

**CHINA SEAS BASKET LIMITED**

**Report and Financial Statements**

**For the year ended 30 September 2018**

# CHINA SEAS BASKET LIMITED

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# CHINA SEAS BASKET LIMITED

## REPORT AND FINANCIAL STATEMENTS GENERAL INFORMATION

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<b>DIRECTORS:</b>	Chris Hickling Janine Lewis David Stephenson
<b>ADMINISTRATOR, SECRETARY AND REGISTRAR:</b>	Praxis Fund Services Limited Sarnia House Le Truchot St Peter Port Guernsey GY1 1GR
<b>INVESTMENT ADVISER:</b>	Investec Corporate and Institutional Banking 36 Hans Strijdom Avenue Foreshore Cape Town 8001 South Africa
<b>REGISTERED OFFICE:</b>	Sarnia House Le Truchot St Peter Port Guernsey GY1 1GR
<b>AUDITOR:</b>	Saffery Champness PO Box 141 La Tonnelle House Les Banques St Sampson Guernsey GY1 3HS
<b>BANKERS:</b>	Investec Bank (Channel Islands) Limited PO Box 188 Gategny Court Gategny Esplanade St Peter Port Guernsey GY1 3LP
<b>COMPANY REGISTRATION NO:</b>	51929

# CHINA SEAS BASKET LIMITED

## REPORT OF THE DIRECTORS

For the year ended 30 September 2018

The Directors present their report and the audited financial statements for the year ended 30 September 2018.

### Principal Activity

The principal activity of the Company is investment holding.

The Company is a Guernsey registered closed-ended investment company and is subject to the Registered Closed-Ended Investment Scheme Rules 2015 (Registered Closed Ended Investment Scheme Rules 2018 as of 6 October 2018).

At an Extraordinary General Meeting of the Company held on 24 September 2015, shareholders approved a special resolution to extend the life of the Company for a further period of 4.3 years from the Company's previous termination date of 8 March 2016, and authorised the Directors to seek to raise additional capital through a secondary fund raising. Under the terms of the Company's new prospectus, which replaced the previous prospectus with effect from 24 September 2015, and in the absence of a special resolution to extend the life of the Company, the Company will terminate on 10 July 2020 and its shares be redeemed.

### Going concern

These financial statements have been prepared on a going concern basis, as the Company has sufficient working capital and adequate resources to continue in operations and meet its liabilities as they fall due for the foreseeable future.

### Results and Dividends

The statement of comprehensive income is set out on page 9. The Directors do not propose a dividend for the year (2017: Nil).

### Directors

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

Chris Hickling

Janine Lewis

David Stephenson

### Directors' and Other Interests

Janine Lewis is a director of Praxis Fund Services Limited ('PFSL'), the Company's Administrator, Secretary, Custodian and Registrar, and David Stephenson is an employee of PFSL. Janine Lewis, Chris Hickling and David Stephenson are shareholders in PraxisIFM Group Limited, the ultimate parent company of PFSL.

During the year, no Director has had any beneficial interest in the shares of the Company.

No Director of the Company, or Investec Corporate and Institutional Banking ('ICIB'), the Investment Advisor to the Company, holds any right, either contingent or otherwise, to subscribe for shares in the Company.

Details of fees paid to PFSL and ICIB during the year are contained in notes 4 and 14 to these Financial Statements.

No fees were paid to the Directors by the Company during the year.

### Historical Results

The results and assets and liabilities of the Company for the last 5 years are as follows:

	Total Assets	Total Liabilities	Total Recognised
	AUD	AUD	Gains/(Losses)
			AUD
Year ended 30 September 2018	84,083,260	(99,751)	10,261,786
Year ended 30 September 2017	73,787,752	(66,029)	9,443,359
Year ended 30 September 2016	64,314,619	(36,255)	(7,243,532)
Year ended 30 September 2015	39,165,997	(188,021)	(2,990,185)
Year ended 30 September 2014	47,204,901	(158,689)	636,059

# CHINA SEAS BASKET LIMITED

## REPORT OF THE DIRECTORS (continued) For the year ended 30 September 2018

### Investment Portfolio

The Company's investment portfolio comprises the following investments:

	Percentage of portfolio	Cost AUD	Market Value AUD
Investec Bank Limited Structured Deposit (including embedded derivative)	75.0%	56,963,632	61,601,919
JP Morgan Index Basket Option	25.0%	9,330,843	20,544,503
		<u>66,294,475</u>	<u>82,146,422</u>

Investec Bank Limited and JP Morgan are providers of financial services.

