

China Puda High-Tech Holdings Limited

ABN 55 154 050 656

Annual Report for the Year Ended 31 December 2012

DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the Group, being the company and its controlled entity, for the financial year ended 31 December 2012.

Principal Activities

The principal activities of the consolidated group during the financial year were sale of footwear and apparels.

Operating Results and Review of Operations for the Year

Operating Results

The consolidated profit of the consolidated group for the year after providing for income tax amounted to \$10,323,933 (2011: profit \$8,190,732).

Review of Operations

The Group continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

Financial Position

The net assets of the consolidated group have increased by \$10,322,643 from 31 December 2011 to \$19,847,743 in 2012. The directors believe the Group is in a solid financial position to withstand current market conditions.

Significant changes in State of Affairs

The following significant changes in the state of affairs of the consolidated group occurred during the financial year:

- i. Closure and outsourcing the Design Division in the Research & Development Centre
- ii. Discontinued use of supermarkets as a distribution channel
- iii. On 31 August 2012, the holding company acquired the subsidiary Fujian Puda Trade Co.,Ltd

Dividends Paid or Recommended

No dividends were paid or declared since the start of the financial year. With respect to the 2012 financial year, the directors have recommended that no dividend be paid.

Events after the Reporting Period

No matters or circumstances, besides those disclosed at note 23, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the future financial years.

China Puda High-Tech Holdings Limited and Controlled Entity
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DIRECTORS' REPORT

Future Developments and Business Strategies

The Group expects to expand its sales and distribution channels domestically through engaging new distributors and continue to work towards Initial Public Offering in the second half of 2013.

Environmental Regulations

The Group's operation is not regulated by any significant environmental regulation under the law of the Commonwealth or of the People's Republic of China.

Directors

The names of the directors in office at any time during the financial year from 1 January 2012 to 31 December 2012, and up to the date of this report are:

<u>Director</u>	<u>Appointed</u>	<u>Resigned</u>
Cheng Chin Jung	14 November 2011	
Hu Chih Cheng	14 November 2011	
Liu Yongjin	14 November 2011	23 November 2012
Brendan Connell	14 November 2011	19 June 2012
Ting Jiang	14 November 2011	19 June 2012
Henry Chia	19 June 2012	18 June 2013
Michael Ly	19 June 2012	29 June 2013
Chua Ser Miang	3 December 2012	
Hongmiao (Tracey) Du	2 July 2013	
Lina Sun	2 July 2013	

Information on Directors

Cheng Chin Jung, Chairman and CEO

Mr Cheng is the founder of the Group, and has more than 20 years of experience in the shoe and apparel industry. He graduated from the National Cheng Kung University of Taiwan in Business Management, and has been a CPC (China Productivity Centre) consultant in the Taiwan China Manufacturing Centre. Mr Cheng has guided and coached companies including Lilang, JoeOne, Spark Rino Shoes, Daphne and Yantai Sam Woo Group etc. From 1990 to 1995 Mr Cheng was the Chairman of Bao Likang International Co.Ltd. He was then the general manager of Jin Quantai Industry Co.Ltd until 1997. He is a Chair professor in the MBA education centre and is a part-time professor in the school of Economics & Finance of China Hua Qiao University.

Interest in Shares and Options	—	56,097,195 ordinary shares in China Puda High-Tech Holdings Limited through China Puda Investment Co. Ltd
Special responsibilities	—	Responsibilities include managing the company's operations and delivering long-term shareholder value.
Directorship held in other listed entities during the three year prior to the current year	—	None

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DIRECTORS' REPORT

Hu Chih Cheng, Executive Director

Mr Hu is an executive director as well as being the Group's director of sales and marketing and is responsible for the Group's marketing campaigns and production and development of marketing materials. From 1996 to 2005 Mr Hu was the business manager and vice general manager of Adding Associate Inc where he was responsible for transferring businesses from Taiwan to Mainland China and setting up subsidiaries in Hong Kong for retail growth and expansion. In 2006 and 2007 Mr Hu was in the position of general manager of Taiwan Taikai Co.Ltd. He is a graduate of Taipei Soochow University and holds a Bachelor of Science degree.

Interest in Shares and Options	—	Nil
Special responsibilities	—	Responsibilities include managing the sales department and involving in decision making for the company's operation
Directorship held in other listed entities during the three year prior to the current year	—	None

Henry Chia, Non-executive Director

Mr Chia has more than 20 years of experience at senior levels in banking, finance and management both in Australia as well as in Asia. During his banking career, Mr Chia held senior executive roles. In addition to his management experience with major banking institutions, Mr Chia held the role of managing director of SNP Sprint (Australia) Pty Ltd between 2002 and 2004. He is currently the managing director of Shenton Capital where he assists small business owners to sell their businesses, raise borrowings from banks and non-bank funding sources or equity from off-shore funds including Hong Kong and Singapore. Mr. Chia is a graduate of National University of Singapore and also attended the Pacific Rim Bankers program at the University of Washington business school.

Interest in Shares and Options	—	Nil
Special responsibilities	—	Mr Chia is a members of Audit and Risk Management Committee and Nomination and Remuneration Committee
Directorship held in other listed entities during the three year prior to the current year	—	None

Michael Ly, Non-executive Director

Mr Ly is a Melbourne stockbroker employed by Patersons Securities Ltd in the role of senior private client adviser. He was until recently the branch manager of the Mt Waverley office of Patersons securities. Prior to his stockbroking career Mr Ly had over 15 years business experience at senior management level across the retail, manufacturing and distribution sectors. During this period he was also involved in the entrepreneurial start-up of several small to medium private companies. Mr Ly holds a Bachelor of Computing from Monash University and professional diploma in stockbroking from Deakin University.

Interest in Shares and Options	—	Nil
Special responsibilities	—	Mr Ly is a member of Audit and Risk Management Committee and Nomination and Remuneration Committee
Directorship held in other listed entities during the three year prior to the current year	—	None

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DIRECTORS' REPORT

Chua Ser Miang, Non-executive Director

Mr Chua has more than 20 years of experience in the finance industry in Singapore. He started his career with the monetary authority of Singapore in a regulatory role before moving into the investment banking industry as an equity analyst initially and later as a corporate finance practitioner. He has been actively involved in M&A and IPO activities, in particular on the listing of PRC companies on overseas stock exchanges. He spent the past six years in DMG & Partners Securities and last held the position of director in the corporate finance department. Mr. Chua holds a Bachelor of Business Administration degree from the National University of Singapore and the Chartered Financial Analyst designation from the CFA Institute USA.

