

**CHONGHERR INVESTMENTS LTD**

**ABN: 52 054 161 821**

**FINANCIAL REPORT**

**FOR THE HALF YEAR ENDED 30 JUNE 2008**

# CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT

## Directors' Report

Your directors submit their report together with the consolidated financial report for the half year ended 30 June 2008, and the review report thereon.

### DIRECTORS

The names of the company's directors in office during the half year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Dehui Liu (Chairman & Managing Director)  
Sophia Xiaoqing Kong  
Zhen Lu

ChongHerr's corporate governance statement is publicly available on the company website.

### REVIEW AND RESULTS OF OPERATIONS

The ChongHerr Group sales revenue for the half year was \$1,328,998 (2007: \$1,712,054), a 22.4% decrease from last year. The reduced sales value is based on volumes being up slightly on the previous corresponding period, but in an environment of the project delays under temporary credit control imposed by the Chinese government. The current period result also includes an accounting adjustment of \$241,332 for fair valuing of sales made on extended terms (no prior period equivalent).

Consolidated net profit after income tax for the half year was \$32,086 (2007: profit \$124,991). The ChongHerr Group continues to experience inflationary pressure on operating costs and this, along with the lower sales result, has contributed to the profit decrease in the current period. As identified in the December 2007 Annual Report, the ChongHerr Group is economically dependent on its major China based customer, Shenzhen Helidon Sandstone Ltd. This remains the case at 30 June 2008 and details of the current position within this customer are set out in Notes 5 and 18 of the half year financial report.

The ChongHerr group's ability to continue trading as a going concern is dependent upon the collection of the amounts owing to the Group by Shenzhen Helidon Sandstone Ltd within a timeframe that provides working capital for the Company. The Directors acknowledge the importance of this customer to the Group and that the customer has historically settled its obligations to the Group. The Directors have agreed repayment schedules with the debtor. Based on the Group's cash flow projections for the twelve months ending 30 June 2009, the agreed repayment arrangements would allow the Group to operate within its existing banking facility.

On the basis of the above, the Directors have formed the view that it is appropriate to prepare the financial report on a going concern basis.

### *SANDSTONE QUARRYING AND PRODUCTION*

During the half year, cost control and efficiency improvement has remained a top priority in the quarry management. The quarry has experienced unprecedented pressure on operating cost due to the increase in fuels and fuel-related expenses. The company has invested more resources to increase the production volume so as to offset the impacts on fuel cost. The Board and management will continue to closely monitor production costs and search for ways to improve productivity.

### *OVERSEAS SALES AND MARKETING*

Overseas sales are vital to the long-term success of the company. However, exports have softened in the first half of the year due to the project delays under credit restrictions imposed by the Chinese government. The company has put more resources on marketing so as to offset the impacts on strong competition from sandstone exporters in Helidon quarries. However, the Board anticipates that the market outlook for sandstone products remains strong in China, particularly the large residential and commercial projects in southern and northern regions.

### *FINANCIAL*

As outlined above, ChongHerr remains economically dependent on its major customers in China. The directors closely monitor trading with this customer and collection of amounts receivable. The directors are also continually monitoring the costs of the ChongHerr Group. From 30 June 2008, directors have ceased drawing remuneration from the company.

## **CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT**

### **Directors' Report (continued)**

The reviewed interim financial statements of the consolidated entity accompany this directors' report. At 30 June 2008 total assets were \$7,300,011 and net assets were \$6,076,728.

### **AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration is set out on page 4 and forms part of this directors' report for the half year ended 30 June 2008.

Signed in accordance with a resolution of the directors.



