



**China Herbal Medicine Limited  
and its controlled entity**

ABN 48 168 882 648

**ANNUAL REPORT**  
For the year ended 31 December 2014

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## Directors' Report

The Directors of China Herbal Medicine Limited (the Company) present their report together with the financial statements of the consolidated entity, being the Company and its controlled entity (the Group) for the year ended 31 December 2014.

### Director details

The following persons were directors of the Company during or since the end of the financial year.

#### **Mr Li Yanlong**

Chairman and Chief Executive Officer

Director since 3 October 2014

Mr Li has founded the Group's operation in 2012. He brings more than 30 years of experience in agriculture economics, business management and finance.

#### **Other current directorships:**

None

#### **Previous directorships (last 3 years):**

None

#### **Interest in shares:**

51,421,100 shares

#### **Interest in options:**

None

#### **Ms Lei Dan**

Non-Executive Director

Chair of Nomination and Remuneration Committee and Member of Audit and Risk Management Committee

Director since 7 April 2014

Ms Lei obtained double bachelor degrees in English Literature and Accounting from Lanzhou University in 2001, and a Master of Finance from University of Queensland in 2003. Having worked in accounting firms and financial institutions she has significant experience in accounting and corporate finance. She is bilingual in English and Mandarin.

#### **Other current directorships:**

None

#### **Previous directorships (last 3 years):**

None

#### **Interest in shares:**

None

#### **Interest in options:**

None

### **Mr Jiang Ting**

Independent Non-Executive Director  
 Member of Nomination and Remuneration  
 Committee and Member of Audit and Risk  
 Management Committee  
 Director since 10 November 2014

Mr Jiang is a qualified Certified Practising Accountant in Australia and has broad experience in corporate finance and corporate advisory and legal practice, and has completed a range of capital market transactions in both Australia and China.

#### **Other current directorships:**

Sunbridge Group Limited (ASX:SBB)  
 Xiaoxiao Education Limited (ASX: XXL)

#### **Previous directorships (last 3 years):**

Premiere Eastern Energy Limited (ASX:PEZ)

#### **Interests in shares:**

None

#### **Interest in options:**

None

### **Ms Li Ruoning**

Independent Non-Executive Director  
 Member of Nomination and Remuneration  
 Committee and Chair of Audit and Risk Management  
 Committee  
 Director since 10 November 2014

Ms Li brings significant auditing, internal control and corporate governance experience to the Board. She is a qualified CPA and had worked for KPMG audit division since 2007 where she had been involved in many capital market transactions including audits and financial diligence for IPOs in HK, US, PRC and Australia. She obtained a Bachelor of Accounting from Australia in 2006.

#### **Other current directorships:**

None

#### **Previous directorships (last 3 years):**

None

#### **Interests in shares:**

None

#### **Interest in options:**

None

### **Company secretary**

Mr Jiang Ting was appointed as Company Secretary of China Herbal Medicine Limited with effect from 10 November 2014. Mr Jiang has broad experience in corporate finance, corporate advisory and legal practice, and has completed a range of capital market transactions in both Australia and China. He has a degree in Law, Accounting and Finance.

### **Principal activities**

During the year, the principal activities of entities within the Group were cultivation and sale of Traditional Chinese Medicine seeds and sprouts.

There have been no significant changes in the nature of these activities during the year.

## **Review of operations and financial results**

### **Operating Results**

The Directors of the Company and its controlled entity ('the Group') hereby present the Company's first Annual Report.

Through this report, the Board seeks to provide an update to its Shareholders and the market on the results achieved for the 2014 financial year (ended 31 December 2014). It should be noted that the Group's financial year runs from January to December each year.

The Group realised an after tax profit of \$1,119 for the 2014 financial year which represents a decrease of 98% on the previous year. As a result of the strengthening of the Chinese Renminbi, the Company showed a foreign exchange gain on translation of the foreign operation of \$240,818.

## Review of Operations

During the 2014 financial year, the Group, through its 99 percent owned China based subsidiary, continued carrying on cultivation and sale of Traditional Chinese Medicine (TCM) seeds and sprouts. The Group has established and operates three TCM herb production bases of approximately 1,200 square meters in total in Dingxi City of Gansu Province PRC. The Group focuses on three types of TCM herbs – Angelicae Sinensis, Astragalus Root and Radix Codonopsis Pilosulae.

## Financial Position

The net assets of the consolidated group have increased by \$241,937 from \$4,337,410 at 31 December 2013 to \$4,579,347 at 31 December 2014. This increase has largely resulted from the following factors:

- The increase in the valuation of biological assets
- The increase in prepayments
- The ongoing investment in property, plant and equipment
- The decrease in trade and other receivables
- The decrease in trade and other payables

## Significant changes in the state of affairs

Pursuant to an Equity Transfer Agreements dated 3 May 2014 and 5 August 2014, 99% of the equity interest of Gansu Dahe Chinese Herbal Medicine Development Co., Ltd was transferred to the Company.

On 10 October 2014, the Company issued 65,307,465 ordinary shares issued as a result of share split of 1 to 20.

Otherwise, there have been no other significant changes in the state of affairs of the Group during the financial year.

## Dividends

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

## Events arising since the end of the reporting period

The Company listed on the National Stock Exchange of Australia on 2 February 2015. Apart from the listing, there are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

- The entity's operations in future financial years;
- The results of those operations in future financial years; or
- The entity's state of affairs in future financial years.

## Likely developments, business strategies and prospects

The Group is currently focused on the following:

- expand planation area and increase TCM herb varieties

- strengthen R&D activities in new varieties seeds breeding
- continue to leverage on 'Company + farmer + technology + base' operation model
- broaden sales channel and develop e-commerce platform
- extend value chain downstream

### Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

|            | Board meetings |   | Audit and Risk Committee |   | Nomination and Remuneration Committee |   |
|------------|----------------|---|--------------------------|---|---------------------------------------|---|
|            | A              | B | A                        | B | A                                     | B |
| Li Yanlong | 2              | 2 | -                        | - | -                                     | - |
| Lei Dan    | 4              | 4 | -                        | - | -                                     | - |
| Jiang Ting | 2              | 2 | -                        | - | -                                     | - |
| Li Ruoning | 2              | 2 | -                        | - | -                                     | - |

Where:

Column A is the number of meetings the Director was entitled to attend

Column B is the number of meetings the Director attended

### Share options

There are no options on issue by the Company.

### Remuneration Report (audited)

The Directors of the Company and controlled entity (together 'the Group') present the Remuneration Report for non-executive directors, executive directors and other key management personnel prepared in accordance with the *Corporations Act 2001* and the *Corporations Regulations 2001*.

The Remuneration Report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based remuneration
- Transaction and Balances with Key Management Personnel (KMP) and related parties.

#### (a) Principles used to determine the nature and amount of remuneration

The principles of the Group's executive strategy and supporting incentive programs and frameworks are:

- To align rewards to business outcomes that deliver value to shareholders;
- To drive a high performance culture by setting challenging objectives and rewarding high performing individuals; and
- To ensure remuneration is competitive in the relevant employment market place to support the attraction, motivation and retention of executive talent.

The Company has structured a remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The Board has established a Nomination and Remuneration Committee which operates in accordance with its charter as approved by the Board and is responsible for determining and reviewing compensation arrangements for the directors and the executive team.

The remuneration structure that has been adopted by the Group consists fixed remuneration being annual salary. There is no relationship between current remuneration and the Group's performance.

The Nomination and Remuneration Committee assess the appropriateness of the nature and amount of remuneration on a periodic basis by reference to recent employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The payment of bonuses, share options and other incentive payments are reviewed by the Nomination and Remuneration Committee annually as part of the review of executive remuneration and a recommendation is put to the Board for approval.

#### **Short term incentive (STI)**

The Company's performance measures involve the use of annual performance objectives, metrics, performance appraisals and continuing emphasis on living the company values.

The performance measures are set annually after consultation with the directors and executives and are specifically tailored to the areas where each executive has a level of control. The measures target areas the Board believes hold the greatest potential for expansion and profit and cover financial and non-financial measures.

#### **Use of remuneration consultants**

No remuneration consultant has been engaged by the Company during the year.

**(b) Details of remuneration**

Details of the nature and amount of each element of the remuneration of each key management personnel ('KMP') of the Company are shown in the table below:

| Director and other Key Management Personnel Remuneration                         |      |                              |                 |                            |                          |                      |                           |                      |            |   |
|--|------|------------------------------|-----------------|----------------------------|--------------------------|----------------------|---------------------------|----------------------|------------|---|
|  |      | Short term employee benefits |                 |                            | Post-employment benefits | Long-term benefits   | Termination benefits      | Share-based payments |            | % of remuneration that is performance based |
|  |      | Cash salary and fees (\$)    | Cash bonus (\$) | Non-monetary benefits (\$) | Superannuation (\$)      | Long-term bonus (\$) | Termination payments (\$) | Options (\$)         | Total (\$) |   |
| Executive directors  |      |                              |                 |                            |                          |                      |                           |                      |            |   |
| Li Yanlong<br>Chairman and CEO*<br>(Appointed 3 October 2014)                    | 2014 | -                            | -               | -                          |                          | -                    | -                         | -                    | -          |   |
|  | 2013 | -                            | -               | -                          |                          | -                    | -                         | -                    | -          |   |
|  |      |                              |                 |                            |                          |                      |                           |                      |            |   |
| Lei Dan<br>Non-executive Director* (Appointed 7 April 2014)                      | 2014 | -                            | -               | -                          | -                        | -                    | -                         | -                    | -          |   |
|  | 2013 | -                            | -               | -                          | -                        | -                    | -                         | -                    | -          |   |
| Jiang Ting<br>Independent Non-executive Director<br>(Appointed 10 November 2014) | 2014 | -                            | -               | -                          | -                        | -                    | -                         | -                    | -          |   |
|  | 2013 | -                            | -               | -                          | -                        | -                    | -                         | -                    | -          |   |
| Li Ruoning<br>Independent Non-Executive Director<br>(Appointed 10 November 2014) | 2014 | -                            | -               | -                          | -                        | -                    | -                         | -                    | -          |   |
|  | 2013 | -                            | -               | -                          | -                        | -                    | -                         | -                    | -          |   |

\* As remuneration will be paid upon successful listing of the Company. No remuneration has been paid to the above KMP in 2014 and 2013 years



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|  |      | Short term employee benefits |                 |                            | Post-employment benefits | Long-term benefits   | Termination benefits      | Share-based payments |            | % of remuneration that is performance based |
|--|------|------------------------------|-----------------|----------------------------|--------------------------|----------------------|---------------------------|----------------------|------------|---|
|  |      | Cash salary and fees (\$)    | Cash bonus (\$) | Non-monetary benefits (\$) | Superannuation (\$)      | Long-term bonus (\$) | Termination payments (\$) | Options (\$)         | Total (\$) |   |
| Other key management personnel         |      |                              |                 |                            |                          |                      |                           |                      |            |   |
| Lu Fuming – General Manager            | 2014 | 24,474                       | -               | -                          |                          | -                    | -                         | -                    | 24,474     | 0%  |
|  | 2013 | 9,536                        | -               | -                          | -                        | -                    | -                         | -                    | 9,536      | 0%  |
| Zhang Guoping – Deputy General Manager | 2014 | 18,142                       | -               | -                          |                          | -                    | -                         | -                    | 18,142     | 0%  |
|  | 2013 | 7,361                        | -               | -                          | -                        | -                    | -                         | -                    | 7,361      | 0%  |
| Li Yanjiang - Production Manager       | 2014 | 18,131                       | -               | -                          | -                        | -                    | -                         | -                    | 18,131     | 0%  |
|  | 2013 | 7,662                        | -               | -                          | -                        | -                    | -                         | -                    | 7,662      | 0%  |
| Liu Benhai – Sales Manager             | 2014 | 5,220                        | -               | -                          | -                        | -                    | -                         | -                    | 5,220      | 0%  |
|  | 2013 | 5,220                        | -               | -                          | -                        | -                    | -                         | -                    | 5,220      | 0%  |
| Jia Xiaogang – Financial Manager       | 2014 | 17,930                       | -               | -                          | -                        | -                    | -                         | -                    | 17,930     | 0%  |
|  | 2013 | 6,140                        | -               | -                          | -                        | -                    | -                         | -                    | 6,140      | 0%  |
| 2014 Total                             |      | 83,897                       | -               | -                          | -                        | -                    | -                         | -                    | 83,897     | 0%  |
| 2013 Total                             |      | 35,919                       | -               | -                          | -                        | -                    | -                         | -                    | 35,919     | 0%  |

