

Shenhua International Limited

ABN 17 134 436 730

Notice of Annual General Meeting

Notice is hereby given that Shenhua International Limited (or **the Company**) will hold its Annual General Meeting (**AGM**) at 2.00 pm (ACST) on Friday 19 December 2014 at Level 1, 67 Greenhill Road, Wayville, Adelaide.

If you are unable to attend the meeting you are encouraged to complete and return the proxy form attached to this Notice. The completed Proxy Form must be received by Link Market Services not later than 2.00 pm (ACST) on Wednesday 17 December 2014, being 48 hours before the commencement of the meeting.

ORDINARY BUSINESS

1) Receipt of financial report

To receive and consider the annual financial report of the Company for the year ended 30 June 2014 and the accompanying Directors' Report, Directors' Declaration and Auditor's Report as set out in the Company's Annual Report.

2) Re-election of Director – Xiaohong Chen

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

"That Ms Xiaohong Chen, a director retiring by rotation in accordance with clause 13.2 of the Company's constitution, being eligible, is re-elected as a director of the Company."

3) Re-election of Director – Pierre Lau

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

"That Mr Pierre Lau, a director retiring by rotation in accordance with clause 13.2 of the Company's constitution, being eligible, is re-elected as a director of the Company."

4) Remuneration Report

To consider and put to a non-binding vote the following resolution as an **ordinary resolution**:

"That the remuneration report contained in the Directors' Report of the Company for the year ended 30 June 2014 be adopted."

5) Loan Agreement

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

"That the loan to be made under the Loan Agreement between Shaoxing Shenhua Textile Co., Ltd and Shenhua Decoration Co., Ltd (**Loan Agreement**) be approved."

OTHER BUSINESS

To consider any other business that may be brought before the AGM in accordance with the Company's constitution.

By order of the Board



Tao, Xue

Company Secretary

21 November 2014

ENTITLEMENT TO VOTE

It has been determined that, in accordance with Corporations Regulation 7.11.39, for the purposes of the AGM, shares will be taken to be held by the persons who are registered holders at 7.00 pm(ACST) on Wednesday 17 December 2014. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the AGM.

PROXIES

Shareholders are advised that:

- (a) each shareholder entitled to attend and vote at the AGM has a right to appoint a proxy to attend and vote instead of the shareholder;
- (b) the proxy need not be a shareholder of the Company and may be an individual or body corporate;
- (c) a shareholder who is entitled to cast two or more votes may appoint not more than two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the shareholder's votes;
- (d) a shareholder may specify the way in which the proxy is to vote on the resolution or may allow the proxy to vote at his or her discretion;
- (e) if a shareholder who is entitled to attend and vote at the AGM does not attend the AGM and does not appoint a proxy, the shareholder will be deemed to have appointed the Chairman of the Meeting as his or her proxy (it is noted that the Chairman of the Meeting intends to vote undirected proxies in favour of all items of business); and
- (f) if a shareholder appoints a body corporate as a proxy, that body corporate will need to ensure that it: appoints an individual as its corporate representative to exercise its powers at the meeting, in accordance with section 250D of the *Corporations Act 2001* (Cth) (**Corporations Act**) and provides satisfactory evidence of the appointment of its corporate representative prior to commencement of the meeting.

A Proxy Form accompanies this Notice of Annual General Meeting and, to be effective, must be received at the Company's corporate registry, Link Market Services.

Postal Address: Shenhua International Limited c/o Link Market Services Ltd, Locked Bag A14, Sydney South NSW 1235, Australia

Telephone Number: (+61 2) 1300 554 474

Facsimile Number: (+61 2) 9287 0309

Email: registrars@linkmarketservices.com.au

Online Voting: Lodging your votes online at Link's website (www.investorcentre.linkmarketservices.com.au) in accordance with the instructions given there (you will be taken to have signed your Security holder Voting Form if you lodge it in accordance with the instructions given on the website)

By Hand: Delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000

Proxies must be received by the Company, at the address or at the facsimile number specified above, no later than 2.00 pm (ACST) on Wednesday 17 December.

ANNUAL REPORT

Shareholders are reminded that the Company's Annual Report is available on its website at www.zjhdbl.com under the 'Announcements' section.

EXPLANATORY NOTES

These explanatory notes form part of the Notice of Annual General Meeting and have been prepared to assist shareholders with their consideration of the aforementioned meeting agenda items and resolutions.

