

CHINA SEAS BASKET LIMITED

Report and Financial Statements

For the year ended 30 September 2012

CHINA SEAS BASKET LIMITED

REPORT AND FINANCIAL STATEMENTS CONTENTS

	Page
General Information	3
Report of the Directors	4-5
Independent Auditor's Report	6
Profit and Loss Account	7
Statement of Total Recognised Gains and Losses	7
Balance Sheet	8
Reconciliation of Movement in Shareholders' Funds	9
Cash Flow Statement	10
Notes to the Financial Statements	11-18

CHINA SEAS BASKET LIMITED

REPORT AND FINANCIAL STATEMENTS GENERAL INFORMATION

DIRECTORS:

J Lewis
C Hickling
D Stephenson

**ADMINISTRATOR, SECRETARY
AND REGISTRAR:**

Praxis Fund Services Limited
PO Box 296
Sarnia House
Le Truchot
St Peter Port
Guernsey
GY1 4NA

REGISTERED OFFICE:

Sarnia House
Le Truchot
St Peter Port
Guernsey
GY1 4NA

AUDITOR:

Saffery Champness
PO Box 141
La Tonnelle House
Les Banques
St Sampson
Guernsey
GY1 3HS

BANKERS:

Investec Bank (Channel Islands) Limited
PO Box 188
Glategny Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 3LP

COMPANY REGISTRATION NO:

51929

CHINA SEAS BASKET LIMITED

REPORT OF THE DIRECTORS

For the year ended 30 September 2012

The Directors present their report and the audited financial statements for the year ended 30 September 2012.

Principal Activity

The principal activity of the Company is investment holding.

The Company is a Guernsey authorised closed-ended investment scheme and is subject to the Authorised Closed-Ended Investment Scheme Rules 2008.

Under the terms of the Company's prospectus, in the absence of a special resolution to extend the life of the Company, the Company's shares will be redeemed and the Company will terminate on 15 March 2016.

Results and Dividends

The profit and loss statement is set out on page 7. The Directors do not propose a dividend for the year (2011: Nil).

Directors

The Directors of the Company during the period and to the date of this report are detailed below.

J Lewis
C Hickling
D Stephenson

No Director had any beneficial interest in the shares of the Company.

Statement of Directors' Responsibilities

The Directors are responsible for preparing a Directors' Report and the financial statements in accordance with The Companies (Guernsey) Law, 2008 and applicable regulations.

The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Principles ("UK GAAP").

Under The Companies (Guernsey) Law, 2008 the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for the year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CHINA SEAS BASKET LIMITED

REPORT OF THE DIRECTORS (continued)

For the year ended 30 September 2012

Statement of Directors' Responsibilities (continued)

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.
- the financial statements give a true and fair view and have been prepared in accordance with UK GAAP and with The Companies (Guernsey) Law, 2008 and the Protection of Investors (Bailiwick of Guernsey) Law, 1987.

Auditor

A resolution to re-appoint Saffery Champness as auditor will be put to the members at the Annual General Meeting.

By Order of the Board

Janine Lewis

Director

12 December 2012

INDEPENDENT AUDITOR'S REPORT

To the members of China Seas Basket Limited

We have audited the financial statements of China Seas Basket Limited (the "Company") for the year ended 30 September 2012, which comprise the Profit and Loss account, Statement of Total Recognised Gains and Losses, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Cash Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (Generally Accepted Accounting Principles).

This report is made solely to the Company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 4 and 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the United Kingdom Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view;
- are in accordance with Generally Accepted Accounting Principles; and
- comply with The Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company;
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

SAFFERY CHAMPNESS
CHARTERED ACCOUNTANTS
GUERNSEY
12 December 2012

CHINA SEAS BASKET LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 30 September 2012

	Notes	Year ended 30/09/2012 AUD	Period ended 30/09/2011* AUD
REVENUE			
Interest income	3	117,314	150,614
GAIN/(LOSS) ON INVESTMENTS			
Investments at fair value through profit and loss	4	2,336,260	(5,756,229)
Available-for-sale investments - realised gains	5	360,924	-
		<u>2,814,498</u>	<u>(5,605,615)</u>
OPERATING EXPENSES	6	(752,450)	(856,793)
PROFIT/(LOSS) FOR THE YEAR/PERIOD		<u>2,062,048</u>	<u>(6,462,408)</u>
Earnings/(loss) per ordinary share			
Basic and diluted earnings/(loss) per ordinary share	7	<u>44.26</u>	<u>(136.29)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 30 September 2012

