



ChongHerr

I N V E S T M E N T S L T D

ABN: 52 054 161 821

Annual Report

for the Year Ended 31 December 2005

ChongHerr Investments Ltd
ABN: 52 054 161 821

Annual Report
for the Year Ended 31 December 2005

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CHONGHERR INVESTMENTS LTD

ABN 52 054 161 821

CORPORATE INFORMATION

Directors

Densen Liu (Chairman, Managing Director)
Zhen Lu
Sophia Kong
Hon Tok Tsoi

Company Secretary

Sophia Xiaoqing Kong

Registered Office

Level 34, Central Plaza 1
345 Queen Street
Brisbane QLD 4000

Solicitors

Hemming & Hart Lawyers
2nd Floor
307 Queen Street
GPO Box 142
Brisbane QLD 4001

Bankers

Commonwealth Bank of Australia
HSBC Bank of Australia

Share Register

Link Market Services Ltd
Level 22, 300 Queen Street
Brisbane QLD 4000

Auditors

Ernst & Young
Waterfront Place
1 Eagle Street
Brisbane QLD 4000

ChongHerr Investments Ltd
Directors' Report 2005

Your directors submit their report for the year ended 31 December 2005.

1. DIRECTORS

The names and details of the directors of the company in office during the financial year, and until the date of this report are as follows. Directors were in office for the entire year unless otherwise stated.

Names and qualifications

De Hui Liu (Chairman) (Managing Director)	Mr Liu is currently the Chairman and Managing Director of ChongHerr Investments Ltd. He has over 21 years experience in corporate management with particular strengths in investment, company restructure, international trades and property development. Mr Liu was appointed to the Board in October 1999.
Zhen Lu	Mr Lu was the Managing Director of Shenzhen Helidon Sandstone Industries Pty Ltd, a major building material supplier in China. He brings to the Board over 23 years experience in civil engineering. Mr Lu was appointed to the Board in August 2002.
Sophia Xiaoqing Kong	Ms Kong holds a Master's Degree in Architecture Design and a Bachelor's Degree in Urban Planning. She was appointed a director in July 2003, bringing to the Board over 12 years professional and business management experience. Ms Kong is also the Company Secretary.
Hon Tak Tsoi	Mr Tsoi joins the board with more than 10 years experience in business development and management gained from managing a variety of businesses in investments and property development. Mr Tsoi was appointed to the Board on 11 November 2005.
You He Wu	Mr Wu was appointed to the Board in October 1999 and served as a director of the company until his removal at the AGM on 12 April 2005.

ChongHerr Investments Ltd
Directors' Report 2005

Interest in the shares of the company

At the date of this report, the equity interests of directors (where that interest is held directly, indirectly or beneficially) are as follows:

Director	Balance 1/1/05	Movement	Balance 31/12/05
Green Mountain Holdings Pty Ltd (i)	56,584,357	-	56,584,357
Mr Dehui Liu (ii)	16,418,057	-	16,418,057
Mr Zhen Lu	-	-	-
Ms Sophia Kong	-	-	-
Mr Hon Tak Tsoi	-	-	-

- (i) Mr Liu is a shareholder in Green Mountain Holdings, holding a 76.1% interest in that company.

Green Mountain Holdings is the ultimate holding company and Australian controlling company of ChongHerr Investments Limited.

- (ii) This interest is held via The Liu and Zhuang Family Trust, of which Mr Liu is a trustee.

2. (a) CORPORATE STRUCTURE

ChongHerr Investments Ltd is a company limited by shares that is incorporated and domiciled in Australia. ChongHerr Investments Ltd has prepared a consolidated financial report incorporating Australian Sandstones Industries Pty Ltd, which it controlled during the year.

Corporate Governance

The Corporate Governance Statement for ChongHerr Investments Ltd is available on the company's website, and accompanies this report.

2. (b) PRINCIPAL ACTIVITIES

The principal activities during the year of the consolidated entity were the quarrying of sandstone and the sale of sandstone blocks, primarily by export to overseas customers.

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

3. RESULTS AND DIVIDENDS

The profit from continuing operations before income tax of the consolidated entity for the year ended 31 December 2005 was \$734,533 (2004 – \$338,505).

The directors are not recommending the payment of any dividends for the year.

4. REVIEW OF OPERATIONS

SANDSTONE QUARRYING & PRODUCTION

Quarrying and production operations continue to improve in 2005. Further additions of new equipment and improved cutting techniques introduced 18 months ago have ensured consistent higher yielding rates which have also kept the productions costs low.

In the past 2 to 3 years, through capital investment in quarry plant and equipment, and as a result of various production efficiency initiatives undertaken, the Company has overcome substantial challenges in being able to quarry sandstone in the volumes and quality required for the Chinese marketplace at levels of productivity and efficiency which allow for a profitable end result.

EXPORT OF SANDSTONE BLOCKS

Strong export sales have been achieved in the year totalling \$3,216,291, representing an increase of 26% from last year \$2,557,829.

The Company operates a total of 5 sales and display offices in Guangdong Province of China. In October 2005, the Company set up a new sales and display facility which enables the clients to view blocks in raw forms in Yunfu City, one of China's busiest town for stone trades.

China operations now incorporate a marketing / product research and development department. Apart from coordinating the marketing activities in China, this section is also responsible for assessing the market trend and developing new products. In 2005, the company rolled out a series of sandstone mural products which was well accepted by clients. In 2006, a series of standard products, including sandstone borders, sandstone tiles and sandstone mosaic are expected to be available to Chinese and Australian markets. These products, which make use of small blocks and off-cuts will significantly reduce wastage and at the same time improve profit margin.

Starting 2003, the Company has attended 6 international and national trade shows in China. Each of the 30 sales people had visited at least 100 clients each during the year. These activities, assisted by on going advertising in professional, trade and lifestyle magazines have significantly lifted the Company's profile in China.

The Company now has a significant portfolio of finished developments within China, including museums, libraries, government buildings, residential and commercial estates, hotels and resorts, all of which are highlighted by their extensive use of Helidon sandstone. Among the finished projects added to our Chinese portfolio in 2005 are residential developments in Beijing, Guangzhou, Shenzhen and Dongguan, a transport department building in city of Wuhan, a hotel in Nanjing, and a hotel in Xinjiang Autonomous Region, a remote region in China's northwest on the silk road.

China remains as the focus of the company's sales opportunities in years to come. The company continues to explore sales opportunities in Australia and other overseas markets.

QUARRY TENURE

The company holds sandstone mining leases ML50016 (Montgomery Quarry, mining lease expires in 2017) and ML50013 (Zacks Quarry, mining lease expires in 2012) at Helidon, Queensland, an area famous for fresh water sandstone. The Company also holds the ownership of the background tenures of the two quarries.

The company is also the holder of exploration permit EPM 11005 (expiry March 2006 and subject to annual renewal).

An application for new mining lease was lodged in November 2004 and is subject to an extensive regulatory review process. A decision on the application is expected within the next few months. Once approved, the mining lease area will double.

FINANCIAL POSITION

The audited financial statements of the consolidated entity accompany this directors' report. This is the first full year that the financials have been prepared under Australian equivalents to International Financial Reporting Standards (AIFRS). Note 2 in the financials outlines the impacts of reporting under AIFRS.

The financials show a profit for the year of \$734,533 and total assets of \$6,643,876. The improved result in the year increased the consolidated entity's net assets to \$5,158,758.