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| Name                                  | Fixed remuneration | At risk - STI | At risk - Options |
|---------------------------------------|--------------------|---------------|-------------------|
| <b>Executive director</b>             |                    |               |                   |
| Li Yanlong                            | 60,000             | -             | -                 |
| <b>Other key management personnel</b> |                    |               |                   |
| Lv Fuming                             | 24,474             | -             | -                 |
| Zhang Guoping                         | 18,142             | -             | -                 |
| Jia Xiaogang                          | 17,930             | -             | -                 |
| Li Yanjing                            | 18,131             | -             | -                 |
| Liu Benhai                            | 5,220              | -             | -                 |

### (c) Service agreements

Remuneration and other terms of employment for the Executive Directors and other key management personnel are formalised in a service agreement. The major provisions of the agreements relating to remuneration are set out below:

| Name          | Base salary | Term of agreement | Notice period |
|---------------|-------------|-------------------|---------------|
| Li Yanlong    | 60,000      | 3 years           | 1 month       |
| Lei Dan       | 50,000      | 1 year            | 1 month       |
| Jiang Ting    | 50,000      | 1 year            | 1 month       |
| Li Ruoning    | 50,000      | 1 year            | 1 month       |
| Lv Fuming     | 24,474      | 1 year            | 1 month       |
| Zhang Guoping | 18,142      | 1 year            | 1 month       |
| Jia Xiaogang  | 17,930      | 1 year            | 1 month       |
| Li Yanjing    | 18,131      | 1 year            | 1 month       |
| Liu Benhai    | 5,220       | 1 year            | 1 month       |

### (d) Share-based remuneration

#### Options

There are no options or equity instruments issued by the Company to directors or KMP as part of their remuneration.

### (e) Transaction and Balances with Key Management Personnel (KMP) and Related Parties

#### Transactions with key management personnel

The Group's related parties include its key management personnel and related parties, as described below.

Transactions between the Company's KMPs and 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 KMPs and related parties:

|                                    | 2014<br>\$ | 2013<br>\$ |
|------------------------------------|------------|------------|
| Cash advances to Mr. Li Yan Long   | (869,437)  | (4,114)    |
| Cash advances from Mr. Li Yan Long | 1,268,320  | 3,847,900  |

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|   |             |             |
|---|-------------|-------------|
| Purchases of property, plant and equipment from Gansu Dahe Planting Industrial*     | -           | (1,420,343) |
| Purchases of seeds, sprouts and finished goods from Gansu Dahe Planting Industrial* | -           | (448,127)   |
| Cash advance to Gansu Dahe Planting Industrial*                                     | (1,911,180) | (2,057,861) |
| Cash advance (to) / from Min Xian Dahe Zhuisu Agricultural Products*                | (568,666)   | (585,550)   |
| Purchase of raw materials from Longxi County Xiao Ling Bio-organic Fertilizer*      | (3,651)     | (64,469)    |
| Cash advance to Mr. Gou Ping Jun  | -           | (72,832)    |
| Cash advance from Gou Ping Jun  | 80,234      | -           |
| Cash advance to Xue Feng  | -           | (230,342)   |
| Cash advance from Xue Feng  | 15,563      | 216,215     |
| Cash advance (to) /from Lv Fu Min   | (1,866)     | (1,673)     |
| Cash advance to Mr. Li Yan Jiang  | (6,098)     | (114,962)   |
| Cash advance from Mr. Li Yan Jiang  | 61,072      | 94,324      |

\* Entities are associated with Mr. Li Yan Long

**Balances with key management personnel**

Amounts receivable from and payable to key management personnel and the Group at reporting date comprise the following:

| 2014  | Receivable from<br>related party | Payable to<br>related party |
|---|----------------------------------|-----------------------------|
|   | \$                               | \$                          |
| Mr. Li Yan Long                               | -                                | 1,050,431                   |
| Gansu Dahe Planting Industrial Co.,Ltd        | 338,725                          | -                           |
| Min Xian Dahe Zhuisu Agricultural Products    | 29,083                           | -                           |
| Longxi County Xiao Ling Bioorganic Fertilizer | 408,429                          | 80,795                      |
| Lv Fu Min                                     | -                                | 71                          |
| Mr. Li Yan Jiang                              | 1,921                            | 65,004                      |
|   | <u>778,158</u>                   | <u>1,196,301</u>            |

| 2013                                   | Receivable from<br>related party | Payable to<br>related party |
|--|----------------------------------|-----------------------------|
|  | \$                               | \$                          |
| Mr. Li Yan Long                        | -                                | 593,846                     |
| Gansu Dahe Planting Industrial Co.,Ltd | 2,266,968                        | 27,018                      |
| Mr. Gou Ping Jun                       | -                                | 80,234                      |
| Xue Feng                               | 15,563                           | -                           |
| Lv Fu Min                              | 1,843                            | -                           |
| Mr. Li Yan Jiang                       | 14,276                           | 8,109                       |
|  | <u>2,298,650</u>                 | <u>709,207</u>              |

Related party transactions have been determined to be on an arm's length basis, which comprise of related party loans and no specific terms and conditions have been attached to the transactions above.

## Key Management Personnel Shareholdings

### 31 December 2014

|            | Opening<br>balance | Received as<br>Compensation | Options<br>exercised | Net change<br>other | Closing<br>balance | %Total<br>number of<br>shares |
|------------|--------------------|-----------------------------|----------------------|---------------------|--------------------|-------------------------------|
| Li Yanlong | -                  | -                           | -                    | 51,421,100          | 51,421,100         | 74.8%                         |
| Total      | -                  | -                           | -                    | 51,421,100          | 51,421,100         | 74.8%                         |

No shareholdings are held by other KMPs.

End of audited remuneration report.

## Environmental legislation

The Group's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia or in China.

## Indemnities given and insurance premiums paid to auditors and officers

During the year, the Company has not paid a premium to insure officers of the Group.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

## Non-audit services

During the year, Grant Thornton, the Company's auditors, performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact upon the impartiality and objectivity of the auditor; and
- The non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditors of the Company, Grant Thornton, and its related practices for audit and non-audit services provided during the year are set out in Note 7 to the Financial Statements.

A copy of the auditor's independence declaration as required under s307C of the *Corporations Act 2001* is included in this financial report and forms part of this Directors report.

#### **Proceedings of behalf of the Company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

Signed in accordance with a resolution of the directors.



Li Yanlong  
Chairman

29 April 2015

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**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF CHINA HERBAL MEDICINE LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of China Herbal Medicine Limited for the year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



S.J. Gray  
Partner – Audit & Assurance

Adelaide, 29 April 2015

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# Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, the Company and its controlled entity ('the Group') have adopted a corporate governance framework and practices to ensure they meet the interests of shareholders. Further information on the Group's corporate governance policies and practices can be found on the Company's website at <http://www.chinaherb.com.au>.

## **Principle 1: Lay solid foundations for management and oversight** **Functions of the Board and Management**

The Board of Directors is responsible for the corporate governance of the Group and operates in accordance with the principles set out in its Charter, which is available in the corporate governance section of the Company's website. To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board. These responsibilities include:

- Setting the strategy for the Group, including operational and financial objectives and ensuring that there are sufficient resources for this strategy to be achieved.
- Appointing and, where appropriate, removing the Chief Executive Officer ('CEO'), approving other key executive appointments and planning for executive succession.
- Overseeing and evaluating the performance of the CEO and the executive team through a formal performance appraisal process having regard to the Group's business strategies and objectives.
- Monitoring compliance with legal, regulatory and occupational health and safety requirements and standards.
- Overseeing the identification of key risks faced by the Group and the implementation of an appropriate internal control framework to ensure those risks are managed to an acceptable level.
- Approving the Group's budgets, including operational and capital budgets, and the approval of significant acquisitions, expenditures or divestitures.
- Approval of the annual and half-yearly financial reports.
- Ensuring the market and shareholders are fully informed of material developments.

The responsibility for the operation and administration of the Group is delegated by the Board to the Chief Executive Officer ('CEO') and the executive management team. The Board ensures that both the CEO and executive team are appropriately qualified and experienced to discharge their responsibilities and, as discussed above, has in place procedures to monitor and assess their performance.

To ensure that the responsibilities of the Board are upheld and executed to the highest level, the Board has established the following sub-committees:

- Audit and Risk Management Committee.
- Nomination and Remuneration Committee.

Sub-committees are able to focus on a particular responsibility and provide informed feedback to the Board. Each of these sub-committees have established Charters and operating procedures in place, which are reviewed on a regular basis. The Board may also establish other sub-committees from time to time to deal with issues of special importance.

## **Principle 2: Structure the Board to add value**

### **Board composition**

The Board comprise of three non executive Directors and one Executive Director.

Individual details of the Directors, including period in office, Board committee memberships, qualifications, experience and skills are set out in the information on Directors section of the Directors' Report.

### **Nomination and Remuneration Committee**

The Nomination and Remuneration Committee oversees the appointment and induction process for directors and the selection, appointment and succession planning process of the Group's Chief Executive Officer. A copy of the Committee's Charter is available on the Company's website.

When a vacancy exists or there is a need for a particular skill, the Committee, in consultation with the Board, determines the selection criteria that will be applied. The Committee will then identify suitable candidates, with assistance from an external consultant if required, and will assist the Board in interviewing and assessing the selected candidates.

Directors are initially appointed to office by the Board and must stand for re-election at the Group's next annual general meeting of shareholders. Directors must then retire from office and nominate for re-election at least once every three years with the exception of the Chief Executive Officer.

The Nomination and Remuneration Committee comprises of Ms Lei Dan (Chairman), Ms Li Ruoning and Mr Jiang Ting, being a majority of independent non-executive directors. Details of attendance at Nomination and Remuneration Committee meetings are set out in the Meetings of Directors section of the Directors' Report.

### **Directors' performance evaluation**

The Board undertakes an assessment of its collective performance, the performance of the Board committees and the Chairman on an annual basis.

The Chairman meets each Director on an individual basis to discuss their performance and to provide feedback. The results of this discussion including any key areas for development are formally documented.

Each Board committee annually reviews the fulfilment of its responsibilities as set out in its Charter and provides a report with a summary of issues and recommendations for the Board's review. Upon review the Board will then provide their feedback to the Committee including an endorsement of the recommendations made.



### **Independent professional advice and access to information**

Each Director has the right of access to all relevant information in the Group in addition to access to the Group's executives. Each Director also has the right to seek independent professional advice subject to prior consultation with, and approval from, the chairman. This advice will be provided at the Group's expense and will be made available to all members of the Board.

### **Principle 3: Promote ethical and responsible decision making**

#### **Code of Conduct**

The Group recognises the importance of establishing and maintaining high ethical standards and decision making in conducting its business and is committed to increasing shareholder value in conjunction with fulfilling its responsibilities as a good corporate citizen. All Directors, managers and employees are expected to act with the utmost integrity, honesty and objectivity, striving at all times to enhance the reputation and performance of the Group.

