# APPENDIX 4E

## Shenhua International Limited

ABN 17 134 436 730

Results for Announcement to the Market

Preliminary Final Report
For the year ended 30 June 2015

# Appendix 4E

# Preliminary Final Report

# 30 June 2015

# Table of Content

# Appendix 4E

| | |
|---|---|
| **Name of Entity** | **Shenhua International Limited** |
| **ABN** | 17 134 436 730 |
| **Financial Year Ended** | 30 JUNE 2015 |
| **Previous Corresponding Reporting Period** | 30 JUNE 2014 |

**Results for Announcement to the Market**

| | **Current financial year ended 30 June 2015 $'000** | **Previous financial year ended 30 June 2014 $'000** | **Percentage increase/(decrease) over previous corresponding period** |
|---|---|---|---|
| | | | |
| **Revenue from ordinary activities** | 73,888 | 84,335 | (12.4%) |
| | | | |
| | | | |
| | | | |
| **Profit from ordinary activities after tax attributable to members** | 1,435 | 7,398 | (80.6%) |
| | | | |
| | | | |
| | | | |
| **Net profit for the period attributable to members** | 1,435 | 7,398 | (80.6%) |
| | | | |
| | | | |
| | | | |
| **Earnings per share (cents per share)** | 1.1 | 5.9 | (81.4%) |
| | | | |
| | | | |
| | | | |

| **Dividends (distributions)** | **Amount per security** | **Unfranked amount per security** |
|---|---|---|
| **Final Dividend** | 1.5 cents | 1.5 cents |
| **Interim Dividend** | N/A | N/A |
| **Record date for determining entitlements to the dividends (if any)** | 17 November 2014 | |

**Dividends**

| | |
|---|---|
| **Date the dividend is payable** | 5 December 2014 |
| **Record date to determine entitlement to the dividend** | 17 November 2014 |
| **Amount per security** | $0.015 |
| **Total dividend** | $1,887,855 |
| **Amount per security of foreign sourced dividend or distribution** | $0.015 |
| **Details of any dividend reinvestment plan in operation** | N/A |
| **The last date for receipt of an election notice for participation in any dividend reinvestment plan** | N/A |

**NTA Backing**

| | Current Period | Previous corresponding period |
|---|---|---|
| **Net tangible asset backing per ordinary share** | $0.323 | $0.639 |

**Other Significant Information Needed by an Investor to Make an Informed Assessment of the Entity's Financial Performance and Financial Position**

| |
|---|
| N/A |

**Commentary on the Results for the Period**

| |
|---|
| **The earnings per security and the nature of any dilution aspects:**<br>Please refer to attached annual report |
| **Returns to shareholders including distributions and buy backs:**<br>$1,887,855 |
| **The results of segments that are significant to an understanding of the business as a whole:**<br>N/A |
| **Discussion of trends in performance:**<br>Please refer to attached annual report |
| **Any other factor which has affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified:**<br>N/A |

**Audit Status**

| |
|---|
| The financial statements have been audited and an unqualified audit opinion has been issued. |

Dated this 28th day of January 2015

Philip Widjaya

Managing Director

Shenhua International Limited
ACN 134 436 730

# Annual Financial Report for the year ended 30 June 2015

# 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 2015.

## Directors

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

***Ms. Xiaohong, Chen***
*Independent Non-executive Chairman (Appointed 30 November 2009 and most recently re-appointed on 19 December 2014)*

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 of the Audit and Risk Committee and a member and the chairperson of the Remuneration and Nomination Committee.

***Mr. Philip Widjaya***
*Executive and Managing Director (Appointed 2 December 2008 and most recently 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.

***Ms. Lijuan, Wang***
*Executive Director (Appointed 2 December 2008 and most recently 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 Committee.

***Mr. James Yong, Wan***
*Independent Non-executive Director (Appointed 23 February 2009 and most recently 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 and the chairperson of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee.

***Mr. Pierre Lau***
*Non-executive Director (Appointed 2 December 2008 and most recently re-appointed 19 December 2014)*

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 a member of the Remuneration and Nomination Committee.

Since 5 May 2015, Pierre has held the position of non-executive director of the ASX-listed company Emperor Range Group Limited.

Apart from the above, none of the directors of the Company 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 2015 show revenues of $73,888,000 and profit after taxation of $1,435,000 compared to revenues of $84,335,000 and profit after taxation of $7,398,000 for the period ended 30 June 2014.

## 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 Company attended the American Textiles Exhibition to further develop its America client base.

iv. 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.

v. 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.

vi. 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 FY2016. 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'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

During the year, the following significant changes occurred within the Group:

A) the nature of the land use rights previously owned by the Group as industrial in nature has been converted to commercial nature with additional cost of $ 50,126,761 incurred. The additional cost has been recognised as addition during the period on top of the original cost.

B) new industrial land use right of $ 2,599,260 has been acquired during the period. The land is purchased as future reserve for production purposes.

## Events after the reporting period

On 15 October 2014, one of the Company's wholly-owned subsidiaries, Shaoxing Shenhua Textile Co., Ltd. ("the Lender") entered into a loan agreement with a loan limit of up to $80.272 million (RMB 466,693,298) based on the exchange rate reported in the Company's previous Annual Report) ("Loan") ("Loan Agreement") to Shaoxing Shenhua Decoration Co., Ltd. ("the Borrower"), a director related entity.

The purpose of the Loan was for the Borrower to fund investment and working capital in metal fabrication operations owned by its subsidiary, Zhejiang Binhai Metal Products Co., Ltd ("BHMP").

Under the Loan Agreement, the Loan carries a fixed interest rate of 6% p.a. payable every six months and is secured against land use rights and non-current assets of the Borrower and BHMP with the carrying value of approximately RMB 414.66 million as of 30 June 2014 (and total asset value of RMB 715.5 million). The Loan term ends on 30 June 2022 and all principal is required to be repaid in full by end of the term.

Since the balance date, the Borrower and Lender entered into a supplementary agreement ("Supplementary Agreement") which varies the terms of the Loan Agreement as follows:

- increases the limit of the Loan to $ 142,539,027 (RMB 666,693,298); and
- interest rate of 5.22% (based on the most recent PRC loan interest rate) per annual payable every six months.

All other terms of the Loan Agreement continue to operate and remain unchanged. The terms of the Loan Agreement and Supplementary Agreement are consistent with standard market practice in China.

The Supplementary Agreement was approved by the Board of Directors on 30th November 2015.

## Indemnities given to, and insurance premiums paid for, auditors and officers

During the year, Shenhua International Limited paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

## 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.

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.

## 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) |

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

# REMUNERATION REPORT – AUDITED

The Directors of Shenhua International Limited ('the Group') present the Remuneration Report for Non-Executive Directors, Executive Directors and other Key Management Personnel, prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

## 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 and Nomination 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 FY2014-2015. 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.

