

# CWH Resources Limited

ACN 009 230 111



30 June 2015

Stephanie So  
Senior Adviser,  
Listings Compliance (Sydney)  
PO Box H224  
Australia Square NSW 1215

Dear Ms So,

## CWH Resources Limited (Company) – response to financial condition query

We refer to the Company's financial report for the financial year ended 30 June 2014, lodged with ASX on 20 February 2015 (**FY14 Annual Accounts**) and ASX's letter to the Company dated 17 April 2014 (attached). It is noted that the Company has completed the audit review of its half year accounts for the period ended 31 December 2015 (**HY15 Half Year Accounts**). The directors believe that the reviewed half year accounts will provide ASX with further confidence regarding the Company and its future activities. In response to your letter, the Company provides the following information (adopting the numbering used in your letter).

Q 1. The Company confirms that, in the directors' opinion, the FY14 Annual Accounts:

- (a) comply with the relevant Accounting Standards; and
- (b) give a true and fair view of the financial performance and position of the Company.

Q2. (a) The auditor has been advised by Chongqing Yuao Building Materials Co. Ltd (**CYBM**) and Mr Bau Cheng Luo, the chairman of the Company, (**Chairman**) that the finance company that originally provided the \$1,623,165 bank loan (**Bank Loan**) has been sold to another financial institution. The Company has not been able to determine the new owner of the Bank Loan. The new owner of the Bank Loan has not contacted the Company about repayment of the Bank Loan. This situation has subsisted for several years. As a result, the directors of the Company have formed the view the debt under the Bank Loan is unlikely to be called upon and, as a consequence, will never have to be repaid.

- (b) As at 31 December 2014, the Chairman has agreed (by deed) to accept a transfer of the liability for the Bank Loan from the group. As a result, any future payments required under the Bank Loan will be the responsibility of, and will be provided by, the Chairman personally.

No consideration was paid by the group as consideration for this transfer.

	31 December 2014
Liability of Group to Bank	1,865,943
Less: Indemnity provided by Mr Luo	(1,865,943)
Net Liability of the Bank	Nil

Under the terms of the transfer deed, the Chairman has indemnified the group against

## CWH Resources Limited

Tel: (+612) 9268 0555  
11A/10-12 Woodville Street,  
HURSTVILLE

any liability under the Bank Loan and has agreed to offset any required repayment of the Bank Loan against amounts owed by the group to the Chairman.

As a result, in the half year accounts for the period ended 31 December 2014 do not have any qualifications or disclaimer from the auditor.

- Q3. We note that there is a typographical error in the auditor's report for the year ended 30 June 2014. The reference to "Our audit report for the year ended 30 June 2014 included...." Should refer to the year ended 30 June 2013 – the auditor was pointing out that the previous audit report also had a disclaimer.

The Company has issued amended Annual Accounts with this typographical error corrected.

- (a) The directors have a choice as to whether the accounts are at cost or valuation. As the CYBM business was still being revitalised, the directors did not wish to revalue the assets in the FY14 Annual Accounts. To include the valuation in the accounts it has to be certified and assessed as being done to the appropriate standards by the auditor. The auditor had not completed this work in time for the completion of the audit for the FY14 Annual Accounts.
- (b) As noted in the Auditor's Report for June 2014, the disclaimer of opinion was required because of an issue with the bank loan. This makes it clear that the only reason for the disclaimer was the bank loan.

Auditing Standard ASA 705 at paragraph 20 require the auditor to "include in the basis for modification paragraph the reasons for that inability." If the auditor was unable to obtain sufficient, appropriate audit evidence about other matters, such as the recognised value of the CYBM assets, the auditor would have had to say so, as the auditor did in the Auditor's report for the year ended 30 June 2013.

The June 2014 Auditor's Report did not include any comment on any aspect of the financial report other than the bank loan, which makes it clear that the auditor did obtain sufficient, appropriate audit evidence about all other matters, including the value of the CYBM assets.

- (c) The auditor visited China in March 2015. The methodology of the independent valuation report has been verified by the auditor, who has confirmed the valuation has been done to International Valuation and Accounting standards. Thus the directors have adopted the valuation in the half year accounts for the period ended 31 December 2014.

The auditor has removed this disclaimer of opinion for the HY15 Half Year Accounts.

- Q4. (a) As noted in Q3(a) and Q3(b), above, CYBM's assets were for sale, then the contract was rescinded. The assets were then being modified, and at the time of the audit, evidence of positive cash flow was not available from CYBM. Although the directors believe that positive cash flow is about to commence, this was not sufficient to be able to meet the auditors required level of proof to warrant different values being used for the assets of CYBM. As noted in Q3(c), above, the directors have now adopted the independent valuation amounts for the HY15 Half Year Accounts.
- (b) As noted in Q2(a) above, CYBM and the Chairman have been advised that the finance company which provided the Bank Loan has been sold on to another financial institution. As noted in Q2(b), above, the Chairman has accepted a transfer of the liability under the Bank Loan.

- Q5. The Company has revalued the assets in the HY15 Half Year Accounts. The HY15 Half Year Accounts are attached. The accounts show a net surplus of assets of \$14,008,711. CYBM will soon be reporting positive cash flow which will enable the group to meet its debts as and when

they fall due.

The Chairman has provided a finance facility of \$750,000 to the Company which will be available from now until August 2016. Previous finance of \$1,045,266 provided by the Chairman has been formalised pursuant to a loan agreement which provides that this amount is not repayable until August 2016. These financial arrangements are outlined in the HY15 Half Year Accounts (please refer to Note 6).