Sales, totalling \$3,305,033 in the year, grew by 17% over the previous year and at are historically high levels. In the current year, \$3,216,291 of sales were generated from China.

The strong cashflow in the year also allowed ChongHerr to pay down some of its borrowings. At year end, group borrowings total \$770,494 of which \$293,983 are from director related entities. The balance of the borrowings are primarily lease facilities for plant and equipment.

The overall financial position of ChongHerr has improved in the last few years due to the efforts of enhancing production methods and overseas sales. The directors believe that this more stable financial and operating position will enable ChongHerr to pursue its current activities and further opportunities.

5. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the company or the consolidated entity in the year.

6. SIGNIFICANT EVENTS AFTER BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

In the coming year the company will maintain its focus on sales opportunities in China, and production/quarrying efficiencies. Demand for sandstone is expected to remain strong.

The company will also continue to conduct its business so that profitability can be enhanced and the balance sheet strengthened.

8. ENVIRONMENTAL RESPONSIBILITIES

The company's quarries are operated under environmental provisions contained in mining leases granted by the Queensland Government. There have been no significant known breaches of these provisions. The company is required at the cessation of the mining leases to rehabilitate the sites back to a land form with vegetation similar to what was present prior to disturbance.

9. REMUNERATION REPORT - DIRECTORS' & EXECUTIVES

Remuneration Policy

ChongHerr utilises the following guidelines to encourage directors and executives to pursue company objectives, and ensure their interests and those of the shareholders are closely aligned:

- Remuneration packages should be set in the context of what is reasonable and fair taking into account the company's legal obligations, labour market conditions, the scale of the business and competitive forces, and employee performance,
- In accordance with the company's Constitution, the amount of fees payable to directors is limited to that amount approved by shareholders (currently no set amount has been approved),
- Any equity based remuneration requires shareholder approval.

Due to the size of the company and composition of the Board, ChongHerr does not have a remuneration committee. The Board sets the remuneration of individual directors including the Managing Director. The Board recognises that it is not in conformity with ASX Best Practice Principles requiring that a separate sub-committee of the Board undertakes the responsibilities of remuneration. Given the size, history and activities of ChongHerr, the directors believe it is more efficient for the entire Board to deal with remuneration matters.

The Board assesses the appropriateness of the nature and amount of remuneration on a periodic basis. In setting remuneration, directors and executives are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. The Group does not provide any equity based remuneration, nor does it presently specifically link director and executive remuneration to company performance conditions.

ChongHerr Investments Ltd
Directors' Report 2005

Remuneration of Directors and Executives

Directors/executives	Primary Salary & Fees	Cash Bonus	Non Monetary benefits	Post Employment Superan- uation	Other	Total
	\$	\$	\$	\$	\$	\$
31 December 2005						
De Hui Liu	74,673	-	-	35,519	-	110,192
Zhen Lu	-	-	-	-	-	-
Sophia Xiaoqing Kong	-	-	-	-	-	-
Hon Tak Tsoi	-	-	-	-	-	-
You He Wu	-	-	-	-	-	-
Total	74,673	-	-	35,519	-	110,192
31 December 2004						
De Hui Liu	87,000	-	-	33,000	-	120,000
Zhen Lu	-	-	-	-	-	-
Sophia Xiaoqing Kong	-	-	-	-	-	-
You He Wu	-	-	-	-	-	-
Total	87,000	-	-	33,000	-	120,000

There presently are no formal employment agreements entered into with the Managing Director.

10. DIRECTORS' MEETINGS

During the year, 7 directors' meetings were held. The number of meetings at which directors were in attendance is as follows:

	Directors' Meetings	
	No. of Meetings held while in office	Meetings attended
D H Liu	7	7
Z Lu	7	7
S Kong	7	7
H Tsoi	1	1
Y H Wu	3	0

SHARE OPTIONS

There are no options outstanding at the date of this report.

ChongHerr Investments Ltd
Directors' Report 2005

11. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND AUDITOR

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

12. PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

13. AUDITOR INDEPENDENCE

The auditors did not provide any non-audit services to the consolidated entity during the year.

The auditor's independence declaration for the year ended 31 December 2005 has been received and can be found on the page following this directors' report.

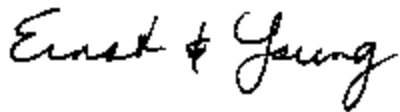
Signed in accordance with a resolution of the Board of Directors.



Managing Director
Dehui Liu
8 March 2006

Auditor's Independence Declaration to the Directors of ChongHerr Investments Ltd

In relation to our audit of the financial report of ChongHerr Investments Ltd for the financial year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Mike Reid
Partner
8 March 2006

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	<i>CONSOLIDATED</i>		<i>PARENT</i>	
		2005	2004	2005	2004
		\$	\$	\$	\$
Continuing operations					
Revenue					
Sale of goods		3,305,033	2,822,775	3,305,033	2,822,775
Rental income		52,698	17,742	52,698	17,742
	3	3,357,731	2,840,517	3,357,731	2,840,517
Cost of sales		(1,272,783)	(811,009)	(1,272,783)	(811,009)
Gross profit		2,084,948	2,029,508	2,084,948	2,029,508
Other income	4	303,153	37,229	303,153	37,229
Selling and distribution expenses		(1,102,925)	(1,186,569)	(1,102,925)	(1,186,569)
Corporate and administration expenses		(485,851)	(475,073)	(485,851)	(475,073)
Finance costs	4	(64,792)	(66,590)	(64,792)	(66,590)
Profit from continuing operations before tax	4	734,533	338,505	734,533	338,505
Income tax expense	5	-	-	-	-
Profit after tax from continuing operations		734,533	338,505	734,533	338,505
Net profit for the period		734,533	338,505	734,533	338,505
Earnings per share (cents per share)	6				
– basic for profit for the year		0.641	0.354	0.641	0.354
– diluted for profit for the year		0.641	0.354	0.641	0.354
Dividends per share (cents per share)	7	-	-	-	-

The accompanying notes form an integral part of this financial statement.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT
BALANCE SHEET AS AT 31 DECEMBER 2005

	NOTES	<i>CONSOLIDATED</i>		<i>PARENT</i>	
		2005	2004	2005	2004
		\$	\$	\$	\$
ASSETS					
Current Assets					
Cash and cash equivalents	8	82,897	197,184	82,897	197,184
Trade and other receivables	9	898,333	271,462	898,333	271,462
Inventories	10	553,386	518,671	553,386	518,671
Prepayments		43,429	28,530	43,429	28,530
Total Current Assets		1,578,045	1,015,847	1,578,045	1,015,847
Non-current Assets					
Other financial assets	11	111,441	70,474	111,451	70,484
Property, plant and equipment	12	1,106,314	1,127,121	1,106,314	1,127,121
Quarry and reserves	13	3,848,076	3,882,694	3,848,076	3,882,694
Total Non-current Assets		5,065,831	5,080,289	5,065,841	5,080,299
TOTAL ASSETS		6,643,876	6,096,136	6,643,886	6,096,146
LIABILITIES					
Current Liabilities					
Trade and other payables	14	328,888	344,626	328,898	344,636
Interest-bearing loans and borrowings	15	185,272	263,804	185,272	263,804
Provisions	16	24,565	19,882	24,565	19,882
Deferred government grants		42,371	25,700	42,371	25,700
Total Current Liabilities		581,096	654,012	581,106	654,022
Non-current Liabilities					
Interest-bearing loans and borrowings	15	585,222	659,799	585,222	659,799
Provisions	16	170,500	158,200	170,500	158,200
Deferred government grants		148,300	199,900	148,300	199,900
Total Non-current Liabilities		904,022	1,017,899	904,022	1,017,899
TOTAL LIABILITIES		1,485,118	1,671,911	1,485,128	1,671,921
NET ASSETS		5,158,758	4,424,225	5,158,758	4,424,225
EQUITY					
Issued capital	17	18,218,667	18,218,667	18,218,667	18,218,667
Retained earnings		(13,059,909)	(13,794,442)	(13,059,909)	(13,794,442)
TOTAL EQUITY		5,158,758	4,424,225	5,158,758	4,424,225