The Group has established a Code of Conduct, copy of which is available on the Company's website. New employees are introduced to the Code of Conduct as part of their induction training. Employees sign a declaration confirming receipt of the Code of Conduct and their compliance with it. Periodical training is then provided throughout the course of their employment.

Unethical practices, including fraud, legal and regulatory breaches, and policy breaches are required to be reported on a timely basis to management. Reporting parties are able to do so without fear of reprisal or retribution as their identity and report are kept in the strictest confidence. External third party reporting procedures are available to employees to provide them with the assurance that their identity will be kept confidential at all times.

#### **Share Trading Policy**

The Group has established a share trading policy which governs the trading in the Group's shares and applies to all Directors, Officers and Management of the Group. A copy of this policy is available on the Company's website.

Under this share trading policy, an executive or director must not trade in any securities of the Group at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Before commencing to trade, an executive or employee must first obtain the permission of the Board to do so. The trading windows are four weeks after the release of the half year results, eight weeks after the release of full year results, eight weeks following the issue of a prospectus and any other period as determined by the Board. Trading of securities outside the trading windows can only occur in exceptional circumstances and with the approval of the Board.

As required by the NSX listing rules, the Group notifies the NSX of any transaction conducted by Directors in the securities of the Group.

### **Principle 4: Safeguard integrity in financial reporting**

#### **Audit and Risk Management Committee**

An Audit and Risk Management Committee has been established by the Board. The Committee's role and operations are documented in a Charter which is approved by the Board. This Charter is available on the Company's website.

The Committee's Charter provides that all members of the Audit and Risk Management Committee must be Non-Executive Directors and a majority of member must be Independent Directors. The Chair cannot be the Chairman of the Board. Members of the Committee throughout the period and at the date of this report are Ms Li Ruoning (Chair), Mr Jiang Ting and Ms Lei Dan.

The purpose of the Committee is to:

- effective management of financial and other material business risks;
- reliable management and financial reporting, including half and full year accounts;
- compliance with laws and regulations; and
- maintenance of an independent, effective and efficient audit.

The Committee is authorised to obtain independent legal advice at the Group's expense if it considers it necessary in fulfilling its duties.

#### **Principle 5: Make timely and balanced disclosure**

The Company has established policies and procedures to ensure timely and balanced disclosure of all material matters concerning the Group, and ensure that all investors have access to information on the Group's financial performance. This ensures that the Group is compliant with the information disclosure requirements under the NSX Listing Rules.

These policies and procedures include a comprehensive Disclosure Policy that includes identification of matters that may have a material impact on the price of the Company's securities, notifying them to the NSX, posting relevant information on the Group's website and issuing media releases. These policies are available on the Company's website.

#### **Principle 6: Respect the rights of shareholders**

The Company has established a Shareholder Communication Policy which describes the Group's approach to promoting effective communication with shareholders which includes:

- The annual report, including relevant information about the operations of the Group during the year, key financial information, changes in the state of affairs and indications of future developments. The annual report can be accessed either through the NSX website.
- The half year and full year financial results are announced to the NSX and are available to shareholders via the Company and NSX websites.
- Detailed notices of shareholder meetings are sent to all shareholders in advance of the meeting.
- Shareholding and dividend payment details are available through the Group's share register, Boardroom Limited.

The Board encourages full participation by shareholders at the Annual General Meeting to ensure a high level of Director accountability to shareholders and shareholder identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on matters such as the adoption of the Group's remuneration report, the granting of options and shares to Directors and changes to the Constitution.

The external auditor attends the Annual General Meeting to answer any questions concerning the audit of the Group and the contents of the auditor's report.

## **Principle 7: Recognise and manage risk**

### **Audit and Risk Committee**

Under its Charter, the Audit and Risk Committee has been delegated responsibility by the Board to oversee the implementation and review of risk management and related internal compliance and control systems throughout the Group.

The Committee reviews the appropriateness and adequacy of internal processes for determining, assessing and monitoring risk areas including the assessment of the effectiveness of the Group's internal compliance and controls including:

- The existence and adequacy of key policies and procedures.
- The adequacy of disclosures and processes for regular reporting of information to the appropriate parties, including the Board.
- The Committee is also responsible for monitoring the Group's compliance with applicable laws and regulations including:
  - Ensuring that management is reviewing developments and changes in applicable laws and regulations relating to the Group's responsibilities.
  - Reviewing management's actions and responses to ensure that the Group's practices are compliant with all new developments.
  - Reviewing material actual and suspected breaches of applicable laws and regulations, and any breaches of Group policies.
  - Reviewing material litigation, legal claims, contingencies or significant risks relating to the Group.
- Reviewing Director and executive management related party transactions.

The Audit and Risk Committee reports to the Board on the major issues and findings that are presented and discussed at its meetings.

### **Corporate reporting**

The Board has required management to design and implement a risk management and internal control system to manage the Group's material business risks and to report on whether those risks are being effectively managed.

## **Principle 8: Remunerate fairly and responsibly**

### **Nomination and Remuneration Committee**

As previously stated in Principle 2, the Board has established a Nomination and Remuneration Committee whose role is documented in a Charter which is approved by the Board.

The objective of the Committee with respect to its remuneration function is to assist the Board in determining appropriate remuneration arrangements for the Directors and executive management.

These objectives include:

- Reviewing the adequacy and form of remuneration of Independent Non-Executive Directors.
- Ensuring that the remuneration of the Independent Non-Executive Directors is reflective of the responsibilities and the risks of being a Director of the Group.
- Reviewing the contractual arrangements of the Chief Executive Officer and the executive management team including their remuneration.
- Comparing the remuneration of the Chief Executive Officer and executive management to comparable groups within similar industries to ensure that the remuneration on offer can attract, retain and properly reward performance which will translate into long term growth in shareholder value.
- Annually review key performance indicators of the Chief Executive Officer and executive team to ensure that they remain congruent with the Group's strategies and objectives.
- Reviewing the basis for remuneration of other Executive Directors of the Group for their services as Directors.
- Reviewing incentive performance arrangements when instructed by the Board.
- Reviewing proposed remuneration arrangements for new Director or executive appointments

The Committee will submit their recommendations to the Board regarding the remuneration arrangements and performance incentives for the Chief Executive Officer and executive team. The Board will review these recommendations before providing their approval.

Details of the Group's remuneration structure and details of senior executives' remuneration and incentives are set out in the Remuneration Report contained within the Directors' Report. The Remuneration Report also contains details on the structure of Non-Executive Director Remuneration.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME  
FOR YEAR ENDED 31 DECEMBER 2014**

|   | Note | 2014<br>\$   | 2013<br>\$     |
|---|------|--------------|----------------|
| Revenue   | 4    | 1,399,780    | 2,124,252      |
| Cost of goods sold  |      | (798,262)    | (1,754,408)    |
| Gross profit  |      | 601,518      | 369,844        |
| Net gain/(loss) arising from changes in fair value of grow-out work in progress of Chinese herbal sprouts | 13   | (112,733)    | 451,039        |
| Other income  | 4    | 29,263       | 17,081         |
| Operating expenses  |      | (15,162)     | (11,123)       |
| Administrative expenses   | 5    | (501,379)    | (227,804)      |
| Finance costs   |      | (388)        | (327)          |
| Profit before income tax  | 5    | 1,119        | 598,710        |
| Income tax expense  | 6    | -            | (20)           |
| <b>Profit / (Loss) For The Year</b>   |      | <b>1,119</b> | <b>598,690</b> |

**Other Comprehensive Income For The Year, Net of Tax**

*Items that may be reclassified subsequently to profit or loss*

|   |                |                |
|---|----------------|----------------|
| Exchange gain/(loss) differences arising on the translation of foreign operations | 240,818        | 268,356        |
| <b>Total Comprehensive Income For The Year Attributable to Members</b>            | <b>241,937</b> | <b>867,046</b> |

**Profit for the year attributable to:**

|                          |       |         |
|--------------------------|-------|---------|
| Non-controlling interest | 1,613 | 5,987   |
| Owner of the Parent      | (494) | 592,703 |

**Total comprehensive income attributable to:**

|                          |         |         |
|--------------------------|---------|---------|
| Non-controlling interest | 4,021   | 8,671   |
| Owner of the Parent      | 237,916 | 858,375 |

**Earnings per share (on profit attributable to ordinary equity holders)**

|  |   | Cents  | Cents |
|--|---|--------|-------|
| Basic earnings per share (cents per share)   | 9 | (0.01) | N/A   |
| Diluted earnings per share (cents per share) | 9 | (0.01) | N/A   |

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2014**

|                                  | Note | 2014<br>\$ | 2013<br>\$ |
|----------------------------------|------|------------|------------|
| <b>ASSETS</b>                    |      |            |            |
| <b>CURRENT ASSETS</b>            |      |            |            |
| Cash and cash equivalents        | 10   | 29,056     | 255,123    |
| Trade and other receivables      | 11   | 898,093    | 3,698,634  |
| Inventories                      | 12   | 29,351     | 401,617    |
| Biological assets                | 13   | 1,293,041  | 747,652    |
| Prepayments                      | 14   | 1,361,221  | 642,127    |
| <b>TOTAL CURRENT ASSETS</b>      |      | 3,610,762  | 5,745,153  |
| <b>NON-CURRENT ASSETS</b>        |      |            |            |
| Property, plant and equipment    | 15   | 2,261,351  | 1,653,481  |
| Intangible assets                | 16   | 3,212      | 3,508      |
| <b>TOTAL NON-CURRENT ASSETS</b>  |      | 2,264,563  | 1,656,989  |
| <b>TOTAL ASSETS</b>              |      | 5,875,325  | 7,402,142  |
| <b>CURRENT LIABILITIES</b>       |      |            |            |
| Trade and other payables         | 17   | 1,295,978  | 3,064,732  |
| <b>TOTAL CURRENT LIABILITIES</b> |      | 1,295,978  | 3,064,732  |
| <b>TOTAL LIABILITIES</b>         |      | 1,295,978  | 3,064,732  |
| <b>NET ASSETS</b>                |      | 4,579,347  | 4,337,410  |
| <b>EQUITY</b>                    |      |            |            |
| Issued capital                   | 18   | 3,437,235  | 3,437,235  |
| Reserves                         | 19   | 566,381    | 327,971    |
| Retained earnings                |      | 520,388    | 520,882    |
| Non-controlling interest         | 20   | 55,343     | 51,322     |
| <b>TOTAL EQUITY</b>              |      | 4,579,347  | 4,337,410  |

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR YEAR ENDED 31 DECEMBER 2014**

|                                    | Share<br>Capital<br>Ordinary | Reserves       | Retained<br>Earnings | Non-<br>controlling<br>Interest | Total            |
|------------------------------------|------------------------------|----------------|----------------------|---------------------------------|------------------|
|                                    | \$                           | \$             | \$                   | \$                              | \$               |
| <b>Balance at 31 December 2012</b> | 3,437,235                    | -              | (9,522)              | 42,651                          | 3,470,364        |
| Profit for the year                | -                            | -              | 592,703              | 5,987                           | 598,690          |
| Other comprehensive income         | -                            | 265,672        | -                    | 2,684                           | 268,356          |
| Total comprehensive income         | -                            | 265,672        | 592,703              | 8,671                           | 867,046          |
| Transfer to reserves               | -                            | 62,299         | (62,299)             | -                               | -                |
| <b>Balance at 31 December 2013</b> | <b>3,437,235</b>             | <b>327,971</b> | <b>520,882</b>       | <b>51,322</b>                   | <b>4,337,410</b> |
| Profit for the year                | -                            | -              | (494)                | 1,613                           | 1,119            |
| Other comprehensive income         | -                            | 238,410        | -                    | 2,408                           | 240,818          |
| Total comprehensive income         | -                            | <b>238,410</b> | (494)                | 4,021                           | 241,937          |
| <b>Balance at 31 December 2014</b> | <b>3,437,235</b>             | <b>566,381</b> | <b>520,388</b>       | <b>55,343</b>                   | <b>4,579,347</b> |