Item 1 - Receipt of Financial Report

The Corporations Act requires the Financial Report (including the financial statements and directors' declaration), the Directors' Report and Auditor's Report to be laid before the AGM. Shareholders will be given reasonable opportunity at the AGM to ask the Company's auditor for the 2013-2014 financial year, Grant Thornton, questions relevant to the conduct of the audit and the content of the Auditor's Report. Shareholders will also have an opportunity to raise queries to the Board or comment on the business, operations and management of the Company generally.

Shareholders should note that the aforementioned statements and reports will be received in the form presented. It is not the purpose and there is no requirement either in the Corporations Act or in the Constitution of the Company for shareholders to approve these reports and statements.

Items 2 and 3 –Re-election of Directors

Clause 13.2 of the Company's Constitution requires that at each annual general meeting, at least one third of directors must retire from office. A director appointed during the year either to fill a casual vacancy or as an addition to the directors is not taken into account in determining the directors who must retire by rotation. Therefore, Ms Xiaohong Chen and Mr Pierre Lau, being directors who have been longest in office, retire by rotation and are respectively eligible for re-election at the next AGM. In accordance with clause 13.2 of the Company's Constitution, both Ms Xiaohong Chen and Mr Pierre Lau respectively submit themselves for re-election at the AGM as a director.

The Directors (other than Ms Xiaohong Chen and Mr Pierre Lau in relation to their respective re-elections) unanimously recommend the Shareholders to vote in favour of the resolutions for the re-election of Ms Xiaohong Chen and Mr Pierre Lau as directors of the Company.

Item 4 - Remuneration Report

The Director's Report (comprising the Company's Annual Report) contains a report of key management personnel's remuneration. The remuneration report is submitted to shareholders for consideration and adoption. For further information on the Company's remuneration policy, shareholders may refer to Schedule 4 of the Company's Corporate Governance Policy and clauses 13.7 to 13.9 inclusively of the Company's Constitution. Copies of the Company's Annual Report, Constitution and Corporate Governance Policy are all available on its website www.zjhdbl.com.

The Corporations Act requires that a resolution be put to a vote that the remuneration report be adopted. Whereas the Corporations Act expressly provides that the vote is advisory only and does not bind the directors or the Company, but this is subject to the 'two strikes rules'. That is, if a resolution to adopt a remuneration report at an AGM receives a 'no' vote of 25 per cent or more of the votes cast in relation to two consecutive remuneration reports, then a 'spill resolution' must be put to shareholders at the subsequent AGM. A 'spill resolution' will be passed if 50 per cent of more of eligible vote cast are in favour in which case a 'spill meeting' is to be called within 90 days of the spill resolution being passed. At a spill meeting all directors apart from the managing director must stand for re-election unless all the directors have been replaced by new directors within that time.

Shareholders attending the AGM will be given a reasonable opportunity to ask questions about, or make comments on, the remuneration report. Any such comments that were considered at an AGM where there was a 'no' vote of 25 per cent or more of the votes cast in relation to adoption of the remuneration report will be provided with an explanation of the Board's proposed action or reason for inaction in the subsequent remuneration report.

At the date of this notice, there have been no recorded incidences of any 'no' vote of 25 per cent or more of the votes cast in relation to the adoption of a remuneration report at an AGM of the Company. The Board unanimously recommends that the shareholders vote in favour of the resolution to adopt the current remuneration report.

Item 5 – Loan Agreement

5.1 Background to Loan Agreement

As part of the Company's annual audit, the Company's auditors (Grant Thornton) identified that the loan (**Loan**) under the Loan Agreement, which is between the Company's subsidiary Shaoxing Shenhua Textile Co., Ltd (the **Lender**) and Shaoxing Shenhua Decoration Co., Ltd (the **Borrower**), as a related party transaction. The Loan is transacted in China and both the Borrower and Lender are companies incorporated in China. The terms of the Loan Agreement (as discussed further below) are consistent with standard market practice in China. This investigation process inadvertently caused considerable delay in the completion of the Company's annual audit and issuance of its annual report, which in turn delayed the holding of the AGM.

The purpose of the Loan to the Borrower is to fund investment and working capital in the stainless steel business operated by the Borrower's subsidiary, Zhejiang Binhai Metal Products Co., Ltd (**BHMP**), but specifically for the acquisition of land use rights for development of BHMP's manufacturing facility in China.

As detailed further in Section 5.3, Mr Philip Widjaya is the controlling shareholder and principal legal representative of the Lender, the Borrower and BHMP. Neither the Borrower nor BHMP are part of the Company's Consolidated Group (as the term is defined in the Company's annual report).