The accompanying notes form an integral part of this financial statement.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	NOTES	<i>CONSOLIDATED</i>		<i>PARENT</i>	
		2005	2004	2005	2004
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		2,717,099	2,855,120	2,717,099	2,855,120
Payments to suppliers and employees		(2,609,018)	(2,550,095)	(2,609,018)	(2,550,095)
Borrowing costs		(64,792)	(66,590)	(64,792)	(66,590)
Government grants & other income		252,770	169,421	252,770	169,421
Net cash flows from operating activities	8	296,059	407,856	296,059	407,856
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		15,454	-	15,454	-
Purchase of property, plant and equipment		(129,660)	(321,587)	(129,660)	(321,587)
Payments relating to quarry and reserves, and mining deposits		(54,814)	(56,567)	(54,814)	(56,567)
Net cash flows used in investing activities		(169,020)	(378,154)	(169,020)	(378,154)
Cash flows from financing activities					
Proceeds from issue of shares	17	-	599,043	-	599,043
Payment of finance lease liabilities		(100,258)	(53,945)	(100,258)	(53,945)
Repayment of related party loans		(71,154)	(465,182)	(71,154)	(465,182)
Repayment of other loans		(69,914)	-	(69,914)	-
Net cash flows from/(used in) financing activities		(241,326)	79,916	(241,326)	79,916
Net increase/(decrease) in cash and cash equivalents		(114,287)	109,618	(114,287)	109,618
Cash and cash equivalents at beginning of period		197,184	87,566	197,184	87,566
Cash and cash equivalents at end of period	8	82,897	197,184	82,897	197,184

The accompanying notes form an integral part of this financial statement.

CHONGHERR INVESTMENTS LTD - ANNUAL REPORT

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	<i>CONSOLIDATED & PARENT ENTITY</i>		
	<i>Issued Capital \$</i>	<i>Retained Earnings \$</i>	<i>Total \$</i>
At 1 January 2004	17,619,624	(14,132,947)	3,486,677
Issue of share capital	638,045	-	638,045
Share issue costs	(39,002)	-	(39,002)
Profit for the year	-	338,505	338,505
At 31 December 2004	18,218,667	(13,794,442)	4,424,225
Profit for the year	-	734,533	734,533
At 31 December 2005	18,218,667	(13,059,909)	5,158,758

The accompanying notes form an integral part of this financial statement.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. CORPORATE INFORMATION

The financial report of ChongHerr Investments Ltd for the year ended 31 December 2005 was authorised for issue in accordance with a resolution of the directors. The financial report covers the consolidated entity of ChongHerr Investments Ltd and its controlled entities, and ChongHerr Investments Ltd as the parent entity.

ChongHerr Investments Ltd is a company limited by shares, incorporated in Australia, whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except where otherwise stated.

b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first financial report prepared based on AIFRS and comparatives for the year ended 31 December 2004 have been restated accordingly Statement of compliance except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The company has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 31 December 2004 to the balances reported in the 31 December 2004 financial report are detailed in Note 2 (t) below.

Except for the revised AASB 119 *Employee Benefits* (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 31 December 2005.

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard	Application date for Group
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-5	AASB 1: <i>First-time adoption of AIFRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2005-6	AASB 3: <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time Adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts and</i> AASB 1038: <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
New standard	AASB 7: <i>Financial Instruments: Disclosure</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007

The following amendments are not applicable to the Group and therefore have no impact.

AASB Amendment	Affected Standard(s)
2005-2	AASB 1023: <i>General Insurance Contracts</i>
2005-4	AASB 139: <i>Financial Instruments: Recognition and Disclosure</i> , AASB 132: <i>Financial Instruments: Disclosure</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 1038: <i>Life Insurance Contracts</i>
2005-9	AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 139: <i>Financial Instruments: Recognition and Disclosure</i> , AASB 132: <i>Financial Instruments: Disclosure</i>
2005-12	AASB 1038: <i>Life Insurance Contracts and</i> AASB 1023: <i>General Insurance Contracts</i>
2005-13	AAS 25: <i>Financial Reporting by Superannuation Plans</i>

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of ChongHerr Investments Ltd and its subsidiaries as at 31 December each year ('the Group'). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which ChongHerr Investments Ltd has control.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Foreign currency translation

Both the functional and presentation currency of ChongHerr Investments Ltd and its Australian subsidiaries is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

e) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a reducing balance basis over the estimated useful life of each asset (ranging from 3-40 years).

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) **Property, plant and equipment (continued)**

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

f) **Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

g) **Quarry and reserves**

Quarry and reserves represents expenditure on the acquisition, evaluation and development of mining leases and exploration permits. These costs are only carried forward to the extent that they are expected to be recouped through successful development or where activities have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. The cost of property, plant and equipment in relation to the quarry is recorded separately in the balance sheet.

When production commences, the accumulated costs are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review of recoverable amount is undertaken to determine the appropriateness of continuing to carry forward costs.

Costs of restoration are provided over the life of the quarry from when the obligation becomes probable (usually from when evaluation commences) and are charged against profit. Restoration costs include the dismantling and removal of plant, equipment and building structures, waste removal, and rehabilitation in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on a discounted basis. Any changes in the estimates of the costs are accounted for on a prospective basis. In determining the costs of restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation.

h) **Recoverable amount of assets**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Inventories

Inventories, being finished goods and work-in-progress, are valued at the lower of cost and net realisable value.

Costs incurred in bringing inventories to their present location and condition are accounted for as costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

j) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

k) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

l) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Provisions (continued)

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employee benefits

In respect of employee benefits, liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liability is settled.

The liability for long service leave is recognised in the provision for employee benefits and measured at the present value of the expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Contributions are made by the company to employee superannuation funds and are charged as expenses when incurred.

n) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Rental income

Rental income is accounted for on a straight-line basis. Contingent rental income is recognised as income in the periods in which it is earned.

p) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

q) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax amounts are recognised for all taxable and/or deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

The Group has substantial carry forward tax losses. The deferred tax benefit arising from these losses has not been brought to account as it is not yet probable that the Group will derive future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

s) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

t) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under previous Australian Generally Accepted Accounting Principles ("AGAAP") are illustrated below.

(i) Reconciliation of total equity as presented under previous AGAAP to that under AIFRS

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	31-Dec-04	1-Jan-04	31-Dec-04	1-Jan-04
	\$	\$	\$	\$
Total equity under previous AGAAP	4,808,025	3,747,927	4,808,025	3,747,927
Adjustments to retained earnings (net of tax):				
Deferral of government grant (A)	(257,000)	(114,000)	(257,000)	(114,000)
Release of government grant (A)	31,400	2,850	31,400	2,850
Provision for quarry restoration (B)	(158,200)	(150,100)	(158,200)	(150,100)
Total equity under AIFRS	4,424,225	3,486,677	4,424,225	3,486,677

A. Government grants relating to an asset were recognised as income under AGAAP. Such amounts under AIFRS are recognised as deferred income and released to the income statement over time (see Note 2(p)).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Impact of adoption of AIFRS (continued)

- B. The Group has an obligation to undertake certain quarry restoration work. Under AGAAP that amount was not brought to account. Under AIFRS the restoration obligation needs to be recognised at an earlier time (see Note 2 (g)).
- C. The tax offset of the adjustments above has not been brought to account as deferred income tax amounts have not been recognised for all temporary differences (see Note 2 (q)).