Interest in Shares and Options	—	Nil
Special responsibilities	—	Mr Chua is a members of Audit and Risk Management Committee and Nomination and Remuneration Committee
Directorship held in other listed entities during the three year prior to the current year	—	None

Liu Yongjin, Non-executive Director

Mr Liu is the executive director & general manager of Fujian Shangzheng Industry Development Co.Ltd . He also acted as the supervisor for Fujian Jinjiang Brother Crocodile Co. Ltd. Mr Liu graduated from Quanzhou Liming University – Business Management.

Interest in Shares and Options	—	42,077,805 ordinary shares in China Puda High Tech Holdings Limited through China Puda Investment Co. Ltd
Special responsibilities	—	None
Directorship held in other listed entities during the three year prior to the current year	—	None

Brendan Connell

Mr Connell is an experienced corporate lawyer and has extensive experience in capital raising, mergers and acquisitions in the resources sectors.

Interest in Shares and Options	—	Nil
Special responsibilities	—	None
Directorship held in other listed entities during the three year prior to the current year	—	None

Ting Jiang

Mr Jiang is a qualified CPA in Australia and has more than 7 years of corporate finance and corporate advisory experience. He has completed a range of capital market transactions in Australia and China, and has a good understanding of Australian Corporations Act, listing rules, international accounting standards and Chinese Corporations Law. Mr Jiang has completed the Chartered Financial Analyst Level II, holds a Master of Accounting and Finance from the University of Adelaide, a Master of Business (Research) from the University of Adelaide, a Bachelor of Laws from China, and has passed the Chinese Bar Exam.

Interest in Shares and Options	—	Nil
Special responsibilities	—	Responsibilities include finance, risk and insurance management, internal audit and corporate affairs.
Directorship held in other listed entities during the three year prior to the current year	—	None

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DIRECTORS' REPORT

Hongmiao (Tracey) Du, Non-executive Director

Ms Du started her banking and finance career with AMP Australia in 2006 and has been working for a number of Australian financial institutions including ANZ and Liberty Financials since then. She has a solid understanding of Australian financial markets. Ms Du holds a Bachelor of Commerce and a Master of Finance from Monash University Melbourne.

Interest in Shares and Options	—	Nil
Special responsibilities	—	None
Directorship held in other listed entities during the three year prior to the current year	—	None

Lina Sun, Non-executive Director

Ms Sun is an entrepreneur and has broad experience in doing business in Australia and China. She has been involved in property development and exporting business for the past ten years. Ms Sun holds a Bachelor of Land Resource Management from China Anhui Agriculture University and a MBA from China Dongnan University. She is a resident of Victoria, Australia.

Interest in Shares and Options	—	Nil
Special responsibilities	—	None
Directorship held in other listed entities during the three year prior to the current year	—	None

Company Secretary

The name of the company secretary in office as at the end of the financial year is

Name	Appointed	Resigned
Ting Jiang	14 November 2011	-

Meetings of Directors

The following table sets out the number of directors' meetings (no committee meetings were held as the full board dealt with matters that could have been delegated to committees) held during the financial year and the number of meetings attended by each director (while they were a director). During the financial year, 6 meetings of directors were held.

Director	Eligible	Attended
Cheng Chin Jung	6	4
Hu Chih Cheng	6	3
Henry Chia	6	6
Michael Ly	6	6
Chua Ser Miang	1	1
Liu Yongjin	3	1
Brendan Connell	0	0
Ting Jiang	0	0

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DIRECTORS' REPORT

Indemnifying Officers or Auditor

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been an officer or auditor of the Group.

Options

The Company has no share options issued or exercised during or at the end of the financial year.

Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the service disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor, and
- the nature of the services provided does not comprise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the auditor of the Group, Pitcher Partners SA Pty Ltd, for non-audit services provided during the year ended 31 December 2012:

	\$
Taxation services	5,000
Independent Accountants' Report	20,000
	<hr/>
	25,000
	<hr/>

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 31 December 2012 has been received and can be found on page 9 of the financial report.

China Puda High-Tech Holdings Limited and Controlled Entity
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REMUNERATION REPORT

Remuneration Policy

China Puda High-Tech Holdings Limited is committed to providing its executive directors and non-executive directors with remuneration that is fair to the shareholders, competitive in the market and incentivized to achieve greater business excellence and the recruitment and retention of key management personnel.

The remuneration policy of the Group is to be developed by the Nomination and Remuneration Committee and approved by the Board. Base remuneration such as salary is determined based on standard factors such as length of service and experience. Performance incentives will also be employed where believed necessary in the remuneration packages of the executive and the Nomination and Remuneration Committee is to recommend the key performance indicators that are to be employed as the tools for judging performance. Options and rights will also be used alongside bonus cash payments for the purposes of aligning the interests of the directors and company with those of the shareholders. The Board will also distinguish the structure of non-executive directors' remuneration from that of executive directors. A remuneration consultant was not engaged to provide recommendations in respect of the remuneration of KMP for the financial year ended 31 December 2012.

Remuneration Details for the Year Ended 31 December 2012

The following tables show the components of remuneration for each member of KMP of the consolidated group for the current financial year.

Table of benefits and payments for the year ended 31 December 2012

	Short-term Benefits			Equity-settled Share-based Payments		Total
	Salary, Fees and Leave	Profit Share and Bonuses	Other	Shares/ Units	Options/ Rights	
	\$	\$	\$	\$	\$	\$
Group KMP				-	-	
Cheng Chin Jung	60,000	-	-	-	-	60,000
Hu Chih Cheng	50,000	-	-	-	-	50,000
Henry Chia	30,000	-	-	-	-	30,000
Michael Ly	30,000	-	-	-	-	30,000
Chua Ser Miang	10,000	-	-	-	-	10,000
Liu Yongjin	-	-	-	-	-	-
Brendan Connell	-	-	-	-	-	-
Ting Jiang	-	-	-	-	-	-
Total	180,000	-	-	-	-	180,000

Cash bonuses, performance-related bonuses and share-based payments

The Group has not granted any cash bonus, performance-related bonus or other performance related share based payment during the financial year to KMP.

Options and rights granted

The Group has not granted any options or rights during the financial year to KMP.