### Statement of Directors' Responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report, which complies with the requirements of The Companies (Guernsey) Law, 2008.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with The Companies (Guernsey) Law, 2008. The Directors have chosen to prepare financial statements for the Company in accordance with International Financial Reporting Standards (IFRSs).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- make an assessment of the Company's ability to continue as a going concern.

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 2018

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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
- each Director has taken all the steps they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information; and
- the financial statements give a true and fair view and have been prepared in accordance with International Financial Reporting Standards, with The Companies (Guernsey) Law, 2008 and with The Protection of Investors (Bailiwick of Guernsey) Law, 1987.
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

### **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**

**21 December 2018**

# CHINA SEAS BASKET LIMITED

## Independent auditor's report to the members

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### Opinion

We have audited the financial statements of China Seas Basket Limited (the "Company") for the year ended 30 September 2018, which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs").

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Company as at 30 September 2018 and of the profit for the year then ended;
- have been properly prepared in accordance with IFRSs; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

## CHINA SEAS BASKET LIMITED

### Independent auditor's report to the members (continued)

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#### **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:

- adequate accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of Directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Use of our report**

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.

**SAFFERY CHAMPNESS**

**Chartered Accountants**

**Guernsey**

**21 December 2018**

# CHINA SEAS BASKET LIMITED

## STATEMENT OF COMPREHENSIVE INCOME For the year ended 30 September 2018

	Notes	Year ended 30/09/2018 AUD	Year ended 30/09/2017 AUD
<b>REVENUE</b>			
Interest income	5	4,369,640	4,037,149
<b>GAIN/LOSS ON INVESTMENTS</b>			
Investments at fair value through profit and loss	6	6,909,219	6,603,246
Derivatives at fair value through profit and loss	7	(34,928)	(190,728)
		<u>11,243,931</u>	<u>10,449,667</u>
Gain on currency revaluation		9,424	1,014
Operating expenses	8	(991,569)	(1,007,322)
<b>PROFIT FOR THE YEAR</b>		<u>10,261,786</u>	<u>9,443,359</u>
<b>TOTAL COMPREHENSIVE PROFIT FOR THE YEAR</b>		<u>10,261,786</u>	<u>9,443,359</u>
<b>Earnings per ordinary share</b>			
Basic and diluted earnings per ordinary share	9	<u>146.24</u>	<u>134.58</u>

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

The notes on pages 13 to 24 are an integral part of these financial statements.

# CHINA SEAS BASKET LIMITED

## STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Notes	30/09/2018 AUD	30/09/2017 AUD
<b>NON-CURRENT ASSETS</b>			
Investments at fair value through profit and loss	6	82,168,586	70,907,945
Derivatives at fair value through profit and loss	7	-	12,764
		<b>82,168,586</b>	<b>70,920,709</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	10	443,435	432,538
Unpaid share capital	12	10	10
Fixed deposits		512,393	2,250,514
Cash and cash equivalents		958,836	183,981
		<b>1,914,674</b>	<b>2,867,043</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	(15,378)	(15,555)
<b>NET CURRENT ASSETS</b>			
		<b>1,899,296</b>	<b>2,851,488</b>
<b>NON-CURRENT LIABILITIES</b>			
Derivatives at fair value through profit and loss	7	(22,164)	-
Trade and other payables	11	(62,209)	(50,474)
		<b>(84,373)</b>	<b>(50,474)</b>
		<b>83,983,509</b>	<b>73,721,723</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	12	712	712
Share premium	13	69,870,964	69,870,964
Retained earnings		14,111,833	3,850,047
<b>EQUITY SHAREHOLDERS' FUNDS</b>			
		<b>83,983,509</b>	<b>73,721,723</b>
Number of fully paid ordinary shares		<b>70,168.968</b>	70,168.968
Net Asset Value per ordinary share		<b>1,196.88</b>	1,050.63

The financial statements were approved and authorised for issue by the Board on 21 December 2018 and signed on its behalf by:

**Janine Lewis**  
Director

The notes on pages 13 to 24 are an integral part of these financial statements.