		Year ended 30/09/2012 AUD	Period ended 30/09/2011* AUD
PROFIT/(LOSS) FOR THE YEAR/PERIOD		2,062,048	(6,462,408)
GAINS ON INVESTMENTS			
Available-for-sale investments - unrealised	5	3,750,453	3,753,790
Recycling of prior year revaluation gains	5	(212,324)	-
TOTAL RECOGNISED GAIN/(LOSS) FOR THE YEAR/PERIOD		<u>5,600,177</u>	<u>(2,708,618)</u>

All gains and losses are derived from continuing operations.

There are no recognised gains or losses for the year other than those reported above.

*Please note that the comparative figures relate to the period from incorporation on 26 May 2010 to 30 September 2011

The notes on pages 11 to 18 are an integral part of these financial statements.

CHINA SEAS BASKET LIMITED

BALANCE SHEET

As at 30 September 2012

	Notes	2012		2011	
		AUD	AUD	AUD	AUD
FIXED ASSETS					
Investments at fair value through profit and loss	4	7,081,306		5,059,223	
Available-for-sale investments	5	37,915,632		36,213,510	
			44,996,938		41,272,733
CURRENT ASSETS					
Debtors and prepayments	8	600,885		630,635	
Cash at bank		2,147,135		2,843,645	
			2,748,020		3,474,280
CREDITORS: amounts falling due within one year					
Creditors and accruals	9	9,346		9,678	
			2,738,674		3,464,602
NET CURRENT ASSETS					
CREDITORS: amounts falling due after one year					
Creditors and accruals			110,224		64,827
			47,625,388		44,672,508
CAPITAL AND RESERVES					
Share capital	10		448		475
Share premium	11		44,733,381		47,380,651
Profit and loss account			(4,400,360)		(6,462,408)
Revaluation reserve	12		7,291,919		3,753,790
			47,625,388		44,672,508
EQUITY SHAREHOLDERS' FUNDS					
Number of fully paid ordinary shares			44,733		47,415
Net Asset Value per ordinary share			1,064.66		942.16

The financial statements were approved and authorised for issue by the Board on 12 December 2012 and signed on its behalf by:

Janine Lewis
Director

The notes on pages 11 to 18 are an integral part of these financial statements.

CHINA SEAS BASKET LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 30 September 2012

	Management Shareholders		Ordinary Shareholders			Total
	Share capital AUD	Share capital AUD	Share premium AUD	Retained earnings AUD	Revaluation reserve AUD	Total AUD
Period ended 30 September 2011*						
At 26 May 2010						
Issue of shares (see notes 10, 11)	1	474	47,380,651	-	-	47,381,126
Net loss for the period	-	-	-	(6,462,408)	-	(6,462,408)
Revaluation of available-for-sale investments (see note 12)	-	-	-	-	3,753,790	3,753,790
At 30 September 2011	1	474	47,380,651	(6,462,408)	3,753,790	44,672,508
Year ended 30 September 2012						
Redemption of shares (see notes 10, 11)	-	(27)	(2,647,270)	-	-	(2,647,297)
Recycling of prior year revaluation gains on investments disposed of during the year (see note 5)	-	-	-	-	(212,324)	(212,324)
Total comprehensive income for the year	-	-	-	2,062,048	-	2,062,048
Revaluation of available-for-sale investments (see note 12)	-	-	-	-	3,750,453	3,750,453
At 30 September 2012	1	447	44,733,381	(4,400,360)	7,291,919	47,625,388

*Please note that the comparative figures relate to the period from incorporation on 26 May 2010 to 30 September 2011

The notes on pages 11 to 18 are an integral part of these financial statements.