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This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

Signed:



Director: Cheng Chin Jung

Date: 31. July. 2013



Director: Chua Ser Miang

Date: 31. July. 2013.



PITCHER PARTNERS

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Pitcher Partners is an association of Independent firms
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PRINCIPALS

JEFFREY D ALLEN
THOMAS H VERCOS
MICHAEL J LANE
RICHARD D BROOKS
MICHAEL O BASEDOW
BEN V BRAZIER
ANDREW P FAULKNER
ANDREW C BEITZ
LEIGH D PRIOR

CHINA PUDA HIGH- TECH HOLDINGS LIMITED AND CONTROLLED ENTITY ABN 55154050656

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF CHINA PUDA HIGH- TECH HOLDINGS LIMITED AND CONTROLLED ENTITY

In relation to the independent audit for the year ended 31 December 2012, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) No contraventions of any applicable code of professional conduct.

Andrew Faulkner

Principal

PITCHER PARTNERS

Adelaide

Date: 31st July 2013

China Puda High-Tech Holdings Limited and Controlled Entity
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

		Consolidated	
	Note	2012	2011
Revenue		\$	\$
Sales revenue	2	58,393,587	47,938,260
Other revenue	2	624,275	17,663
		<u>59,017,862</u>	<u>47,955,923</u>
Less: Expenses			
Costs of Goods Sold		(41,232,201)	(33,228,744)
Transport Expenses		(70,551)	(168,350)
Depreciation and amortisation expenses		(209,991)	(403,144)
Employee benefits expenses		(810,241)	(847,043)
Occupancy expenses		(1,677,930)	(1,585,708)
Advertising expenses		(5,352)	(16,676)
Lease expenses		(91,723)	(103,237)
Finance costs		(483,238)	(430,193)
Research and Development expenses		(86,384)	-
Other expenses		(143,743)	(15,154)
		<u>(44,811,354)</u>	<u>(36,798,249)</u>
Profit before income tax expense	3	14,206,508	11,157,674
Income tax expense	4	(3,882,575)	(2,966,942)
Net profit from continuing operations		<u>10,323,933</u>	<u>8,190,732</u>
Other comprehensive income			
Exchange differences on translation of foreign operations		(1,390)	402,995
Other comprehensive income for the year		<u>(1,390)</u>	<u>402,995</u>
Total comprehensive income		<u>10,322,543</u>	<u>8,593,727</u>
Total comprehensive income attributable to members of the parent entity		<u>10,322,543</u>	<u>8,593,727</u>

The accompanying notes form part of these financial statements.

China Puda High-Tech Holdings Limited and Controlled Entity
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	Consolidated 2012 \$	2011 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	12,521,356	6,281,566
Trade and other receivables	6	12,617,242	7,663,093
Inventories	7	443,222	199,693
Loans	8	10,450,940	-
Other assets	9	27,999,343	21,223,226
TOTAL CURRENT ASSETS		64,032,103	35,367,578
NON-CURRENT ASSETS			
Property, plant and equipment	10	518,537	796,967
TOTAL NON-CURRENT ASSETS		518,537	796,967
TOTAL ASSETS		64,550,640	36,164,545
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	13,313,675	7,481,142
Borrowings	12	30,688,100	17,941,837
Provisions	13	505,139	187,863
Other liabilities	14	195,983	1,028,603
TOTAL CURRENT LIABILITIES		44,702,897	26,639,445
TOTAL LIABILITIES		44,702,897	26,639,445
NET ASSETS		19,847,743	9,525,100
EQUITY			
Issued capital	16	968,541	968,441
Reserves	17	398,062	399,452
Retained earnings		18,481,140	8,157,207
TOTAL EQUITY		19,847,743	9,525,100

The accompanying notes form part of these financial statements.

China Puda High-Tech Holdings Limited and Controlled Entity
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Contributed Equity	Retained Earnings	Reserve	Total Equity
	\$	\$	\$	\$
Balance as at 1 January 2011	968,441	(33,525)	(3,543)	931,373
Profit for the year	-	8,190,732	-	8,190,732
Other comprehensive income for the year	-	-	402,995	402,995
Total comprehensive income for the year	-	8,190,732	402,995	8,593,727
Balance as at 31 December 2011	968,441	8,157,207	399,452	9,525,100
 Balance as at 1 January 2012	 968,441	 8,157,207	 399,452	 9,525,100
Parent capital being issued	100	-	-	100
Profit for the year	-	10,323,933	-	10,323,933
Other comprehensive income for the year	-	-	(1,390)	(1,390)
Total comprehensive income for the year	-	10,323,933	(1,390)	10,322,543
Balance as at 31 December 2012	968,541	18,481,140	398,062	19,847,743

The accompanying notes form part of these financial statements.

China Puda High-Tech Holdings Limited and Controlled Entity
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

		Consolidated	
	Note	2012	2011
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		53,509,276	41,819,953
Receipts from non-operating income		-	17,663
Payments to suppliers and employees		(51,458,542)	(54,188,638)
Interest received		226,514	-
Finance costs		(483,238)	(272,363)
Income tax paid		(3,375,460)	(1,066,416)
Net cash used in operating activities	18	<u>(1,581,450)</u>	<u>(13,689,801)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	-
Purchase of property, plant and equipment		(100,175)	(1,150,764)
Loans to related parties:		137,503	-
Repayments of loans by related parties		(10,080,719)	-
Net cash used in investing activities		<u>(10,043,391)</u>	<u>(1,150,764)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		17,660,766	19,830,410
Repayment of borrowings		(4,914,503)	-
Proceeds from related party borrowings		5,110,225	-
Net cash provided by financing activities		<u>17,856,488</u>	<u>19,830,410</u>
Net increase in cash held		6,231,647	4,989,845
Cash and cash equivalents at beginning of financial year		6,281,566	888,726
Foreign exchange differences on cash holdings		8,143	402,995
Cash and cash equivalents at end of financial year	5	<u>12,521,356</u>	<u>6,281,566</u>

The accompanying notes form part of these financial statements.

China Puda High-Tech Holdings Limited and Controlled Entity
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

These consolidated financial statements and notes represent those of China Puda High-Tech Holdings Limited and its Controlled Entity.

China Puda High-Tech Holdings Limited is an Australian public company, limited by shares and was registered in Victoria, Australia, under Corporations Act 2001 on 14 November 2011. The holding company acquired the subsidiary Fujian Puda Trad Co., Ltd on 31 August 2012.