## Use of Remuneration Consultants

No remuneration consultants were engaged during the year.

## 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 2014 Annual General Meeting

Shenhua International Ltd received more than 99% of "yes" votes on its remuneration report for the 2014 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 2015 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.

## Performance Related Remuneration

No members of the key management personnel are entitled to receive performance based remuneration as part of their remuneration package.

## Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the Board have regard to the following indices in respect of the current financial year and the previous four (4) financial years:

| Item | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| EPS (cents) | 1.1 | 5.9 | 6.2 | 8.7 | 10.4 |
| Dividends (cents per share) | 0 | 0.015 | 0.025 | 0.025 | 0.025 |
| Net profit / loss ($'000) | 1,435 | 7,398 | 7,777 | 10,904 | 13,114 |
| Share price ($) | 0.395 | 0.435 | 0.24 | 0.33 | 0.25 |

## Share Interests of Key Management Personnel (KMP)

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

| 30 June 2015 | Balance 1 July 2014 Ordinary | Granted as Remuneration Ordinary | Net Change Other Ordinary | Balance 30 June 2015 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 | - | - | - |
| **Total** | 73,798,000 | - | - | 73,794,000 |

| 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 |

* 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 Company and the Group, and the Company Secretary.

## Details of Remuneration for the Year Ended 30 June 2015

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 2015*

| | Short-Term | | | Share-based Payment | | | |
|---|---|---|---|---|---|---|---|
| **30 June 2015** | **Salary & Fees $** | **Bonus $** | **Other $** | **Shares $** | **Options $** | **Total $** | **% Performance Related** |
| **Directors** | | | | | | | |
| Chen Xiaohong | - | - | - | - | - | - | N/A |
| Philip Widjaya*+ | 37,379 | - | - | - | - | 37,379 | N/A |
| Wang Lijuan*+ | 30,979 | - | - | - | - | 30,979 | N/A |
| Wan Yong*+ | - | - | - | - | - | - | N/A |
| Pierre Lau** | 43,620 | - | - | - | - | 43,620 | N/A |
| **Other key management personnel** | | | | | | | |
| Zhang Lijiang*+ | 34,120 | - | - | - | - | 34,120 | N/A |
| Chen Jianjun*+ | 30,804 | - | - | - | - | 30,804 | N/A |
| Zheng Jinyao*+ | 33,416 | - | - | - | - | 33,416 | N/A |
| Wang Ju An*+ | 34,854 | - | - | - | - | 34,854 | N/A |
| Sherry, Tao Xue | 18,894 | - | - | - | - | 18,894 | N/A |
| **Total** | 264, 066 | | | | | **264,066** | |

*(ii) 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*+ | 27,623 | - | - | - | - | 27,623 | N/A |
| Wan Yong*+ | - | - | - | - | - | - | N/A |
| Pierre Lau** | 30,000 | - | - | - | - | 30,000 | 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** | |

** 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 $32,108 (2014: $26,400) during the year.*
*+ Amounts stated are A$ equivalent of RMB for those directors and key management personnel paid by SST*
*There were no termination payments made during the year.*

## Service Agreements

**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 20 January 2009 and expired on 20 January 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 and 1 February 2015 respectively 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 RMB 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 RMB 100,000 per year as remuneration for her role with SST but actual amount paid is reviewed year by year and may therefore vary.

**The major provision of the services agreements relating to remuneration are set out below**

| Name | Base salary | Term of agreement | Notice period |
|---|---|---|---|
| **Directors** | | | |
| Chen Xiaohong | - | Annually* | 4 Weeks |
| Philip Widjaya | $39,140 (RMB 200,000) | 3 Years | 4 Weeks |
| Wang Lijuan | $19,570 (RMB 100,000) | 10 Years | 4 Weeks |
| Wan Yong | - | Annually* | 4 Weeks |
| Pierre Lau | $30,000 | Annually* | 4 Weeks |
| **Other key management personnel** | | | |
| Zhang Lijiang | $19,570 (RMB 100,000) | 5 Years | 30 Days |
| Chen Jianjun | $19,570 (RMB 100,000) | 5 Years | 30 Days |
| Zheng Jinyao | $19,570 (RMB 100,000) | 5 Years | 30 Days |
| Wang Ju An | $19,570 (RMB 100,000) | 5 Years | 30 Days |
| Sherry, Tao Xue | $42,000 | Annually* | 4 weeks |

*: Subject to directors' requisite rotation and shareholder approval. In the case of the Company Secretary, annually subject to the Board approval.

## Transaction with Key Management Personnel (KMP) and related parties

| Related Party Transactions | Consolidated Group 2015 $000 | 2014 $000 |
|---|---|---|
| Utilities charged to a related party – Shaoxing County Shenhua Decoration Co., Ltd [(1)] | 43 | 31 |
| Loan Interest received from – Shaoxing County Shenhua Decoration Co. Ltd | 5,420 | - |
| Loan repayment received from –Shaoxing County Shenhua Decoration Co. Ltd. | 4,785 | - |
| Purchases of services from Chambers and Company [(2)] | 32 | 26 |
| Repayment to Chambers and Company | 19 | - |
| Purchases of inventory from Shaoxing Shenlian Textile Co., Ltd[(3)] | 748 | 678 |
| Sales to Shaoxing Shenlian Textile Co., Ltd[(3)] | 1,098 | 3,062 |
| Payment made to Shaoxing Shenlian Textile Co., Ltd | 1,112 | - |
| Dividend payments to Joyful Huge Holdings Limited[(4)] | 2,892 | - |
| Dividend declared to Joyful Huge Holdings Limited | 1,100 | - |

[(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.

## Balance with Key Management Personnel (KMP) and related parties

| **Related Party Balances** | **Consolidated Group** | |
|---|---|---|
| | **2015** | **2014** |
| | **$000** | **$000** |
| Related party receivable from Shaoxing County Shenhua Decoration Co.,Ltd(1) | 94,599 | 80,272 |
| Related party payable to Joyful Huge Holdings(4) | 15,649 | 18,203 |
| Related party payable to Xia Yajun(5) | 235 | 235 |
| Related party payable to Shaoxing Shenlian Textile Co., Ltd(3) | - | 665 |
| Related party payable to Chambers and Company | 13 | - |
| Related party payable to Mr. Philip Widjaya | 763 | 763 |

(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.

## Other transactions with Key Management Personnel

During 2015, the Group used the legal services of Chambers and Company, which is an Australian law firm of which one of the Company Directors (Mr Pierre Lau) is a partner. The amounts billed related to this legal service amounted to $32,108 (2014: $26,400) based on normal market rates of which $13,200 remained outstanding as of 30 June 2015.