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOW  
FOR YEAR ENDED 31 DECEMBER 2014**

|   | Note | 2014<br>\$    | 2013<br>\$     |
|---|------|---------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |      |               |                |
| Receipts from customers   |      | 1,570,306     | 1,889,538      |
| Payments to suppliers and employees                                 |      | (1,961,041)   | (3,032,100)    |
| Interest received   |      | 415           | 351            |
| Finance costs   |      | (388)         | -              |
| Income tax paid   |      | -             | (20)           |
| Net cash provided by operating activities                           | 29   | (390,708)     | (1,142,231)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |      |               |                |
| Purchase of sale of property, plant and equipment non-related party |      | (596,060)     | (151,088)      |
| Purchase of property, plant and equipment from related party        |      | -             | (1,420,343)    |
| Purchase of intangible assets                                       |      | -             | (3,313)        |
| Net cash provided by (used in) investing activities                 |      | (596,060)     | (1,574,744)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |      |               |                |
| Receipt/(Payment) from/(to) related parties                         |      | 530,611       | 1,148,014      |
| Receipts from non-related parties                                   |      | -             | 1,758,224      |
| Net cash used in financing activities                               |      | 530,611       | 2,906,238      |
| Net change in cash and cash equivalents held                        |      | (456,157)     | 189,263        |
| Cash and cash equivalents at beginning of financial year            | 10   | 255,123       | 38,608         |
| Effect of exchange rates on cash holdings in foreign currencies     |      | 230,090       | 27,252         |
| <b>Cash and cash equivalents at end of financial year</b>           | 10   | <b>29,056</b> | <b>255,123</b> |

The accompanying notes form part of these financial statements.



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

### **NOTE 1: NATURE OF OPERATIONS**

China Herbal Medicine Limited and its controlled subsidiary ('the Group') principal activities include the cultivation and sale of TCM seeds and sprouts in the PRC.

These activities are grouped into the following service lines:

- Sale of seeds and sprouts – trading of finished goods of Chinese herbal medicine.
- Cultivation of seeds and sprouts – trading of seeds and sprouts generated from own seeds breeding and seedling cultivation.

### **NOTE 2: GENERAL INFORMATION AND STATEMENT OF COMPLIANCE**

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB').

Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). China Herbal Medicine Limited is a for-profit entity for the purpose of preparing the financial statements. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

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

China Herbal Medicine Limited is the Group's Ultimate Parent Company. China Herbal Medicine Limited is a Public Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is Level 25, Aurora Place, 88 Phillip Street, Sydney NSW 2000, Australia

The consolidated financial statements for the year ended 31 December 2014 were approved and authorised for issue by the Board of Directors on 29 April 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 3: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of China Herbal Medicine Limited and controlled entity ('Consolidated Group' or 'Group'). China Herbal Medicine Limited listed on the National Stock Exchange of Australia ("NSX") on 2 February 2015. The subsidiary has a reporting date of 31 December.

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

#### a. Principles of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2014. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable. Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

#### *Business Restructure*

China Herbal Medicine Limited (China Herbal or the Company) was incorporated to facilitate the listing of Gansu Dahe Chinese Herbal Medicine Development Co.,Ltd ('Gansu Dahe') on the National Stock Exchange of Australia. Pursuant to an Equity Transfer Agreement dated 3 May 2014 and 5 August 2014, 99% of the equity interest of Gansu Dahe was transferred to the Company, following which Gansu Dahe became a subsidiary of the Company. China Herbal and Gansu Dahe are owned and controlled by the same shareholder (before and after the business restructure) therefore the business restructure represents a common control transaction.

Business restructure involving entities under common control is scoped out under AASB 3: AASB provides no guidance on the accounting for these types of transactions; however requires an entity to develop an accounting policy. The two most common methods utilised are the purchase method and the pooling of interest-type method (predecessor values method).

Management has determined the pooling of interest-type method to be most appropriate. The pooling of interest-type method requires the financial statements to be prepared using the predecessor book values without any step up to fair value. The difference between any consideration given and the aggregate book value of the assets and liabilities of the acquired entity are recorded as an adjustment to equity. This may be recorded in reserves and no additional goodwill is created by the transaction. The comparatives have been presented as if the transaction took place at the beginning of the earliest comparative period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

All transaction costs incurred in relation to the business restructure are expensed to the statement of profit or loss. There is no contingent consideration in the business restructure.

### b. Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

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

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

### c. Inventories

Raw materials include seeds purchased from third parties and chemical fertilizer, which are all measured at cost.

Consumable inventories include farming tools and other planting accessories that are valued at cost plus cost of delivery to site.

Finished goods comprise Chinese herbal medicine purchased for sale and agriculture produce self-generated seeds. Seeds are valued at their fair value less estimated point-of-sale costs based on estimated sale value. The estimated sale value is measured at the most recent market transaction price. The estimated point-of-sale costs are based on expected shrinkage, delivery costs and storage costs.

### d. Biological assets

Biological assets include Chinese herbal medicine seeds planted and sprouts that have yet to be harvested. These are valued under AASB141.

Seeds and sprouts are valued at their fair value less estimated point-of-sale costs based on

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

estimated sale value. The estimated sale value is measured at the most recent market transaction price. The estimated point-of-sale costs are based on expected shrinkage, delivery costs, storage costs and costs to complete (harvest costs). At 31 December 2014 the Company has 1,440 acres (2013:240 acres) of Chinese herbal medicine seeds and sprouts being cultivated in the ground. The harvest of sprouts from 75% of the acreage being cultivated will be sold to the market with the remaining 25% to be utilised for the production of seeds.

Currently insurance cover is not available at commercially acceptable rates for the biological assets. The directors have chosen to proactively manage the risk as preferred alternative.

### e. **Property, plant and equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

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.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit and loss during the financial period in which they are incurred.

### **Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, 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. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| <b>Class of Fixed Asset</b> | <b>Depreciation Rate</b> | <b>Depreciation Basis</b> |
|-----------------------------|--------------------------|---------------------------|
| Office and equipment        | 20%                      | Straight line             |
| Buildings                   | 5%                       | Straight line             |
| Motor vehicle               | 10%                      | Straight line             |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying 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 profit and loss.

### f. **Leases**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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

### g. Intangible assets

Softwares have a finite useful life and are carried at cost less accumulated amortization and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of software over their estimated useful lives, which vary from 5 to 10 years.

### h. Financial instruments

#### Recognition, Initial Measurement and Derecognition

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss.

#### Classification and subsequent measurement

##### i. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

### ii *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

### **Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

### **Impairment of financial assets**

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the profit and loss.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in the financial assets reserve in other comprehensive income.

### i. **Impairment of non-financial assets**

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit and loss.

Impairment testing is performed annually for intangible assets with indefinite lives.

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.

### j. **Foreign currency transactions and balances**

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



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

### **Transaction and balances**

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 the other comprehensive income, 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 equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the other comprehensive income.

### **Group companies**

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

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the other comprehensive income in the period in which the operation is disposed.

#### **k. Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. 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 outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

#### **l. 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.

#### **m. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and deposits held at call with banks.

#### **n. Trade and other receivables**

Trade receivables are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

are general due for settlement within 30 days.

### o. **Revenue and Other Income**

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 rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Government grant relating to subsidy is credited to the statement of profit or loss and other comprehensive income.

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

### p. **Goods and Services Tax (GST) and Value Added Tax (VAT)**

Revenues, expenses and assets are recognised net of the amount of GST and VAT, except where the amount of GST or VAT incurred is not recoverable from the Tax Office. In these circumstances the GST and VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST and VAT.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST and VAT component of investing and financing activities, which are disclosed as operating cash flows.

### q. **Trade and other payables**

These amounts represent 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 usually paid according to term.

### r. **Equity and reserves**

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Other components of equity include the following:

- **statutory reserve** – comprises a transfer between 5% to 10% of its profit after taxation to the statutory reserve on a yearly basis until the surplus reserve balance reaches a minimal of 50% of the registered capital. (see Note 19)
- **capital reserve** – comprise reserve for long-term capital investment projects or any other large and anticipated expense(s) that will be incurred in the future (see Note 19)
- **foreign currency translation reserve** – comprises foreign currency translation differences arising on the translation of financial statements of the Group's foreign entities into \$AUD (see Note 19)

Retained earnings include all current and prior period retained profits.

All transactions with owners of the parent are recorded separately within equity.

### s. **Earnings per share**

(i) *Basic earnings per share*



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

### *(ii) Diluted earnings per share*

Diluted earnings per share adjust the figures used to determine basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### **t. Segment information**

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

Types of products by segment

#### **i. Sale of cultivated products**

The Company engages in the wholesales trading activities to buy and sell finished goods of Chinese herbal medicine.

#### **ii. Sale of seeds and sprouts**

All seeds and sprouts are aggregated as one reportable segment as the seeds and sprouts are similar in nature though at different biological transformation stages, they are grown and distributed to similar type of customers and they are subject to a similar regulatory environment.

### **u. Comparative Figures**

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

Pursuant to an Equity Transfer Agreement dated 3 May 2014 and 5 August 2014, 99% of the equity interest of Gansu Dahe Chinese Herbal Medicine Development Co., Ltd was transferred to the Company, becoming a subsidiary of the Company.

The transaction has been treated as a common control transaction and therefore the comparative financial information provided has been prepared on the basis that the restructure has occurred prior to the current prior comparative period.

The included comparatives are based on the audited 2013 financial information for Gansu Dahe Chinese Herbal Medicine Development Co., Ltd.

### **v. Critical accounting estimates and judgments**

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company. Actual results may differ from these estimates.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### Key estimates — Impairment of non-financial assets

The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

### Key estimates — Valuation of biological assets

Refer to Note 3d and Note 13 for details on the recognition and assumptions used for the determination of the fair value of biological assets.

### w. New and revised standards that are effective for these financial statements

A number of new and revised standards and an interpretation became effective for the first time to annual periods beginning on or after 1 January 2014. Information on these new standards is presented below.

#### ***AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements***

The Standard amends AASB 124 *Related Party Disclosures* to remove the individual Key Management Personnel ('KMP') disclosures required by Australian specific paragraphs. This amendment reflects the AASB's view that these disclosures are more in the nature of governance disclosures that are better dealt within the legislation, rather than by the accounting standards.

In mid-2013, the Australian government passed *Corporations and Related Legislation Amendment Regulation 2013 (No.1)* and *Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No. 1)* to insert these disclosures, with minor changes, into Corporations Regulations 2001. These disclosures are required to be included in remuneration reports for financial years commencing on or after 1 July 2013.

As a result of these amendments, the Group has transferred certain individual Key Management Personnel disclosures relating to shareholdings, options / rights holdings, loans and other transactions from the notes to the financial statements to the remuneration report.

#### ***AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities***

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

AASB 2012-3 is applicable to annual reporting periods beginning on or after 1 January 2014.

The adoption of these amendments has not had a material impact on the Group as the amendments merely clarify the existing requirements in AASB 132.

#### ***AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets***

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 *Fair Value Measurement*, the IASB decided to amend IAS 36 *Impairment of Assets* to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 *Impairment of Assets* and is applicable to annual reporting periods beginning on or after 1 January 2014.

The adoption of these amendments has not had a material impact on the Group as they are largely of the nature of clarification of existing requirements.

