



**CWH Resources Ltd**  
A.C.N. 009 230 111

18 March 2014

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ASX Limited  
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### **CWH Resources Ltd – response to financial condition query**

In response to your financial condition query dated 4 March 2014, CWH Resources Limited (ASX:CWH) has instructed me to provide the following information adopting your numbering on pages 2 and 3 of your 4 March letter.

1. The Directors confirm that in their opinion the Annual Accounts for the year ended 30 June 2013:
  - (a) comply with the relevant Accounting Standards; and
  - (b) give a true and fair view of the financial performance and financial position of the Company.
2. The Company understands that the auditors disclaimer of opinion was included following receipt of advice from the Company that it planned not to sell its discontinued operation, being Chongqing Yuao Building Materials Ltd (**CYBM**). Please note that the Company has not yet obtained consent from the purchaser to rescind the sale contract.

However, as a result of the Company's intention to try and rescind the sale agreement, there was significantly less reliance that could be placed on the sale agreement to evidence the recoverable amount of the assets and liabilities of the discontinued operation.

Therefore, as the Directors have not yet provided separate evidence that the book value of the assets and liabilities of the discontinued operation were less than their recoverable amount, and as those asset and liabilities constituted a significant part of the group's assets and liabilities, the matter was considered material and a disclaimer of opinion was included by the auditor.

The Company also notes that, as disclosed in its Quarterly Activities Report for September 2013, CYBM is implementing upgrades to its plant to reduce costs and improve productivity by replacing old plant and adding additional equipment and new technology into the production. The valuation of CYBM during the extensive restructuring cannot reflect the value of CYBM. Therefore, on 26 February 2014, the



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Board of CWH resolved to obtain an updated valuation of CYBM following completion of the upgrade works, with a view to finalising that valuation before the end of June 2014.

3. The Company has recently received another level of approval that was required, relating to payments to retrenched employees, and these payments have now been made by the relevant Chinese Government authority, at no cost to the company.

As the compensation to the retrenched employees has been successfully completed, the timeframe for the Government approval is short. The company is likely to receive Government approval within the first half of 2014.

The Board's resolution to take steps to keep the discontinued operation, if agreement with the purchaser for rescission of the sale contract can be achieved, is based principally around expected strong cash flow from those operations, which the Board believes will provide a liquidity that can be used by CWH for exploration of its mining activities.

CWH intends to continue its mining exploration, however, desires these activities to be underpinned by cash flow from the operations of CYBM.

In the event that the rescission of the sale agreement cannot be achieved, CWH will need to put in place alternative arrangements to fund its exploration activities.

4. The Company has commissioned an external valuation of the assets and liabilities of the discontinued operation. As the Company is undertaking considerable capital improvements to the operation, the Directors consider it appropriate to have the valuation performed after the capital works are completed. The Directors expect that the capital works will be complete and the valuation provided to the Company in time for reporting with the 30 June 2014 annual report.

It is expected that, once the valuation is received, considered by Directors and any adjustments, if required, are made to the recorded values of the assets and liabilities, the reasons for the auditor disclaimer will no longer exist.

5. In response to paragraph 5 of your letter dated 4 March:
  - The Directors consider the carrying values to be appropriate, based on the results of the recent operations of the plant.
  - CYBM's assets include land, cement grinding stations, a lime mine, office buildings, factory buildings, motor vehicles and trade receivables.
  - CYBM's operations were significantly discontinued as a consequence of the new Chinese environmental policy. The policy mandated the discontinuation of manufacturing activities which did not comply with new environmental standards



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but it also entailed compensation and subsidies being paid to the affected manufacturers.

- The first phase of the Government subsidy has already taken place, which paid for the pensions, health care and severance payments for the retrenched employees.
  - CYBM expects to receive further Government subsidies and is in discussions with the Mayor's office of the Chongqing Municipal Government, which discussions are being conducted by Mr Luo personally.
  - CWH expects to be able to make an announcement regarding any further subsidies later in 2014.
6. CYBM has commenced upgrades to its operating plant and equipment, which will bring its operations into compliance with the new environmental regulations and will also significantly improve productivity. The Directors believe that the improved plant at CYBM is likely to produce positive cash flow that will be available to the Company either through improved revenue or from proceeds from sale of CYBM. However, the Directors consider it appropriate to have the valuation performed after the capital works are complete. The Directors expect that the capital works will be complete and the valuation provided to the Company in time for reporting with the 30 June 2014 annual report.
7. The Chairman has indicated to the Board that:
- he will advance funds, by way of loan, to the Company as needed to cover its operating expenses;
  - the loan terms are not fixed and CWH has the right to postpone payment for 12 months;
  - the loans are interest free; and
  - to date, the Chairman has loaned CWH the sum of \$244,361 and has loaned CYBM the sum of \$1,260,221.
8. Yes. The Directors estimate that the CYBM business will be profitable once its upgrades are completed. Further, CWH's exploration activities in Queensland, where it holds 3 granted exploration licences and has applied for 6 further licences and in Kazakhstan, where it has a 45% interest in a granted licence, are on their own operations that the Directors consider adequate to warrant the continued quotation of CWH's securities on the ASX.
9. Yes. The Directors consider that CWH's financial condition is adequate to warrant the continued quotation of its securities on the ASX. The Directors consider that the support from the Chairman ensures that CWH's financial condition is satisfactory and that, during the next year, CYBM's operations will generate sufficient cash flow

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(either from operating profit or sale) to fund CWH's exploration projects without CWH needing to rely further on loans from its Chairman.