**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 and Risk Committee* | *Remuneration and Nomination Committee* |
| Ms. Xiaohong, Chen | 0 | 4 | 1 |
| Mr. Philip Widjaya | 1 | 0 | 0 |
| Ms. Lijuan, Wang | 1 | 4 | 0 |
| Mr. James Yong, Wan | 0 | 4 | 1 |
| Mr. Pierre Lau | 1 | 0 | 1 |
| Total Number of Meetings | 1 | 4 | 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 Committee, and Remuneration and Nomination Committee pursuant to its Corporate Governance Plan (a copy of this plan 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 Committee* | *Remuneration and Nomination Committee* |
|---|---|
| ▪ Mr. James Yong, Wan (Chairman) | ▪ Ms. Xiaohong, Chen (Chairman) |
| ▪ Ms. Xiaohong, Chen | ▪ Mr. James Yong, Wan |
| ▪ Ms. Lijuan, Wang | ▪ Mr. Pierre Lau |

## 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;
- one of the five senior executives (defined as 'Other Key Management Personnel' in the "Interests of the Key Management Personnel" section of the Directors' Report) are women, representing 20 % of senior executives, and the Company expects 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

An unfranked dividend of $0.015 per share has been declared on 7 November 2014 for the financial year ended 30 June 2014.

After consideration of the full-year trading results, the Board has resolved that no dividends will be paid in respect of the financial year ended 30 June 2015.

## 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 page19 and forms part of this directors' report.

## Non-audit services

The Company may decide to employ Grant Thornton 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.

The board of directors has considered the position and in accordance with the advice received from the Audit and Risk 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.

Details of the amounts paid to the auditors of the Company, Grant Thornton, and its related practices for audit and non-audit services provided during the year are set out in Note 3 to the Financial Statements.

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*

27 January 2016

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67 Greenhill Rd
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## 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 2015, 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

Iain Kemp

IS Kemp
Partner - Audit & Assurance

Adelaide, 27 January 2016

# CORPORATE GOVERNANCE STATEMENT

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Shenhua International Ltd 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 third edition of the *Corporate Governance Principles and Recommendations* which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for the financial year beginning 1 July 2014 (**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. The Group's Corporate Governance Statement for the financial year ending 30 June 2015 is dated as at 30 June 2015 and was approved by the Board on 20 October 2015. Further information on the Group's corporate governance policies and practices can be found on Shenhua International Ltd's website at http://www.zjhdbl.com/

# FINANCIAL STATEMENTS

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| For the year ended 30 June 2015 | Note | Consolidated Group 2015 $000 | Consolidated Group 2014 $000 |
|---|---|---|---|
| **Sales Revenue** | 2(a) | 73,888 | 84,335 |
| Cost of sales | | (62,160) | (69,239) |
| Gross profit | | 11,728 | 15,096 |
| Other revenue | 2(b) | 637 | 413 |
| Interest revenue | 2(c) | 6,524 | 974 |
| Distribution costs | | (675) | (721) |
| Administration costs | | (8,668) | (4,357) |
| Finance costs | | (4,834) | (991) |
| **Profit before income tax** | 3 | 4,712 | 10,414 |
| Income tax expense | 4 | (3,277) | (3,016) |
| **Profit for the year** | | 1,435 | 7,398 |
| | | | |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translating foreign controlled entities | | 23,895 | (2,738) |
| **Total comprehensive income for the year** | | 25,330 | 4,660 |
| Profit for the year attributable to | | | |
| Owners of the Parent | | 1,435 | 7,398 |
| | | | |
| Total comprehensive income attributable to: | | | |
| Owners of the Parent | | 25,330 | 4,660 |
| | | | |
| **Earnings per share** | | | |
| Earnings per share attributable to Owners of the Parent | | | |
| Basic and diluted earnings per share (cents) | 5 | 1.1 | 5.9 |

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

# STATEMENT OF FINANCIAL POSITION

| **As at 30 June 2015** | **Note** | **Consolidated Group** | |
|---|---|---|---|
| | | **2015** | **2014** |
| | | **$000** | **$000** |
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 6 | 39,273 | 48,464 |
| Trade and other receivables | 7 | 20,533 | 97,487 |
| Inventories | 8 | 8,059 | 6,038 |
| Other financial assets | 9 | - | 206 |
| TOTAL CURRENT ASSETS | | 67,865 | 152,195 |
| NON-CURRENT ASSETS | | | |
| Other financial assets | 9 | 798 | 642 |
| Loans and other receivables | 7 | 88,185 | - |
| Property, plant and equipment | 10(a) | 16,295 | 13,050 |
| Land use rights | 10(b) | 62,183 | 9,134 |
| TOTAL NON-CURRENT ASSETS | | 167,461 | 22,826 |
| TOTAL ASSETS | | 235,326 | 175,021 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 55,090 | 22,639 |
| Borrowings | 12 | 17,532 | 14,104 |
| Notes payable | 13 | 56,998 | 57,339 |
| Current tax liabilities | | 2,811 | 1,486 |
| TOTAL CURRENT LIABILITIES | | 132,431 | 95,568 |
| TOTAL LIABILITIES | | 132,431 | 95,568 |
| NET ASSETS | | 102,895 | 79,453 |
| **EQUITY** | | | |
| Issued capital | 14 | 38,439 | 38,439 |
| Reserves | 15 | 18,558 | (11,736) |
| Retained earnings | | 45,898 | 52,750 |
| TOTAL EQUITY | | 102,895 | 79,453 |

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

# STATEMENT OF CHANGES IN EQUITY

**For the year ended 30 June 2015**

| | | | Consolidated Group | | | | |
|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | |
| | **Note** | **Issued capital** | **Statutory common reserve** | **Common control reserve** | **Foreign currency translation reserve** | **Retained Earnings** | **Total** |
| | | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| **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 year | | - | - | - | (2,738) | - | (2,738) |
| **Total comprehensive income** | | - | - | - | (2,738) | 7,398 | 4,660 |
| **Transaction with owners in their capacity as owners** | | | | | | | |
| 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 |
| | | | | | | | |
| **Balance at 1 July 2014** | | 38,439 | 3,454 | (19,440) | 4,250 | 52,750 | 79,453 |
| Total profit or loss for the year | | - | - | - | - | 1,435 | 1,435 |
| Other comprehensive income for the year | | - | - | - | 23,895 | - | 23,895 |
| **Total comprehensive income** | | - | - | - | 23,895 | 1,435 | 25,330 |
| Transfer between retained earnings and statutory common reserve | | - | 6,399 | | | (6,399) | - |
| Dividends paid or provided for | 16 | - | - | - | - | (1,888) | (1,888) |
| **Balance at 30 June 2015** | | 38,439 | 9,853 | (19,440) | 28,145 | 45,898 | 102,895 |