CHINA SEAS BASKET LIMITED

CASH FLOW STATEMENT

For the year ended 30 September 2012

	Notes	Year ended 30/09/2012 AUD	Period ended 30/09/2011* AUD
RECONCILIATION OF OPERATING GAIN/(LOSS) TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES			
Cash flows from operating activities			
Operating gain/(loss) for the year/period		2,062,048	(6,462,408)
Less:			
Interest income	3	(117,314)	(150,614)
Adjustments for non-cash items:			
(Gain)/loss on investments at fair value through profit and loss	4	(2,336,260)	5,756,229
Gain on available-for-sale investments		(360,924)	-
Working capital adjustments:			
Decrease/(increase) in debtors and prepayments		29,750	(630,635)
Increase in creditors and accruals		45,065	74,505
Net cash outflow from operating activities		(677,635)	(1,412,923)
CASH FLOW STATEMENT			
Net cash outflow from operating activities		(677,635)	(1,412,923)
Returns on investments and servicing of finance			
Interest income	3	117,314	150,614
Capital expenditure and financial investment			
Purchase of investments held at fair value through profit and loss	4	-	(10,815,452)
Disposals of investments held at fair value through profit and loss	4	314,177	-
Purchase of available-for-sale investments	5	-	(32,459,720)
Disposals of available-for-sale investments	5	2,196,931	-
		2,511,108	(43,275,172)
Financing			
Receipts from issue of shares	10,11	-	47,381,126
Redemptions of ordinary share capital	10,11	(2,647,297)	-
		(2,647,297)	47,381,126
Net (decrease)/increase in cash		(696,510)	2,843,645
Cash at the beginning of the year/period		2,843,645	-
Cash at the end of the year/period		2,147,135	2,843,645

*Please note that the comparative figures relate to the period from incorporation on 26 May 2010 to 30 September 2011

The notes on pages 11 to 18 are an integral part of these financial statements.

CHINA SEAS BASKET LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2012

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements of China Seas Basket Limited, with domicile in Guernsey, have been prepared in accordance with UK Generally Accepted Accounting Principles.

Going concern

The financial statements have been prepared on a going concern basis.

Foreign exchange

Foreign currency assets and liabilities are translated into Australian Dollars at the rate of exchange ruling on the balance sheet date. Foreign currency transactions are translated into Australian Dollars at the rate of exchange ruling on the date of the transaction. Foreign exchange gains and losses are included in the profit and loss account in the period in which they arise.

Income

Bank interest is accounted for on an accruals basis.

Investments

The Company's option investments are designated as investments at fair value through profit or loss.

The Company's bond investments are designated as available-for-sale investments.

All investments are measured initially at cost, which is the fair value of whatever was paid to acquire them. Transaction costs are expensed as incurred in the profit and loss account. Investments are derecognised when the rights to receive cash flows from the investments have expired and the Company has transferred substantially all risks and rewards of ownership.

After initial recognition, the Company uses the following measurement bases for its investments:

- i) Held-for-trading investments and those so designated at inception: Fair value through profit and loss;
- ii) Available-for-sale investments: Fair value through equity.

Fair value is calculated using quoted market prices, independent appraisals, discounted cash flow analysis or other appropriate valuation models at the year end date. Gains arising on the disposal of investments are recognised in the profit and loss account, as are unrealised gains on investment at fair value through profit and loss. Unrealised gains on available-for-sale investments are recognised in the statement of total recognised gains and losses. All gains or losses are recognised in the period in which they arise. Prior year revaluation gains on available-for-sale investments disposed of during the year are recycled through profit and loss in the period in which the investments are disposed of.

Taxation

The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged an annual exemption fee of £600.

CHINA SEAS BASKET LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2012

2. SIGNIFICANT AGREEMENTS

The following significant agreements have been entered into by the Company:

Administration, Custodian and Secretarial

Under the Administration, Custodian and Secretarial Agreement, the Company has agreed to pay or procure to be paid to the Administrator, for its services as administrator, secretary, custodian and registrar, a fee of 0.15% of the Company's Funds per annum, payable annually in advance until the Termination Date. In addition the Administrator is entitled to receive interest earned by the Company on the unpaid element of the fees.

Investment Advisory Agreement

Under the Investment Advisory Agreement, the Company has agreed to pay or procure to be paid to the Advisor, for its services as Advisor, a fee of 0.6% per annum of the Company's funds payable in advance on the first Business Day of each year, until the Termination Date. In addition the Advisor is entitled to receive interest earned by the Company on the unpaid element of the fees.

Distribution Agreement

Under the Distribution Agreement, the Company has agreed to pay or procure to be paid to the Distributors a fee of 0.7% per annum of the Company's funds payable in advance on the first Business Day of each year, until the Termination Date.

