principle # | ASX Corporate Governance Council Recommendations | Corporate Governance Plan Reference | Comply |
|---|---|---|---|
| **Principle 1** | Lay solid foundations for management and oversight | | |
| 1.1 | Establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Sch.1, Cl.1(a) – (k) | Yes |
| 1.2 | Disclose the process for evaluating the performance of senior executives. | Sch.6, Cl.(d) | Yes |
| 1.3 | Provide the information indicated in the Guide to reporting principle 1. | Sch.1, Cl.1(a) – (k), Sch.6, Cl.(d) | Yes |
| **Principle 2** | Structure the Board to add value | | |
| 2.1 | A majority of the board should be independent directors. | Sch.1, Cl.2(c) | No |
| 2.2 | The chair should be an independent director. | Sch.1, Cl.3(a) | Yes |
| 2.3 | The roles of chair and chief executive officer should not be | Sch.1, Cl.3(b) | Yes |

| | | | |
|---|---|---|---|
| | exercised by the same individual. | | |
| 2.4 | The board should establish a nomination committee. | Sch.5, Cl.1(a) | Yes |
| 2.5 | Disclose the process for evaluating the performance of the board, its committees and individual directors. | Sch.1, Cl.9; Sch3, Cl.9(a); Sch.6 | Yes |
| 2.6 | Provide the information indicated in the Guide to reporting on principle 2. | Sch.1, Cl.2(c); Sch.1, Cl.3(a); Sch.1, Cl.3(b); Sch.5, Cl.1(a); Sch.1, Cl.9; Sch.3, Cl.9(a); Sch.6 | Yes |
| **Principle 3** | Promote ethical and responsible decision-making | | |
| 3.1 | Establish a code of conduct and disclose the code or a summary as to:<br>• the practices necessary to maintain confidence in the company's integrity;<br>• the practices necessary to take into account the company's legal obligations and the reasonable expectations of its stakeholders; and<br>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Sch.2, Cl.4; Sch.2, Cl.7; Sch.2, Cl12; Sch.2, Cl13; Sch.2, Cl14; Sch.2, Cl15 | Yes |
| 3.2 | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them. | Diversity Policy c1.4 | Yes |
| 3.3 | Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them. | Diversity Policy c17 | Yes |
| 3.4 | Companies should disclose in each annual report the proportion of female employees in the whole organisation, female in senior executive positions and female on the board. | Diversity Policy c17 | Yes |
| 3.5 | Provide the information indicated in the Guide to reporting on principle 3. | Sch.2, Cl.4; Sch.2, Cl.7; Sch.2, Cl.12; Sch.2, Cl.13; Sch.2, Cl.14; Sch.2, Cl.15 Diversity Policy c17 | Yes |
| **Principle 4** | Safeguard integrity in financial reporting | | |
| 4.1 | The board should establish an audit committee. | Sch. 3 | Yes |
| 4.2 | The audit committee should be structured so that it:<br>• consists only of non-executive directors;<br>• consists of a majority of independent directors;<br>• is chaired by an independent chair, who is not chair of the board; and<br>• has at least three members. | Sch.3, Cl.2(a); Sch.3, Cl2(b), Sch.3, Cl2(e), | No |
| 4.3 | The audit committee should have a formal charter. | Sch.3 | Yes |
| 4.4 | Provide the information indicated in the Guide to reporting on principle 4. | Sch.3, Cl.2(a), Sch.3, Cl.2(b), | Yes |

| | | | |
|---|---|---|---|
| | | Sch.3, Cl.2(e) | |
| **Principle 5** | Make timely and balanced disclosure | | |
| 5.1 | Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for the compliance and disclosure of those policies or a summary of those policies. | Sch.6; Sch.7; Sch.8 | Yes |
| 5.2 | Provide the information indicated in the Guide to reporting on principle 5. | Sch.6; Sch.7; Sch.8 | Yes |
| **Principle 6** | Respect rights of shareholders | | |
| 6.1 | Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy. | Sch.10 | Yes |
| 6.2 | Provide the information indicated in the Guide to reporting on principle 6. | Sch.10 | Yes |
| **Principle 7** | Recognise and manage risk | | |
| 7.1 | Establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Sch.8, Cl.1 | Yes |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report on whether those risks are being managed effectively. The board should disclose that management has reported to it regarding the effectiveness of the company's management of its material business risks. | Sch.8, Cl.1 | Yes |
| 7.3 | The board should disclose whether it had received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Sch.8, Cl.1 | Yes |
| 7.4 | Provide information indicated in the Guide to reporting on principle 7. | Sch.8, Cl.1 | Yes |
| **Principle 8** | Remunerate fairly and responsibly | | |
| 8.1 | The board should establish a remuneration committee. | Sch.4, Cl.1(a) | Yes |
| 8.2 | The remuneration committee should be structured so that it:<br>• consists of a majority of independent directors;<br>• is chaired by an independent director;<br>• has at least three members | Sch 4, Cl 2(a)<br>Sch. 4, Cl 2(b)<br>Sch. 4, Cl 2(a) | No |
| 8.3 | Clearly distinguish the structure on non-executive directors' remuneration from that of executive directors and senior executives. | | No |
| 8.4 | Provide the information indicated in the Guide to reporting on principle 8. | Sch.4, Cl.1(a) | Yes |

*Notes regarding non-compliance*

- Principle 2.1 - The Board considers the composition of the Board is appropriate for the Company's current purposes despite not being strictly in compliance with the Corporate Governance Council's recommendations.