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

## STATEMENT OF CASH FLOWS

| For the year ended 30 June 2015 | Note | Consolidated Group 2015 $000 | 2014 $000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 80,357 | 94,810 |
| Payments to suppliers and employees | | (67,705) | (67,621) |
| Interest received | | 1,104 | 974 |
| Finance costs | | (4,653) | (991) |
| Income tax paid | | (2,311) | (3,278) |
| Net cash provided by operating activities | 19 | 6,792 | 23,894 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of land use right | | (16,392) | - |
| Purchase of buildings | | (1,768) | - |
| Disposal of financial assets | | 257 | - |
| Advanced to related parties | | - | (63,671) |
| Interest received from the related party loan | | 5,420 | - |
| Receipt from related parties | | 5,180 | - |
| Net cash used in investing activities | | (7,303) | (63,671) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | - | - |
| Dividends paid | | (6,441) | (11) |
| Proceeds (repayment) of notes payables | | (14,276) | 19,099 |
| Net cash (used in) / provided by financing activities | | (20,717) | 19,088 |
| Net (decrease) / increase in cash held | | (21,228) | (20,689) |
| Cash and cash equivalents at beginning of financial year | 6 | 48,464 | 71,360 |
| Effect of exchange rates on cash holdings in foreign currencies | | 12,037 | (2,207) |
| Cash and cash equivalents at end of financial year | 6 | 39,273 | 48,464 |

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

## Note 1: Summary of significant accounting policies

**Nature of Operation**

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 Shaoxing Shenhua Textile Co., Ltd.

**General Information and Statement of Compliance**

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). Shenhua International Ltd. is a for-profit entity for the purpose of preparing the financial statements.

Shenhua International Limited is the Group's Ultimate Parent Company. Shenhua International Ltd. is a Public Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is Level 41, ANZ Tower, 55 Collins Street Melbourne VIC 3000

The consolidated financial statements for the year ended 30 June 2015 were approved and authorised for issue by the Board of Directors on 27 January 2016.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated. Shenhua International Ltd 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.

**Basis of Preparation**

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.

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

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.

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.

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

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.

f. **Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost 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.

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

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 profit or loss 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 profit or loss. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**Intangible Asset (Land use right)**

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 41 to 67 years with respective amortisation rate of 2.44% and 1.49 per annum.

## 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 profit or loss, 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.

(iv) Guarantee for related party loan with Shenhua Decoration Ltd

The related party loan advanced to Shenhua Decoration Ltd (Director related entity) has been secured by the property of Shenhua Decoration Ltd and Zhejiang Binhai Metal Ltd. The value of the pledging items is determined based on lower of amortised book value or external valuation report for impairment assessment purpose.

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. **New and amended standards adopted by the Group**

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period as shown below:

(i) AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

AASB 2012-3 is applicable to annual reporting periods beginning on or after 1 January 2014.

The adoption of these amendments has not had a material impact on the Group as the amendments merely clarify the existing requirements in AASB 132.

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

(ii) AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets and is applicable to annual reporting periods beginning on or after 1 January 2014.

The adoption of these amendments has not had a material impact on the Group as they are largely of the nature of clarification of existing requirements.

(iii) AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles)

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the IASB of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2010-2012 Cycle:

- clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity)
- amend AASB 8 Operating Segments to explicitly require the disclosure of judgements made by management in applying the aggregation criteria

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2011-2013 Cycle clarify that an entity should assess whether an acquired property is an investment property under AASB 140 Investment Property and perform a separate assessment under AASB 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.

Part A of AASB 2014-1 is applicable to annual reporting periods beginning on or after 1 July 2014.

The adoption of these amendments has not had a material impact on the Group as they are largely of the nature of clarification of existing requirements.

## x. Accounting Standards issued but not yet effective and not being adopted early by the Group

The accounting standards that have not been early adopted for the year ended 30 June 2015 but will be applicable to the Group in future reporting periods are detailed below.

Apart from these standards, we have considered other accounting standards that will be applicable in future periods but are considered insignificant to the Group.

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

a) Financial Instruments

In December 2014, AASB issued the final version of AASB 9: "Financial Instruments" (AASB 9 (2014)), AASB 2014-7: "Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)" and AASB 2014-8: "Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) - Application of AASB 9 (December 2009) and AASB 9 (December 2010)''.

AASB 9 (2014) is the final version of a new principal standard that consolidates requirements on the classification and measurement of financial assets and liabilities: hedge accounting and an expected credit losses model for impairment of financial assets that replaces the incurred loss impairment model used today. It supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 issued in December 2010.

AASB 9 (2014) and AASB 2014-7 apply to the Group from 1 July 2018, with early adoption permitted.

AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015. We have early adopted the previous version of the standard, AASB 9 (2013), from 1 July 2014. This version excludes the impairment section.

Based on our preliminary assessment, we do not expect above accounting standard will have any material impact on our financial results upon adoption

b) Revenue from Contracts with Customers

In December 2014, the AASB issued AASB 15: "Revenue from Contracts with Customers" and AASB 2014-5: "Amendments to Australian Accounting Standards arising from AASB 15".

AASB 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. AASB 15 and AASB 2014-5 apply to the Group from 1 July 2017, with early application permitted. The International Accounting Standards Board (IASB) has confirmed a one-year deferral of the effective date of IFRS 15. As a result, we anticipate that AASB will follow and AASB 15 will only apply to the Group from 1 July 2018. We are currently assessing the impact of AASB 15 on our financial results.

Based on our preliminary assessment, we do not expect above accounting standard will have any material impact on our financial results upon adoption

c) Other

In addition to the above recently issued accounting standards that are applicable in future years, we note the following new accounting standards that are applicable in future years:

- AASB 2014-3: "Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]''
- AASB 2014-4: "Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & AASB 138]''
- AASB 2014-9: "Amendments to Australian Accounting Standards - Equity Method in Separate Financial Statements [AASB 127]''
- AASB 2014-10: "Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 & AASB 1 28]''
- AASB 2015-1: "Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle"
- AASB 2015-2: "Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101"
- AASB 2015-3: "Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality".