3. INTEREST INCOME

	2012 AUD	2011 AUD
Bank interest received	<u>117,314</u>	<u>150,614</u>

4. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2012 AUD	2011 AUD
JP Morgan Asian Call Option		
Balance brought forward	5,059,223	-
Purchases during the year/period	-	10,815,452
Disposals during the year/period	(314,177)	-
Gains/(losses) on disposals and fair value adjustment for the year/period	<u>2,336,260</u>	<u>(5,756,229)</u>
Fair value carried forward	<u>7,081,306</u>	<u>5,059,223</u>

5. AVAILABLE-FOR-SALE INVESTMENTS

	2012 AUD	2011 AUD
Zero Coupon Bond issued by Investec plc		
Balance brought forward	36,213,510	-
Purchases during the year/period	-	32,459,720
Disposals during the year/period	(2,196,931)	-
Gains on disposals	360,924	-
Recycling of prior year revaluation gains	(212,324)	-
Fair value adjustment for the year/period	<u>3,750,453</u>	<u>3,753,790</u>
Fair value carried forward	<u>37,915,632</u>	<u>36,213,510</u>

CHINA SEAS BASKET LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2012

6. OPERATING EXPENSES	2012	2011
	AUD	AUD
Auditor's remuneration	8,592	9,678
Administration fees	70,766	85,230
Distribution fees	328,926	361,698
GFSC licence fees	4,908	11,051
Investment advisory fees	283,066	310,921
Interest payable	45,397	64,827
Listing fees	2,372	591
Statutory fees	1,687	2,281
Sponsorship fees	3,619	3,476
Professional indemnity insurance	1,605	2,757
Sundry	1,512	4,283
	<u>752,450</u>	<u>856,793</u>

7. EARNINGS PER ORDINARY SHARE

The calculation of basic and diluted earnings/(loss) per ordinary share is based on the following data:

	2012	2011
	AUD	AUD
Earnings/(loss) attributable to ordinary shares:		
Earnings/(loss) for purpose of basic and diluted earnings/(loss) per share being profit/(loss) for the year/period attributable to ordinary shareholders	<u>2,062,048</u>	<u>(6,462,408)</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	<u>46,586</u>	<u>47,415</u>
Earnings/(loss) per ordinary share	<u>44.26</u>	<u>(136.29)</u>

A weighted average number of shares has been calculated to enable users to gain a fairer understanding of the earnings generated per ordinary share through the year. The weighted average has been calculated with reference to the number of days shares have actually been in issue and hence their ability to influence income generated.

8. DEBTORS AND PREPAYMENTS	2012	2011
	AUD	AUD
Accrued interest	9,683	4,041
Prepaid administration fees	60,850	64,516
Prepaid distributor fees	282,771	299,880
Prepaid investment advisory fees	243,399	258,064
Other prepayments	4,182	4,134
	<u>600,885</u>	<u>630,635</u>

CHINA SEAS BASKET LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2012

9. CREDITORS AND ACCRUALS	2012 AUD	2011 AUD
Due within one year		
Audit fees	<u>9,346</u>	<u>9,678</u>
Due after more than one year		
Interest payable	<u>110,224</u>	<u>64,827</u>
10. SHARE CAPITAL	2012 AUD	2011 AUD
Authorised:		
10 management shares of AUD 1 each	10	10
999,000 ordinary shares of AUD 0.01 each	<u>9,990</u>	<u>9,990</u>
	<u>10,000</u>	<u>10,000</u>
Issued and fully paid:	2012 AUD	2011 AUD
1 management share of AUD 1.00	1	1
44,733.459 ordinary shares of AUD 0.01 each	<u>447</u>	<u>474</u>
	<u>448</u>	<u>475</u>

During the year a total of 2,681.94 ordinary shares were redeemed at an average price of AUD 987.08 per share.

Ordinary shares are entitled to 1 vote each at a general meeting of the Company. The ordinary shares may be compulsorily redeemed on the Redemption Date, 15 March 2016. Ordinary shareholders are entitled to receive any dividends or distributions from the Company and any surplus arising on the winding up of the Company after the payment of creditors and redemption of the management shares at their nominal value.

Management shares are entitled to 10,000 votes each at a general meeting of the Company. Management shares may only be owned by The Basket Trust (see note 14) or its nominee. Management shareholders are not entitled to receive any dividends or distributions from the Company nor any surplus arising on the winding up of the Company in excess of the nominal value of the management shares.

