

**CHINA SEAS BASKET LIMITED**

**Report and Financial Statements**

**For the year ended 30 September 2013**

# 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 PO Box 296 Sarnia House Le Truchot St Peter Port Guernsey GY1 4NA
<b>REGISTERED OFFICE:</b>	Sarnia House Le Truchot St Peter Port Guernsey GY1 4NA
<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 Glategny Court Glategny 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 2013

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The Directors present their report and the audited financial statements for the year ended 30 September 2013.

### 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 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 (2012: Nil).

### Directors

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

Chris Hickling

Janine Lewis

David 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 2013

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### 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

**Chris Hickling**

**Director**

**6 January 2014**

## **INDEPENDENT AUDITOR'S REPORT**

### **To the members of China Seas Basket Limited**

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We have audited the financial statements of China Seas Basket Limited (the "Company") for the year ended 30 September 2013, 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 in accordance with 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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**  
**6 January 2014**

# CHINA SEAS BASKET LIMITED

## PROFIT AND LOSS ACCOUNT

For the year ended 30 September 2013

	Notes	Year ended 30/09/2013 AUD	Year ended 30/09/2012 AUD
<b>REVENUE</b>			
Interest income	3	99,328	117,314
<b>GAIN/(LOSS) ON INVESTMENTS</b>			
Investments at fair value through profit and loss	4	(46,141)	2,336,260
Available-for-sale investments - realised gains	5	263,650	360,924
		<u>316,837</u>	<u>2,814,498</u>
<b>OPERATING EXPENSES</b>	6	(705,082)	(752,450)
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<u>(388,245)</u>	<u>2,062,048</u>
<b>(Loss)/earnings per ordinary share</b>			
Basic and diluted (loss)/earnings per ordinary share	7	<u>(8.75)</u>	<u>44.26</u>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES For the year ended 30 September 2013

		Year ended 30/09/2013 AUD	Year ended 30/09/2012 AUD
<b>(LOSS)/PROFIT FOR THE YEAR</b>		(388,245)	2,062,048
<b>GAINS ON INVESTMENTS</b>			
Available-for-sale investments - unrealised	5	1,923,249	3,750,453
Recycling of prior year revaluation gains	5	(224,625)	(212,324)
<b>TOTAL RECOGNISED GAIN FOR THE YEAR</b>		<u>1,310,379</u>	<u>5,600,177</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.

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 2013

	Notes	2013		2012	
		AUD	AUD	AUD	AUD
<b>FIXED ASSETS</b>					
Investments at fair value through profit and loss	4	6,902,189		7,081,306	
Available-for-sale investments	5	38,670,903		37,915,632	
			45,573,092		44,996,938
<b>CURRENT ASSETS</b>					
Debtors and prepayments	8	573,292		600,885	
Cash at bank		1,553,030		2,147,135	
			2,126,322		2,748,020
<b>CREDITORS: amounts falling due within one year</b>					
Creditors and accruals	9	11,725		9,346	
<b>NET CURRENT ASSETS</b>					
			2,114,597		2,738,674
<b>CREDITORS: amounts falling due after one year</b>					
Creditors and accruals	9		141,883		110,224
			47,545,806		47,625,388
<b>CAPITAL AND RESERVES</b>					
Share capital	10		435		448
Share premium	11		43,343,433		44,733,381
Profit and loss account			(4,788,605)		(4,400,360)
Revaluation reserve	12		8,990,543		7,291,919
<b>EQUITY SHAREHOLDERS' FUNDS</b>					
			47,545,806		47,625,388
Number of fully paid ordinary shares					
			43,355		44,733
Net Asset Value per ordinary share					
			1,096.66		1,064.66

The financial statements were approved and authorised for issue by the Board on 6 January 2014 and signed on its behalf by:

**Chris Hickling**  
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 2013

	Management Shareholders		Ordinary Shareholders			Total
	Share capital AUD	Share capital AUD	Share premium AUD	Retained earnings AUD	Revaluation reserve AUD	Total AUD
Year ended 30 September 2012						
At 30 September 2011	1	474	47,380,651	(6,462,408)	3,753,790	44,672,508
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)
Profit 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
Year ended 30 September 2013						
Redemption of shares (see notes 10, 11)	-	(13)	(1,389,948)	-	-	(1,389,961)
Recycling of prior year revaluation gains on investments disposed of during the year (see note 5)	-	-	-	-	(224,625)	(224,625)
Loss for the year	-	-	-	(388,245)	-	(388,245)
Revaluation of available-for- sale investments (see note 12)	-	-	-	-	1,923,249	1,923,249
At 30 September 2013	1	434	43,343,433	(4,788,605)	8,990,543	47,545,806