The wholly owned subsidiary Fujian Puda Trade Co., Ltd is a company limited by liability, incorporated and domiciled in Fujian province in the People's Republic of China.

As the business combination is a capital reorganisation not a common control transaction, the consolidated financial statements include the existing entity's full year results and comparatives.

The separate financial statements of the parent entity, China Puda High-Tech Holdings Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial statements were authorised for issue on 10 July 2013 by the directors of the company.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entity controlled by China Puda High-Tech Holdings Limited at the end of the reporting period. A controlled entity is any entity over which China Puda High-Tech Holdings Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

As the business combination is a capital reorganisation not a common control transaction, the consolidated financial statements include the existing entity's full year results and comparatives. A list of controlled entity is contained in Note 21 to the financial statements.

In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

b. Going concern

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the company.

China Puda High-Tech Holdings Limited and Controlled Entity
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

d. Foreign Currency Translation

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional and presentation currency. The functional currency of the operating subsidiary, Fujian Puda Trade Co.,Ltd is the Chinese Renminbi ("RMB").

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets, liabilities and retained earnings are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in profit or loss in the period in which the operation is disposed of.

e. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest method.

All revenue is stated net of the amount of value added tax (VAT) or goods and services tax (GST).

f. Income Tax

The income tax expense for the year comprises current income tax expense.

Current income tax expense charged to profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, as at reporting dates. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority (Fujian Province, China and Australia).

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

g. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

h. Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(l) for further discussion on the determination of impairment losses.

i. Inventories

Inventories are measured at the lower of cost and net realisable value and the cost are assigned on the basis of weighted average costs.

j. Property, Plant and Equipment

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as revaluation decrease if the impairment losses relate to a devalued asset. A formal assessment of recoverable amount is made when impairment indicators are present. Refer to Note 1(1) for details of impairment.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

Class of fixed asset	Useful lives	Depreciation basis
Plant and equipment at cost	10 years	Straight line
Motor vehicles at cost	4 years	Straight line
Office equipment at cost	3 years	Straight line

The asset's residual values and useful lives are reviewed, and adjusted if appropriate at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carry amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

k. Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Lease

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

l. Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

m. Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflow to be made for those benefits. Those cash flows are discounted using market yield on national government bonds with terms to maturity that match the expected timing of cash attributable to employee benefits.

n. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

o. Trade and Other Payables

Trade and other payables include the liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are paid on normal commercial terms.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

p. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

q. Value Added Tax (VAT) / Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of VAT/GST, except where the amount of VAT/GST incurred is not recoverable from the tax bureau/ ATO .

Receivables and payables are stated inclusive of the amount of VAT/GST receivable or payable. The net amount of VAT/GST recoverable from, or payable to, the tax bureau is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The VAT/GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the tax bureau are presented as operating cash flows included in receipts from customers or payments to suppliers.

r. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

s. Critical Accounting Estimates and Judgments

Estimates and judgements, including provision for tax, employee entitlement and goods return, are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

t. New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2012 reporting date, of which none have been early adopted. None of these are expected to materially affect the group's financial statements.

NOTE 2: REVENUE AND OTHER INCOME

		Consolidated	
	Note	2012	2011
		\$	\$
Sales revenue:			
Sale of goods		58,393,587	47,938,260
Other revenue:			
Interest from financial assets not at fair value through profit or loss	22	596,735	-
Other revenue		27,540	17,663
		<u>624,275</u>	<u>17,663</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 3: PROFIT FOR THE YEAR

	Consolidated	
	2012	2011
	\$	\$
Profit before income tax includes the following specific expenses:		
Cost of sales		
Purchases of finished goods	41,232,201	33,228,744
Bad and doubtful debts	129,993	-
Employee benefits expenses	810,241	847,043
Depreciation and amortisation	209,991	403,144
Finance costs		
Interest expense	303,367	272,363
Bank charges	179,871	157,830
Net loss on disposal of PPE	21,677	-
Rental expense on operating lease	91,723	103,273
Research and development expenses	86,384	-

NOTE 4: INCOME TAX EXPENSE

	Consolidated	
	2012	2011
	\$	\$
a. Components of tax expense		
Current tax	3,882,575	2,966,942
b. The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows		
Prima facie income tax payable on profit at 25% (2011: 25%)	3,551,627	2,789,418
Add tax effect of:		
Non deductible selling expenses	226,743	11,738
Non deductible administration expenses	19,634	23,548
Non operating expenses	28,237	39,921
Non taxable entertainment expenses	7,981	8,601
Depreciation	5,711	4,623
Unrecognised temporary differences	66,095	91,506
	<u>354,401</u>	<u>179,937</u>
Less tax effect of:		
Other	23,453	2,413
	<u>23,453</u>	<u>2,413</u>
Income tax expense attributable to profit	<u><u>3,882,575</u></u>	<u><u>2,966,942</u></u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 5: CASH AND CASH EQUIVALENTS

		Consolidated	
	Note	2012	2011
		\$	\$
Cash on hand		6,478	2,938
Cash at bank		533,378	150,320
Security deposit for bank loan	12	11,981,500	6,128,308
		<u>12,521,356</u>	<u>6,281,566</u>

NOTE 6: TRADE AND OTHER RECEIVABLES

		Consolidated	
	Note	2012	2011
		\$	\$
CURRENT			
Trade receivables	a	12,746,590	7,657,629
Provision for impairment	b	(129,993)	-
		<u>12,615,597</u>	<u>7,657,629</u>
Other receivables		645	5,464
		<u>12,617,242</u>	<u>7,663,093</u>

a. Past due but not impaired

As at 31 December 2012, trade receivables of \$3,530,305 (2011: \$354,325) were past due but not impaired. These related to independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	Consolidated	
	2012	2011
	\$	\$
Up to 3 months	3,089,245	145,989
3 to 9 months	132,513	208,336
Over 9 months	308,547	-
	<u>3,530,305</u>	<u>354,325</u>

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

b. Impaired trade receivables

As at 31 December 2012, trade receivables of \$129,993 (2011: Nil) were impaired. The individually impaired receivables mainly relate to supermarket distributors, of which the possibility of recover the past due receivable is uncertain as the supermarkets have the right to return the goods under the distribution arrangement and the group has discontinued use of supermarkets as a distribution channel during the financial year. Movements in the provision for impairment of receivables are as follows:

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 6: TRADE AND OTHER RECEIVABLES (CON'T)

b. Impaired trade receivables (Con't)

	Consolidated	
	2012	2011
	\$	\$
As at 1 January	-	-
Provision for impairment recognised	129,993	-
As at 31 December	129,993	-

c. Fair value and credit risk

Due to the short-term nature of trade and other receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the carrying amount of these receivables. No collateral is held over trade and other receivables.