### **AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities**

The amendments in AASB 2013-5 provide an exception to consolidation to investment entities and require them to measure unconsolidated subsidiaries at fair value through profit or loss in accordance with AASB 9 *Financial Instruments* (or AASB 139 *Financial Instruments: Recognition and Measurement* where AASB 9 has not yet been adopted). The amendments also introduce new disclosure requirements for investment entities that have subsidiaries.

These amendments apply to investment entities, whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. Examples of entities which might qualify as investment entities would include Australian superannuation entities, listed investment companies, pooled investment trusts and Federal, State and Territory fund management authorities.

AASB 2013-5 is applicable to annual reporting periods beginning on or after 1 January 2014.

This Standard has not had any impact on the Group as it does not meet the definition of an 'investment entity' in order to apply this consolidation exception.

### **x. Accounting standards issued but not yet effective and not been adopted early by the Group**

The accounting standards that have not been early adopted for the year ended 31 December 2014, but will be applicable to the Group in future reporting periods, are detailed below. Apart from these standards, other accounting standards that will be applicable in future period have been reviewed, however they have been considered to be insignificant to the Group.

At the date of authorization of these financial statements, certain new standards, amendments and interpretation to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

### **AASB 9: Financial Instruments**

This standard introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

- allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.
- financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
  - the change attributable to changes in credit risk are presented in other comprehensive income (OCI); and
  - the remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 31 December 2018.

### ***AASB 2013-3 Recoverable Amount Disclosures for Non-Financial Assets***

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

When these amendments are first adopted for the year ending 31 December 2015, they are unlikely to have any significant impact on the entity given that they are largely of the nature of clarification of existing requirements.

### ***AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles)***

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2010-2012 Cycle:

- a) clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity); and
- b) amend AASB 8 Operating Segments to explicitly require the disclosure of judgements made by management in applying the aggregation criteria.

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2011-2013 Cycle clarify that an entity should assess whether an acquired property is an investment property under AASB 140 Investment Property and perform a separate assessment under AASB 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.

When these amendments are first adopted for the year ending 31 December 2015, they are unlikely to have any significant impact on the entity.

### ***AASB 2014-1 Amendments to Australian Accounting Standards (Part E: Financial Instruments)***

Part E of AASB 2014-1 makes amendments to Australian Accounting Standards to reflect the AASB's decision to defer the mandatory application date of AASB 9 Financial Instruments to annual reporting periods beginning on or after 1 January 2018. Part E also makes amendments to numerous Australian Accounting Standards as a consequence of the introduction of Chapter 6 Hedge Accounting into AASB 9 and to amend reduced disclosure requirements for AASB 7 Financial Instruments: Disclosures and AASB 101 Presentation of Financial Statements.

The entity has not yet assessed the full impact of these amendments.

### ***AASB 15 Revenue from Contracts with Customers***

AASB 15: replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:

- establishes a new revenue recognition model
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

- provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue.

In the Australian context, AASB 15 will apply to contracts of not for-profit (NFP) entities that are exchange transactions. AASB 1004 Contributions will continue to apply to non-exchange transactions until the Income from Transactions of NFP Entities Project is completed (with an Exposure Draft inviting public comment on those proposals targeted for issue in Q1 2015).

The entity has yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the standard is not expected to have a material impact on the transactions and balances recognized in the financial statements when it is first adopted for the year ended 31 December 2017.

### ***Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)***

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two limited circumstances:

- the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The Australian Accounting Standards Board (AASB) have issued the equivalent Australian amendment AASB 2014-4. When these amendments are first adopted for the year ending 31 December 2017, they are unlikely to have any significant impact on the entity.

### ***Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation amends AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets to limit the use of revenue based depreciation and amortisation methods.)***

This is the second amending standard implementing the IASB's May amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets.

The changes as a result of the IASB's decision that revenue based methods are not appropriate as they do not reflect the underlying principle that depreciation/amortisation should be based on the 'consumption of the expected future economic benefits embodied in



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

the asset'. Revenue based methods reflect a pattern of generation of economic benefits that arise from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits.

The revenue based method can still be used for amortisation for intangible assets if it can be demonstrated that revenue is directly related to the consumption of economic benefits of the intangible asset.

The Australian Accounting Standards Board (AASB) have issued the equivalent Australian amendment AASB 2014-4. When these amendments are first adopted for the year ending 31 December 2017, they are unlikely to have any significant impact on the entity.

### ***Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11 and AASB)***

The amendments to AASB 11 state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a 'business', as defined in AASB 3 Business Combinations, should:

- apply all of the principles on business combinations accounting in AASB 3 and other AASBs except principles that conflict with the guidance of AASB 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e. the existing interest is not remeasured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and
- provide disclosures for business combinations as required by AASB 3 and other AASBs

The Australian Accounting Standards Board (AASB) have issued the equivalent Australian amendment AASB 2014-3.

The entity has not yet assessed the full impact of these amendments, however they are unlikely to have any significant impact on the entity.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

The Group has not elected to early adopt any new standards or amendments that are issued but not yet effective and has not yet assessed the impact of these standards.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**NOTE 4: REVENUE**

|  | <b>Note</b> | <b>2014</b>      | <b>2013</b>      |
|--|-------------|------------------|------------------|
|  |             | <b>\$</b>        | <b>\$</b>        |
| Sales revenue  |             |                  |                  |
| - Sale of Chinese herbal medicine                      |             | 68,972           | 1,439,470        |
| - Sale of seeds and sprouts of Chinese herbal medicine |             | 1,330,808        | 684,782          |
| Total sales revenue                                    |             | <u>1,399,780</u> | <u>2,124,252</u> |

|                         |  |               |               |
|-------------------------|--|---------------|---------------|
| Other income            |  |               |               |
| Bank interest received  |  | 415           | 351           |
| Grant income (Note (a)) |  | 28,848        | 16,730        |
| Total other income      |  | <u>29,263</u> | <u>17,081</u> |

Note (a) Government grant arise from a reward for Good Supply Practice (GSP) Certificate obtained by China Herbal Medicine Ltd and donation by the Ding Xi Commerce Association subsidies for planation of Chinese herbal medicine seeds and sprouts.

**NOTE 5: PROFIT FOR THE YEAR**

|                             | <b>Note</b> | <b>2014</b>    | <b>2013</b>   |
|-----------------------------|-------------|----------------|---------------|
|                             |             | <b>\$</b>      | <b>\$</b>     |
| <b>Expenses</b>             |             |                |               |
| Finance costs:              |             |                |               |
| - Bank charges              |             | 388            | 327           |
| Total finance costs         |             | <u>388</u>     | <u>327</u>    |
| Employee wages and benefits |             | <u>149,862</u> | <u>83,851</u> |
| Rental costs                |             | <u>14,109</u>  | <u>10,983</u> |

|  |  |         |         |
|--|--|---------|---------|
| Included in administrative expenses are: |  |         |         |
| - Depreciation and amortisation          |  | 28,916  | 1,161   |
| - Travelling expense                     |  | 20,529  | 16,805  |
| - Other administration expenses          |  | 227,963 | 115,004 |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 6: INCOME TAX EXPENSE

|   | Note | 2014<br>\$ | 2013<br>\$ |
|---|------|------------|------------|
| The components of tax expense comprise: |      |            |            |
| Current tax                             |      | -          | (20)       |
| Deferred tax                            |      | -          | -          |
| Current tax expense/(benefit)           |      | -          | (20)       |

The Australian assessable earning will be taxed at 30% (2013 30%). The Chinese assessable earnings will be taxed at 25%.

|  | 2014<br>\$ | 2013<br>\$ |
|--|------------|------------|
| The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows: |            |            |
| Profit before income tax   | 1,119      | 598,710    |
| Prima facie tax payable on profit from ordinary activities before income tax at China tax rates of 25% (2013: 25%)   |            |            |
| - consolidated group   | 280        | 149,678    |
| - parent entity  | -          | -          |
| Add:   |            |            |
| Tax effect of adjustments  | -          | (110,869)  |
| Tax effect on non-deductible expenses  | 385,289    | 609,216    |
| Tax effect on non-taxable income   | (373,354)  | (648,005)  |
| Adjustments of entities not taxed at 25%   | (12,215)   | -          |
| Income tax attributable to entity  | -          | 20         |
| The applicable weighted average effective tax rates are as follows:  | 1%         | 1%         |

### NOTE 7: AUDITORS' REMUNERATION

|  | 2014<br>\$    | 2013<br>\$ |
|--|---------------|------------|
| Audit services   |               |            |
| Amounts received or due and receivable by the auditor of China Herbal Medicine Limited for : |               |            |
| - auditing or reviewing the financial statements   | 60,000        | -          |
| <b>Total audit services</b>  | <b>60,000</b> | <b>-</b>   |

### NOTE 8: DIVIDENDS

The Directors have resolved not to declare any final dividend.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 9: EARNINGS PER SHARE

- a. Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company as the numerator.

|   | 2014  | 2013 |
|---|-------|------|
|   | \$    | \$   |
| Reconciliation of earnings to profit or loss        |       |      |
| Profit used to calculate basic EPS and dilutive EPS | 1,119 | N/A  |

|  | 2014       | 2013    |
|--|------------|---------|
|  | Numbers    | Numbers |
| b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS and dilutive EPS | 38,051,604 | N/A     |

|   | 2014   | 2013  |
|---|--------|-------|
|   | cents  | cents |
| c. Earnings per share attributable to equity holders of China Herbal Medicine Ltd |        |       |
| Basic earnings per share  | (0.01) | N/A   |
| Dilutive earnings per share   | (0.01) | N/A   |

### NOTE 10: CASH AND CASH EQUIVALENTS

|                                | 2014   | 2013    |
|--------------------------------|--------|---------|
|                                | \$     | \$      |
| Cash on hand                   | 1,212  | 243     |
| Cash at bank                   | 27,844 | 254,880 |
| Total cash and cash equivalent | 29,056 | 255,123 |

### NOTE 11: TRADE AND OTHER RECEIVABLES

|   | Note | 2014    | 2013      |
|---|------|---------|-----------|
|   |      | \$      | \$        |
| CURRENT                                   |      |         |           |
| Trade receivables                         | 11a  | 114,539 | 689,275   |
| Other receivables                         |      | 5,396   | 710,709   |
| Related party receivables                 | 11b  | 778,158 | 2,298,650 |
| Total current trade and other receivables |      | 898,093 | 3,698,634 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 11: TRADE AND OTHER RECEIVABLES (CONT)

a. Trade receivables past due but not impaired:

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements. The company does not hold any collateral as security over any receivable balance, nor does it hold any restrictions of title.

Current trade receivables are non-interest bearing and generally on 30 day terms. As of 31 December 2014, trade receivables of \$54,148 (2013: \$689,275) were past due but not impaired. These relate to independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

|             | 2014<br>\$ | 2013<br>\$ |
|-------------|------------|------------|
| 31-60 days  | -          |            |
| 61-90 days  | 47,151     | 689,275    |
| 90-180 days | 6,997      | -          |
| Total       | 54,148     | 689,275    |

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

b. Refer Note 28 for details of related party balances.