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 2013

	Notes	Year ended 30/09/2013 AUD	Year ended 30/09/2012 AUD
<b>RECONCILIATION OF OPERATING (LOSS)/GAIN TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>			
<b>Cash flows from operating activities</b>			
Operating (loss)/gain for the year		<b>(388,245)</b>	2,062,048
Less:			
Interest income	3	<b>(99,328)</b>	(117,314)
Adjustments for non-cash items:			
Losses/(gains) on investments at fair value through profit and loss	4	<b>46,141</b>	(2,336,260)
Gains on available-for-sale investments		<b>(263,650)</b>	(360,924)
Working capital adjustments:			
Decrease in debtors and prepayments		<b>18,337</b>	29,750
Increase in creditors and accruals		<b>34,038</b>	45,065
<b>Net cash outflow from operating activities</b>		<b>(652,707)</b>	<b>(677,635)</b>
<b>CASH FLOW STATEMENT</b>			
<b>Net cash outflow from operating activities</b>		<b>(652,707)</b>	<b>(677,635)</b>
<b>Returns on investments and servicing of finance</b>			
Interest income		<b>108,584</b>	117,314
<b>Capital expenditure and financial investment</b>			
Disposals of investments held at fair value through profit and loss	4	<b>132,976</b>	314,177
Disposals of available-for-sale investments	5	<b>1,207,003</b>	2,196,931
		<b>1,339,979</b>	2,511,108
<b>Financing</b>			
Redemptions of ordinary share capital	10,11	<b>(1,389,961)</b>	(2,647,297)
		<b>(1,389,961)</b>	(2,647,297)
<b>Net decrease in cash</b>		<b>(594,105)</b>	<b>(696,510)</b>
<b>Cash at the beginning of the year</b>		<b>2,147,135</b>	2,843,645
<b>Cash at the end of the year</b>		<b>1,553,030</b>	2,147,135

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 2013

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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, with domicile in Guernsey, have been prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP).

#### **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) 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 2013

### 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

	2013 AUD	2012 AUD
Bank interest receivable	<u>99,328</u>	<u>117,314</u>

### 4. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2013 AUD	2012 AUD
<b>JP Morgan Asian Call Option</b>		
Balance brought forward	7,081,306	5,059,223
Disposals during the year	(132,976)	(314,177)
(Losses)/gains on disposals and fair value adjustment for the year	(46,141)	2,336,260
Fair value carried forward	<u>6,902,189</u>	<u>7,081,306</u>

### 5. AVAILABLE-FOR-SALE INVESTMENTS

	2013 AUD	2012 AUD
<b>Zero Coupon Bond issued by Investec plc</b>		
Balance brought forward	37,915,632	36,213,510
Disposals during the year	(1,207,003)	(2,196,931)
Gains on disposals	263,650	360,924
Recycling of prior year revaluation gains	(224,625)	(212,324)
Fair value adjustment for the year	1,923,249	3,750,453
Fair value carried forward	<u>38,670,903</u>	<u>37,915,632</u>

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2013

<b>6. OPERATING EXPENSES</b>	<b>2013</b>	<b>2012</b>
	<b>AUD</b>	<b>AUD</b>
Auditor's remuneration	11,705	8,592
Administration fees	67,361	70,766
Distribution fees	310,863	328,926
GFSC licence fees	4,976	4,908
Investment advisory fees	267,631	283,066
Interest payable	31,659	45,397
Listing fees	2,516	2,372
Statutory fees	1,699	1,687
Sponsorship fees	3,472	3,619
Professional indemnity insurance	1,660	1,605
Sundry	1,540	1,512
	<u>705,082</u>	<u>752,450</u>

## 7. EARNINGS PER ORDINARY SHARE

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

	<b>2013</b>	<b>2012</b>
	<b>AUD</b>	<b>AUD</b>
(Loss)/earnings attributable to ordinary shares:		
(Loss)/earnings for purpose of basic and diluted (loss)/earnings per share being (loss)/profit for the year attributable to ordinary shareholders	<u>(388,245)</u>	<u>2,062,048</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	<u>44,390</u>	<u>46,586</u>
(Loss)/earnings per ordinary share	<u>(8.75)</u>	<u>44.26</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.