# CHINA SEAS BASKET LIMITED

## STATEMENT OF CHANGES IN EQUITY For the year ended 30 September 2018

	Management Shareholders	Ordinary Shareholders			Total
	Share capital AUD	Share capital AUD	Share premium AUD	Retained earnings AUD	Total AUD
Year ended 30 September 2017					
At 30 September 2016	10	702	69,870,964	(5,593,312)	64,278,364
Profit for the year	-	-	-	9,443,359	9,443,359
At 30 September 2017	10	702	69,870,964	3,850,047	73,721,723
Year ended 30 September 2018					
At 30 September 2017	10	702	69,870,964	3,850,047	73,721,723
Profit for the year	-	-	-	10,261,786	10,261,786
At 30 September 2018	10	702	69,870,964	14,111,833	83,983,509

The notes on pages 13 to 24 are an integral part of these financial statements.

# CHINA SEAS BASKET LIMITED

## STATEMENT OF CASH FLOWS

For the year ended 30 September 2018

	Notes	Year ended 30/09/2018 AUD	Year ended 30/09/2017 AUD
<b>Cash flows from operating activities</b>			
Profit for the year		10,261,786	9,443,359
Less:			
Adjustments for:			
Interest income	5	(4,369,640)	(4,037,149)
Gain on investments at fair value through profit and loss	6	(6,909,219)	(6,603,246)
Loss on derivatives at fair value through profit and loss	7	34,928	190,728
(Increase)/decrease in debtors and prepayments		(2,640)	4,150
Increase in creditors and accruals		11,558	29,774
<b>Net cash outflow from operating activities</b>		<b>(973,227)</b>	<b>(972,384)</b>
<b>Cashflows from investing activities</b>			
Interest income		9,961	72,837
Transfer from fixed deposit		1,738,121	753,279
<b>Net cash inflow from investing activities</b>		<b>1,748,082</b>	<b>826,116</b>
<b>Net increase/(decrease) in cash and cash equivalents for the year</b>		<b>774,855</b>	<b>(146,268)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>183,981</b>	<b>330,249</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>958,836</b>	<b>183,981</b>

The notes on pages 13 to 24 are an integral part of these financial statements.

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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### 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 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments which are measured at fair value.

#### **Going concern**

These financial statements have been prepared on a going concern basis, as the Company has sufficient working capital and adequate resources to continue in operations and meet its liabilities as they fall due for the foreseeable future.

#### **Adoption of new and revised Standards**

No new or amended standards have been applied for the first time in these financial statements.

#### **New, revised and amended standards and interpretations in issue, but not yet effective**

At the date of authorisation of these financial statements, the following relevant standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 7 (amended), "Financial Instruments: Disclosures" (amendments effective for periods commencing on or after 1 January 2018, or on application of IFRS 9 if earlier);
- IFRS 9, "Financial Instruments - Classification and Measurement" (effective for periods commencing on or after 1 January 2018);
- IFRS 15, "Revenue from Contracts with Customers" (effective for periods commencing on or after 1 January 2018).

In addition, the IASB completed its Annual Improvements 2014-2016 Cycle project in December 2016 and its Annual Improvements 2015-2017 Cycle project in December 2017. These projects have amended certain existing standards and interpretations effective for accounting periods commencing on or after 1 January 2018 or 1 January 2019.

The adoption of IFRS 9 is not expected to have a material impact on these Financial Statements, principally for the following reasons:

- the classification and measurement methodology for all of the Company's assets and liabilities will remain the same under IFRS 9 as under IAS 39;
- the Company's investments are measured at fair value and so the changes in IFRS 9 relating to the assessment of credit losses do not apply to these instruments;
- the Company does not apply hedge accounting, and is therefore unaffected by the hedge accounting-related changes introduced in IFRS 9.

The adoption of IFRS 15 is not expected to have a material effect on these Financial Statements as the Company has no income within the scope of IFRS 15

Other than noted above, the Directors believe that none of these standards and interpretations will have a material effect on the financial statements of the Company.