(ii) Reconciliation of profit before tax under previous AGAAP to that under AIFRS

	<i>CONSOLIDATED</i> 31-Dec-04 \$	<i>PARENT</i> 31-Dec-04 \$
Prior year profit before tax as previously reported	461,055	461,055
Deferral of government grant (A)	(143,000)	(143,000)
Release of government grant (A)	28,550	28,550
Provision for quarry restoration (B)	(8,100)	(8,100)
	<hr/>	<hr/>
Prior year profit before tax under AIFRS	338,505	338,505

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statement presented under AIFRSs and the cash flow statement presented under previous AGAAP.

u) Key assumptions

The directors' of the company do not believe that there are key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next annual reporting period.

3. SEGMENT INFORMATION

The Group operates solely within the sandstone quarrying industry in Queensland. A significant amount of product is exported to south-east Asia. The Group's primary reporting format is geographical segments and its secondary format is business segments.

There are no material intra-segment transfers.

Geographical segments

The following tables present revenue and profit information and certain asset and liability information regarding geographical segments for the years ended 31 December 2005 and 2004, for the Group:

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005**

3. SEGMENT INFORMATION (continued)

	<i>South-east Asia</i>	<i>Australia & Other</i>	<i>Total</i>
	\$	\$	\$
Year ended 31 December 2005			
Revenue			
Sales to external customers	3,216,292	88,741	3,305,033
Other revenues from external customers	-	52,698	52,698
Total segment revenue	3,216,292	141,439	3,357,731
Total consolidated revenue			3,357,731
Result			
Segment result	889,661	86,591	976,252
Unallocated expenses	-	-	(176,927)
Profit before tax and finance costs			799,325
Finance costs			(64,792)
Profit before income tax			734,533
Income tax expense			-
Net profit for the year			734,533
Assets and liabilities			
Segment assets	922,706	5,721,170	6,643,876
Unallocated assets	-	-	-
Total assets			6,643,876
Segment liabilities	-	1,485,118	1,485,118
Total liabilities			1,485,118
Other segment information			
Capital expenditure	-	239,724	239,724
Depreciation	18,310	228,338	246,648
Amortisation	-	48,465	48,465
Impairment losses	-	-	-
Quarry restoration provision	-	8,950	8,950
Other non-cash expenses:			
Bad & doubtful debts	-	5,761	5,761

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005**

3. SEGMENT INFORMATION (continued)

	<i>South-east Asia \$</i>	<i>Australia & Other \$</i>	<i>Total \$</i>
Year ended 31 December 2004			
Revenue			
Sales to external customers	2,557,829	264,946	2,822,775
Other revenues from external Customers	-	17,742	17,742
Inter-segment sales	2,557,829	282,688	2,840,517
Total segment revenue			2,840,517
Result			
Segment result	633,989	200,631	834,620
Unallocated expenses	-	-	429,525
Profit before tax and finance costs			405,095
Finance costs			(66,590)
Profit before income tax			338,505
Income tax expense			-
Income tax expense			338,505
Assets and liabilities			
Segment assets	49,685	6,046,451	6,096,136
Unallocated assets	-	-	-
Total assets			6,096,136
Segment liabilities	-	1,671,911	1,671,911
Total liabilities			1,671,911
Other segment information			
Capital expenditure	50,758	327,396	378,154
Depreciation	6,956	197,826	204,782
Amortisation	-	46,956	46,956
Impairment losses	-	-	-
Quarry restoration provision	-	8,100	8,100
Other non-cash expenses: Bad & doubtful debts	-	15,624	15,624

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

4. REVENUES AND EXPENSES

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
(a) Other income				
Government grants	242,044	37,229	242,044	37,229
Gain on disposal of property, plant and equipment	15,454	-	15,454	-
Other amounts	45,655	-	45,655	-
	<u>303,153</u>	<u>37,229</u>	<u>303,153</u>	<u>37,229</u>
<p>Various government grants have been received for construction of quarrying facilities, and for undertaking export market activities. There are no unfulfilled conditions or contingencies attaching to these grants.</p>				
(b) Various expenses included in income statement				
Depreciation of plant and equipment	246,648	204,782	246,648	204,782
Impairment of property, plant and equipment	-	-	-	-
Amortisation of quarry and resources	48,465	46,956	48,465	46,956
Quarry restoration provision	8,950	8,100	8,950	8,100
Net foreign exchange losses/(gains)	(1,671)	200	(1,671)	200
Bad and doubtful debts	5,761	15,624	5,761	15,624
Minimum lease payments - operating lease	173,208	304,510	173,208	304,510
(c) Finance costs				
Borrowings from related parties	17,419	42,472	17,419	42,472
Other borrowings	10,396	8,706	10,396	8,706
Finance charges payable under finance leases and hire purchase contracts	36,977	15,412	36,977	15,412
Total finance costs	<u>64,792</u>	<u>66,590</u>	<u>64,792</u>	<u>66,590</u>
(d) Employee benefits expense				
Wages and salaries	629,909	631,484	629,909	631,484
Workers' compensation costs	11,862	15,203	11,862	15,203
Superannuation costs	26,879	27,317	26,879	27,317
	<u>668,650</u>	<u>674,004</u>	<u>668,650</u>	<u>674,004</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

5. INCOME TAX

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2005 and 2004 is as follows:				
Accounting profit before tax from continuing operations	734,533	338,505	734,533	338,505
At the statutory income tax rate of 30% (2004: 30%)	220,360	101,552	220,360	101,552
Net amount of non-allowable items	20,398	30,842	20,398	30,842
Net amount of temporary differences	(17,193)	35,588	(17,193)	35,588
Unrecognised tax losses of prior years now utilised	(223,565)	(167,982)	(223,565)	(167,982)
Income tax expense	-	-	-	-

The Group has tax losses arising in Australia of approximately \$4,400,000 (2004: \$5,200,000) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. The amount of the deferred tax benefit arising from these carry forward losses and temporary differences is approximately \$1,320,000 (2004: \$1,560,000).

The deferred tax benefit arising from these losses has not been brought to account as it is not yet probable that the Group will derive future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised. This future income tax benefit will only be obtained if:

- (i) future assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is the same as basic earnings per share.

The following reflects the income and share data used in the total basic and diluted earnings per share computations:

	<i>CONSOLIDATED</i>	
	2005	2004
	\$	\$
Net profit attributable to equity holders from continuing operations	734,533	338,505
Weighted average number of ordinary shares for basic earnings per share	114,608,952	95,633,245

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

7. DIVIDENDS PAID AND PROPOSED

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2005 \$	2004 \$	2005 \$	2004 \$
Declared and paid during the year	-	-	-	-
Proposed for approval at AGM (not recognised as a liability as at 31 December)	-	-	-	-
Franking credit balance	-	-	-	-

8. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	82,897	197,184	82,897	197,184
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Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

The fair value of cash and cash equivalents is \$82,897 (2004: \$197,184).