11. SHARE PREMIUM	2012 AUD	2011 AUD
Balance brought forward	47,380,651	-
Ordinary shares issued during the year/period	-	47,414,924
Setup costs incurred	-	(34,273)
Ordinary shares redeemed during the year/period	<u>(2,647,270)</u>	-
Balance carried forward	<u>44,733,381</u>	<u>47,380,651</u>

CHINA SEAS BASKET LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2012

12. REVALUATION RESERVE	2012 AUD	2011 AUD
Balance brought forward	3,753,790	-
Recycling of prior year revaluation gains	(212,324)	-
Revaluation of available-for-sale investments during the year/period	3,750,453	3,753,790
Balance carried forward	<u>7,291,919</u>	<u>3,753,790</u>

13. ULTIMATE CONTROLLING PARTY AND RELATED PARTY TRANSACTIONS

The immediate controlling party at the year end date is Praxis Fiduciaries Limited as trustee of The Basket Trust, which owns the Management shares in the Company, and the ultimate controlling party is Praxis Holdings Limited, a company incorporated in Guernsey.

Praxis Fund Services Limited ('PFSL') (the administrator of the Company with effect from 1 May 2011) is deemed to be a related party, as Janine Lewis and Chris Hickling are Directors of the Company and of PFSL and David Stephenson is a Director of the Company and an employee of PFSL. During the prior year International Fund Management Limited ('IFML') (formerly Praxis Property Fund Services Limited, the administrator of the Company until 30 April 2011) was deemed to be a related party as Janine Lewis and Chris Hickling are Directors of the Company and of IFML and David Stephenson is a Director of the Company and was an employee of IFML until 30 April 2011. During the year PFSL received AUD 70,766 (2011: AUD 29,806) for their services as administrator and AUD 9,033 in respect of interest in outstanding fees (2011: AUD 12,930), whilst IFML received AUD Nil (2011: AUD 55,424) for their services as administrator. At the year end date administration fees of AUD 60,850 had been paid to PFSL in advance (2011: AUD 64,516) and interest on outstanding fees of AUD 21,963 was payable to PFS (2011: AUD 12,930).

14. FINANCIAL INSTRUMENT RISK FACTORS

The Company is exposed to market risk, credit risk and liquidity risk from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below:

(i) Market risk

(a) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency. The Company is not materially exposed to foreign exchange risk as most transactions are in Australian Dollars. The Company's management monitors exchange rate fluctuations on an ongoing basis.

The Company has no material currency exposures at either 30 September 2012 or 30 September 2011.

(b) 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 Company is exposed to interest rate risk as it invests cash and bank balances at short term interest rates. At 30 September 2012, the Company held cash on call account of AUD 111,655 (2011: AUD 1,406,913), which earns interest at floating rates. The company held AUD 2,035,480 (2011: AUD 1,436,732) in a fixed deposit, which earns interest at a fixed rate of 5.25%

Had these balances existed for the whole of the period, the effect on the Profit and Loss account of an increase/decrease in short term interest rates of 0.5% per annum would have been an increase/decrease in post-tax profit for the year of AUD 10,736 (2011: AUD 15,324).

CHINA SEAS BASKET LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2012

15. FINANCIAL INSTRUMENT RISK FACTORS (continued)

(i) Market risk (continued)

(b) Interest rate risk (continued)

The available-for-sale investments are exposed to fair value interest rate risk. However, whilst changes in market interest rates may give rise to short-term fluctuations in fair value, if the bonds are held to maturity their maturity value is fixed and they are therefore not subject to interest rate risk.

The Company has no other material interest rate exposures at 30 September 2012.

(c) Price risk

Price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Company's investments at fair value through profit and loss are directly affected by changes in market prices.

Price risk is managed by investing in an Asian call option on a basket of indices, with an international bank, JP Morgan. JP Morgan has a Fitch long-term credit rating of A+ (2011: AA-).

Price risk is managed by investing in a zero coupon bond, with an international bank, Investec plc. The bank has a long-term Fitch credit rating of BBB- (2011: BBB).