NOTE 7: INVENTORIES

	Consolidated	
	2012	2011
	\$	\$
CURRENT		
At cost:		
Finished goods	443,222	199,693

NOTE 8: LOANS

Loans to related parties:

		Consolidated	
	Note	2012	2011
		\$	\$
- Loan to Shangzheng Industry Development Co., Ltd	22	10,316,426	-
- Loan to Puzhao Industry Co., Ltd	22	1,013	-
- Loan to Fujian Jinjiang Brother Crocodile Co., Ltd	22	133,501	-
		10,450,940	-

NOTE 9: OTHER ASSETS

		Consolidated	
	Note	2012	2011
		\$	\$
CURRENT			
Prepayments to suppliers		9,068,671	21,081,553
Prepayment IPO		293,078	141,673
Receivables from related parties	22	18,637,594	-
		27,999,343	21,223,226

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 10 : PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2012	2011
	\$	\$
PLANT AND EQUIPMENT		
Plant and equipment at cost	231,998	427,749
Accumulated depreciation	(231,998)	(249,675)
	-	178,074
Motor vehicles at cost	713,798	627,821
Accumulated depreciation	(266,517)	(118,019)
	447,281	509,802
Office equipment at cost	156,547	149,397
Accumulated depreciation	(85,291)	(40,306)
	71,256	109,091
Total property, plant and equipment	518,537	796,967

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment	Motor vehicles	Office equipment	Total
	\$	\$	\$	\$
Balance at 1 January 2011	-	1,710	47,637	49,347
Additions	427,749	626,008	97,007	1,150,764
Depreciation expense	(15,552)	(117,916)	(35,553)	(169,021)
Impairment	(234,123)	-	-	(234,123)
Balance at 31 December 2011	178,074	509,802	109,091	796,967
Additions	-	91,675	8,506	100,181
Disposals	(191,869)	-	-	(191,869)
Depreciation expense	(17,089)	(148,021)	(44,881)	(209,991)
Depreciation write back on disposal	32,341	-	-	32,341
Exchange differences	(1,457)	(6,175)	(1,460)	(9,092)
Balance at 31 December 2012	-	447,281	71,256	518,537

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 11: TRADE AND OTHER PAYABLES

		Consolidated	
	Note	2012	2011
		\$	\$
CURRENT			
Trade payable		546,206	795,579
Payables to Mr Cheng Chin Jung	22	8,910,834	3,799,192
Payables to Mr Chen Jih-Kai	22	154,665	156,082
Sundry creditors and accruals		1,203,071	738,504
Tax payable		2,498,899	1,991,785
Total		<u>13,313,675</u>	<u>7,481,142</u>

NOTE 12: BORROWINGS

		Consolidated	
	Note	2012	2011
		\$	\$
CURRENT			
Secured liabilities:			
Notes payable	a	27,055,000	13,027,334
Bank loans	b	3,633,100	4,914,503
		<u>30,688,100</u>	<u>17,941,837</u>

a. The notes payable are guaranteed against interest bearing short term bank deposit of \$11,981,500 (2011: \$6,128,308) (See Note 5) with maturity date ranging from February 2013 to June 2013. The notes payable are subject to a handling fee at a rate of 0.05% to 0.3% per annum and the interest on security deposit is in accordance with saving account rate which is approximately 2.8% per annum.

b. The bank loans are guaranteed against account receivables of \$3,632,900 (2011: \$3,666,300) with maturity date ranging from March 2013 to April 2013. The loans are interest bearing at 6.6% per annum.

NOTE 13: PROVISIONS

		Consolidated	
	Note	2012	2011
		\$	\$
CURRENT			
Provisions for employee benefits	a	334,174	187,863
Provisions for goods return	b	170,965	-
Total		<u>505,139</u>	<u>187,863</u>

a. A provision for employment benefits of \$334,154 has been recognized by the Group for social securities including insurances for medical, retirement, unemployment, injury and maternity and housing fund according to China central government policy. The Group is current complying with the policy from local government, Quanzhou Human Resources and Social Security Bureau.

b. A provision for goods return of \$170,955 has been recognized by the Group for the goods returned from supermarkets and the estimate has been based upon total percentage of return goods in relation to total sales in the past two years.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Note 13: PROVISIONS (CON'T)

Movement :

	Consolidated	
	2012	2011
	\$	\$
Balance at 1 January 2012	-	-
Additional provision	170,965	-
Balance at 31 December 2012	<u>170,965</u>	<u>-</u>

NOTE 14: OTHER LIABILITIES

	Consolidated	
	2012	2011
	\$	\$
CURRENT		
Deferred income	<u>195,983</u>	<u>1,028,603</u>

NOTE 15: DIVIDENDS

No dividends were declared and paid during the financial year ended 31 December 2012 or 31 December 2011.

NOTE 16: ISSUED CAPITAL

a. Share capital

2012

China Puda High-Tech Holdings Limited	\$
Parent capital being issued	100
Capital issued upon capital reorganisation	<u>968,441</u>
150,000,000 fully paid ordinary shares	<u>968,541</u>

2011

Fujian Puda Trade Co., Ltd	\$
Contributed capital	<u>968,441</u>

China Puda High-Tech Holdings Limited is an Australian public company, limited by shares and was registered in Victoria, Australia, under Corporations Act 2001 on 14 November 2011. The parent company acquired 100% shareholding of the subsidiary Fujian Puda Trad Co., Ltd on 31 August 2012. As the business combination is a capital reorganisation not a common control transaction, the consolidated financial statements include the existing entity's full year results and comparatives.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 16: ISSUED CAPITAL (CON'T)

b. Movements in share capital

	Consolidated
	Number of shares
Balance at 1 January 2011	-
Shares issued on 14 November 2011	100
Balance at 31 December 2011	100
Shares issued on 31 August 2012	999,900
Share split (150-for-1) on 10 September 2012	149,000,000
Balance at 31 December 2012	150,000,000

Ordinary shareholders participate in dividends and the proceeds on winding-up of the parent entity in proportion to the number of shares held. At the shareholder's meetings each ordinary share is entitled to one vote when a poll is called. Otherwise each shareholder has one vote on a show of hands.

c. Capital management

The group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group's debt and capital include ordinary share capital and financial liabilities, supported by financial assets. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (include 'borrowings' and 'trade and other payables' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 31 December 2012 are as follows:

	Consolidated	
	2012	2011
	\$	\$
Total borrowings	44,001,775	25,422,979
Less cash and cash equivalents	12,521,356	6,281,566
Net debt	31,480,419	19,141,413
Total equity	19,847,743	9,525,190
Total capital	51,328,162	28,666,603
Gearing ratio	61%	67%

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 17: RESERVES

	Consolidated	
	2012	2011
	\$	\$
Foreign currency translation reserve	398,062	399,452

The foreign currency translation reserve is used to record the exchange differences arising on translation of a foreign entity.