Reconciliation from the net profit after tax to the net cash flows from operations

Net profit	734,533	338,505	734,533	338,505
<i>Adjustments for:</i>				
Depreciation	246,648	204,782	246,648	204,782
Amortisation	48,465	46,956	48,465	46,956
Net (profit)/loss on disposal of property, plant and equipment	(15,454)	-	(15,454)	-
Bad debts	5,761	15,624	5,761	15,624
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in inventories	(34,715)	(133,491)	(34,715)	(133,491)
(Increase)/decrease in trade and other receivables	(657,063)	(134,817)	(657,063)	(134,817)
(Increase)/decrease in prepayments	(14,899)	(21,901)	(14,899)	(21,901)
(Decrease)/increase in other assets				
(Decrease)/increase in trade and other payables	729	(46,825)	729	(46,825)
(Decrease)/increase in government grants	(34,929)	114,450	(34,929)	114,450
(Decrease)/increase in provisions	16,983	24,573	16,983	24,573
Net cash from operating activities	296,059	407,856	296,059	407,856

Non-cash financing and investing activities

During the year the company acquired equipment to the value of \$96,217 (2004: \$376,982) by way of finance leases.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

9. TRADE AND OTHER RECEIVABLES (CURRENT)

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
Trade receivables	897,381	263,490	897,381	263,490
Provision for doubtful debts	-	-	-	-
	<u>897,381</u>	<u>263,490</u>	<u>897,381</u>	<u>263,490</u>
Other receivables – all other entities	952	7,972	952	7,972
	<u>898,333</u>	<u>271,462</u>	<u>898,333</u>	<u>271,462</u>

Trade receivables are non-interest bearing and are generally on 60-day terms.

10. INVENTORIES

Finished goods (at net realisable value)	<u>553,386</u>	<u>518,671</u>	<u>553,386</u>	<u>518,671</u>
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11. OTHER FINANCIAL ASSETS (NON-CURRENT)

Investment in subsidiary (note 21)	-	-	10	10
Deposits for mining leases	<u>111,441</u>	<u>70,474</u>	<u>111,441</u>	<u>70,474</u>
	<u>111,441</u>	<u>70,474</u>	<u>111,451</u>	<u>70,484</u>

The deposits are security for bank guarantees.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

12. PROPERTY, PLANT AND EQUIPMENT

	Quarry land \$	<i>CONSOLIDATED & PARENT</i>		Total \$
		Owned Plant & Equipment \$	Leased Plant & Equipment \$	
Year ended 31 December 2005				
At 1 January 2005, net of accumulated depreciation	141,042	541,556	444,523	1,127,121
Additions	-	129,660	96,217	225,877
Disposals	-	-	-	-
Impairment	-	-	-	-
Depreciation charge for the year	-	(119,094)	(127,590)	(246,684)
At 31 December 2005, net of accumulated depreciation	141,042	552,122	413,150	1,106,314
At 1 January 2005				
Cost	141,042	1,874,570	525,075	2,540,687
Accumulated depreciation and impairment	-	(1,333,014)	(80,552)	(1,413,566)
Net carrying amount	141,042	541,556	444,523	1,127,121
At 31 December 2005				
Cost	141,042	1,391,748	621,292	2,154,082
Accumulated depreciation and impairment	-	(839,626)	(208,142)	(1,047,768)
Net carrying amount	141,042	552,122	413,150	1,106,314

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 31 December 2005 is \$413,150 (2004: \$444,523).

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Quarry land	<i>CONSOLIDATED & PARENT</i>		Total
	\$	Owned Plant & Equipment \$	Leased Plant & Equipment \$	\$
Year ended 31 December 2004				
At 1 January 2004, net of accumulated depreciation	116,635	418,373	98,326	633,334
Additions	24,407	297,180	376,982	698,569
Disposals	-	-	-	-
Impairment	-	-	-	-
Depreciation charge for the year	-	(173,997)	(30,785)	(204,782)
At 31 December 2004, net of accumulated depreciation	<u>141,042</u>	<u>541,556</u>	<u>444,523</u>	<u>1,127,121</u>
At 1 January 2004				
Cost	116,635	1,577,389	148,093	1,842,117
Accumulated depreciation and Impairment	-	(1,159,016)	(49,767)	(1,208,783)
Net carrying amount	<u>116,635</u>	<u>418,373</u>	<u>98,326</u>	<u>633,334</u>
At 31 December 2004				
Cost	141,042	1,874,570	525,075	2,540,687
Accumulated depreciation and Impairment	-	(1,333,014)	(80,552)	(1,413,566)
Net carrying amount	<u>141,042</u>	<u>541,556</u>	<u>444,523</u>	<u>1,127,121</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

13. QUARRY AND RESERVES

	<i>CONSOLIDATED & PARENT</i>	
	2005	2004
	\$	\$
Capitalised expenditure on acquisition, evaluation and development		
- at Director's valuation 1996 (deemed cost)	4,672,028	4,672,028
- at cost	228,527	214,680
	<u>4,900,555</u>	<u>4,886,708</u>
Accumulated amortisation	(1,052,479)	(1,004,014)
	<u>3,848,076</u>	<u>3,882,694</u>
Net carrying amount at beginning of year	3,882,694	3,873,083
Additions	13,847	56,567
Disposals		
Impairment		
Amortisation charge for the year	(48,465)	(46,956)
	<u>3,848,076</u>	<u>3,882,694</u>

Deemed cost is based on a directors' valuation completed in 1996. The directors valued the Quarry and Reserves asset based on discounted cash flows. The company operates two quarries in the Helidon area of Queensland. Details of the mining leases are as follows:

Mining lease No. 50013 due to expire 31 January 2012; and
Mining lease No. 50016 due to expire 31 July 2017

The company also holds Exploration Permit for Minerals EPM No. 11005. This permit will expire on 11 March 2006 with the Department of Mines and Energy, and is subject to an annual renewal process. The current renewal application by the company estimates expenditure of \$20,000 on exploration activities under the EPM for the renewal period.

14. TRADE AND OTHER PAYABLES (CURRENT)

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
payables	<u>328,888</u>	<u>344,626</u>	<u>328,898</u>	<u>344,636</u>

Trade payables are non-interest bearing and are normally settled on 60-day terms.

Interest payable is normally settled quarterly throughout the financial year.

The net of GST payable and GST receivable is remitted to the appropriate tax body on a monthly basis.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

15. INTEREST-BEARING LOANS AND BORROWINGS

	<i>Effective interest rate</i>	<i>Maturity</i>	<i>CONSOLIDATED</i>		<i>PARENT</i>	
			2005	2004	2005	2004
	<i>%</i>		\$	\$	\$	\$
Current						
Obligations under finance leases and hire purchase contracts (note 20)	7.99 avg	2006-2009	103,651	112,269	103,651	112,269
Other loans	5.47	On demand	81,621	151,535	81,621	151,535
			<u>185,272</u>	<u>263,804</u>	<u>185,272</u>	<u>263,804</u>
Non-current						
Obligations under finance leases and hire purchase contracts (note 20)	7.99 avg	2006-2009	291,236	294,659	291,236	294,659
Loans from director related entities	5.47	After 2006	293,986	365,140	293,986	365,140
			<u>585,222</u>	<u>659,799</u>	<u>585,222</u>	<u>659,799</u>

Other loans

This loan is unsecured with no fixed repayment date, although the Group is repaying this loan from free cashflow.

Director related entities

These loans are unsecured, with no fixed repayment date. There is at present no call to repay these loans.