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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### 1. PRINCIPAL ACCOUNTING POLICIES (continued)

#### Foreign exchange

Items included in the financial statements of the Company are measured in the currency of the primary economic environment in which the Company operates (the "functional currency"). The Directors have determined that the functional currency of the Company is Australian Dollars, as it is the currency in which the Company's capital has been raised and in which the majority of the Company's expenses are incurred, notwithstanding that the Company's investments are denominated in Sterling. The Directors have selected Australian Dollars as the presentational currency of the Company.

Foreign currency assets and liabilities are translated into Australian Dollars at the rate of exchange ruling on the year end 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 Statement of Comprehensive Income in the period in which they arise.

#### Revenue recognition

Revenue includes interest and other income and is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the revenue can be measured reliably. Interest and other revenues are accounted for on an accruals basis.

#### Expenses

Expenses are accounted for on an accruals basis. All expenses are charged to the Statement of Comprehensive Income, except for expenses incurred in relation to the launch of the Company, which have been charged against share premium.

#### Investments

The Company's Option investments are classified as investments at fair value through profit or loss.

The Company's Structured Deposit investment has been designated at inception as an investment at fair value through profit and loss.

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

After initial recognition, the Company's investments are measured at fair value through profit or loss. Fair value is calculated using quoted market prices, independent appraisals, discounted cash flow analysis or other appropriate valuation models at the reporting date. Gains arising on the disposal of investments are recognised in the Statement of Comprehensive Income, as are unrealised gains on investments at fair value through profit and loss. All gains or losses are recognised in the period in which they arise.

#### Liquid resources

Liquid resources comprise cash and cash equivalents and fixed deposits. Cash and cash equivalents comprises bank balances and short term deposits with an original maturity of three months or less. Deposits with an original maturity of greater than three months are classified as fixed deposits.

#### Trade and other receivables

Trade receivables are stated at amortised cost less any impairment. In the opinion of the Directors, there is no material difference between the carrying value of the trade and other receivables and their fair value.

#### Trade and other payables

Trade payables are stated at amortised cost. In the opinion of the Directors, there is no material difference between the carrying value of the trade and other payables and their fair value.

#### 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 £1,200 (2017: £1,200).

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2018

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### 2. SEGMENT REPORTING

The Board of Directors considers that the Company is engaged in a single segment of business, being the holding of investments. The Board considers that it is the Company's Chief Operating Decision Maker.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from such estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate was revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors have determined that the Company's Structured Deposit and its Option investment should be classified as investments at fair value through profit or loss. The methodologies for establishing the fair value of the Company's investments are detailed in notes 6 and 7.

### 4. 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 0.135% (2017: 0.135%) per annum of the Company's funds (as reduced by any redemptions of Ordinary Shares prior to the Redemption Date). In addition, the Administrator is entitled to receive interest earned by the Company on the unpaid element of the fees due to the date of termination. See notes 8, 10, 11 and 14 for details of administration fees and interest paid in the year and balances outstanding at the year end.

#### **Investment Advisory Agreement**

Under the Investment Advisory Agreement, the Company has agreed to pay or procure to be paid to the Investment Advisor, for its services as Investment Advisor, a fee of 0.6% (2017: 0.6%) per annum of the Company's funds (as reduced by any redemptions of Ordinary Shares prior to the Redemption Date). In addition the Investment Advisor is entitled to receive interest earned by the Company on the unpaid element of the fees due to the date of termination. The Investment Advisor, Investec Corporate and Institutional Banking, is a part of the same global group of companies as Investec plc, the issuer of the Company's Structured Deposit. See notes 8, 10, 11 and 14 for details of investment advisory fees and interest paid in the year and balances outstanding at the year end.

#### **Distribution Agreement**

Under the Distribution Agreement, the Company has agreed to pay or procure to be paid to the Distributors a fee of 0.6% (2017: 0.6%) per annum of that portion of the Company's funds that is derived from the subscription amount subscribed for by Subscribers introduced by the Distributor (as reduced by any redemptions of such Ordinary Shares prior to the Redemption Date), or holders of existing issued Ordinary Shares introduced by the Distributor and who elect to remain invested in the Company (as reduced by any redemptions of such Ordinary Shares prior to the Redemption Date). See notes 8, 10 and 11 for details of distribution fees paid in the year and balances outstanding at the year end. Investec Corporate and Institutional Banking, the Company's Investment Advisor, is also a Distributor for the Company.