The spot rate of 0.1546 is applied for Statement of Financial Position and the average rate of 0.1530 is applied for the Statement of Comprehensive Income.

NOTE 18: CASH FLOW INFORMATION

	Consolidated	
	2012	2011
	\$	\$
a. Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit after income tax	10,323,933	8,190,732
Adjustments and non-cash items:		
Depreciation	209,991	403,144
Net loss on disposal of property, plant and equipment	21,677	-
Provision for doubtful debts	128,668	-
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(4,911,851)	(7,146,910)
(Increase)/decrease in prepayments	(6,776,117)	(19,311,171)
(Increase)/decrease in loan to related parties	(370,221)	-
(Increase)/decrease in inventories	(243,529)	1,004,985
Increase/(decrease) in payables	(249,373)	986,352
Increase/(decrease) in other liabilities	(368,053)	24,429
Increase/(decrease) in income taxes payable	507,114	1,970,775
Increase/(decrease) in provisions	146,311	187,863
Cash flow from operations	(1,581,450)	(13,689,801)

NOTE 19: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 31 December 2012.

The totals of remuneration paid to KMP of the Group during the year are as follows:

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Note 19: KEY MANAGEMENT PERSONNEL COMPENSATION (CON'T)

	Consolidated	
	2012	2011
	\$	\$
Short-term employee benefits	180,000	-
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
Total KMP compensation	180,000	-

KMP Options and Rights Holdings

No options over ordinary shares held by KMP of the Group during the financial year.

KMP Shareholdings

The number of ordinary shares in China Puda High-Tech Holdings Limited held by each KMP of the Group during the financial year is as follows:

	Balance at Beginning of Year	Received as Remuneration	Group Restructuring	Other Changes during the Year	Balance at End of Year
31 December 2012					
Cheng Chin Jung	100	-	56,097,095	-	56,097,195
Hu Chih Cheng	-	-	-	-	-
Henry Chia	-	-	-	-	-
Michael Ly	-	-	-	-	-
Chua Ser Miang	-	-	-	-	-
Ting Jiang	-	-	-	-	-
Liu Yongjin	-	-	42,077,905	-	42,077,905
Brendan Connell	-	-	-	-	-
	100	-	98,175,000	-	98,175,100

	Balance at Beginning of Year	Received as Remuneration	Group Restructuring	Other Changes during the Year	Balance at End of Year
31 December 2011					
Cheng Chin Jung	-	-	-	100	100
Chen Jih-Kai	-	-	-	-	-
Hu Chih Cheng	-	-	-	-	-
Henry Chia	-	-	-	-	-
Michael Ly	-	-	-	-	-
Chua Ser Miang	-	-	-	-	-
	-	-	-	100	100

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 20: AUDITORS' REMUNERATION

	Consolidated	
	2012	2011
	\$	\$
Remuneration of the Pitcher Partners Adelaide for:		
– auditing or reviewing the financial statements	200,000	105,000
– taxation services	5,000	-
	<u>205,000</u>	<u>105,000</u>
Remuneration of the network firm of Pitcher Partners Adelaide for:		
- Investigating Accountant's Report	<u>20,000</u>	<u>-</u>
Total auditors' remuneration	<u>225,000</u>	<u>105,000</u>

NOTE 21: CONTROLLED ENTITY

	Country of Incorporation	Percentage Owned (%)*	
		2012	2011
Subsidiary of China Puda High-Tech Holdings Limited			
Fujian Puda Trade Co., Ltd	People's Republic of China	100%	-

*Percentage of voting power is in proportion to ownership.

Pursuant to the share transfer agreement dated on 31 August 2012, China Puda High Tech Holdings Limited acquired 100% equity interest in Fujian Puda Trade Co., Ltd through a share swap and became the holding company of Fujian Puda Trade Co., Ltd.

The subsidiary has registered capital \$1.6 million U.S.dollars of which \$960,794 U.S dollars have been issued. The balance of \$639,206 U.S. dollars is the liability of the parent company and is due to be paid on 31 August 2013 according to Quanzhou Fengze Foreign Trade and Economic Bureau.

NOTE 22: RELATED PARTIES TRANSACTIONS

a. The Group's related parties are as follows:

i. Entities exercising control over the Group:

The ultimate parent entity that exercises control over the Group is China Puda High-Tech Holdings Limited, which is incorporated in Australia.

ii. Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 19: Key Management Personnel Compensation.

iii. Other related parties:

Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel have joint control.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 22: RELATED PARTIES TRANSACTIONS (CON'T)

b Transactions with related parties:

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions and balances with related parties:

		Consolidated	
	Note	2012 \$	2011 \$
Transactions during 2012 Financial Year			
Purchase from related parties			
- Fujian Jinjiang Brother Crocodile Co., Ltd ("FJBC")	a	13,706,681	28,082,338
- Fujian Puzhao Industry Co., Ltd ("PZIC")	b	53,942	1,429,270
- Shangzheng Industry Development Co., Ltd ("SZID")	c	17,454,307	3,708,331
		<u>31,214,930</u>	<u>33,219,939</u>
Sales to related party			
- Shangzheng Brand Operation Co., Ltd ("SZOB")	d	6,062,796	-
Interest income from related parties			
- Fujian Jinjiang Brother Crocodile Co., Ltd ("FJBC")	e	132,119	-
- Fujian Puzhao Industry Co., Ltd ("PZIC")	f	1,002	-
- Shangzheng Industry Development Co.Ltd ("SZID"))	g	233,281	-
		<u>366,402</u>	<u>-</u>
Prepayment to related parties			
- Fujian Jinjiang Brother Crocodile Co., Ltd ("FJBC")	a, h	41,005,265	-
- Fujian Puzhao Industry Co., Ltd ("PZIC")	b, h	286,736	-
- Shangzheng Industry Development Co.Ltd ("SZID")	c, h	38,819,289	-
		<u>80,111,290</u>	<u>-</u>
Balances at end of the financial year			
Receivables from related parties			
- Fujian Jinjiang Brother Crocodile Co., Ltd ("FJBC")	a, h	7,040,761	-
- Shangzheng Industry Development Co., Ltd ("SZID")	c, h	11,596,833	-
		<u>18,637,594</u>	<u>-</u>
Loans to related parties			
- Fujian Jinjiang Brother Crocodile Co., Ltd ("FJBC")	e	133,501	-
- Fujian Puzhao Industry Co., Ltd ("PZIC")	f	1,013	-
- Shangzheng Industry Development Co., Ltd ("SZID")	g	10,316,426	-
		<u>10,450,940</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 22: RELATED PARTIES TRANSACTIONS (CON'T)

Balances at end of the financial year (Con't)

Loan from related party			
- Chen Jih-Kai	i	154,665	156,082
		<hr/>	<hr/>
Loan from key management personnel			
- Cheng Chin Jung	j	8,910,834	3,799,192
		<hr/>	<hr/>

- (a) FJBC is a shoe manufacturer and one of the main suppliers of the subsidiary Fujian Puda Trade Co., Ltd, Mr. Liu Yongjin is the supervisor of FJBC and is one of the shareholders of China High Tech Holdings Limited.

The prepayments to FJBC as at 31 December 2012 are for goods to be delivered in the following months and the transactions with FJBC are at arm's length.

- (b) PZIC is wholly owned by Ms Pan Xuerong, who is the wife of Mr Cheng Chin Jung, the executive director and shareholder of the Company.

The transactions with PZIC are at arm's length.

- (c) SZID is a shoe manufacturer and one of the major suppliers of the subsidiary Fujian Puda Trade Co., Ltd, Mr Liu Yongjin is the executive director and a shareholder of SZID and one of the shareholders of High – Tech Holdings Limited.

The prepayments to SZID as at 31 December 2012 are for goods to be delivered in the following months and the transactions with SZID are at arm's length.

- (d) SZBO is wholly owned subsidiary of SZID and the main distributor of the Group's brand shoes Ebear.

The transactions with SZID are at arm's length.

- (e) A loan agreement was entered into on 28 March 2013 ratifying the loans made and confirming the terms and conditions. The loan is at call with interest payable at a rate of 9.2% per annum, payable no later than 25 April 2013.

- (f) A loan agreement was entered into on 28 March 2013 ratifying the loans made and confirming the terms and conditions. The loan is at call with interest payable at a rate of 9.2% per annum, payable no later than 25 April 2013.

- (g) A loan agreement was entered into on 28 March 2013 ratifying the loans made and confirming the terms and conditions. The loan is at call with interest payable at a rate of 9.2% per annum, payable no later than 25 April 2013.

China Puda High-Tech Holdings Limited and Controlled Entity
ABN 55 154 050 656

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 22: RELATED PARTIES TRANSACTIONS (CON'T)

- (h) The prepayments to related parties are for products to be delivered from January – May 2013. Revised budgets resulted in the excess prepayments which have been classified as receivables from related parties.
- (i) Mr Chen Jih-Kai is the manager of the Research and Development Centre and previous owner of Far-Infrared Machinery. The machinery was sold to Fujian Puda Trade Co., Ltd in 2011 for \$234,123 and the outstanding balance at 31 December 2012 was \$154,665 and was recorded as an interest free loan. The loan was repaid on 5 July 2013.
- (j) The loan from the director, Mr Cheng Chin Jung, is interest free and repayable on 1 January 2014 under the Deed of Loan. A revised Deed of Loan was entered on 21 May 2013 and repayments of \$4,854,408 were made during January and February 2013 to Cheng Chin Jung. This loan has been classified as a current liability in the financial statements.

NOTE 23: EVENTS AFTER THE REPORTING PERIOD

Other than the following, the directors are not aware of any significant events since the end of the reporting period.

(a) Loan to related parties

Loans to related parties as disclosed in Note 22(e) (f) (g), and related interest, were repaid as at the date of this report.

(b) Loan from Chen Jih-Kai

Balance of loan from Chen Jih-Kai of \$154,665 as disclosed in Note 22(i) was repaid on 5 July 2013.

(c) Loan from Cheng Chin Jung

Revised Deed of Loan was entered on 21 May 2013 and repayments of \$4,854,408 were made during January and February 2013 to Cheng Chin Jung.

(d) The excess repayments to the related parties disclosed in Note 22 (h) were repaid by 31 March 2013.

(e) The company will be lodging a Prospectus with ASIC in July 2013 seeking to raise up to \$10 million at a price of \$0.20 per share.

(f) The subsidiary, Fujian Puda Trade Co., Ltd entered into a contract on 17 April 2013 to purchase two Rolls-Royce motor vehicles and paid deposit of \$61,210. Subsequent to this, Fujian Puda Trade Co., Ltd agreed with the seller to terminate the contract. The contract was terminated on 1 July 2013 and the deposit is to be fully refunded to Fujian Puda Trade Co., Ltd within ten days from termination.

(g) From March to May 2013, Fujian Puda Trade Co., Ltd provided short-term loans totalling \$2,295,368 to one of its suppliers, Jinjiang Jingewang, for upgrading of its manufacturing facilities. These loans were interest free and were fully repaid as at date of this report. In May 2013, a shareholder of Jinjiang Jingewang, provided an interest free loan of \$76,512 to Fujian Puda Trade Co., Ltd.

China Puda High-Tech Holdings Limited and Controlled Entity
ABN 55 154 050 656

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 24: OPERATING LEASE COMMITMENTS

Non-cancellable operating leases contracted for but not recognised in the financial statements:

Payable – minimum lease payments:

	Consolidated	
	2012	2011
	\$	\$
- Within one year	81,030	81,877
- Later than one year and not later than five years	118,169	201,036
	<u>199,199</u>	<u>282,913</u>

The property lease is a non-cancellable lease with a five-year term, with the rent of \$21,059 paid in cash quarterly. An option exists to renew the lease at the end of the five-year term. On renewal, the terms of the lease are renegotiated.