Dehui Liu  
Managing Director

29 August 2008



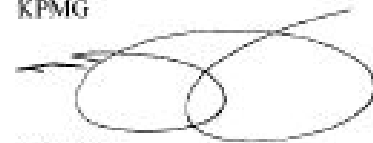
*Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001*

To: the directors of ChongHerr Investments Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 30 June 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

  
KPMG



M.L. Gray  
*Partner*

Brisbane

29 August 2008

## CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT

### CONSOLIDATED INTERIM INCOME STATEMENT

#### FOR THE HALF YEAR ENDED 30 JUNE 2008

	<i>Notes</i>	<i>CONSOLIDATED</i>	
		<i>30 June 2008 \$</i>	<i>30 June 2007 \$</i>
<b>Revenue</b>			
Sale of goods		1,328,998	1,712,054
Rental income		-	-
		<u>1,328,998</u>	<u>1,712,054</u>
Cost of sales		<u>(900,288)</u>	<u>(937,776)</u>
<b>Gross profit</b>		428,710	774,278
Other income	2(i)	275,536	73,205
Selling and distribution expenses		(388,863)	(410,113)
Corporate and administration expenses		(261,425)	(284,846)
Finance costs		<u>(21,872)</u>	<u>(27,533)</u>
<b>Profit before income tax</b>		32,086	124,991
Income tax expense		-	-
<b>Profit after income tax</b>		<u>32,086</u>	<u>124,991</u>
<b>Net profit for the period</b>		<u>32,086</u>	<u>124,991</u>
<b>Net profit attributable to shareholders of the company</b>		<u>32,086</u>	<u>124,991</u>
		<i>Cents per share</i>	<i>Cents per share</i>
Earnings per share (cents per share)			
– basic earnings per share		0.028	0.109
– diluted earnings per share		0.028	0.109
– dividends paid per share	3	0.000	0.000

The Consolidated Interim Income Statement is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 9 to 16.

## CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT

### CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 30 JUNE 2008

	<i>Issued Capital \$</i>	<i>CONSOLIDATED Accumulated Losses \$</i>	<i>Total equity \$</i>
<b>At 1 January 2007</b>	18,218,667	(12,345,212)	5,873,455
Profit for the period	-	124,991	124,991
<b>At 30 June 2007</b>	18,218,667	(12,220,221)	5,998,446
<b>At 1 January 2008</b>	18,218,667	(12,174,025)	6,044,642
Profit for the period	-	32,086	32,086
<b>At 30 June 2008</b>	18,218,667	(12,141,939)	6,076,728

At 30 June 2008 ChongHerr Investments Limited has 114,608,952 ordinary shares on issue (2007: 114,608,952).

The Consolidated Interim Statement of Changes In Equity is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 9 to 16.

## CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT

### CONSOLIDATED INTERIM BALANCE SHEET AS AT 30 JUNE 2008

<i>CONSOLIDATED</i>			
	<i>Notes</i>	<i>As at 30 June 2008 \$</i>	<i>As at 31 December 2007 \$</i>
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	4	4,844	3,886
Trade and other receivables	5	2,301,753	1,943,470
Inventories	6	259,147	473,798
Prepayments		19,693	30,014
Total Current Assets		2,585,437	2,451,168
Non-current Assets			
Other financial assets	7	125,149	129,548
Property, plant and equipment	8	794,695	883,809
Quarry and reserves	9	3,794,730	3,803,591
Total Non-current Assets		4,714,574	4,816,948
<b>TOTAL ASSETS</b>		7,300,011	7,268,116
<b>LIABILITIES</b>			
Current Liabilities			
Trade and other payables		454,178	509,006
Loans and borrowings	10	317,279	185,207
Provisions	11	12,868	19,912
Deferred Government grant	12	17,845	17,845
Total Current Liabilities		802,170	731,970
Non-current Liabilities			
Loans and borrowings	10	280,114	338,965
Provisions	11	123,154	125,770
Deferred Government grant	12	17,845	26,769
Total Non-current Liabilities		421,113	491,504
<b>TOTAL LIABILITIES</b>		1,223,283	1,223,474
<b>NET ASSETS</b>		6,076,728	6,044,642
<b>EQUITY</b>			
Issued capital		18,218,667	18,218,667
Accumulated losses		(12,141,939)	(12,174,025)
<b>TOTAL EQUITY</b>		6,076,728	6,044,642

The Consolidated Interim Balance Sheet is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 9 to 16.

# CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT

## CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 30 JUNE 2008

	<i>CONSOLIDATED</i>	
	<i>30 June</i>	<i>30 June</i>
<i>Notes</i>	<i>2008</i>	<i>2007</i>
	\$	\$
<b>Cashflows from operating activities</b>		
Receipts from customers	1,240,767	1,394,997
Payments to suppliers and employees	(1,304,514)	(1,384,981)
Other income	11,547	52,019
Interest & other finance costs	(21,872)	(27,533)
<b>Net cashflows from operating activities</b>	<b>(74,072)</b>	<b>34,502</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	-	25,454
Payments for quarry, property, plant and equipment	(2,590)	(7,234)
Receipts from other financial assets	4,399	1,383
<b>Net cashflows used in investing activities</b>	<b>1,809</b>	<b>19,603</b>
<b>Cashflows from financing activities</b>		
Repayment of borrowings and lease liabilities	(59,275)	(53,239)
<b>Net cashflows from/(used in) financing activities</b>	<b>(59,275)</b>	<b>(53,239)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(131,538)</b>	<b>866</b>
Cash and cash equivalents at beginning of period	(54,741)	46,690
<b>Cash and cash equivalents at end of period</b>	<b>(186,279)</b>	<b>47,556</b>

The Consolidated Interim Statement of Cash Flows is to be read in conjunction with the notes to the consolidated interim financial report set out on pages 9 to 16.

# CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2008

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### 1 BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT

The financial report covers the consolidated entity of ChongHerr Investments Ltd and its controlled entity (the “ChongHerr Group”). ChongHerr Investments Ltd is a listed public company incorporated and domiciled in Australia.

The nature of the operations and principal activities of the ChongHerr Group are described in Note 13.

#### (a) Statement of compliance

The half year financial report is a general-purpose financial report, which has been prepared in accordance with the Corporations Act 2001, AASB 134 “Interim Financial Reporting”, and other mandatory professional reporting requirements. The consolidated interim financial report of ChongHerr Group also complies with IFRS and interpretations adopted by The International Accounting Standards Board.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. The half year financial report should be read in conjunction with the annual financial report of ChongHerr Investments Ltd as at 31 December 2007.

It is also recommended that the half year financial report be considered together with any public announcements made by ChongHerr during the half year ended 30 June 2008 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The financial report was authorised for issue in accordance with a resolution of the Board of Directors on 29 August 2008.

#### (b) Significant accounting policies

The accounting policies are the same as those adopted in the most recent annual financial report.

##### Going Concern

The financial report has been prepared on a going concern basis that contemplates the continuity of normal operating activities and the realisation of assets and settlement of liabilities in the normal course of business.

At 30 June 2008, the Group’s balance sheet shows total assets of \$7,300,011, total liabilities of \$1,223,283, and net assets of \$6,076,728. Current assets total \$2,585,437 and include cash assets of \$4,844 and receivables of \$2,301,753. Current liabilities total \$802,170.

As discussed in note 18, the Group is economically dependent upon one major customer, Shenzhen Helidon Sandstone Ltd which is a company domiciled in China. The balance of trade receivables as at 30 June 2008 includes \$2,260,528 relating to this customer, of which \$1,245,223 is past due.

The Group’s ability to continue trading as a going concern is dependent upon the collection of the amounts owing to the Group by Shenzhen Helidon Sandstone Ltd within a timeframe that provides working capital for the Company. As set out in the financial report for the year ended 31 December 2007, the Directors agreed a repayment schedule with the debtor which would result in repayment of \$1.49 million during the period February 2008 to January 2009. The debtor has met the repayment schedule for the period to 30 June 2008. The remaining repayments under this schedule to January 2009 total \$910,000. The Directors have agreed a second repayment schedule with the debtor which would result in repayment of a further \$1.42 million in the period December 2008 to June 2009. Based on the Group’s cash flow projections for the next twelve months, the agreed repayment arrangements would allow the Group to operate within its existing bank overdraft facility.

On the basis of the above, the Directors have formed the view that it is appropriate to prepare the interim financial report on a going concern basis.

# CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2008

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### 1 BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT (continued)

Trade and other receivables

The discount rate used in the fair value assessment of trade receivables has been adjusted from 25% to 25.5% to reflect current market conditions.