We do not expect these accounting standards will have any material impact on our financial results upon adoption

## Note 2: Revenue and Other Income

| | Consolidated Group 2015 $000 | 2014 $000 |
|---|---|---|
| **(a) Revenue** | | |
| Sales revenues | 73,888 | 84,335 |
| **(b) Other revenue** | | |
| - scrap sales | 637 | 413 |
| **(c) Interest revenue** | | |
| - Related party loan interest | 5,420 | - |
| - Interest from security deposit | 1,104 | 974 |
| | 6,524 | 974 |

## Note 3: Profit before Taxation

| | Consolidated Group 2015 $000 | 2014 $000 |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Interest expenses (on short-term borrowing) | 953 | 919 |
| Interest expenses (on early withdraw of notes receivable) | 2,950 | 72 |
| Impairment loss on trade receivables | 1,290 | 1,093 |
| Depreciation of property, plant and equipment | 1,700 | 2,406 |
| Amortisation on land use rights | 1,735 | 185 |
| Legal fees | - | 26 |
| Foreign exchange loss | 750 | 641 |
| **Employment benefit expenses** | | |
| Salary and wages | 1,239 | 479 |
| Social contribution | 49 | 76 |
| Other employment expenses | 118 | 103 |
| | 1,406 | 658 |
| **Auditor's remuneration** | | |
| Grant Thornton Audit Pty Ltd | | |
| *Auditing and review of the financial report* | 110 | 100 |

## Note 4: Taxation

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$000** | **$000** |
| **Profit before tax** | **4,712** | **10,414** |
| Prima facie tax payable on profit before income tax at 30% (2014: 30%) | 1,414 | 3,124 |
| Adjustment for tax-rate differences in foreign jurisdictions | (27) | (108) |
| Adjustment for non-deductible expenses (land use right depreciation) | 1,890 | - |
| **Actual tax expense** | **3,277** | **3,016** |

## Note 5: Earnings per Share

Basic earnings per share amounts are calculated by dividingprofit 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 | |
|---|---|---|
| | **2015** | **2014** |
| | **$000** | **$000** |
| Profit attributed to ordinary equity holders of the parent | 1,434 | 7,398 |
| Weighted average number of shares for basic earnings per share | 125,857,000 | 125,857,000 |
| Basic and diluted earnings per share | 1.1 cents | 5.9 cents |

## Note 6: Cash and Cash Equivalents

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$000** | **$000** |
| Short-term bank deposits* | 36,838 | 41,817 |
| Cash and bank balances | 2,435 | 6,647 |
| | 39,273 | 48,464 |

*Short-term bank deposits of $36,837,770 (2014: $41,817,116) were pledged as security deposit for notes payable which is not available for general use by the Group but offset against notes payable on maturity.

## Note 6: Cash and Cash Equivalents (Cont.)

The effective interest rate on short-term bank deposits was 3% per annum (2014: 3%).

Cash and cash equivalents are denominated in the following currencies:

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$000** | **$000** |
| Renminbi | 36,242 | 48,229 |
| Australian dollars | 2,492 | 10 |
| United States dollars | 539 | 225 |
| | 39,273 | 48,464 |

## Note 7: Trade and Other Receivables

| **Current Trade and Other Receivables** | | Consolidated Group | |
|---|---|---|---|
| | | **2015** | **2014** |
| | | **$000** | **$000** |
| Trade receivables (Gross) | (a) | 15,155 | 15,488 |
| Other receivables - advances to suppliers (Gross) | (b) | 1,813 | 2,884 |
| Provision for doubtful debts for trade receivable and advances to suppliers | | (2,849) | (1,157) |
| Advances to a related party | (c) | 6,414 | 80,272 |
| **Net trade and other receivables** | | 20,533 | 97,487 |

| | | | |
|---|---|---|---|
| **Non-current loan receivables from related party** | | | |
| (Shaoxing County Shenhua Decoration Co., Ltd) | (c) | 88,185 | - |

| | | |
|---|---|---|
| **Reconciliation of provision for doubt debts** | | |
| **Balance at 1 July** | (1,157) | (100) |
| Impairment loss | (1,290) | (1,093) |
| Foreign exchange difference | (402) | 36 |
| **Balance 30 June** | (2,849) | (1,157) |

*Current year related party loan balance represent the principal receivable within 12 month. The remaining principal balance is classified as non-current. Prior year related party loan balance was fully recognised as current assets.

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

(a) The trade receivables' ageing approximates 78 days (2014: 93 days). Impairment on trade and other receivables is made when certain debtors are identified to be irrecoverable. During the year, an impairment loss of $1,290,439 (2014: nil) has been recognised.

(b) The advances paid to suppliers which were unsecured, interest-free and repayable on demand, represent down-payment for the supply of raw materials. No impairment loss is recognised for the current financial year (2014: $1,093,279).

(c) In prior year, a secured interest bearing loan facility has been provided to Shaoxing County Shenhua Decoration Co. Ltd (SDL), a director related entity. The loan facility is capped at $99,778,332 (RMB 466.69 million), is denominated in RMB and is to be used by SDL to fund investment and working capital in metal fabrication operation owned by its subsidiary, Zhejiang Binhai Metal Products (BHMP).

The loan facility interest carries a fixed interest rate of 6% p.a. (consistent with market rate of similar loan in PRC) payable on an annual basis and is secured against the land use rights and non-current assets of SDL and BHMP with the carrying value of approximately $83 million (RMB 388 million) as of 30 June 2015.

The non-current portion of the related party loan made to Shaoxing County Shenhua Decorcation Co Ltd of $88,185 which will not be received for the next 12 month based on the repayment plan.

The loan term ends on 30 June 2022 and all principal needs to be repaid in full by end of the term. The director expected SDL and BHMP to make annual repayment to reduce the amount owed based on the loan repayment schedule.

As at 30 June 2015 a total amount (current and non-current) of $94,598,630 (RMB 442,463,192) is outstanding from Shaoxing Shenhua Decoration Co Ltd [2014: $80,271,247 (RMB 466,693,298)]. The increase in the Australian Dollar equivalent of the loan receivable at year end is as a result of a weakening Australian Dollar against the RMB.

| | Gross amount $000 | Past due and impaired $000 | Past due but not impaired (days overdue) < 30 $000 | 31–9 $000 | 61–90 $000 | > 90 $000 | Within initial trade terms $000 |
|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | |
| Trade receivables | 15,155 | 2,646 | 365 | 3,103 | - | 108 | 8,933 |
| Total | 15,155 | 2,646 | 365 | 3,102 | - | 108 | 8,933 |

| | 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 |

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

(d) Advances to the related parties are secured interest bearing loans and repayable by installments every six months until 30 June 2022. Refer to note 9 and 25 for details.