All fees described above are payable annually in advance on the anniversary of the Trade Date (the date of investment of the Company's funds) each year until the Termination Date (the date of compulsory redemption of the ordinary shares).

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

5. INTEREST INCOME	30/09/2018	30/09/2017
	AUD	AUD
Interest on investments at fair value through profit and loss	4,351,422	4,000,012
Bank interest	18,218	37,137
	<u>4,369,640</u>	<u>4,037,149</u>
6. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	30/09/2018	30/09/2017
	AUD	AUD
<b>JP Morgan Index Basket Option</b>		
Balance brought forward	15,323,310	8,033,231
Fair value adjustment for the year	5,221,193	7,290,079
	<u>20,544,503</u>	<u>15,323,310</u>
<b>Investec Bank Limited Structured Deposit</b>		
Balance brought forward	55,584,635	52,271,456
Interest for the year	4,351,422	4,000,012
Fair value adjustment for the year	1,688,026	(686,833)
	<u>61,624,083</u>	<u>55,584,635</u>
<b>Total</b>	<u><b>82,168,586</b></u>	<u><b>70,907,945</b></u>

The Directors determine the fair value of the Option based on a valuation provided by JP Morgan. This valuation is calculated using a formula specified in the Option contract, which is based on the movements in the closing prices of the underlying option indices from the issue date of the Option to the reporting date.

The Option has been classified as a level 2 investment in the fair value hierarchy.

The Investec Bank Limited Structured Deposit (the "Structured Deposit") is a hybrid instrument comprising the following components:

- A holding of Investec plc 9.625% bonds maturing in 2022 (the "Investec bonds"). The Investec bonds were purchased in the market, and, in order to guarantee investors' capital protection at the termination date of the Company, their sale proceeds are fixed by means of a Put Option Agreement entered into between the Company and Investec Bank Limited;
- An accreting bank deposit, which commences on the date of the first coupon payment from the Investec bonds, receives all subsequent coupon payments during the life of the Company, and earns interest on a quarterly compounding basis;
- An interest rate swap, which fixes the interest rate on the accreting deposit. Notwithstanding that the Company regards the interest rate swap as a fundamental part of the Structured Deposit, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", this instrument is now classified separately in the Statement of Financial Position under the heading 'Derivatives at fair value through profit and loss', and movements in the fair value thereof are recognised separately in the Statement of Comprehensive Income. For further details please refer to note 7.

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

### 6. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS (CONTINUED)

The Directors regard the Structured Deposit as a single financial instrument, the fair value of which is determined according to the following methodologies:

- The capital element of the Investec bonds is measured on an amortising cost basis, apportioning the revaluation on a straight-line basis from the bonds' clean purchase cost to the clean closing value (as determined by the Put Option Agreement) over the life of the Company. Interest on the Investec bonds is calculated on an accruals basis;
- The fair value adjustment for the year in relation to the Structured Deposit represents the net effect of the write down of the bond value over the period and the movement due to changes in foreign exchange rates.
- The value of the accreting deposit is determined as the balance of the deposit plus accrued interest;
- The interest rate swap is measured at its mark-to-market value, based on valuations provided by the swap issuer, less a provision for unwind costs, estimated by the Investment Advisor.

The Structured Deposit has been classified as a level 2 investment in the fair value hierarchy, as the main constituents of the product, being interest on the Investec bonds and interest on the accreting deposit account, have observable inputs.

### 7. DERIVATIVES AT FAIR VALUE THROUGH PROFIT AND LOSS

	30/09/2018	30/09/2017
	AUD	AUD
Balance brought forward	12,764	203,492
Fair value adjustment for the year	(34,928)	(190,728)
Fair value carried forward	<u>(22,164)</u>	<u>12,764</u>

Derivatives at fair value through profit and loss comprises an interest rate swap utilised to fix the interest rate on the accreting deposit component of the Structured Deposit (see note 6). The interest rate swap is measured at its mark-to-market value, based on valuations provided by the swap issuer, less a provision for unwind costs, estimated by the Investment Advisor.

The derivatives are classified as level 2 investments in the fair value hierarchy.