The investments at fair value through profit and loss and available-for-sale investments expose the Company to price risk. The details are as follows:

	2012 AUD	2011 AUD
Asian call option with JP Morgan	7,081,306	5,059,223
Investec plc Zero Coupon Bonds	37,915,632	36,213,510
	<u>44,996,938</u>	<u>41,272,733</u>

A 3 per cent increase/decrease in the value of the investments at fair value through profit and loss at 30 September 2012 would have increased/decreased the Net Asset Value of the Company by AUD 212,439 (2011: AUD 151,777).

A 3 per cent increase/decrease in the value of the available-for-sale investments at 30 September 2012 would have increased/decreased the Net Asset Value of the Company by AUD 1,137,469 (2011: AUD 1,086,405).

(ii) Credit risk

Credit risk arises when a failure by counter-parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the year end date. These financial assets include cash and cash equivalents, debtors, available-for-sale investments and investments at fair value through profit and loss. The Company's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying value or fair value of these instruments.

The Company aims to manage credit risk by holding its securities and cash assets with reputable banking institutions with an investment grade long-term credit rating, ie a Fitch rating in the range AAA+ to BBB-. In the event of any downgrading in the long-term credit rating of any issuer below this level, the Company in its absolute discretion would consider the following courses of action: selling the relevant securities to third party purchasers and reinvesting the proceeds in the purchase of securities of another issuer, such that the new securities would replicate as closely as possible the terms and conditions of the original securities; and transferring cash to another banking institution. The Directors would only seek to sell the relevant securities or transfer cash if they consider on the advice of the investment advisor that such would be in the best interests of the Company and its shareholders.

The Company monitors the creditworthiness of its counterparties on an ongoing basis.

CHINA SEAS BASKET LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2012

15. FINANCIAL INSTRUMENT RISK FACTORS (continued)

(ii) Credit risk (continued)

The majority of the Company's trade and other receivables consists of prepayments and there is no credit risk associated with these balances.

The available-for-sale investments are held with Investec plc, which has a Fitch long term rating of BBB- (2011: BBB). The investments at fair value through profit and loss are held with JP Morgan, which has a Fitch long-term rating of A+ (2011: AA-).

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet financial liability obligations as they fall due, which may cause financial losses to the Company. The Company places its cash and cash equivalents with financial institutions on a short-term basis in order to maintain a high level of liquidity. This ensures that the Company is able to complete transactions in a timely manner, thus minimising the Company's exposure to such losses.

The Board reviews the cash of the Company every quarter and will subsequently move monies from fixed deposit to the call account to meet its short term investments. At 30 September 2012 the cash on call to be applied to short term obligations was AUD 2,147,135 (2011: AUD 2,843,645), which is considered by the Board as sufficient to meet all the Company's short term obligations.

The following table analyses the Company's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 6 months AUD	6-12 months AUD	1 - 5 years AUD
30 September 2012			
Trade and other payables	9,346	-	110,224
Net exposure	<u>9,346</u>	<u>-</u>	<u>110,224</u>
	Less than 6 months AUD	6-12 months AUD	1 - 5 years AUD
30 September 2011			
Trade and other payables	9,678	-	64,827
Net exposure	<u>9,678</u>	<u>-</u>	<u>64,827</u>

(iv) Fair value hierarchy

The following tables analyse instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

CHINA SEAS BASKET LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2012

15. FINANCIAL INSTRUMENT RISK FACTORS (continued)

(iv) Fair value hierarchy (continued)

As at 30 September 2012	Level 1 AUD	Level 2 AUD	Level 3 AUD	Total AUD
Investments at fair value through profit and loss	-	7,081,306	-	7,081,306
Available-for-sale investments	-	37,915,632	-	37,915,632
	<u>-</u>	<u>44,996,938</u>	<u>-</u>	<u>44,996,938</u>
As at 30 September 2011	Level 1 AUD	Level 2 AUD	Level 3 AUD	Total AUD
Investments at fair value through profit and loss	-	5,059,223	-	5,059,223
Available-for-sale investments	-	36,213,510	-	36,213,510
	<u>-</u>	<u>41,272,733</u>	<u>-</u>	<u>41,272,733</u>

(v) Capital risk management

The Company's capital comprises the funds it has raised through the issue of share capital.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost to capital.

In order to ensure that the Company will be able to continue as a going concern, the Board continuously monitors forecast and actual cash flows and matches the maturity profiles of assets and liabilities. The Company has no external borrowings.

16. POST BALANCE SHEET EVENTS

There were no significant post year end events requiring disclosure in these financial statements.