This business operated by BHMP represents a category of encouraged business industry under Chinese government policy. The Borrower sought to obtain the Loan on market terms from the Lender, secured against the land acquired by BHMP (as well as against other assets as detailed in Section 5.2). From the Company's perspective, and as discussed further below, these factors go towards de-risking the Loan, presents the Consolidated Group with the opportunity to earn interest income, and also provides the Company with some exposure to a prospective industry in China.

5.2 Terms of Loan Agreement

Under the Loan Agreement, the Loan amount is RMB 466,693,297 (approximately A\$80.272 million). The Loan carries a fixed interest rate of 6% per annum, payable every six months, and is secured against land use rights (over land in Shaoxing in Zhejiang province, China) and non-current assets of the Borrower and BHMP with the carrying value of approximately RMB 414.66 million (approximately A\$71.322 million) as of 30 June 2014 (and total asset value of RMB 715.5 million, approximately A\$123.067 million) (**Security**). Management is currently undertaking the process of lodging the security documents on the non-current assets of these entities.

The Loan term ends on 30 June 2022 and all principal is required to be repaid in full by the end of the term. The Company's directors expect yearly repayments to be made to reduce the Loan principal amount owed.

Under the Loan Agreement, the Borrower would be in default if it fails to repay the interest or principal due under the Loan within one month of receiving a late repayment notice from the Lender (**Default**). In the event of a Default, the Lender will have the right to enforce its Security interests in accordance with terms typical of this type of loan transaction. That is, in the event of Default, it is within the rights of the Lender to cause for title to the Security to be transferred to the Lender, or for the Security to be sold and the sale proceeds applied to repayment of the Loan. With regards to the latter, no factors have been identified that are likely to materially delay such sale, and no other material issues have been identified that would compromise the liquidity of the Security.

5.3 Related party transaction

Section 208 of the Corporations Act provides that unless an exception applies, shareholder approval is required for related party transactions, whereby a transaction would give a financial benefit to a related party (or parties) of the Company. In this transaction, the Lender is a wholly-owned subsidiary of the Company, and Mr Philip Widjaya is the controlling shareholder and principal legal representative of the Lender, the Borrower and BHMP. The Borrower and BHMP, through their relationship with Philip Widjaya, are therefore considered related parties of the Company. Mr Widjaya is also a related party of the Company as a director and controlling shareholder. Because Mr Widjaya is a related party to whom the Loan Agreement would provide a financial benefit, he is excluded from voting on the approval of the Loan Agreement.

However, it is the Board's view that the 'arm's length' exception in section 210 of the Corporations Act applies. Section 210 provides that shareholder approval is not required to give a financial benefit on terms that would be reasonable in the circumstances if the Company and related parties were dealing at arm's length. For the Loan Agreement, the Board considers that this exception applies on the basis that the terms of the Loan are comparable to standard market terms in China, and that the Loan is adequately secured.

Notwithstanding the above, shareholder approval for the Loan to be made under the Loan Agreement is being sought in light of its related party transaction nature and quantum.

5.4 Board resolution

For the following reasons, the Board (noting that Mr Philip Widjaya was excluded from voting due to being a related party) has resolved to approve the Loan Agreement. Aside from Mr Widjaya, none of the other Company Directors are related parties or have any material personal interests in the outcome of the resolution. This Board resolution is made in light of the Loan and terms of the Loan Agreement being consistent with standard market practice in China.

Having reviewed the Loan Agreement, related repayment plans, financial projections, as well as the financial status of the Borrower and BHMP, the Board considers that this represents a commercial opportunity to earn interest income at market rate under a relatively low risk loan which is secured against the land being acquired using the loan funds. In addition, the Loan transaction allows the Company to have some controlled exposure to a prospective industry which may potentially present future development opportunities.

The Board will nevertheless continue to monitor the financial status of the Borrower and BHMP with regards to whether they are in a position which would enable repayment of the Loan.

In assessing its options for usage of funds, the Board has considered the Consolidated Group's business performance against current market conditions for the home textiles market and determined that its current scale of operations is appropriate and does not warrant any further significant business expansion expenditure for the time being. In light of the foregoing reasons and the Board's view that the Loan is made on terms comparable to standard market terms in China and is adequately secured, the Board considers the Lender's granting of the Loan to be a relatively low risk commercial transaction that would not materially impact on the main operations of the Consolidated Group. Notwithstanding this, the Board may review its commitment under the Loan Agreement if other opportunities arise for the Company to alternatively deploy the funds which could yield relatively better commercial returns.