### NOTE 12: INVENTORIES

|                                     | 2014<br>\$ | 2013<br>\$ |
|-------------------------------------|------------|------------|
| <b>Current</b>                      |            |            |
| Raw material (net)                  | 4,466      | 5,684      |
| Other inventories (net)             | 24,372     | 22,549     |
| Finished goods ready for sale (net) | 513        | 373,384    |
| Net inventory                       | 29,351     | 401,617    |

i. *Raw material*

|  | 2014<br>\$ | 2013<br>\$ |
|--|------------|------------|
| <b>Current</b>                         |            |            |
| Seeds and fertilizer purchased at cost | 4,466      | 5,684      |
| Net raw material                       | 4,466      | 5,684      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 12: INVENTORIES (CONT)

#### ii. *Other inventories*

|                                      | 2014<br>\$ | 2013<br>\$ |
|--------------------------------------|------------|------------|
| <b>Current</b>                       |            |            |
| Planting consumables and accessories | 24,372     | 22,549     |
| Net other inventories                | 24,372     | 22,549     |

#### iii. *Finished goods ready for sale*

|   | 2014<br>\$ | 2013<br>\$     |
|---|------------|----------------|
| <b>Current</b>                          |            |                |
| Planting machinery held for sale        | 513        | -              |
| Chinese angelica purchased at cost      | -          | 97             |
|   | <b>513</b> | <b>97</b>      |
| <b>Seeds</b>                            |            |                |
| Change in market value of growing stock | -          | 120,988        |
| Net finished goods ready for sale       | -          | 252,299        |
| <b>Total</b>                            | <b>513</b> | <b>373,384</b> |

Finished goods in 2014 are plating machinery held for sale with sprouts and seeds as a package during harvest season. Finished goods purchased for sale in 2013 were Chinese angelica and had been determined to be valued at the lower of cost and net realisable value at balance date. The accounting principles used for the lower of cost and net realisable value are explained in Note 1 Significant Accounting Policies.

Agriculture produce seeds comprised two types of Chinese herbal medicine seeds harvested from biological assets Chinese herbal medicine sprouts and had been determined to be valued at its fair value less costs to sell in 2014.

### NOTE 13: BIOLOGICAL ASSETS

|  | 2014<br>\$ | 2013<br>\$ |
|--|------------|------------|
| <b>Current</b>   |            |            |
| Consumable biological - sprouts to be harvested for sale:                  |            |            |
| Carrying amount at beginning of period                                     | 747,652    | -          |
| Value of seeds inventory purchased   | 380,650    | 88,372     |
| Cost of cultivation arising from physical changes                          | 386,783    | 414,708    |
| Gain arising from physical changes at fair value less estimated sale costs | 511,205    | 467,198    |
| Write down value of biological assets                                      | (137,851)  | (222,626)  |
| Decreases due to harvest for sale  | (595,398)  |            |
| Carrying amount at end of year   | 1,293,041  | 747,652    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 13: BIOLOGICAL ASSETS (CONT)

#### Valuation of Biological Assets

The accounting principles used for the valuation of biological assets are explained in Note 1 Significant Accounting Policies.

#### Assumptions Used for Determining Fair Value of Seeds and Sprouts

The estimated value of sprouts will always be based on uncertain assumptions, even though the Company has built substantial expertise in assessing these factors. Estimates are applied to the volume and market price inputs.

Volume is an estimate based on the planted land and yields expected to be achieved and sold and for further cultivation after taking into account shrinkage.

The market price assumption materially impacts the valuation and even small changes in the market price will have significant changes on the valuation. Market prices will be based on the best available estimates and available government guidelines.

### NOTE 14: PREPAYMENTS

|                   | 2014      | 2013    |
|-------------------|-----------|---------|
|                   | \$        | \$      |
| CURRENT           |           |         |
| Prepayments       | 1,361,221 | 642,127 |
| Total prepayments | 1,361,221 | 642,127 |

Prepayments represent advances/security deposits to suppliers for inventory purchases.

### NOTE 15: PROPERTY, PLANT AND EQUIPMENT

|                          | 2014     | 2013    |
|--------------------------|----------|---------|
|                          | \$       | \$      |
| <b>Office equipment</b>  |          |         |
| At cost                  | 205,326  | 11,483  |
| Accumulated depreciation | (11,317) | (1,551) |
| Total Office equipment   | 194,009  | 9,932   |
| <b>Motor vehicle</b>     |          |         |
| At cost                  | 26,533   | 24,549  |
| Accumulated depreciation | (4,831)  | (2,138) |
| Total Motor vehicle      | 21,702   | 22,411  |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONT)**

|  | 2014<br>\$              | 2013<br>\$              |
|--|-------------------------|-------------------------|
| <b>Buildings</b>                           |                         |                         |
| At cost                                    | 1,511,566               | 1,398,502               |
| Accumulated depreciation                   | (139,524)               | (61,738)                |
| Total Buildings                            | <u>1,372,042</u>        | <u>1,336,764</u>        |
| <b>Machinery</b>                           |                         |                         |
| At cost                                    | 165,939                 | 140,751                 |
| Accumulated depreciation                   | (28,410)                | (12,202)                |
| Total Machinery                            | <u>137,529</u>          | <u>128,549</u>          |
| <b>Leasehold Improvement</b>               |                         |                         |
| At cost                                    | 557,760                 | -                       |
| Accumulated depreciation                   | (21,691)                | -                       |
| Total Machinery                            | <u>536,069</u>          | <u>-</u>                |
| <b>Construction in progress</b>            | <u>-</u>                | <u>155,825</u>          |
| <b>Total property, plant and equipment</b> | <u><u>2,261,351</u></u> | <u><u>1,653,481</u></u> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONT.)

#### i. Movements in Carrying Amounts

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

|  | Office Equipment | Motor Vehicle  | Buildings        | Machinery       | Leasehold Improvement | Construction in Progress | Total            |
|--|------------------|----------------|------------------|-----------------|-----------------------|--------------------------|------------------|
|  | \$               | \$             | \$               | \$              | \$                    | \$                       | \$               |
| <b><u>Cost</u></b>                     |                  |                |                  |                 |                       |                          |                  |
| At 1 January 2014                      | 11,483           | 24,549         | 1,398,502        | 140,751         | -                     | 155,825                  | 1,731,110        |
| Addition                               | 174,611          | -              | -                | 12,499          | 504,840               | 419,194                  | 1,111,144        |
| Transfer                               | -                | -              | -                | -               | -                     | (571,637)                | (571,637)        |
| Exchange differences                   | 19,232           | 1,984          | 113,064          | 12,689          | 52,920                | (3,382)                  | 196,507          |
| <b>At 31 December 2014</b>             | <b>205,326</b>   | <b>26,533</b>  | <b>1,511,566</b> | <b>165,939</b>  | <b>557,760</b>        | <b>-</b>                 | <b>2,467,124</b> |
| <b><u>Accumulated Depreciation</u></b> |                  |                |                  |                 |                       |                          |                  |
| At 1 January 2014                      | (1,551)          | (2,138)        | (61,738)         | (12,202)        | -                     | -                        | (77,629)         |
| Depreciation for the year              | (8,725)          | (2,282)        | (65,889)         | (13,777)        | (19,633)              | -                        | (110,306)        |
| Exchange differences                   | (1,041)          | (411)          | (11,897)         | (2,431)         | (2,058)               | -                        | (17,838)         |
| <b>At 31 December 2014</b>             | <b>(11,317)</b>  | <b>(4,831)</b> | <b>(139,524)</b> | <b>(28,410)</b> | <b>(21,691)</b>       | <b>-</b>                 | <b>(205,773)</b> |
| <b><u>Cost</u></b>                     |                  |                |                  |                 |                       |                          |                  |
| At 1 January 2013                      | -                | -              | -                | -               | -                     | -                        | -                |
| Addition                               | 10,423           | 22,284         | 1,269,503        | 127,768         | -                     | 141,452                  | 1,571,430        |
| Exchange differences                   | 1,060            | 2,265          | 128,999          | 12,983          | -                     | 14,373                   | 159,680          |
| <b>At 31 December 2013</b>             | <b>11,483</b>    | <b>24,549</b>  | <b>1,398,502</b> | <b>140,751</b>  | <b>-</b>              | <b>155,825</b>           | <b>1,731,110</b> |
| <b><u>Accumulated Depreciation</u></b> |                  |                |                  |                 |                       |                          |                  |
| At 1 January 2013                      | -                | -              | -                | -               | -                     | -                        | -                |
| Depreciation expense                   | (1,408)          | (1,941)        | (56,043)         | (11,076)        | -                     | -                        | (70,468)         |
| Exchange differences                   | (143)            | (197)          | (5,695)          | (1,126)         | -                     | -                        | (7,161)          |
| <b>At 31 December 2013</b>             | <b>(1,551)</b>   | <b>(2,138)</b> | <b>(61,738)</b>  | <b>(12,202)</b> | <b>-</b>              | <b>-</b>                 | <b>(77,629)</b>  |
| <b><u>Net book value</u></b>           |                  |                |                  |                 |                       |                          |                  |
| <b>At 31 December 2014</b>             | <b>194,009</b>   | <b>21,702</b>  | <b>1,372,042</b> | <b>137,529</b>  | <b>536,069</b>        | <b>-</b>                 | <b>2,261,351</b> |
| <b>At 31 December 2013</b>             | <b>9,932</b>     | <b>22,411</b>  | <b>1,336,764</b> | <b>128,549</b>  | <b>-</b>              | <b>155,825</b>           | <b>1,653,481</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 16: INTANGIBLE ASSETS

|                                | 2014<br>\$   | 2013<br>\$   |
|--------------------------------|--------------|--------------|
| Cost                           | 3,944        | 3,649        |
| Accumulated Amortisation       | (732)        | (141)        |
| <b>Total Intangible Assets</b> | <b>3,212</b> | <b>3,508</b> |

### NOTE 17: TRADE AND OTHER PAYABLES

|                             | 2014<br>\$       | 2013<br>\$       |
|-----------------------------|------------------|------------------|
| CURRENT                     |                  |                  |
| Trade payables              | 39,188           | 71,059           |
| Related party payables (a)  | 1,196,301        | 709,207          |
| Revenue received in advance | 1,618            | 412,281          |
| Other tax payables          | 303              | 10,755           |
| Other payables              | 58,568           | 1,861,430        |
|                             | <b>1,295,978</b> | <b>3,064,732</b> |

(a) Refer to Note 28 for the more details on related party balances.

### NOTE 18: ISSUED CAPITAL

|  | Number of<br>shares issued | \$               |
|--|----------------------------|------------------|
| <b>Ordinary shares</b>   |                            |                  |
| Shares on issue at 7 April 2014 (Incorporation)                            | 1                          | 1                |
| Shares issued on transfer of equity interest in Gansu Dahe on 13 May 2014  | 803,749                    | 803,749          |
| Shares issued on transfer of equity interest in Gansu Dahe on 22 June 2014 | 2,633,485                  | 2,633,485        |
| Shares issued as a result of share split of 1 to 20 on 10 October 2014     | 65,307,465                 | -                |
| At the end of reporting period   | <b>68,744,700</b>          | <b>3,437,235</b> |

Ordinary shares participate in dividends in proportion to the number of shares held.

At the shareholders' 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 18: ISSUED CAPITAL (CONT)

#### Capital Management

The management's objectives when managing capital are to ensure that the group can fund its operations and continue as a going concern and to provide shareholders with adequate returns.

The management monitors capital on the basis of debt to equity ratio. This ratio is calculated as net liabilities divided by equity. Net liabilities is "Total liabilities" as shown on the consolidated balance sheet less cash and cash equivalent and equity is "equity" as shown on the consolidated balance sheet.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year, which is to maintain a good debt to equity ratio. The debt-equity ratios as at 31 December 2014 and 31 December 2013 are as follows:

|                                 | 2014      | 2013      |
|---------------------------------|-----------|-----------|
|                                 | \$        | \$        |
| Total liabilities               | 1,295,978 | 3,064,732 |
| Less: cash and cash equivalents | (29,056)  | (255,123) |
| Net liabilities/(net cash)      | 1,266,922 | 2,809,609 |
| Total equity                    | 4,579,347 | 4,337,410 |
| Net liabilities to equity ratio | (27.7%)   | (64.8%)   |

### NOTE 19: RESERVES

|                                      | 2014    | 2013    |
|--------------------------------------|---------|---------|
|                                      | \$      | \$      |
| Statutory reserve                    | 41,533  | 41,533  |
| Capital reserve                      | 20,765  | 20,765  |
| Foreign currency translation reserve | 504,083 | 265,673 |
|                                      | 566,381 | 327,971 |

#### Statutory Reserve

Pursuant to the current People's Republic of China Company Law, the Company is required to transfer between 5% to 10% of its profit after taxation to a statutory reserve until the surplus reserve balance reaches a minimal of 50% of the registered capital. For the purposes of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under the People's Republic of China accounting standards. The transfer to this reserve must be made before the distribution of dividends to the shareholders.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 19: RESERVES (CONT)

#### Capital Reserve

The capital reserve is for long-term capital investment projects or any other large and anticipated expense(s) that will be incurred in the future.