Trade receivables are denominated in the following currencies:

| | Consolidated Group 2015 $000 | 2014 $000 |
|---|---|---|
| Renminbi | 991 | 1,745 |
| United States dollar | 14,164 | 13,743 |
| | **15,155** | **15,488** |

## Note 8: Inventories

| | Consolidated Group 2015 $000 | 2014 $000 |
|---|---|---|
| Raw materials at cost | 759 | 1,143 |
| Work-in-progress at cost | 607 | 441 |
| Finished goods at cost | 6,693 | 4,454 |
| | **8,059** | **6,038** |

## Note 9: Other Financial Assets

| | | Consolidated Group | |
|---|---|---|---|
| | | **2015** | **2014** |
| | | **$000** | **$000** |
| **Current - available-for-sale financial asset** | | | |
| Quoted equity investment | (a) | - | 206 |
| | | - | 206 |
| **Non-current - available-for-sale financial asset** | | | |
| Unquoted equity investment | | | |
| - a financial institution | (b) | 337 | 271 |
| - a guarantee company | (c) | 461 | 371 |
| | | 798 | 642 |
| **Total** | | 798 | 848 |

(a) The quoted equity investment has been disposed during the current financial year at $267,544

(b) The unquoted equity investment comprises 0.25% equity interest in a financial institution in the PRC which is recorded at acquisition cost, movement from prior year balance is purely due to exchange difference. 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 which is recorded at acquisition cost; movement from prior year balance is purely due to exchange difference. 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 2014 | 13,627 | 22,553 | 768 | 1,075 | **38,023** |
| Additions | 1,764 | - | 4 | - | **1,768** |
| Foreign exchange difference | 3,475 | 5,481 | 187 | 261 | **9,404** |
| At 30 June 2015 | 18,866 | 28,034 | 959 | 1,336 | **49,195** |
| | | | | | |
| Accumulated depreciation | | | | | |
| At 1 July 2014 | 4,058 | 19,351 | 672 | 892 | **24,973** |
| Depreciation | 952 | 699 | 15 | 34 | **1,700** |
| Foreign exchange difference | 1,074 | 4,768 | 165 | 220 | **6,227** |
| At 30 June 2015 | 6,084 | 24,818 | 852 | 1,146 | **32,900** |
| | | | | | |
| Net book value | | | | | |
| At 30 June 2015 | 12,782 | 3,216 | 107 | 190 | **16,295** |
| | | | | | |
| At 30 June 2014 | 9,569 | 3,202 | 96 | 183 | **13,050** |

| | 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 | **23,213** |
| 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 | 10,558 | 4,896 | 133 | 218 | **15,805** |

(i) Buildings are 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

| | 2015 $000 | 2014 $000 |
|---|---|---|
| Cost | | |
| At 1 July | 10,204 | 10,484 |
| Additions | 52,726 | - |
| Foreign exchange difference | 2,480 | (280) |
| 30 June | 65,410 | 10,204 |
| | | |
| Amortisation | | |
| At 1 July | 1,070 | 916 |
| Amortisation | 1,735 | 185 |
| Foreign exchange difference | 422 | (31) |
| At 30 June | 3,227 | 1,070 |
| | | |
| Net book value | 62,183 | 9,134 |

(i) Land use rights relate to the following:

| Location | Use of property | Land size (sq. meters) | Remaining amortisation period |
|---|---|---|---|
| Yangxunqiao Industrial Area Shaoxing County Zhejiang Province The People's Republic of China | Commercial | 68,115 | 67 |
| | Commercial | 9,080 | 67 |
| | Commercial | 14,925 | 67 |
| | Commercial | 9,287 | 67 |
| | Commercial | 20,962 | 67 |
| | Industrial | 7,650 | 41 |
| | Industrial | 15,463 | 41 |
| | | 145,482 | |

During the current financial year, the nature of the land use rights for the existing factory premises have been converted from industrial to commercial which has resulted the amortisation period been extended to 70 years. Conversion cost of $50,126,761 is charged by the PRC authority and recognised as addition in the current period.

The land use rights of $45,132,880(2014: $9,134,000) have been pledged as security for borrowings of the company

## Note 11: Trade and Other Payables

| | | Consolidated Group 2015 $000 | 2014 $000 |
|---|---|---|---|
| Trade and other payables | (a) | 38,360 | 3,536 |
| Amounts owed to related parties | (b) | 16,730 | 19,103 |
| | | 55,090 | 22,639 |

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

| | Consolidated Group 2015 $000 | 2014 $000 |
|---|---|---|
| Renminbi* | 38,055 | 2,054 |
| Australian dollars | 305 | 1,482 |
| | 38,360 | 3,536 |

*Balance mainly consists of $32,243,623 payable to Shaoxing County Government in relation to nature transfer of existing land use rights and $2,355,244 payable to Shaoxing County Urban Development Ltd for property acquisition respectively. On 26th November 2015, the credit extension agreements have been received from above parties to extend the payment due day to 31 December 2016.

(b) Amount due to related parties are unsecured, interest free and repayment on demand which mainly consists of a $ 15.65 million dividend payable to Joyful Huge Holdings Ltd (a director related entity to Mr. Philip Widjaya). As per an extension agreement between the Group and Joyful Huge Holdings Ltd the dividend payable is not required to be settled before 31 December 2017. Refer Note 25 for disclosure of related party balances.

## Note 12: Borrowings

| | Consolidated Group 2015 $000 | 2014 $000 |
|---|---|---|
| Bank loans: - | | |
| - China Construction Bank Shaoxing Branch | 17,532 | 14,104 |
| | 17,532 | 14,104 |

The borrowings are all denominated in Chinese Renminbi, with repayment terms ranging from November 2015 to March 2016. Interest is charged at 5.59% (2014: 5.76%) per annum.

The borrowings are secured by land use rights held by the Group as disclosed in Note 10(b) and guaranteed by Mr Philip Widjaya and his wife (Mrs Yanjuan Wang)

## 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 2015 (2014: July 2014) and December 2015 (2014: December 2014).

## Note 14: Issued capital

The share capital of the Group consists only of fully paid ordinary shares; the shares do not have a par value. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the Group.

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$000** | **$000** |
| 125,857,000 (30 June 2014: 125,857,000) fully paid ordinary shares | 38,439 | 38,439 |

| | **2015** | **2014** |
|---|---|---|
| | **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 | |
|---|---|---|---|
| | | **2015** | **2014** |
| | | **$000** | **$000** |
| Statutory common reserve | (a) | 9,853 | 3,454 |
| Common control reserve | (b) | (19,440) | (19,440) |
| Foreign currency translation reserve | (c) | 28,145 | 4,250 |
| | | 18,558 | (11,736) |

*(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.