As announced the Company is also purchasing 60% of the KeChao Shanghai Industrial Company in China and is working on the financing of this opportunity.

The directors believe that the new direction of the Company with its Chinese subsidiary operating in a cash flow positive manner will see the future operations of the Company assured.

- Q6. Yes, the Company believes its operations and business are sufficient to warrant continued quotation of its securities.

The Company's Chinese subsidiary, CYBM, has the following assets.

Category	Net book value (RMB)	Independent valuation (RMB)	Net book value (AUD)	Independent valuation (AUD)
Machinery	6,859,000	14,105,249	1,262,065	2,773,403
Building	4,345,000	30,280,513	714,363	5,953,816
Vehicles	847,000	1,351,983	140,076	265,830
Land use	3,963,000	47,978,728	693,814	9,433,675
Mining rights	2,695,000	42,317,900	468,752	8,320,632
<b>Total</b>	<b>18,709,000</b>	<b>136,034,373</b>	<b>3,279,070</b>	<b>26,747,356</b>

The Company is also purchasing 60% of the shares of KeChao Shanghai Industrial Company. This Company owns valuable patents that enable the production of Nuclear facility grade Boric Acid.

- Q7. The Company believes its financial position warrants its continued listing.

The HY15 Half Year Accounts show Net Assets of \$14,008,711.

In the financial half year the Company has received loans from the Chairman. On 3 February 2015, this loan plus funds lent in earlier financial periods totaling \$1,045,266 was formalised with a loan agreement. The directors consider the terms of the loan agreement to be arm's length commercial terms. The loan has an interest rate of 8.0% per annum and is repayable on 31 August 2016. In addition, the Chairman has provided an additional loan facility of up to \$750,000, as noted in Q5, above. These additional funds will be lent on arm's length commercial terms and attract an interest rate of 8.0%. These funds will be repayable on 31 August 2016. The remaining liability is also to the Chairman but this is a loan that has been made to CYBM, the Chinese subsidiary. These funds are to be repaid from cash flow from CYBM. The loan to CYBM is not secured and does not attract interest.

The directors believe that CYBM will soon be positive cash flow from its operations which will enable the Company to pay its debts as and when they fall due.

- Q8. Not applicable

Q9. The Company confirms that it is in compliance with the ASX Listing Rules, in particular ASX Listing Rules 3.1 and 12.2.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'R Taylor', with a long horizontal flourish extending to the right.

Raymond Taylor BEcon MComm MIPA  
Company Secretary  
CWH Resources Limited



17 April 2015

Mr Raymond Taylor  
Company Secretary  
CWH Resources Limited

By email

ASX Compliance Pty Limited  
ABN 26 087 780 489  
20 Bridge Street  
Sydney NSW 2000  
PO Box H224  
Australia Square  
NSW 1215

[www.asx.com.au](http://www.asx.com.au)

Dear Raymond,

**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 2014, lodged with ASX on 20 February 2015 (the "Annual Accounts").
2. The Independent Auditor's Report set out on pages 40 to 41 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 statement of financial position as at 30 June 2014 includes a liability of \$1,623,165 for a bank loan. We have been unable to obtain sufficient appropriate audit evidence of completeness of this liability because we have not been given contact details for the lender.*

*As a result, we were unable to determine whether any adjustments were necessary in respect of 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.*

*Our audit report for the year ended 30 June 2014 included a disclaimer of opinion in relation to the value of assets of a controlled entity, classified as a discontinued operation at 30 June 2013, and in relation to the matter referred to above.*

***Disclaimer of Opinion***

*Because of the significance of the matter 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 modifying our Disclaimer of Opinion noted above, we draw attention to Note 1 to the financial report, which describes the reasons for which the financial report has been prepared on a going concern basis. Note 1 indicates that the continuation of normal business activities is dependent on the generation of positive cash flow from the operations of Chongqing Yuao Building Materials Co. Ltd, a personal loan from the Chairman of CWH Resources Ltd and the completion of additional fund raising if required. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainty that may cast significant doubt*

*about the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to 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 in relation to the bank loan of \$1,623,165 and explain
  - a. Why has the Auditor not been given the contact details for the lender so as to enable the Auditor to obtain sufficient appropriate audit evidence for the liability?
  - b. What steps does the Company intend to take to obtain an unqualified audit/review report for future financial periods in relation to this liability?
3. Given the Disclaimer also relates to the Auditor's inability to obtain sufficient appropriate audit evidence in relation to the assets of Chongqing Yuao Building Materials Co. Ltd ("CYMB Assets"), please advise the following:
  - a. The reason for not including the revised values of the CYMB Assets in the financial report, even though there appears to be an independent valuation completed in respect of the CYMB Assets.
  - b. Why are the Auditors unable to express an opinion in relation to the CYMB Assets in light of the independent valuation being completed?
  - c. What steps does the Company intend to take to obtain an unqualified audit/review report for future financial periods in respect of the CYMB Assets?
4. On what basis does the Company believe the carrying values (as stated) to be appropriate? In your response, please address specifically the following items:
  - (a) The CYMB Assets.

- (b) The bank loan of \$1,623,165.
5. 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 \$8,549,946 and its ability to meet its current debts as and when they fall due.
  6. 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.
  7. 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.
  8. If the answer to questions 7 or 8 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.
  9. 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. AEST on Monday, 4 May 2015**.

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)**