NOTE 25: FINANCIAL RISK MANAGEMENT

The directors have overall responsibility for identifying and managing operational and financial risks. The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and interest rate risk. The Group's financial instruments consist of mainly of deposits with banks, accounts receivable and payable, notes payable and loans to and from related parties

Interest rate risk

The Group's exposure to interest rate risk relates principally to its short-term deposits placed with financial institutions.

The Group's exposure to interest rate risk in relation to future cash flows and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2012

Financial instruments	Interest bearing	Non-interest bearing	Total carrying amount	Weighted average effective interest rate
	\$	\$	\$	
Financial assets				
Cash	11,981,500	539,856	12,521,356	2.8% Floating
Debtors	-	12,616,597	12,616,597	0.0%
Other receivables	-	645	645	0.0%
Loan to related party	10,450,940	-	10,450,940	9.2% Fixed
	<u>22,432,440</u>	<u>13,157,098</u>	<u>35,589,538</u>	
Financial liabilities				
Bank and other loans	3,633,100	27,055,000	30,688,100	6.6% Fixed
Creditors	-	546,206	546,206	0.0%
Related party payables	-	9,065,500	9,065,500	0.0%
Other payables	-	3,897,953	3,897,953	0.0%
	<u>3,633,100</u>	<u>40,564,659</u>	<u>44,197,759</u>	

China Puda High-Tech Holdings Limited and Controlled Entity
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 25: FINANCIAL RISK MANAGEMENT (CON'T)

2011

Financial instruments	Interest bearing	Non-interest bearing	Total carrying amount	Weighted average effective interest rate
	\$	\$	\$	
Financial assets				
Cash	150,320	6,131,246	6,281,566	0.36% Floating
Debtors	-	7,657,629	7,657,629	0.0%
Other receivables	-	5,464	5,464	0.0%
Related party receivables	-	507,349	507,349	0.0%
	<u>150,320</u>	<u>14,301,688</u>	<u>14,452,008</u>	
Financial liabilities				
Bank and other loans	4,914,503	13,027,334	17,941,837	7.7% Fixed
Creditors	-	795,579	795,579	0.0%
Related party payables	-	3,955,274	3,955,274	0.0%
Other payables	-	2,643,259	2,643,259	0.0%
Deferred income	-	1,028,603	1,028,603	0.0%
	<u>4,914,503</u>	<u>21,450,049</u>	<u>26,364,552</u>	

Sensitivity

If interest rates were to increase/decrease by 1% from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows:

	Consolidated	
	2012	2011
	\$	\$
+1% interest rate		
Impact on profit after tax	140,995	(35,731)
Impact on equity	140,995	140,995

Foreign currency risk

The Group does not have significant balances denominated in currency other than the functional currency of the respective companies within the Group.

Liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that the Group maintains adequate level of liquidity for operations to meet its commitments.

China Puda High-Tech Holdings Limited and Controlled Entity
ABN 55 154 050 656

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 25: FINANCIAL RISK MANAGEMENT (CON'T)

Credit risk

Credit risk is managed on a group basis and reviewed regularly by the group. It arises from exposures to customers as well as through deposits with financial institutions.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectability of all trade and other receivables.

There are no other material amounts of collateral held as security at 31 December 2012 other than as detailed in note 12.

Price risk

The Group's financial instrument is not exposed to price risk.

NOTE 26: PARENT INFORMATION

	2012	2011
	\$	\$
The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.		
(a) Summarised statement of financial position		
Assets		
Current assets	1,569	100
Non-current assets	909,909	-
Total assets	<u>911,478</u>	<u>100</u>
Liabilities		
Current liabilities	811,010	-
Total liabilities	<u>811,010</u>	<u>-</u>
Net assets	<u>100,468</u>	<u>100</u>
Equity		
Share capital	910,009	100
Retained earnings	(809,541)	-
Total equity	<u>100,468</u>	<u>100</u>
(b) Summarised statement of comprehensive income		
Loss for the period	809,541	-
Total comprehensive income	<u>809,541</u>	<u>-</u>

NOTE 27: COMPANY DETAILS

China Puda High-Tech Holdings Limited and Controlled Entity
ABN 55 154 050 656

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The registered office is:

China Puda High-Tech Holdings Limited
C/o Corporate Eexecutive Offices (Southgate) Pty Ltd'
Normanby Chambers 430 Little Collins Street
Melbourne, Victoria 3000

The principal place of business is:

. Fujian Puda Trade Co., Ltd
No.45 Luyuan, Fengshan Shequ, Donghu office
Quanzhou, Fujian Province, the PRC

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of China Puda High-Tech Holdings Limited, the directors of the company declare that:

1. the financial statements and notes, as set out on pages 10 to 34, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
 - b. give a true and fair view of the financial position as at 31 December 2012 and of the performance for the year ended on that date of the consolidated group;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

Signed:



Director: Cheng Chin Jung

Date: 31. July. 2013



Director: Chua Ser Miang

Date: 31. July. 2013



PITCHER PARTNERS

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Pitcher Partners is an association of Independent firms
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PRINCIPALS

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THOMAS H VESCO
MICHAEL J LANE
RICHARD D BROOKS
MICHAEL O BASEDOW
BEN V BRAZIER
ANDREW P FAULKNER
ANDREW C BEITZ
LEIGH D PRIOR

CHINA PUDA HIGH-TECH HOLDINGS LIMITED AND CONTROLLED ENTITY
ABN 55154050656

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CHINA PUDA HIGH TECH HOLDINGS LIMITED AND CONTROLLED ENTITY

We have audited the accompanying financial report of China Puda High Tech Holdings Limited and Controlled Entity, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



CHINA PUDA HIGH-TECH HOLDINGS LIMITED AND CONTROLLED ENTITY
ABN 55154050656

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CHINA PUDA HIGH TECH HOLDINGS LIMITED AND CONTROLLED ENTITY

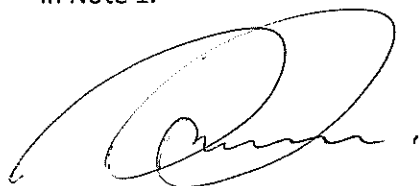
Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

- (a) the financial report of China Puda High Tech Holdings Limited and Controlled Entity is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.



Andrew Faulkner

Principal



PITCHER PARTNERS

Adelaide

Dated 31st July 2013