## Note 15: Reserves (Cont.)

*(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 | |
|---|---|---|
| | **2015** | **2014** |
| | **$000** | **$000** |
| Dividend declared | 1,888[1] | 3,146[2] |
| Dividend paid | 6,441 | 11 |

(1) Unfranked ordinary dividend declared on 7 November 2014 of $0.015 per share, in respect of the year ended 30 June 2014

(2) Unfranked ordinary dividend declared on 30 September 2013 of $0,025 per share, in respect of the year ended 30 June 2013

## Note 17: Financial Risk Management Objectives and Policies

The Group's financial instruments carried on the statement of financial position consist of following items:

| | **2015** | **2014** |
|---|---|---|
| **Financial assets** | **$'000** | **$'000** |
| Available for sale financial assets | 798 | 848 |
| Loan receivables (non-current) | 88,185 | - |
| Trade and other receivables (current) | 20,533 | 97,487 |
| Cash and cash equivalents | 39,273 | 48,464 |
| **Totals** | **148,789** | **146,799** |

| | **2015** | **2014** |
|---|---|---|
| | **$'000** | **$'000** |
| **Financial liabilities** | | |
| Note payable | 56,998 | 57,339 |
| Current borrowings | 17,352 | 14,104 |
| Trade and other payables | 55,090 | 22,639 |
| **Totals** | **129,440** | **94,082** |

All financial instruments are recorded at their amortised cost

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

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 9 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.

| | 2015 | | 2014 | |
|---|---|---|---|---|
| Profit or loss | 50bp increase $000 | 50bp decrease $000 | 50bp increase $000 | 50bp decrease $000 |
| Variable rate instruments | (88) | 88 | (72) | 72 |

## 17.2 Price risk

The consolidated entity is not exposed to any significant price risk

## 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.

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

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 2015 | |
| Financial assets | 14,703 |
| Financial liabilities | - |
| **Total Exposure** | **14,703** |
| 30 June 2014 | |
| Financial assets | 13,968 |
| Financial liabilities | - |
| **Total Exposure** | **13,968** |

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.

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Profit net of taxation $000 | Equity $000 | Profit net of taxation $000 | Equity $000 |
| United States dollar | | | | |
| - strengthened by 10% (2014: 10%) | 1,574 | 1,574 | 1,764 | 1,764 |
| - weakened by 10% (2014: 10%) | (1,574) | (1,574) | (1,764) | (1,764) |

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.

### 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

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

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 72% (2014: 71%) of the Group's revenues during the financial period. Other receivables arise from Shaoxing County Shenhua Decoration Co.,Ltd, which is 87% (2014: 82.3%) 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:

| | **2015 Less than 1 year $000** | **2014 Less than 1 year $000** |
|---|---|---|
| Trade and other payables | 55,090 | 22,639 |
| Note payables | 56,998 | 57,339 |
| Bank borrowings* | 18,099 | 14,104 |
| | 130,187 | 94,082 |

*Bank borrowing of 18,099 consists of principal component ($17,352) and future interest component ($567)

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 directors consider that the carrying amounts of financial assets and liabilities recognised at amortised cost in the Consolidated Financial Statements 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.

**Valuation techniques and assumptions applied for the purpose of measuring fair value**

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market price;
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models for optional derivatives; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

**Fair value measurement recognised in the consolidated statement of financial position**
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels1 to 3 based on the degree to which their fair value is observable.

- 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 (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

## Note 18: Financial Instruments (Cont.)

| | Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|---|
| At 30 June 2015 | | | | |
| Available-for-sale investments | | | | |
| Unquoted investments | | | | |
| - a financial institution | - | - | 337 | 337 |
| - a guarantee company | - | - | 461 | 461 |
| Quoted equity investment | - | - | - | - |
| | - | - | 798 | 798 |

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

(1) The investee is not a listed company. Based on review of December 2014 annual report of the investee, the percentage share of the net assets greatly exceeds it book value. No indication of impairment is noted as at the end of the current financial year. From a conservative point of view, the financial instrument is still recorded at its cost due to there is no available market for the Group to realise the gain from the investment.

(2) The investee is not a listed company. Based on available financial information of the guarantee company, the guarantee company is still under a profit making position for the financial year ended 31 December 2014. There has been no indication of impairment noted and the management deemed it is appropriate to record the investment at its original cost.

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; hence according to AASB 139 such instruments are recorded at cost and included in Level 3.

The movement in Level 3 financial instruments from prior period is due to foreign exchange difference which has been accounted for in the foreign currency translation reserve.

## Note 19: Cash Flow

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$000** | **$000** |
| **Reconciliation of Cash Flow from Operations with Profit after Income Tax** | | |
| Profit after income tax | 1,435 | 7,398 |
| Non-cash flows in profit | | |
| Depreciation/amortisation | 1,700 | 2,591 |
| Impairment loss on trade and other receivables | 1,290 | 1,093 |
| Interest received included in investing and financing | (5,420) | - |
| Net unrealised foreign currency gains/ (losses) | 23,933 | (852) |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries | | |
| (Increase)/decrease in trade and other receivables | (17,868) | 11,279 |
| (Increase)/decrease in inventories | (2,021) | 1,302 |
| Increase/(decrease) in trade payables and accruals | 2,417 | 1,393 |
| Increase/(decrease) in income taxes payable | 1,326 | (310) |
| Cash flows from operations | 6,792 | 23,894 |

## 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.

## Note 20: Operating Segments (Cont.)

**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.

**Revenue from different Geographical location**

| | Revenue 2015 $'000 | Non-current assets 2015 $'000 | Revenue 2014 $'000 | Non-current assets 2014 $'000 |
|---|---|---|---|---|
| **China** | 17,232 | 166,504 | 25,342 | 22,661 |
| **Overseas** | 56,656 | - | 58,993 | - |
| **Total** | **73,888** | **166,504** | **84,335** | **22,661** |

| **Country** | **2015** |
|---|---|
| Benin | 7,490 |
| Brazil | 1,152 |
| France | 1,055 |
| Iran | 5,316 |
| Italy | 698 |
| Nigeria | 1,429 |
| Russia | 2,695 |
| South Africa | 19,712 |
| Uganda | 5,098 |
| UK | 3,535 |
| Other countries | 8,476 |
| **Total** | **56,656** |

| **Country** | **2014** |
|---|---|
| Benin | 7,691 |
| France | 813 |
| Iran | 6,681 |
| Nigeria | 2,023 |
| Ukraine | 1,682 |
| Russia | 1,794 |
| South Africa | 20,703 |
| UAE | 1,885 |
| Uganda | 3,313 |
| UK | 2,827 |
| Other countries | 9,581 |
| **Total** | **58,993** |

Revenues from external customers have been identified on the basis of the customer's geographical location. Non-current assets are allocated based on their physical location.

## Note 20: Operating Segments (Cont.)

**Major customers**

External customers with revenue greater than 10% of the total revenue:

| Customer | Region | Revenue | % over total sales |
|---|---|---|---|
| Customer A | Overseas | 12,222,045 | 17% |
| Customer B | Domestic | 7,661,963 | 10% |
| Customer C | Overseas | 7,489,871 | 10% |

## 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 26 November 2015, the terms of the related party loan with Shaoxing Shenhua Decoration (a Director related entity with Mr. Philip Widjaya) have been amended to increase the maximum loan cap to $142,539,027 (RMB 666,693,298) from $80,271,247 (RMB 466,693,298), and the interest rate has been adjusted to 5.22% from 6% per annum. As at 30 June 2015 a total amount (current and non-current) of $94,598,630 (RMB 442,463,192) is outstanding from Shaoxing Shenhua Decoration Co Ltd [2014: $80,271,247 (RMB 466,693,298)]. The increase in the Australian Dollar equivalent of the loan receivable at year end is as a result of a weakening Australian Dollar against the RMB.