#### (c) Accounting estimates and judgements

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 31 December 2007.

In particular, as identified in the 2007 Annual Report, the ChongHerr Group is economically dependent on its major China based customer, Shenzhen Helidon Sandstone Ltd. This remains the case at 30 June 2008 and details of the current position within this customer are set out in Notes 5 and 18.

# CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2008

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	<i>CONSOLIDATED</i>	
	<i>30 June</i>	<i>30 June</i>
	<i>2008</i>	<i>2007</i>
	<i>\$</i>	<i>\$</i>

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**2 REVENUE AND EXPENSES**

Profit before income tax expense includes the following specific revenues and expenses:

**(i) Other income**

Finance income :		
Interest income on trade receivable at amortised cost	155,254	-
Other interest income	2,999	3,319
Reversal of impairment loss on trade receivables	99,812	-
Government grants	8,923	69,886
Gain on disposal of property, plant and equipment	-	-
Other income	8,548	-
	<u>275,536</u>	<u>73,205</u>

**(ii) Specific expense items**

Depreciation	89,114	120,647
Quarry restoration provision charge/(write-back)	(7,616)	-
Amortisation of quarry and reserves	11,451	10,949
Employee benefits	259,428	411,076
Bad debts	-	-
Rental expense on operating leases	88,569	76,346
Foreign currency losses/(gains)	2	332
Loss on disposal of property, plant and equipment	-	19,657
	<u>-</u>	<u>19,657</u>

**3 DIVIDENDS PAID AND PROPOSED**

Equity dividends on ordinary shares:

(a) Dividends paid during the half year	-	-
(b) Dividends proposed and not recognised as a liability	-	-
	<u>-</u>	<u>-</u>

## CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT

### NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2008

	<i>CONSOLIDATED</i>	
	<i>As at</i>	<i>As at</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2008</i>	<i>2007</i>
	<i>\$</i>	<i>\$</i>
<b>4 CASH AND CASH EQUIVALENTS</b>		
Cash on hand and at bank	4,844	3,886
<b>5 TRADE AND OTHER RECEIVABLES</b>		
Trade debtors	2,347,243	2,068,185
Provision for impairment	(50,188)	(150,000)
	2,297,055	1,918,185
Other receivables	4,698	25,285
	2,301,753	1,943,470

As detailed in the 2007 Annual Report, the company's major customer is Shenzhen Helidon Sandstone Ltd, based in China. Trading with this customer is on extended terms, such that a repayment plan is in place for trade debts relating to the 2007 financial year, and a separate repayment plan for trade debts relating to the current six month period. Revenue and the trade debtor are recognised at fair value, with the financing component of this debt brought to account as interest income on an accruals basis.

As at 30 June 2008, the total amount receivable from this debtor is \$2,260,528 (31 December 2007 \$1,989,315) of which \$1,011,586 relates to the 2007 repayment plan and \$1,248,942 relates to the 2008 repayment plan. The debtor is in compliance with these repayment plans.

A provision for impairment of \$50,188 (31 December 2007: \$150,000) is carried in respect of this debtor. The provision for impairment has been raised to reflect the extension of credit terms in relation to this debtor and the impact of same on the present value of the associated cash flow. Interest earned on this debtor in the current six month period is \$155,254 (see Note 2(i)).

As detailed in the 2007 Annual Report, ChongHerr Group recognises the concentration of credit risk and economic dependency with this debtor. The directors closely monitor trading with this customer and collection of amounts receivable. The directors are satisfied with this trading arrangement.

The Group's export sales are made on terms of 240 days credit term albeit the payment history indicates the collection period associated with export sales approximately 355 days. This collection period is outside the normal collection period of Australian based companies and as such the Group has recognised the revenue and trade receivables associated with export sales at fair value, based on management's estimate of the collection period and a discount rate associated with a receivable of this nature of 25.5% (2007: 25%).