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

Total facilities:

– other loans	81,621	151,535	81,621	151,535
– director related loans	<u>293,986</u>	<u>365,140</u>	<u>293,986</u>	<u>365,140</u>

Facilities used at reporting date

– other loans	81,621	151,535	81,621	151,535
– director related loans	<u>293,986</u>	<u>365,140</u>	<u>293,986</u>	<u>365,140</u>

Facilities unused at reporting date

– other loans	-	-	-	-
– director related loans	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

16. PROVISIONS

	<i>CONSOLIDATED & PARENT</i>		
	Quarry restoration \$	Employee benefits \$	Total \$
<i>CONSOLIDATED</i>			
At 1 January 2005	158,200	19,882	178,082
Arising during the year	8,950	8,033	16,983
Utilised	-	-	-
At 31 December 2005	167,150	27,915	195,065
Current 2005	-	24,565	24,565
Non-current 2005	167,150	3,350	170,500
	167,150	27,915	195,065
Current 2004	-	19,882	19,882
Non-current 2004	158,200	-	158,200
	158,200	19,882	178,082

Quarry restoration

A provision is recognised for restoration and rehabilitation in accordance with the Group's mining permits (see Note 2 (g)).

Employee benefits

See Note 2 (m).

17. ISSUED CAPITAL AND RESERVES

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2005 \$	2004 \$	2005 \$	2004 \$
<i>Ordinary shares</i>				
Issued and fully paid	18,218,667	18,218,667	18,218,667	18,218,667
	<i>Number</i>	<i>2005</i> \$	<i>Number</i>	<i>2004</i> \$
<i>Movement in ordinary shares on issue</i>				
At 1 January	114,608,952	18,218,667	94,507,455	17,619,624
Issued during the year	-	-	-	-
- private placement 7 May 2004	-	-	1,000,000	65,000
- rights issue 23 December 2004	-	-	19,101,497	573,045
- transaction costs relating to issues	-	-	-	(39,002)
At 31 December	114,608,952	18,218,667	114,608,952	18,218,667

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise borrowings, finance leases and hire purchase contracts, cash and short-term deposits.

The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

The Group also monitors the market price risk arising from all financial instruments.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's borrowing obligations. The Group's policy at present is to manage its interest cost using fixed and variable rate debt.

Foreign currency risk

As a result of significant sales markets in China, the Group's financial performance can be affected significantly by movements in the exchange rates.

The Group's structural currency exposure has been minimised by conducting all sales transactions in Australian \$.

Commodity price risk

The Group's exposure to price risk is minimal.

Credit risk

The Group trades only with recognised, creditworthy third parties.

It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, being cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

At present the Group has had one main customer in China, with the level of sales in the year being 60 % of total Group sales. The Group has conducted business with that company for some years, and whilst this represents a concentration of credit risk, the directors are satisfied with this trading arrangement.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash balances, loans, finance leases and hire purchase contracts.

19. FINANCIAL INSTRUMENTS

Fair values

The financial instruments of the Group comprise its financial assets (being cash, receivables and deposits) and financial liabilities (being payables and borrowings). No financial instruments are traded on organised markets.

The carrying amount of financial assets and liabilities approximates fair value.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005**

19. FINANCIAL INSTRUMENTS (CONTINUED)

<i>CONSOLIDATED & PARENT</i>	<i>Within 1 year \$</i>	<i>1 to 5 years \$</i>	<i>Over 5 years \$</i>	<i>Total \$</i>
<i>Year ended 31 December 2005</i>				
<i>Fixed rate liabilities</i>				
Related entity loans	-	293,986	-	293,986
Other loans	81,621	-	-	81,621
Obligations under finance leases and hire purchase contracts	103,651	291,236	-	394,887
	<u>185,272</u>	<u>585,222</u>	<u>-</u>	<u>770,494</u>
<i>Floating rate assets</i>				
Cash assets	82,897	-	-	82,897
Deposits	-	111,441	-	111,441
	<u>82,897</u>	<u>111,441</u>	<u>-</u>	<u>194,338</u>
<i>Year ended 31 December 2004</i>				
<i>Fixed rate liabilities</i>				
Related entity loans	-	365,140	-	365,140
Other loans	151,535	-	-	151,535
Obligations under finance leases and hire purchase contracts	112,269	294,659	-	406,928
	<u>263,804</u>	<u>659,799</u>	<u>-</u>	<u>923,603</u>
<i>Floating rate assets</i>				
Cash assets	197,184	-	-	197,184
Deposits	-	70,474	-	70,474
	<u>197,184</u>	<u>70,474</u>	<u>-</u>	<u>267,658</u>

Refer to note 15 for disclosure of effective interest rates. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

The other financial instruments of the Group and Parent that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

20. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group has entered into commercial leases on certain items of operating expenditure.

These leases have an average life of approximately 1 year with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
Within one year	25,767	29,791	25,767	29,791
After one year but not more than five years	-	25,074	-	25,074
More than five years	-	-	-	-
	25,767	54,865	25,767	54,865

Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and machinery, these leases have no terms of renewal or purchase options and escalation clauses.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2005		2004	
	<i>Minimum value of payments</i>	<i>Present value of payments</i>	<i>Minimum value of payments</i>	<i>Present value of payments</i>
	\$	\$	\$	\$
<i>CONSOLIDATED</i>				
Within one year	132,675	103,651	141,383	112,269
After one year but not more than five years	334,219	291,236	348,259	294,659
Total minimum lease payments	466,894		489,642	
Less amounts representing finance charges	(72,007)		(82,714)	
Present value of minimum lease payments	394,887	394,887	406,928	406,928

Capital expenditure commitments

At 31 December 2005 the Group has no capital expenditure commitments (2004: NIL).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

21. RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of ChongHerr Investments Ltd and the subsidiaries listed in the following table.

<i>Name</i>	<i>Country of incorporation</i>	<i>% Equity interest</i>		<i>Investment \$</i>	
		2005	2004	2005	2004
Australian Sandstone Industries Pty Ltd	Australia	100	100	10	10

Chongherr Investments Ltd is the ultimate parent entity.

Loans provided by directors (directly or indirectly) are as follows:

<i>Directors – 2005</i>	<i>Balance 1/1/05 \$</i>	<i>Interest Accrued \$</i>	<i>Payments \$</i>	<i>Balance 31/12/05 \$</i>
Mr Dehui Liu & Mr Zhen Lu	175,267	7,756	(58,442)	124,581
Mr Hon Tak Tsoi	189,873	9,658	(30,129)	169,402

<i>Directors – 2004</i>	<i>Balance 1/1/04 \$</i>	<i>Interest Accrued \$</i>	<i>Payments \$</i>	<i>Balance 31/12/04 \$</i>
Mr Dehui Liu	347,841	13,904	(361,745)	-
Mr Dehui Liu	85,717	-	(85,717)	-
Mr Dehui Liu & Mr Zhen Lu	167,370	8,227	(330)	175,267
Mr Hon Tak Tsoi	180,000	9,873	-	189,873

During the year the Group sold goods to an entity of which Mr Zhen Lu was a director for the half year to 30 June, to the value of \$816,990 (2004: \$1,848,707 full year). During the year the Group also paid sales commissions of \$98,551 (2004: \$383,383 full year) and overseas representative office costs of \$234,695 (2004: \$429,330 full year) to that entity.

During the prior year the company entered into an underwriting agreement with Mr Dehui Liu as trustee of the Liu and Zhuang Family Trust, in relation to the rights issue made by the company. The underwriting fee paid was \$29,553.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

21. RELATED PARTY DISCLOSURE (CONTINUED)

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arms length transactions at both normal market prices and normal commercial terms.