#### Foreign Currency Translation Reserve

The foreign currency translation reserve represents exchange differences arising from translation of the subsidiaries' functional currency (Chinese Renminbi) into presentational currency of the Group (Australian Dollars).

### NOTE 20: NON-CONTROLLING INTEREST

|  | 2014<br>\$ | 2013<br>\$ |
|--|------------|------------|
| Beginning at the beginning of the year | 51,322     | 42,651     |
| Share of movement in net assets        | 4,021      | 8,671      |
| Balance at the end of the year         | 55,343     | 51,322     |

Movement in non-controlling interest in 2014 relates to the 1% non-controlling interest in Gansu Dahe Chinese Herbal Medicine Development Co., Ltd held by Mr. Li Yan Long (Director). During 2014, the Company and its controlled entities achieved net profit after tax \$1,119 (2013: \$598,690) and has therefore been included in movement in net assets attributable to the Group's non-controlling interest. Refer note 21 for more details on the Group's controlled entity.

### NOTE 21: CONTROLLED ENTITIES

| a. Controlled Entities Consolidated | Country of Incorporation | Percentage Owned (%) <sup>(1)</sup> |           |
|-------------------------------------|--------------------------|-------------------------------------|-----------|
|                                     |                          | 2014<br>%                           | 2013<br>% |

#### Ultimate Holding Company

|                               |           |
|-------------------------------|-----------|
| China Herbal Medicine Limited | Australia |
|-------------------------------|-----------|

#### Subsidiary of China Herbal Medicine Limited:

|   |                            |                    |     |
|---|----------------------------|--------------------|-----|
| Gansu Dahe Chinese Herbal Medicine Development Co., Ltd | People's Republic of China | 99% <sup>(2)</sup> | N/A |
|---|----------------------------|--------------------|-----|

<sup>(1)</sup> Percentage of voting power is in proportion to ownership.

<sup>(2)</sup> Pursuant to Equity Transfer Agreements dated 3 May 2014 and 5 August 2014, 99% of the equity interest of Gansu Dahe Chinese Herbal Medicine Development Co., Ltd ('Gansu Dahe') was transferred to the Company. 1% of Gansu Dahe is held by Mr. Li Yan Long (Director).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 22: BUSINESS RESTRUCTURE

Pursuant to Equity Transfer Agreements dated 3 May 2014 and 5 August 2014, 99% of the equity interest of Gansu Dahe Chinese Herbal Medicine Development Co., Ltd ('Gansu Dahe') was transferred to the Company. This transaction is one referred to as a common control transaction.

Through this transaction effective control of Gansu Dahe passed to the shareholders of the Company. The transaction is one referred to in AASB 3 Business Combinations as a common control transaction, the nature and substance of this transaction is a group restructure where following the reconstruction the Company took control of Gansu Dahe with no change in underlying control.

As the Company was incorporated specifically for the purpose of this transaction, the fair value of the equity instruments issued has been estimated by reference to the value of historical (Gansu Dahe's) net assets.

The following has been extracted from the audited financial information of Gansu Dahe as at 30 June 2014.

The assets and liabilities of Gansu Dahe as at 30 June 2014 were:

|                                  | \$               |
|----------------------------------|------------------|
| Cash and cash equivalent         | 43,449           |
| Receivable                       | 1,200,652        |
| Inventories                      | 141,008          |
| Biological assets                | 2,159,785        |
| Prepayments                      | 597,700          |
| Property, plant and equipment    | 1,900,018        |
| Intangible assets                | 3,035            |
| Trade and other payables         | (936,316)        |
| Revenue received in advance      | (58,919)         |
| <b>Total net assets acquired</b> | <b>5,050,412</b> |

#### Accounted for as:

|                   |                  |
|-------------------|------------------|
| Issued capital    | 3,048,000        |
| Other reserves    | 372,964          |
| Retained earnings | 1,629,448        |
|                   | <b>5,050,412</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 23: FINANCIAL INSTRUMENT RISK

#### a. Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities consist of:

- Cash and cash equivalents
- Trade and other receivables
- Security deposits to suppliers
- Trade and other payables

The Group's accounting policy of financial assets and liabilities is summarised in Note 1. The main types of risks are market risk, credit risk and customer concentration risk.

The Group's risk management is coordinated at its headquarters, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

#### b. Market risk analysis

The Group is exposed to market risk through its use of financial instruments and specifically to credit risk, interest rate risk, liquidity risk, and customer concentration risk. The Group does not have any significant exposure to price risk and foreign currency risk.

##### *Credit risk*

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

The finance committee monitors credit risk on a regular basis.

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 Company 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 2014.

##### *Foreign currency risk*

Balances and transactions within each respective company are predominately in the local functional currency and not subject to foreign currency risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 23: FINANCIAL INSTRUMENT RISK (CONT.)

#### b. Market risk analysis (cont.)

##### *Liquidity Risk*

Liquidity risk is the risk that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for financial liabilities as well as forecast cash inflows and outflows due in day-to-day business.

##### *Interest Rate Risk*

The Group's exposure to interest rate risks relates principally to short term deposits placed with financial institutions, short term borrowing. At 31 December 2014, the Group is not exposed to changes in market interest rates resulting from nil (2013: nil) bank borrowings at variable interest rates. Other borrowing of the Company the non-convertible debt is at fixed interest rate.

##### *Price risk*

The Company's financial instruments are not exposed to price risk.

#### c. Credit risk analysis

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Company.

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

The Company adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from default. The utilisation of credit limits by customers is regularly monitored by line management. For significant transactions, customers are required to make sufficient prepayments in order to reduce the credit risk to an acceptable level.

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

|                               | 2014<br>\$       | 2013<br>\$       |
|-------------------------------|------------------|------------------|
| Classes of financial assets   |                  |                  |
| Carrying amounts:             |                  |                  |
| • cash and cash equivalents   | 29,056           | 255,123          |
| • trade and other receivables | 898,093          | 3,698,634        |
| • cash advanced to suppliers  | 1,361,221        | 642,127          |
|                               | <u>2,288,370</u> | <u>4,595,884</u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2014**

**NOTE 23: FINANCIAL INSTRUMENT RISK (CONT.)**

**c. Credit risk analysis (cont.)**

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Company's management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. None of the Company's financial assets are secured by collateral or other credit enhancements.

An analysis of unimpaired trade receivables that are past due is given in Note 11.

The credit risk for cash and cash equivalents, money market funds, debentures and derivative financial instruments is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

**d. Customer Concentration Risk**

The Group's exposure to customer concentration risk relates to its dependence on major customers.

The Group's generated 94% of revenues from customers (43%) and farmers (51%) in 2014 of the Company's revenues during the financial period. In 2013, the Group generated 88% of revenues from customers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### e. Financial instrument composition and maturity analysis

The table below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

|   | Weighted Average<br>Effective Interest<br>Rate |           | Interest Bearing<br>Maturing within 1<br>Year |         | Interest Bearing<br>Maturing within 2<br>Years |      | Non-interest Bearing<br>Maturing within 1 Year |           | Total     |           |
|---|--|-----------|---|---------|--|------|--|-----------|-----------|-----------|
|   | 2014   | 2013      | 2014  | 2013    | 2014   | 2013 | 2014   | 2013      | 2014      | 2013      |
|   | %  | %         | \$  | \$      | \$   | \$   | \$   | \$        | \$        | \$        |
| <b>Financial Assets:</b>                                |  |           |   |         |  |      |  |           |           |           |
| - Cash and cash equivalents<br>(Variable interest rate) | 0.35% p.a                                      | 0.39% p.a | 27,844  | 254,880 | -  | -    | -  | -         | 27,844    | 254,880   |
| - Trade and other<br>receivables                        |  |           | -   | -       | -  | -    | 898,093  | 3,698,634 | 898,093   | 3,698,634 |
| - Security deposits to<br>suppliers                     |  |           | -   | -       | -  | -    | 1,361,221                                      | 642,127   | 1,361,221 | 642,127   |
| <b>Total Financial Assets</b>                           |  |           | 27,844  | 254,880 | -  | -    | 2,259,314                                      | 4,340,761 | 2,287,158 | 4,595,641 |
| <b>Financial Liabilities:</b>                           |  |           |   |         |  |      |  |           |           |           |
| - Trade and other payables                              |  |           | -   | -       | -  | -    | 1,294,360                                      | 2,652,451 | 1,294,360 | 2,652,451 |
| - Revenue received in<br>advance                        |  |           | -   | -       | -  | -    | 1,618  | 412,281   | 1,618     | 412,281   |
| <b>Total Financial Liabilities</b>                      |  |           | -   | -       | -  | -    | 1,295,978                                      | 3,064,732 | 1,295,978 | 3,064,732 |
| <b>Net Financial Assets<br/>(Liabilities)</b>           |  |           |   |         |  |      |  |           | 991,180   | 1,530,909 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 24: FAIR VALUE MEASUREMENT

Financial assets and financial liabilities measured at fair value in the Statement of Financial Position are grouped into three levels of a fair value hierarchy. The three (3) levels are defined based on the observability of significant inputs to the measurement, 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 or indirectly
- **Level 3:** unobservable inputs for the asset or liability

The Group does not hold any financial assets or liabilities carried at fair value as at 31 December 2014. All financial assets and liabilities are carried at amortised cost.

The carrying amounts of current receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities approximates the carrying amount as the impact of discounting is not significant.

### NOTE 25: COMMITMENTS

#### Capital Commitment

No capital commitments existed as at 31 December 2014.

#### Operating Commitment

Non-cancellable operating leases contracted for but not capitalised in the financial statements as at 31 December 2014 are as follows:

|                                    | 2014<br>\$ | 2013<br>\$ |
|------------------------------------|------------|------------|
| Payable – minimum lease payments   |            |            |
| - not later than 12 months         | 47,522     | 45,923     |
| - between 12 months and five years | 138,444    | 140,406    |
| - greater than 5 years             | 367,524    | 360,614    |
|                                    | 553,490    | 546,943    |

### NOTE 26: CONTINGENT ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2014, the Group is not aware of any other contingent assets or liabilities that should be disclosed in accordance with AASB 137.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 27: OPERATING SEGMENTS

#### *Identification of reportable segments*

The Company has identified its operating segments based on the internal reports that are reviewed and used by the Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Company is managed primarily on the basis of product category and service offerings as the diversification of the Company's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment; and
- the type or class of customer for the products or services.

#### *Types of products and services by segment*

Segments as determined by the Directors and Management are as follows:

- Sale of seeds and sprouts
- Cultivation of seeds and sprouts

The group operates predominately in one geographical segment, being the People's Republic of China. All revenues are generated within the People's Republic of China.

Basis of accounting for purposes of reporting by operating segments:

#### *Accounting policies adopted*

Unless stated otherwise, all amounts reported to the Directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Company.