It is noted that as the face value of the proposed Loan amount (stated in Section 5.2 above) equates to the value of the financial benefit provided by the Lender, the Board has not considered it necessary to provide an independent valuation report for the financial benefit in question.

5.5 Directors' recommendations

For the reasons given by each Company Director respectively below, each Director recommends shareholder approval of the Loan Agreement, with the exception of Mr Philip Widjaya who has abstained from making any recommendation due to his material personal interest in the outcome of the proposed resolution as a related party.

(a) Ms Xiaohong Chen

Ms Xiaohong Chen recommends shareholder approval of the Loan Agreement for the reasons outlined in Section 5.4 above and also expresses the following views with regards to the Loan.

Ms Chen is of the view that the terms of the Loan Agreement are typical of a loan transaction of this type in China, and would therefore likely qualify as a transaction on 'arm's length' terms, taking into account both the interest rate payable by the Borrower and the nature and amount of the underlying Security provided to the Lender, as outlined in Section 5.3 above.

(b) Ms Lijuan Wang

Ms Lijuan Wang recommends shareholder approval of the Loan Agreement for the reasons outlined in Section 5.4 above and also expresses the following views with regards to the Loan.

Ms Wang is of the view that the terms of the Loan Agreement are typical of a loan transaction of this type in China, and would therefore likely qualify as a transaction on 'arm's length' terms, taking into account both the interest rate payable by the Borrower and the nature and amount of the underlying Security provided to the Lender, as outlined in Section 5.3 above.

(c) Mr James Yong Wan

Mr James Yong Wan recommends shareholder approval of the Loan Agreement for the reasons outlined in Section 5.4 above and also expresses the following views with regards to the Loan.

Mr Wan accepts the view that the Loan Agreement appears to qualify for the 'arm's length' exception referred to in Section 5.3 above, but as a matter of prudence, considers that shareholder approval should be sought for the Loan.

(d) Mr Pierre Lau

Mr Pierre Lau recommends shareholder approval of the Loan Agreement for the reasons outlined in Section 5.4 above and also expresses the following views with regards to the Loan.

Mr Lau accepts the view that the Loan Agreement appears to qualify for the 'arm's length' exception referred to in Section 5.3 above, but as a matter of prudence, considers that shareholder approval should be sought for the Loan.

5.6 Voting Exclusion Statement

The Company will disregard any votes cast in relation to this resolution by:

(a) Joyful Huge Holdings Limited;

(b) Any person who might obtain a benefit, expect a benefit solely in the capacity of a shareholder, if this resolution is passed; and

(c) An associate of that person (or those persons).

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.



Shenhua International Limited
ACN 134 436 730

LODGE YOUR VOTE



ONLINE

www.linkmarketservices.com.au



By mail:
Shenhua International Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia



By fax: +61 2 9287 0309



All enquiries to: Telephone: +61 1300 554 474



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PROXY FORM

I/We being a member(s) of Shenhua International Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐

**the Chairman
of the Meeting
(mark box)**

OR if you are **NOT** appointing the Chairman of the Meeting
as your proxy, please write the name of the person or
body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **2:00pm ACST on Friday, 26 November 2014 at Level 1, 67 Greenhill Road, Wayville, Adelaide (the Meeting)** and at any postponement or adjournment of the Meeting.

Important for Resolution 4: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 4, even though the Resolution is connected directly or indirectly with the remuneration of a member of Key Management Personnel (KMP).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒.

STEP 2

VOTING DIRECTIONS

Resolution 2

Re-election of Director - Xiaohong Chen

For Against Abstain*

☐ ☐ ☐

Resolution 3

Re-election of Director - Pierre Lau

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Resolution 4

Remuneration Report

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Resolution 5

Loan Agreement

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i * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

SHU PRX401B



HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

Appointment of Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

Default to Chairman of the Meeting

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted as set out in this Proxy Form, including where the Resolution is connected directly or indirectly with the remuneration of KMP.

Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **2:00pm ACST (2:30pm Sydney time) on Wednesday, 24 November 2014**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE > www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



by mail:

Shenhua International Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



by fax:

+61 2 9287 0309



by hand:

delivering it to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Level 12, 680 George Street, Sydney NSW 2000.

**If you would like to attend and vote at the Annual General Meeting, please bring this form with you.
This will assist in registering your attendance.**