<b>8. DEBTORS AND PREPAYMENTS</b>	<b>2013</b>	<b>2012</b>
	<b>AUD</b>	<b>AUD</b>
Accrued interest	427	9,683
Prepaid administration fees	58,975	60,850
Prepaid distributor fees	273,477	282,771
Prepaid investment advisory fees	235,901	243,399
Other prepayments	4,512	4,182
	<u>573,292</u>	<u>600,885</u>

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2013

<b>9. CREDITORS AND ACCRUALS</b>	<b>2013</b>	<b>2012</b>
	<b>AUD</b>	<b>AUD</b>
<b>Due within one year</b>		
Audit fees	<u>11,725</u>	<u>9,346</u>
<b>Due after more than one year</b>		
Interest payable	<u>141,883</u>	<u>110,224</u>
<b>10. SHARE CAPITAL</b>	<b>2013</b>	<b>2012</b>
	<b>AUD</b>	<b>AUD</b>
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>
	<b>2013</b>	<b>2012</b>
	<b>AUD</b>	<b>AUD</b>
Issued and fully paid:		
1 management share of AUD 1.00	1	1
43,355.462 ordinary shares of AUD 0.01 each	<u>434</u>	<u>447</u>
	<u>435</u>	<u>448</u>
<p>During the year a total of 1,377.997 ordinary shares were redeemed at an average price of AUD 1,008.68 per share.</p> <p>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.</p> <p>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.</p>		
<b>11. SHARE PREMIUM</b>	<b>2013</b>	<b>2012</b>
	<b>AUD</b>	<b>AUD</b>
Balance brought forward	44,733,381	47,380,651
Ordinary shares redeemed during the year	<u>(1,389,948)</u>	<u>(2,647,270)</u>
Balance carried forward	<u>43,343,433</u>	<u>44,733,381</u>

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2013

<b>12. REVALUATION RESERVE</b>	<b>2013</b>	<b>2012</b>
	<b>AUD</b>	<b>AUD</b>
Balance brought forward	<b>7,291,919</b>	3,753,790
Recycling of prior year revaluation gains	<b>(224,625)</b>	(212,324)
Revaluation of available-for-sale investments during the year	<b>1,923,249</b>	3,750,453
Balance carried forward	<b><u>8,990,543</u></b>	<b><u>7,291,919</u></b>

### 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. 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 year PFSL received AUD 67,361 (2012: AUD 70,766) for their services as administrator and AUD 6,249 in respect of interest on outstanding fees (2012: AUD 9,033). At the year end date administration fees of AUD 58,975 had been paid to PFSL in advance (2012: AUD 60,850) and interest on outstanding fees of AUD 27,820 was payable to PFS (2012: AUD 21,963).

### 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 2013 or 30 September 2012.

##### (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 as it invests cash and bank balances at short term interest rates. At 30 September 2013, the Company held cash on call account of AUD 1,553,030 (2012: AUD 111,655), which earns interest at floating rates. The company held AUD 0 (2012: AUD 2,035,480) in a fixed deposit, which earned 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 7,765 (2012: AUD 10,736).

# CHINA SEAS BASKET LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2013

### 14. 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 2013.

##### (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+ (2012: A+).

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- (2012: 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:

	2013 AUD	2012 AUD
Asian call option with JP Morgan	6,902,189	7,081,306
Investec plc Zero Coupon Bonds	38,670,903	37,915,632
	<u>45,573,092</u>	<u>44,996,938</u>

A 3 per cent increase/decrease in the value of the investments at fair value through profit and loss at 30 September 2013 would have increased/decreased the Net Asset Value of the Company by AUD 193,669 (2012: AUD 212,439).

A 3 per cent increase/decrease in the value of the available-for-sale investments at 30 September 2013 would have increased/decreased the Net Asset Value of the Company by AUD 1,158,514 (2012: AUD 1,137,469).

#### (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 2013

### 14. 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- (2012: BBB-). The investments at fair value through profit and loss are held with JP Morgan, which has a Fitch long-term rating of A+ (2012: A+).

#### (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 2013 the cash on call to be applied to short term obligations was AUD 1,553,030 (2012: AUD 2,147,135), 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
<b>30 September 2013</b>			
Trade and other payables	11,725	-	141,883
Net exposure	<u>11,725</u>	<u>-</u>	<u>141,883</u>
	Less than 6 months AUD	6-12 months AUD	1 - 5 years AUD
<b>30 September 2012</b>			
Trade and other payables	9,346	-	110,224
Net exposure	<u>9,346</u>	<u>-</u>	<u>110,224</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 2013

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

#### (iv) Fair value hierarchy (continued)

As at 30 September 2013	Level 1 AUD	Level 2 AUD	Level 3 AUD	Total AUD
Investments at fair value through profit and loss	-	6,902,189	-	6,902,189
Available-for-sale investments	-	38,670,903	-	38,670,903
	<u>-</u>	<u>45,573,092</u>	<u>-</u>	<u>45,573,092</u>
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>

#### (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 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.

### 15. POST BALANCE SHEET EVENTS

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