Outstanding balances at year-end are unsecured and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables.

For the year end 31 December 2005, the Group has not raised any provision for doubtful debts relating to amounts owed by related parties (2004: \$nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates in. When assessed as required the Group raises such a provision.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

22. EVENTS AFTER THE BALANCE SHEET DATE

No matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

23. AUDITORS' REMUNERATION

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	2005	2004	2005	2004
	\$	\$	\$	\$
Amounts received or due and receivable by Ernst & Young Australia for:				
• an audit or review of the financial report of the entity and any other entity in the consolidated entity	79,000	46,700	79,000	46,700
• other services in relation to the entity and any other entity in the consolidated entity	-	-	-	-
	<u>79,000</u>	<u>46,700</u>	<u>79,000</u>	<u>46,700</u>

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

24. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Directors and Executives/Key Management Personnel

Directors/executives

De Hui Liu	Chairman and Managing Director
Zhen Lu	Director (non-executive)
Sophia Xiaoqing Kong	Director (non-executive)
Hon Tok Soi	Director (non-executive) – appointed 11 November 2005
You He Wu	Director (non-executive) – not re-elected at AGM on 12 April 2005

(b) Remuneration

Remuneration Policy

The Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and any executives. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executives. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

To assist in achieving these objectives, the Board links the nature and amount of executive directors' and senior executives' emoluments to the Group's financial and operational performance, legal obligations, labour market conditions, the scale of the business and competitive forces.

In accordance with the company's Constitution, the amount of fees payable to directors is limited to that amount approved by shareholders (currently no amount has been approved).

There presently are no formal employment agreements entered into with the Managing Director.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2005**

24. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Remuneration of Directors and Executives

Directors/executives	Primary	Cash Bonus	Non Monetary benefits	Post Employment	Other	Total
	Salary & Fees			Superan- nuation	Other	
	\$	\$	\$	\$	\$	\$
31 December 2005						
De Hui Liu	74,673	-	-	35,519	-	- 110,192
Zhen Lu	-	-	-	-	-	-
Sophia Xiaoqing Kong	-	-	-	-	-	-
Hon Tak Tsoi	-	-	-	-	-	-
You He Wu	-	-	-	-	-	-
Total	74,673	-	-	35,519	-	- 110,192
31 December 2004						
De Hui Liu	87,000	-	-	33,000	-	- 120,000
Zhen Lu	-	-	-	-	-	-
Sophia Xiaoqing Kong	-	-	-	-	-	-
You He Wu	-	-	-	-	-	-
Total	87,000	-	-	33,000	-	- 120,000

Equity based remuneration

The Group does not provide any equity based remuneration.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

24. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(c) Shareholdings of Directors and Executives

Ordinary shares held in ChongHerr Investments Ltd

	<i>Balance 01-Jan-05</i>	<i>Movement</i>	<i>Balance 31-Dec-05</i>
Directors			
Green Mountain Holdings Pty Ltd (i)	56,584,357	-	56,584,357
Mr Dehui Liu (ii)	16,418,057	-	16,418,057
Mr Zhen Lu	-	-	-
Ms Sophia Kong	-	-	-
Mr Hon Tak Tsoi	-	-	-
Mr You He Wu	-	-	-
Total	<u>73,002,414</u>	<u>-</u>	<u>73,002,414</u>

(i) Mr Liu and Mr Wu are shareholders in Green Mountain Holdings. Mr Liu's interest in Green Mountain Holdings is 76.1%.

Green Mountain Holdings is the ultimate holding company and Australian controlling company of ChongHerr Investments Ltd.

(ii) This interest is held via the Liu and Zhuang Family Trust, of which Mr Liu is a trustee.

(d) Other transactions and balances with directors and executives

Details of other transactions with directors and executives, being loans from certain directors, sales to a director related entity, and the purchase of goods/services from director related entities, are set out in note 21.

25. ECONOMIC DEPENDENCY

ChongHerr Investments Ltd was dependent on Shenzhen Helidon Sandstone Ltd for a significant portion of its sales in the current year.

CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of ChongHerr Investments Ltd, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company and of the consolidated entity are 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 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

On behalf of the Board



Densen Liu
Director

Brisbane
8 March 2006

Independent audit report to members of ChongHerr Investments Ltd

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for ChongHerr Investments Ltd (the company) and the consolidated entity, for the year ended 31 December 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

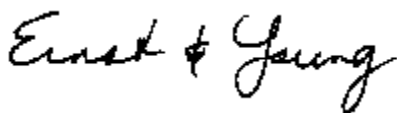
Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report.

Audit opinion

In our opinion the financial report of ChongHerr Investments Ltd is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of ChongHerr Investments Ltd and the consolidated entity at 31 December 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Mike Reid
Partner
Brisbane
8 March 2006

CHONGHERR INVESTMENTS LTD

ABN 52 054 161 821

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The Board of directors of ChongHerr Investments Ltd (ChongHerr) is responsible for the corporate governance of the company and its subsidiary.

The Board guides and monitors the business and affairs of the ChongHerr on behalf of the shareholders, by whom they are elected and to whom they are accountable.

The Board has established a governance framework for the conduct of the affairs of ChongHerr. This framework is based on the requirements of the company and the Best Practice Recommendations published by the Corporate Governance Council formed by the Australian Stock Exchange (ASX). The ChongHerr governance framework also recognizes the following specific circumstances of ChongHerr:

- It is relatively small size company,
- Mr Dehui Liu has been a major shareholder of ChongHerr since 2000, and since that time has been active (through his role as Managing Director) in the company's strategic direction, overall performance and its operational management,
- The specialised nature of the industry in which ChongHerr operates.

Due to these circumstances ChongHerr's corporate governance framework departs, in some instances, from the ASX Best Practice Recommendations. However the Board believes that despite these instances of "non-conformance", ChongHerr operates at an acceptable level of corporate governance. The ASX recognises that such departures may occur as the Best Practice Recommendations are not a "one size fits all" solution.

Set out below is the company's corporate governance framework. This Corporate Governance Statement is available on the company's internet site.

BOARD OF DIRECTORS

Board function

The Board guides and monitors the business and affairs of the ChongHerr. The Charter of the Board is as follows:

- Setting corporate mission, strategic direction and objectives,
- Input into and ratifying any significant business transactions and/or changes to the company,
- Adopting an annual business plan/budget, setting performance targets, and monitoring performance against the plan and targets,
- Monitoring significant business risks and ensuring they are appropriately managed,
- Ensuring adequate internal controls exist and are appropriately monitored for compliance,
- Assessing company performance, Board structure and performance, and director (including the Managing Director) performance,
- Setting the business standards and ethical conduct of the company,
- Share capital management,
- Reporting to shareholders.

CORPORATE GOVERNANCE STATEMENT

The conduct of the company's operational activities and its day-to-day business affairs are the responsibility of the Managing Director and company staff. The Board has a planned meeting process to undertake its responsibilities and to receive reports from the company's staff on the conduct of business. The Board is also able to meet on an unplanned basis where necessary. A

Board member is also entitled to seek independent professional advice when deliberating on a matter (any such advice is at the company's expense).

Board Structure

Corporations Law requires that the company has a minimum of 3 directors. The Constitution of ChongHerr provides for 1/3 of directors (other than the Managing Director) to retire from office at every Annual General Meeting, and for a director (other than the Managing Director) to retire at the conclusion of the third Annual General Meeting after which the director was elected and re-elected.