### 8. OPERATING EXPENSES

	30/09/2018	30/09/2017
	AUD	AUD
Auditor's remuneration	14,453	14,607
Administration fee	100,039	103,400
Distribution fees	418,232	415,420
GFSC licence fee	5,888	6,041
Investment advisory fee	425,536	425,536
Interest payable	11,735	28,756
Listing fee	3,278	3,359
Statutory fees	3,064	3,017
Sponsorship fee	4,687	4,628
Professional indemnity insurance	2,027	1,244
Legal and professional fees	764	183
Sundry	1,866	1,131
	<u>991,569</u>	<u>1,007,322</u>

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2018

### 9. EARNINGS PER ORDINARY SHARE

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

	30/09/2018 AUD	30/09/2017 AUD
Earnings attributable to ordinary shares:		
Earnings for purpose of basic and diluted earnings per share being earnings for the year attributable to ordinary shareholders	<u>10,261,786</u>	<u>9,443,359</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>70,169</u>	<u>70,169</u>
Earnings per ordinary share	<u>146.24</u>	<u>134.58</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.

### 10. TRADE AND OTHER RECEIVABLES

	30/09/2018 AUD	30/09/2017 AUD
Accrued interest	8,409	152
Prepaid administration fee	44,338	43,800
Prepaid distributor fees	189,276	189,985
Prepaid investment advisory fee	193,531	193,531
Other prepayments	7,881	5,070
	<u>443,435</u>	<u>432,538</u>

### 11. TRADE AND OTHER PAYABLES

	30/09/2018 AUD	30/09/2017 AUD
<b>Current</b>		
Audit fee	13,532	12,830
Distributors fees	1,846	503
Sponsorship fees	-	2,222
	<u>15,378</u>	<u>15,555</u>
<b>Non-current</b>		
Interest payable	<u>62,209</u>	<u>50,474</u>

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2018

<b>12. SHARE CAPITAL</b>	<b>30/09/2018</b>	<b>30/09/2017</b>
	<b>AUD</b>	<b>AUD</b>
Authorised:		
10 Management shares of AUD 1 each	<b>10</b>	10
999,000 Ordinary shares of AUD 0.01 each	<b>9,990</b>	9,990
	<b>10,000</b>	10,000
	<b>30/09/2018</b>	<b>30/09/2017</b>
	<b>AUD</b>	<b>AUD</b>
Issued:		
10 Management shares of AUD 1.00 unpaid (2017: 10 shares unpaid)	<b>10</b>	10
70,169 Ordinary shares of AUD 0.01 each fully paid (2017: 70,169 shares fully paid)	<b>702</b>	702
	<b>712</b>	712

During the year there were no redemptions (2017: nil) and no subscriptions (2017: nil).

Ordinary shares are entitled to 1 vote each at a general meeting of the Company.

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.

<b>13. SHARE PREMIUM</b>	<b>30/09/2018</b>	<b>30/09/2017</b>
	<b>AUD</b>	<b>AUD</b>
Balance brought forward	<b>69,870,964</b>	69,870,964
Balance carried forward	<b>69,870,964</b>	69,870,964

## 14. ULTIMATE CONTROLLING PARTY AND RELATED PARTY TRANSACTIONS

The immediate controlling party at the year end date is PraxisIFM Trust Limited as trustee of The Basket Trust, which owns the Management shares in the Company, and the ultimate controlling party is PraxisIFM Group Limited ('PGL'), a company incorporated in Guernsey. PGL is also the ultimate controlling party of Praxis Fund Services Limited ('PFSL'), the administrator of the Company.

PFSL is deemed to be a related party, as Janine Lewis is a director of PFSL and a shareholder in PGL; Chris Hickling is a shareholder in PGL; and David Stephenson is an employee of PFSL and a shareholder in PGL. During the year PFSL received AUD 100,039 (2017: AUD 103,400) for their services as administrator. At the year end date administration fees of AUD 44,338 had been paid to PFSL in advance (2017: AUD 43,800) and interest on outstanding fees of AUD 14,270 was payable to PFS (2017: AUD 9,249).

The Investment Advisor, Investec Corporate and Institutional Banking, a division of Investec Bank Limited, the issuer of the Company's Structured Deposit, is deemed to be a related party. During the year Investec Corporate and Institutional Banking received AUD 425,536 (2017: AUD 425,536) for their services as investment advisor. At the year end date advisory fees of AUD 193,531 (2017: AUD 193,531) had been paid to Investec Corporate and Institutional Banking in advance and interest on outstanding fees of AUD 63,674 (2017: AUD 41,225) was payable to Investec Corporate and Institutional Banking.