#### *Inter-segment transactions*

Inter-segment loans payables and receivables are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, there are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

#### *Segment assets*

Where an asset is used across multiple segments, the asset is allocated to the segment that receives majority economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

#### *Segment liabilities*

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Company as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 27: OPERATING SEGMENTS (CONT)

#### *Unallocated items*

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- income tax expense;
- current tax liabilities; and
- other financial liabilities

| 31 December 2014   | Sale of seeds and<br>sprouts<br>\$ | Cultivation of<br>Chinese herbal<br>medicine<br>\$ | Total<br>\$ |
|--|------------------------------------|--|-------------|
| <b>Segment revenue to external customer</b>                        | 68,972                             | 1,330,808  | 1,399,780   |
| Segment COGS   | (63,422)                           | (734,840)  | (798,262)   |
| Segment results  | 5,550                              | 595,968  | 601,518     |
| Other income   |                                    |  | 29,263      |
| Net financing costs  |                                    |  | (388)       |
| Unallocated expense net of unallocated revenue                     |                                    |  | (629,274)   |
| Profit before tax  |                                    |  | 1,119       |
| Income tax expense   |                                    |  | -           |
| Net profit after tax   |                                    |  | 1,119       |
| <b>Segment assets</b>  |                                    |  |             |
| Segment assets   | 288,537                            | 5,567,285  | 5,855,822   |
| Total corporate and unallocated assets – Cash and cash equivalents |                                    |  | 19,503      |
| Total assets   |                                    |  | 5,875,325   |
| <b>Segment liabilities</b>   |                                    |  |             |
| Segment liabilities  | 48,760                             | 940,799  | 989,559     |
| Total corporate and unallocated liabilities – Other payables       |                                    |  | 306,419     |
| Total liabilities  |                                    |  | 1,295,978   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 27: OPERATING SEGMENTS (CONT)

| 31 December 2013                               | Sale of seeds and<br>sprouts<br>\$ | Cultivation of<br>Chinese herbal<br>medicine<br>\$ | Total<br>\$ |
|--|------------------------------------|--|-------------|
| <b>Segment revenue to external customer</b>    | 684,782                            | 1,439,470  | 2,124,252   |
| Segment COGS                                   | (381,372)                          | (1,373,036)  | (1,754,408) |
| Segment results                                | 303,410                            | 66,434   | 369,844     |
| Other income                                   |                                    |  | 17,081      |
| Net financing costs                            |                                    |  | (327)       |
| Unallocated expense net of unallocated revenue |                                    |  | 212,112     |
| Profit before tax                              |                                    |  | 598,710     |
| Income tax expense                             |                                    |  | (20)        |
| Net profit after tax                           |                                    |  | 598,690     |
| <b>Segment assets</b>                          |                                    |  |             |
| Segment assets                                 | 2,386,184                          | 5,015,958  | 7,402,142   |
| Total assets                                   |                                    |  | 7,402,142   |
| <b>Segment liabilities</b>                     |                                    |  |             |
| Segment liabilities                            | 987,959                            | 2,076,773  | 3,064,732   |
| Total liabilities                              |                                    |  | 3,064,732   |

### Revenues from major customers

During 2014, Customer A contributed 20% of total revenues to external customers (\$280,282) and Customer B contributed 23% of total revenues to external customers (\$320,339). Farmers contributed 51% of total revenues to external customers (\$714,025).

During 2013, Customer B contributed 14% of total revenues to external customers (\$291,477), Customer C contributed 47% of total revenues to external customers (\$998,759) and Customer D contributed 27% of total revenues to external customers (\$581,239).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 28: RELATED PARTY TRANSACTIONS

The Group's related parties include its key management and others as described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

a. Transactions with key management personnel

|   | 2014<br>\$  | 2013<br>\$  |
|---|-------------|-------------|
| Cash advances to Mr. Li Yan Long  | (869,437)   | (4,114)     |
| Cash advances from Mr. Li Yan Long  | 1,268,320   | 3,847,900   |
| Purchases of property, plant and equipment from Gansu Dahe Planting Industrial*     | -           | (1,420,343) |
| Purchases of seeds, sprouts and finished goods from Gansu Dahe Planting Industrial* | -           | (448,127)   |
| Cash advance to Gansu Dahe Planting Industrial*                                     | (1,911,180) | (2,057,861) |
| Cash advance (to) / from Min Xian Dahe Zhuisu Agricultural Products*                | (568,666)   | (585,550)   |
| Purchase of raw materials from Longxi County Xiao Ling Bio-organic Fertilizer*      | (3,651)     | (64,469)    |
| Cash advance to Mr. Gou Ping Jun  | -           | (72,832)    |
| Cash advance from Gou Ping Jun  | 80,234      | -           |
| Cash advance to Xue Feng  | -           | (230,342)   |
| Cash advance from Xue Feng  | 15,563      | 216,215     |
| Cash advance (to) /from Lv Fu Min   | (1,866)     | (1,673)     |
| Cash advance to Mr. Li Yan Jiang  | (6,098)     | (114,962)   |
| Cash advance from Mr. Li Yan Jiang  | 61,072      | 94,324      |

\* Entities are associated with Mr. Li Yan Long

The above relate to transactions between the Group and key management personnel and their related parties during the year. Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 28: RELATED PARTY TRANSACTIONS (CONT)

- b. Amounts receivable from and payable to key management personnel and their related entities at balance date arising are as follows:

| 2014  | Receivable from<br>related party | Payable to<br>related party |
|---|----------------------------------|-----------------------------|
|   | \$                               | \$                          |
| Mr. Li Yan Long                               | -                                | 1,050,431                   |
| Gansu Dahe Planting Industrial Co.,Ltd        | 338,725                          | -                           |
| Min Xian Dahe Zhuisu Agricultural Products    | 29,083                           | -                           |
| Longxi County Xiao Ling Bioorganic Fertilizer | 408,429                          | 80,795                      |
| Lv Fu Min                                     | -                                | 71                          |
| Mr. Li Yan Jiang                              | 1,921                            | 65,004                      |
|   | <u>778,158</u>                   | <u>1,196,301</u>            |
| 2013  | Receivable from<br>related party | Payable to<br>related party |
|   | \$                               | \$                          |
| Mr. Li Yan Long                               | -                                | 593,846                     |
| Gansu Dahe Planting Industrial Co.,Ltd        | 2,266,968                        | 27,018                      |
| Mr. Gou Ping Jun                              | -                                | 80,234                      |
| Xue Feng                                      | 15,563                           | -                           |
| Lv Fu Min                                     | 1,843                            | -                           |
| Mr. Li Yan Jiang                              | 14,276                           | 8,109                       |
|   | <u>2,298,650</u>                 | <u>709,207</u>              |

Related party balances comprise related party loans and no specific terms and conditions have been attached to the above transactions.

- c. Key management personnel

A list of key management personnel and their shareholdings is and remuneration is disclosed in the Directors Report. No other person had the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial year.

Key management of the Group are the executive members of the Company's Board of Directors and Key Management Personnel remuneration includes the following expenses:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 28: RELATED PARTY TRANSACTIONS (CONT)

|  | 2014<br>\$    | 2013<br>\$    |
|--|---------------|---------------|
| <b>Key Management Personnel Remuneration</b> |               |               |
| Short term employee benefits                 | 83,897        | 35,919        |
| <b>Total remuneration</b>                    | <u>83,897</u> | <u>35,919</u> |

Detailed remuneration disclosures are included in the Remuneration Report contained in the Director's Report.

### NOTE 29: CASH FLOW INFORMATION

|  | 2014<br>\$       | 2013<br>\$         |
|--|------------------|--------------------|
| Operating Profit/(Loss) after income tax           | 1,119            | 598,690            |
| Non-cash flows in operating surplus/(deficit)      |                  |                    |
| Depreciation/Amortisation                          | 121,212          | 1,289              |
| Net (gain)/loss in fair value of biological assets | (373,354)        | (451,039)          |
| Net unrealized foreign currency gains (losses)     | 303,443          | -                  |
| Changes in assets and liabilities                  |                  |                    |
| (Increase)/Decrease in Trade receivables           | 574,736          | (625,695)          |
| (Increase)/Decrease in prepayments                 | (719,094)        | (582,897)          |
| (Increase)/Decrease in Inventory                   | (173,123)        | (522,071)          |
| (Increase)/Decrease in Trade and other payables    | 295,470          | 56,943             |
| Increase/(Decrease) in other tax payable           | (10,453)         | 8,297              |
| Increase/(Decrease) in revenue received in advance | (410,664)        | 374,252            |
| <b>Cash flows from operations</b>                  | <u>(390,708)</u> | <u>(1,142,231)</u> |

### NOTE 30: SUBSEQUENT EVENT

The Company listed on the National Stock Exchange of Australia ("NSX") on 2 February 2015. No additional shares were issued as part of the listing on the NSX.

Other than its listing on the NSX subsequent to the year end, there are no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### NOTE 31: PARENT ENTITY INFORMATION

|   | 2014<br>\$       | 2013 <sup>(1)</sup><br>\$ |
|---|------------------|---------------------------|
| <b>Statement of financial position</b>                            |                  |                           |
| <b>Assets</b>   |                  |                           |
| Current Assets  | 19,503           | -                         |
| Non-Current Assets  | 3,563,987        | -                         |
| <b>Total Assets</b>   | <b>3,583,490</b> | <b>-</b>                  |
| <b>Liabilities</b>  |                  |                           |
| Current Liabilities   | 306,419          | -                         |
| <b>Total Liabilities</b>  | <b>306,419</b>   | <b>-</b>                  |
| <b>Net Assets</b>   | <b>3,277,071</b> | <b>-</b>                  |
| <b>Equity</b>   |                  |                           |
| Issued Capital  | 3,437,235        | -                         |
| Retained Earnings   | (160,070)        | -                         |
| <b>Total Equity</b>   | <b>3,277,071</b> | <b>-</b>                  |
| <b>Statement of profit or loss and other comprehensive income</b> |                  |                           |
| (Loss) / Profit for the Year                                      | (160,070)        | -                         |
| Total Comprehensive Income  | (160,070)        | -                         |

<sup>(1)</sup> The Parent entity is incorporated in 7 April 2014.

The parent entity has no contingent assets or contingent liabilities as at 31 December 2014.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**NOTE 32: COMPANY DETAILS**

**Registered Office**

Level 25, Aurora Place

88 Phillip Street

Sydney NSW 2000 Australia

**Principal Place of Business**

3 Dinglin Road, Anding District

Dingxi City, Gansu Province, PRC 743099

**Contact Details**

Phone: +61 2 8211 0688

Fax: +61 2 8211 0555



## Directors' Declaration

- 1 In the opinion of the Directors of China Herbal Medicine Limited:
  - a The consolidated financial statements and notes of China Herbal Medicine Limited are in accordance with the *Corporations Act 2001*, including
    - i Giving a true and fair view of the financial position as at 31 December 2014 and the performance for the financial year ended on that date; and
    - ii Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - b There are reasonable grounds to believe that China Herbal Medicine Limited will be able to pay its debts as and when they become due and payable.
- 2 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 31 December 2014.
- 3 Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:



Li Yanlong

Chairman

Dated the 29<sup>th</sup> day of April 2015

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHINA HERBAL MEDICINE LIMITED**

### **Report on the financial report**

We have audited the accompanying financial report of China Herbal Medicine Limited (the "Company"), which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, 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 of the company the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### **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. The Directors' responsibility also includes 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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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 of 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.

### **Independence**

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

### **Auditor's opinion**

In our opinion:

- a the financial report of China Herbal Medicine Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2014 and of their 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 the notes to the financial statements.

### **Report on the remuneration report**

We have audited the remuneration report included in the directors' report for the year ended 31 December 2014. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of China Herbal Medicine Limited for the year ended 31 December 2014, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



SJ Gray  
Partner – Audit & Assurance

Adelaide, 29 April 2015