The size and composition of the Board is assessed annually to ensure it has the appropriate mix of skills, experience and expertise. The Board reviews its performance and that of the individual directors during each year. The rotation requirements included in the company's constitution also facilitates shareholders' input on and review of directors' performance and Board structure.

Company performance is regularly assessed by the Board and management, with evaluation against a range of factors including industry benchmarks and internal operational and financial targets. The performance of directors and individual management is assessed on a similar basis.

Directors in office

The directors of ChongHerr currently are:

Mr Dehui Liu	Chairman & Managing Director, and a major shareholder
Mr Zhen Lu	Non-executive director
Ms Sophia Kong	Non-executive director
Mr Hon Tak Tsoi	Non-executive director

Information on directors' skills and experience, remuneration, equity in the company and attendance at Board meetings is set out in the Directors' Report included in the company's Annual Report.

A number of the company's directors are not independent of the company. Directors of ChongHerr are considered independent when:

- They are not an employee of the company,
- They are not a substantial shareholder, or associated with a substantial shareholder,
- They are free from any business, contractual or other relationship with the company that could materially interfere with, or could reasonably be perceived to interfere with, their ability to act in the best interests of ChongHerr.

CORPORATE GOVERNANCE STATEMENT

One of the company's directors, Mr Liu, is a major shareholder in the company. The Board recognises the longstanding involvement of Mr Liu in the company through his shareholding and his involvement in restructuring of the company and its business activities. The Board also recognises the importance of Mr Liu's commercial expertise in ChongHerr's business.

Another of the directors, Mr Lu, has, until June 2005, been associated with a business that is a major customer of ChongHerr. Ms Kong is also considered not to be an independent director by virtue of the fact that she also is the Company Secretary. Mr Tsoi is associated with a company which has a loan to ChongHerr.

The Board recognises that it is not in conformity with ASX Best Practice Principles requiring that a majority of the Board is independent, that the Chairperson is independent, and that the Chairperson and Chief Executive are not the same individual. The Board also does not have a nominations/selections sub-committee, this function is undertaken by the entire Board. The Board also recognises that it is not in conformity with ASX Best Practice Principles requiring that a separate sub-committee of the Board undertakes the responsibilities of nominations/selections. Given the size, history and activities of ChongHerr, the directors believe the existing Board composition is appropriate, and in these circumstances it is most efficient for the entire Board to deal with nominations/selections.

ETHICAL CONDUCT

All directors and employees are expected to observe the highest standards of general behaviour and business ethics.

ChongHerr's general principles of conduct in all business affairs are:

- Comply with the law,
- Act honestly with integrity and objectivity,
- Disclose conflicts of interest,
- Have a clear understanding of corporate and regulatory expectations,
- Be responsible and accountable.

Trading in company securities

ChongHerr encourages directors and employees to own shares in the company. ChongHerr's policy is that directors and employees should only trade in the company's shares in circumstances where the market is fully informed, consequently:

- The directors and employees will not engage in short term trading of the company's shares,
- The directors and employees will not buy or sell shares at a time when they possess information which, if disclosed publicly, would be likely to materially affect the market price of the company's shares,
- Trading in the company's shares is permitted:
 - a) from the release of the Annual Report until 30 days after the Annual General Meeting,
 - b) from the release to the market until 30 days after the release, of any of the half yearly financial report, the annual financial report, any other reports relating to the financial performance or financial status of the company,
- In addition all employees are reminded of the insider trading laws.

CORPORATE GOVERNANCE STATEMENT

At all times, the director or employee must notify the Board (through the Managing Director) in advance of any intended transactions involving the company's shares. It is also recognized that there may be circumstances where it may not be appropriate for directors and employees to buy and sell within the above 30 day windows as they may have knowledge of market sensitive information.

The directors and employees must advise the company of any completed trades immediately.

FINANCIAL REPORTING

ChongHerr has various financial systems in place to measure and report on the company's performance. These systems function in respect of internal and external information needs. The company's external financial reporting is in accordance with the requirements of the Corporations Act and ASX listing rules.

The size of the company and composition of the Board enables the directors to have involvement with and awareness of ChongHerr's financial systems and reporting, and direct contact with the external auditor. The Board does not utilise a sub-committee to overview audit and risk management, this function is undertaken by the entire Board.

As part of the adoption, by the Board, of the annual financial report, a certificate is given by the Managing Director as to the compliance of the financial statements with the Corporations Act.

The Board recognises that it is not in conformity with ASX Best Practice Recommendations requiring that the company has an Audit Committee. Given the size, history and activities of ChongHerr, the directors believe it is most efficient for the entire Board to deal with audit and risk management matters.

CONTINUOUS DISCLOSURE

ChongHerr recognises the requirement to comply with ASX disclosure rules.

The Managing Director and Company Secretary have responsibility for monitoring company activities in relation to the continuous disclosure of information to the market. They consult with the Board on any relevant matters, and the Board approves the release of any company announcement.

SHAREHOLDERS' RIGHTS

ChongHerr recognises the rights and interests of shareholders and other stakeholders, and aims to ensure that the market is informed of all major developments affecting the company's state of affairs.

CORPORATE GOVERNANCE STATEMENT

The information is communicated to shareholders and the marketplace in general:

- By the Annual Report being distributed to all shareholders. The Annual Report contains all relevant information about the operations of the company during the financial year, together with details of future developments and other disclosures required under the Corporations Act, and ASX listing rules,
- By the Half Year results report distributed to all shareholders,
- By disclosures forwarded to the ASX under the company's continuous disclosure obligations,
- Through the company's web site,
- At the Annual General Meetings,
- In addition the company requests the availability of its auditors at the Annual General Meeting.

RISK MANAGEMENT

The Board has oversight of the company's risk management framework, whilst day-to-day risk management is primarily conducted through management.

The company manages risk through appropriate review processes, operational guidelines, insurance arrangements, reporting and use of relevant advisors. The risk management framework seeks to balance risk and return within the scope of the company's size and activities.

Key areas of risk for the company include economic and market forces, operational risk, financial risk, and legal compliance. As part of the adoption, by the Board, of the annual financial report, a certificate is given by the Managing Director as to the effective operation of appropriate financial and operational control systems within the company.

REMUNERATION GUIDELINES

ChongHerr utilises the following guidelines to motivate directors and executives to pursue company objectives, and ensure their interests and those of the shareholders are closely aligned:

- Remuneration packages should be set in the context of what is reasonable and fair taking into account the company's legal obligations, labour market conditions, the scale of the business and competitive forces, and employee performance,
- In accordance with the company's Constitution, the amount of fees payable to directors is limited to that amount approved by shareholders (currently no amount has been approved),
- Any equity based remuneration requires shareholder approval.

Details of remuneration of directors and executives are included in the audited financial statements, and the Director's Report, in the company's Annual Report.

Due to the size of the company and composition of the Board, ChongHerr does not have a remuneration committee. The Board sets the remuneration of individual directors including the Managing Director. The Board recognises that it is not in conformity with ASX Best Practice Principles requiring that a separate sub-committee of the Board undertakes the responsibilities of remuneration. Given the size, history and activities of ChongHerr, the directors believe it is most efficient for the entire Board to deal with remuneration matters.

CORPORATE GOVERNANCE STATEMENT

APPLICATION

The Board will continue to monitor and review the company's governance framework for its relevance to the company and its conformity with best practice and marketplace expectations.