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

### 15. 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. As at 30 September 2018, the Company's investments at fair value through profit or loss and one of its bank accounts are denominated in sterling, therefore the Company is exposed to foreign exchange risk in relation to these assets, as follows:

	30/09/2018	30/09/2017
	AUD	AUD
Investec Bank Limited Structured Deposit (including embedded derivative)	61,601,919	55,597,399
JP Morgan Index Basket Option	20,544,503	15,323,310
Investec plc - cash on call account	150,294	183,981
	<b>82,296,716</b>	<b>71,104,690</b>

At 30 September 2018, the foreign currency exposure of the Company represented 98.0% (2017: 96.4%) of Equity Shareholder's Funds. The Company's policy is not to manage the Company's exposure to foreign exchange movements by entering into any foreign exchange hedging transactions. If the Sterling/Australian Dollar exchange rate at the year end date had been 20% higher/lower, this would have resulted in an increase/decrease in the year end net asset value of AUD 16,459,343 (2017: AUD 14,220,938). The sensitivity rate of 20% is regarded as reasonable due to the potential outcome of the Brexit Referendum with protracted economic uncertainty and the potential for further market volatility.

The Company's management monitors exchange rate fluctuations on an ongoing basis. The Company has no other material currency exposures at either 30 September 2018 or 30 September 2017.

##### (b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash at bank and fixed deposits. At 30 September 2018, the Company held cash on a call account of AUD 150,203 (2017: AUD 183,981), which earns interest at floating rates. The company held AUD 512,393 and AUD 808,254 (2017: AUD 510,208 and AUD 1,740,306) in fixed deposits, which at the year end earned interest at fixed rates of 1.6% and 0.64%.

Had these balances existed for the whole of the year, the effect on the Profit and Loss account of an increase/decrease in interest rates of 0.5% per annum would have been an increase of AUD 7,356/decrease of AUD 6,605 in post-tax profit for the year (2017: increase of AUD 12,172/decrease of AUD 11,253). The sensitivity rate of 0.5% is regarded as reasonable in relation to the current Australian base rate of 1.5% as interest rates on Australian Dollar bank accounts are not currently volatile.

The Investec Bank Limited Structured Deposit is 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 2018.

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

### 15. FINANCIAL INSTRUMENT RISK FACTORS (CONTINUED)

#### (i) Market risk (continued)

##### (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 at inception by investing in a combination of two financial instruments: a holding of zero coupon bonds, or other structured product with similar characteristics, that will provide capital protection for investors; and a call option on a basket of indices that the investment advisor believes is most likely to provide positive performance during the life of the Fund. In order to provide capital protection, the amount of bonds acquired is calculated to ensure that the maturing amount of the Structured Deposit will be sufficient to guarantee that all investors who remain in the Fund to maturity will at minimum get back the amount that they invested. The call option provides the potential for significant upside performance, should the relevant indices perform well, with the downside limited to loss of the initial option premium.

The investment premise of the Fund involves participation in the potential upside afforded by the call option, whilst enjoying the capital protection afforded by the Structured Deposit. Therefore, whilst the Board monitors the performance of the call option and bonds, it is unlikely that the Board would consider redeeming these at any stage, other than in relation to the redemption of investors' shares. As a result, the management of price risk effectively occurs at the inception of the Fund in the selection of investments, and is not an active ongoing process during the remainder of the life of the Fund.

The investments at fair value through profit and loss and the Investec Bank Limited structured deposit expose the Company to price risk. The details are as follows:

	<b>30/09/2018</b>	30/09/2017
	<b>AUD</b>	AUD
Investec Bank Limited Structured Deposit (including embedded derivative)	<b>61,601,919</b>	55,597,399
JP Morgan Index Basket Option	<b>20,544,503</b>	15,323,310
	<b><u>82,146,422</u></b>	<u>70,920,709</u>

##### (c) Price risk

A 50 per cent increase/decrease in the value of the Index Option at 30 September 2018 would have increased/decreased the Net Asset Value of the Company by AUD 9,739,338 (2017: AUD 7,661,655). The sensitivity rate of 50% is regarded as reasonable due to the potential volatility of European stock markets, to which the Option is linked, which is magnified by the participation rate of 200% attached to the Option.