- Principle 4.2 - The Board considers the composition of the Audit & Risk Committee is appropriate for the Company's current purposes despite not being strictly in compliance with the Corporate Governance Council's recommendations.
- Principle 8.2 - The Board considers the composition of the Remuneration Committee is appropriate for the Company's current purposes despite not being strictly in compliance with the Corporate Governance Council's recommendations.
- Principle 8.3 - The Company currently has yet to establish a distinct structure for non-executive directors' remuneration from that of executive directors and senior executives and will do so in due course. Notwithstanding, the Company is of the view that it has adequate practices in terms of setting the remuneration for its executives and non-executives.

## CONSTITUTION

A full copy of the Company's constitution is available for viewing at the Company's new and updated website www.zjhdbl.com or at the Company's registered office.

# ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

## Shareholdings as at 31 October 2014

a. **Distribution of Shareholders**

| Category (size of holding) | **Number Ordinary** |
|---|---|
| 1 – 1,000 | 1 |
| 1,001 – 5,000 | 371 |
| 5,001 – 10,000 | 12 |
| 10,001 – 100,000 | 85 |
| 100,001 – and over | 53 |
| | 522 |

b. The number of security investors holding less than a marketable parcel of 1112 securities ($0.450 on 01/09/2014) is 3 and they hold 2201 securities.

c. **20 Largest Shareholders — Ordinary Shares**

| | **Name** | **Number of Ordinary Fully Paid Shares Held** | **% Held of Issued Ordinary Capital** |
|---|---|---|---|
| 1 | Team Up Limited | 24,450,000 | 46.57% |
| 2 | Mr. Yongfu Xia | 1,838,375 | 3.50% |
| 3 | Ms Yanjuan Wang | 1,373,000 | 2.61% |
| 3 | Mr. Yajun Xia | 1,373,000 | 2.61% |
| 4 | Mr. Guoxing Xia | 1,084,000 | 2.06% |
| 4 | Mr. Yong Gen Zhou | 1,084,000 | 2.06% |
| 5 | Ms Chanjuan Wang | 1,083,000 | 2.06% |
| 6 | Mr. Xiaoming Hu | 904,000 | 1.72% |
| 6 | Mr. Yajun Xia | 904,000 | 1.72% |
| 7 | Mr. Xiao Jun Wan | 893,999 | 1.70% |
| 8 | Mr. Guanglin Shan | 759,000 | 1.45% |
| 9 | Mr. Lizhong Shao | 723,000 | 1.38% |
| 9 | Ms Liping Tang | 723,000 | 1.38% |
| 10 | Ms Yuxiang Sun | 707,700 | 1.35% |
| 11 | Ms Fangfang Xia | 586,000 | 1.12% |
| 12 | Ms Suyun Bian | 542,000 | 1.03% |
| 12 | Mr. Bingrong Sun | 542,000 | 1.03% |
| 12 | Mr. Yong Qiao Yuan | 542,000 | 1.03% |
| 12 | Mr. Jiade Zhao | 542,000 | 1.03% |
| 13 | Mr. Xiaochun Jin | 434,000 | 0.83% |
| 14 | Ms Zhifen Lu | 400,000 | 0.76% |
| 15 | Mr. Han Qi Yuan | 392,514 | 0.75% |
| 16 | Mr. Xuequan Wang | 390,000 | 0.74% |
| 17 | Mr. Jian Guo Lu | 362,000 | 0.69% |

| | | | |
|---|---|---|---|
| 17 | Mr. Guantu Sun | 362,000 | 0.69% |
| 17 | Mr. Jian Xiang Xu | 362,000 | 0.69% |
| 17 | Mr. Hong Sheng Zhu | 362,000 | 0.69% |
| 17 | Mr. Yeqi Zhu | 362,000 | 0.69% |
| 18 | Mr. Lei Jun Cai | 348,985 | 0.66% |
| 19 | Mr. Peixing Luo | 307,000 | 0.58% |
| 20 | Mr. Guoliang Li | 264,000 | 0.50% |
| | Total In This Report | 45,000,573 | 85.70% |
| | Total Other Investors | 7,506,427 | 14.30% |
| | Grand Total | 52,507,000 | 100.00% |

* Philip Widjaya has beneficial interest.

## COMPANY SECRETARY

Ms Sherry Tao, Xue held the position of Company Secretary of the Company during and at the end of the financial year.

## PRINCIPAL REGISTERED OFFICE AND INCORPORATION

The Company was incorporated in Australia with its registered office being Level 41, ANZ Tower, 55 Collins Street, Melbourne VIC 3000.

## CASH USAGE

The Company has in the financial year used its cash and assets (in a form readily convertible to cash) that it had at the time of its admission into the ASX in a way which is and remains consistent with its business objectives.

## STOCK EXCHANGE LISTING

The Company's ASX code is SHU.