No other adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation.

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

| | 2015 $000 | 2014 $000 |
|---|---|---|
| **Parent entity** | | |
| **Assets** | | |
| Current assets | 9,475 | 9,704 |
| Non-current assets | 25,067 | 25,068 |
| Total assets | 34,542 | 34,772 |
| **Liabilities** | | |
| Current liabilities | 13,432 | 10,457 |
| Non-current liabilities | - | - |
| Total liabilities | 13,432 | 10,457 |
| **Equity** | | |
| Issued capital | 38,439 | 38,439 |
| Retained earnings | (17,330) | (14,199) |
| Total equity | 21,109 | 24,240 |
| **Financial performance** | | |
| Profit/(Loss) for the year | (1,242) | (166) |
| Other comprehensive income | - | - |
| Total comprehensive income | (1,242) | (166) |

# 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** | |
|---|---|---|
| | **2015 $000** | **2014 $000** |
| Utilities charged to a related party – Shaoxing County Shenhua Decoration Co., Ltd [1] | 43 | 31 |
| Loan Interest received from – Shaoxing County Shenhua Decoration Co. Ltd | 5,420 | - |
| Loan repayment received from –Shaoxing County Shenhua Decoration Co. Ltd. | 4,785 | - |
| Purchases of services from Chambers and Company [2] | 32 | 26 |
| Purchases of inventory from Shaoxing Shenlian Textile Co., Ltd[3] | 748 | 678 |
| Sales to Shaoxing Shenlian Textile Co., Ltd[3] | 1,098 | 3,062 |
| Payment made to Shaoxing Shenlian Textile Co., Ltd | 1,112 | - |
| Dividend payments to Joyful Huge Holdings Limited[4] | 2,892 | - |
| Dividend declared to Joyful Huge Holdings Limited | 1,100 | - |

| **Related Party Balances** | **Consolidated Group** | |
|---|---|---|
| | **2015 $000** | **2014 $000** |
| Related party receivable from Shaoxing County Shenhua Decoration Co.,Ltd[1] | 94,599 | 80,272 |
| Related party payable to Joyful Huge Holdings[4] | 15,649 | 18,203 |
| Related party payable to Xia Yajun[5] | 235 | 235 |
| Related party payable to Shaoxing Shenlian Textile Co., Ltd[3] | - | 665 |
| Related party payable to Chambers and Company | 13 | - |
| Related party payable to Mr. Philip Widjaya | 763 | 763 |

[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 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:

| | 2015 | 2014 |
|---|---|---|
| | $ | $ |
| Short term benefits | 264,066 | 241,616 |

**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 (%)*** | |
|---|---|---|---|
| | | **2015** | **2014** |
| 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

## Note 28: Going Concern

As at 30 June 2015, the Group's total current liabilities exceeded its total current assets by $65 million. The consolidated entity's ability to continue as a going concern is contingent:

- Continued profitable operations and recovery of trade receivables;
- Renewal of short-term bank loans and notes payable in the normal course of business; and
- Receipt of regular interest and principal repayments from the related party loan and the ultimate recovery of the related party loan (refer note 7).

The directors consider the Group to be a going concern and will be able to meet its debts and obligations as they fall due.

If the bank loans and notes payable are not renewable for the next 12 month, and the related party loan cannot be recovered on a timely basis, the going concern basis of accounting may not be appropriate, as a result that the Group may have to realise its non-current assets and extinguish its liabilities. Other than in the ordinary course of business and in amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

# DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 21 to 59 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 2015 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*

27 January 2016

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# Independent Auditor's Report
# To the Members of Shenhua International Ltd

## Report on the financial report

We have audited the accompanying financial report of Shenhua International Ltd (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2015, 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 Ltd 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 2015 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 qualifying our opinion, we draw attention to Note 28 in the financial report which indicates the company's current liabilities exceeded its current assets by $64,565,614. These conditions, along with other matters as set forth in Note 28, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

## Report on the remuneration report

We have audited the remuneration report included in pages 8 to 15 of the directors' report for the year ended 30 June 2015. 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 Ltd for the year ended 30 June 2015, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Iain Kemp

Iain Kemp
Partner - Audit & Assurance

Adelaide, 27 January 2016

## CONSTITUTION

A fully copy of the Company's constitution is available for viewing at the Company's 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 8 December 2015

a. **Distribution of Shareholders**

| Category (size of holding) | Number Ordinary |
|---|---|
| 1 – 1,000 | 3 |
| 1,001 – 5,000 | 371 |
| 5,001 – 10,000 | 13 |
| 10,001 – 100,000 | 84 |
| 100,001 – and over | 52 |
| | 523 |

b. The number of security investors holding less than a marketable parcel of 1429 securities ($0.350 on 18/09/2015) is 7 and they hold 5930 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% |
| 10 | HSBC Custody Nominees (Australia) Limited | 713,000 | 1.36% |
| 11 | Ms Yuxiang Sun | 707,700 | 1.35% |
| 12 | Ms Lifang Wang | 584,800 | 1.11% |
| 13 | Ms Suyun Bian | 542,000 | 1.03% |
| 13 | Mr. Bingrong Sun | 542,000 | 1.03% |
| 13 | Mr. Yong Qiao Yuan | 542,000 | 1.03% |
| 13 | Mr. Jiade Zhao | 542,000 | 1.03% |
| 14 | Mr. Xiaochun Jin | 434,000 | 0.83% |
| 15 | Ms Zhifen Lu | 400,000 | 0.76% |
| 16 | Mr. Han Qi Yuan | 392,514 | 0.75% |
| 17 | Mr. Xuequan Wang | 390,000 | 0.74% |

| | | | |
|---|---|---|---|
| 18 | Mr. Jian Guo Lu | 362,000 | 0.69% |
| 18 | Mr. Guantu Sun | 362,000 | 0.69% |
| 18 | Mr. Jian Xiang Xu | 362,000 | 0.69% |
| 18 | Mr. Hong Sheng Zhu | 362,000 | 0.69% |
| 18 | Mr. Yeqi Zhu | 362,000 | 0.69% |
| 19 | Mr. Lei Jun Cai | 348,985 | 0.66% |
| 20 | Mr. Peixing Luo | 307,000 | 0.58% |
| | Total In This Report | 44,725,373 | 85.18% |
| | Total Other Investors | 7,781,627 | 14.82% |
| | 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.