A 5 per cent increase/decrease in the value of the Structured Deposit at 30 September 2018 would have increased/decreased the Net Asset Value of the Company by AUD 2,920,304 (2017: AUD 2,779,870). The lower sensitivity rate of 5% is regarded as reasonable, as the rate at which interest is earned on the instrument, which forms the main part of the annual uplift in value, is largely fixed, and the instrument is not significantly subject to the volatility of investment markets.

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2018

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### 15. FINANCIAL INSTRUMENT RISK FACTORS (continued)

#### (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 held at the year end date. These financial assets include cash and cash equivalents, debtors, the Investec Bank Limited structured deposit 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 states in its Prospectus that it will invest in a Structured Deposit instrument (the 'SD') provided by Investec Bank Limited ('IBL') and an option linked to a specified index, and provides extensive disclosure to shareholders of those instruments and the risks attached thereto. As a result of this, the Company's policy for managing the credit risk attached to the Company's financial assets is to monitor the credit rating of the relevant counterparty for any significant deterioration, without reference to an absolute range of credit ratings. In the event of there being any significant deterioration in the perceived creditworthiness of the counterparty to a point where shareholders' interest may be at risk, the Directors in their 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.

In accordance with this policy, the Board and the investment advisor have noted that the credit rating of IBL as at 30 September 2018 was BB+ (30 September 2017: BB+), and also notes Fitch's comment that IBL's rating is constrained by the sovereign rating of South Africa of BB+. The year end rating of Investec plc, a sister company to IBL, and the issuer of the Bond which underpins the SD, is BBB+ (2017: BBB+). As a result, the Directors and the investment advisor believe that it is not in the best interest of shareholders to attempt to unwind the SD prior to its maturity date on 10 July 2020, as they believe firstly that there has been no significant deterioration in the creditworthiness of IBL, and secondly that obtaining an alternative investment with an institution with a higher credit rating, particularly so close to the maturity of the SD, could only be achieved on less favourable terms than those offered by the SD, which could affect the Company's ability to offer capital protection to shareholders on their investment.

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

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

The investments at fair value through profit and loss are held with JP Morgan and Investec plc, which have Fitch long-term ratings of A+ and BB+ (2017: A+ and BB) respectively. The cash and cash equivalents are held with IBL, which has a Fitch long term rating of BBB+ (2017: BBB+).

#### (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 resources of the Company on an ongoing basis to ensure that sufficient monies are held on call account to meet the Company's short-term obligations. At 30 September 2018 the Company held AUD 150,293 (2017: AUD 183,981) cash on call, AUD 808,935 (2017: AUD 1,740,306) on a one week deposit and AUD 512,393 (2017: AUD 510,208) on a one year fixed deposit, which is considered by the Board as sufficient to meet all of the Company's short-term obligations.

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

### 15. FINANCIAL INSTRUMENT RISK FACTORS (continued)

#### (iii) Liquidity risk (continued)

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
<b>30 September 2018</b>			
Trade and other payables	15,378	-	62,209
Net exposure	<u>15,378</u>	<u>-</u>	<u>62,209</u>
	Less than 6 months AUD	6-12 months AUD	1 - 5 years AUD
<b>30 September 2017</b>			
Trade and other payables	15,555	-	50,474
Net exposure	<u>15,555</u>	<u>-</u>	<u>50,474</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).

<b>As at 30 September 2018</b>	Level 1 AUD	Level 2 AUD	Level 3 AUD	Total AUD
Investments at fair value through profit and loss (including embedded derivative)	-	82,146,422	-	82,146,422
	<u>-</u>	<u>82,146,422</u>	<u>-</u>	<u>82,146,422</u>
<b>As at 30 September 2017</b>	Level 1 AUD	Level 2 AUD	Level 3 AUD	Total AUD
Investments at fair value through profit and loss (including embedded derivative)	-	70,920,709	-	70,920,709
	<u>-</u>	<u>70,920,709</u>	<u>-</u>	<u>70,920,709</u>

There have been no transfers between levels of the fair value hierarchy during the year.

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2018

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### 17. 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 of 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.

### 18. POST BALANCE SHEET EVENTS

There were no significant post balance sheet events requiring disclosure in these financial statements.