10. Not applicable.

11. The Directors confirm that CWH is compliant with Listing Rules 3.1 and 12.2.

**Signed by direction of the Board, for and on behalf of CWH Resources Ltd ACN 009 230 111**

Alistair McKeough  
Company Secretary



4 March 2014

Mr Alistair McKeough  
Company Secretary  
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By email

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Dear Alistair

### **CWH Resources Limited (the “Company”) – Financial Condition Query**

ASX Limited (“ASX”) refers to the following:

1. The Company’s financial report for the year ended 30 June 2013, lodged with ASX on 28 February 2014 (the “Annual Accounts”).
2. The Independent Auditor’s Report set out on pages 44 to 46 of the Annual Accounts (“Auditor’s Report”) which contains a Disclaimer of Opinion (the “Disclaimer”) and a Material Uncertainty Regarding Continuation as a Going Concern, stating the following:

#### ***“Basis for Disclaimer of Opinion***

*The consolidated entity’s assets at 30 June 2013 include assets in a controlled entity, deemed to be a discontinued operation, at \$4,959,492. We have been unable to obtain sufficient appropriate audit evidence that the assets of the discontinued operation are measured at the lower of their carrying value and fair value less costs to sell. We have also been unable to obtain sufficient appropriate audit evidence of the liability of \$1,665,175 at 30 June 2013 for bank loans of the discontinued operation.*

*As a result, we were unable to determine whether any adjustments were necessary in respect of the carrying amounts of those assets in the statement of financial position, or the amount recognised as a liability for those borrowings, and the elements making up the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows.*

#### ***Disclaimer of Opinion***

*Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial report.*

#### ***Material Uncertainty Regarding Continuation as a Going Concern***

*Without further qualification to our opinion expressed above, we draw attention to Note 1(a) to the financial report, which describes the reasons for which the financial report has been prepared on a going concern basis. Note 1(a) indicates that the continuation of normal business activities is dependent on the completion of the*

*disposal of Chongqing Yuao Building Materials Co. Ltd, or if not the sale does not complete the generation of positive cash flow from the operations of Chongqing Yuao Building Materials Co. Ltd, and the completion of additional fund raising if required. The note indicates the existence of material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, whether it will realise its assets at their carrying values and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report."*

### **Relevant Listing Rules and Guidance**

- Listing Rule 12.1 – *The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued quotation of the entity's securities and its continued listing.*
- Listing Rule 12.2 – *An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.*
- Listing Rule 19.11A – *If a listing rule requires an entity to give ASX accounts, the following rules apply:  
...  
(b)The accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*

### **Questions for Response**

In light of the Auditor's Report, the information contained in the Annual Accounts, and the application of the listing rules stated above, please respond to each of the following questions:

1. Is the Company able to confirm that in the Directors' opinion the Annual Accounts:
  - (a) comply with the relevant Accounting Standards; and
  - (b) give a true and fair view of the financial performance and financial position of the Company?
2. Please provide further information to explain the basis of the Disclaimer.
3. Please provide further detail as to the reasons for the delay in receiving approval from the relevant Chinese authority for the sale of Chongqing Yuao Building Materials Co. Ltd ("CYMB"), and the likely timeframe for receiving the approval. Further, outline the steps the Company has taken, or proposes to take, to expedite the process in receiving the approval.
4. Given the Disclaimer relates to the Auditor's inability to obtain sufficient appropriate audit evidence in relation to the assets and liabilities of the discontinued operation as stated in the Auditor's Report, what steps does the Company intend to take to obtain an unqualified audit/review report for future financial periods?
5. On what basis does the Company believe the carrying values to be appropriate? In your response, please address specifically the following items:
  - (a) Assets of the discontinued operation.  
  
(in your response, please advise when the independent expert valuation of the CYMB asset is expected to be completed); and
  - (b) Bank loans of the discontinued operation.
6. What steps does the Company intend to take to address the going concern issues of the Company? The Company should specifically address the net asset deficiency of \$6,674,465 of which \$6,129,710

relates to the discontinued operation, leaving a net liability of \$544,755 relating to the continuing operations, and its ability to meet its current debts as and when they fall due.

7. The Chairman's report states that the Chairman proposes to "enter into arrangements with CWH on arms' length terms to fund CWH until completion of the sale of CYBM or alternative funding is obtained. Please provide further details.
8. Does the Company consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX in accordance with the requirements of listing rule 12.1? In answering this question, please explain the basis for this conclusion.
9. Does the Company consider that the financial condition of the Company is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2? In answering this question, please explain the basis for this conclusion.
10. If the answer to questions 8 or 9 is "No", please explain what steps the Company has taken, or proposes to take, to warrant continued listing on ASX in accordance with the requirements of listing rules 12.1 and 12.2.
11. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1 and 12.2.

Please note the ASX reserves its right under listing rule 18.7A to release this letter and the Company's response to the market. Accordingly, the Company's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event by **no later than 9.30 a.m. AEDT on Monday, 10 March 2014.**

Any response should be sent to me by return email. It should not be sent to the ASX Market Announcements Office.

If you have any queries regarding any of the above, please let me know.

Yours sincerely

*[sent electronically without signature]*

Stephanie So  
**Senior Adviser, Listings Compliance (Sydney)**