## CHONGHERR INVESTMENTS LTD – HALF YEAR REPORT

### NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2008

	<i>CONSOLIDATED</i>	
	<i>As at</i>	<i>As at</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2008</i>	<i>2007</i>
	<i>\$</i>	<i>\$</i>
<b>6 INVENTORIES</b>		
Finished goods and work in progress	259,147	473,798
<b>7 OTHER FINANCIAL ASSETS (Non-Current)</b>		
Security deposits	125,149	129,548
Security deposits include \$71,800 (31 December 2007: \$69,439) lodged as security for bank guarantees.		
<b>8 PROPERTY, PLANT &amp; EQUIPMENT</b>		
Quarry land	141,042	141,042
Owned plant & equipment	1,472,771	1,472,771
Accumulated depreciation and impairment	(1,116,241)	(1,070,193)
	356,530	402,578
Leased plant & equipment	767,681	767,681
Accumulated amortisation	(470,558)	(427,492)
	297,123	340,189
	794,695	883,809

#### Acquisitions and disposals

During the six months ended 30 June 2007 the consolidated entity acquired assets with a cost of \$78,970.

Assets with a carrying amount of \$45,112 were disposed of during the six months ended 30 June 2007, resulting in a loss on disposal of \$19,657.

There were no additions or disposals in the current six month period.

## CHONGHERR INVESTMENT LTD – HALF YEAR REPORT

### NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2008

	<i>CONSOLIDATED</i>	
	<i>As at 30 June 2008 \$</i>	<i>As at 31 December 2007 \$</i>
<b>9 QUARRY AND RESERVES</b>		
Capitalised expenditure on acquisition, evaluation and development		
- at Directors' Valuation 1996 (deemed cost)	4,672,028	4,672,028
- at cost	263,421	260,831
	4,935,449	4,932,859
Accumulated amortisation	(1,140,719)	(1,129,268)
	3,794,730	3,803,591
<b>10 LOANS AND BORROWINGS</b>		
Current		
Bank Overdraft	191,123	58,627
Obligation under finance leases, hire purchase contracts and chattel mortgages	126,156	126,580
	317,279	185,207
Non-current		
Unsecured loans from directors	138,654	136,043
Obligation under finance leases, hire purchase contracts and chattel mortgages	141,460	202,922
	280,114	338,965
<p>There were no lease/HP/chattels entered into the current six month period. During the period to 30 June 2007, a chattel mortgage was entered into for an amount of \$78,970. An amount of \$61,886 was repaid during the period ended 30 June 2008 in respect of loans, finance leases and chattel mortgages (30 June 2007: \$53,239).</p>		
<b>11 PROVISIONS</b>		
Current		
Employee benefits	12,868	19,912
Non-current		
Employee benefits	5,000	-
Quarry restoration	118,154	125,770
	123,154	125,770
<b>12 DEFERRED GOVERNMENT GRANT INCOME</b>		
Current	17,845	17,845
Non-current	17,845	26,769

# CHONGHERR INVESTMENT LTD – HALF YEAR REPORT

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2008

### 13 SEGMENT REPORTING

The ChongHerr Group operates solely within the sandstone quarrying industry in Queensland. A significant amount of product is exported to south-east Asia.

#### Geographical segments

The following table presents the revenue and profit information regarding geographical segments for the six month periods ended 30 June 2008 and 30 June 2007.

	<i>South-east Asia</i>	<i>Australia</i>	<i>Total</i>
	\$	\$	\$
<b>30 June 2008</b>			
Segment revenue	1,230,563	98,435	1,328,998
Segment result	239,838	56,104	295,942
Unallocated expenses			(263,856)
			32,086
<b>30 June 2007</b>			
Segment revenue	1,645,337	66,717	1,712,054
Segment result	316,995	9,828	326,823
Unallocated expenses			(201,832)
			124,991

	<i>South-east Asia</i>	<i>Australia</i>	<i>Total</i>
	\$	\$	\$
<b>30 June 2008</b>			
Segment assets	2,262,515	5,037,496	7,300,011
Unallocated assets			-
Total assets			7,300,011
<b>31 December 2007</b>			
Segment assets	1,903,769	5,364,347	7,268,116
Unallocated assets			-
Total assets			7,268,116

The revenue reported above represents revenue generated from external customers. There were no intersegmental sales during the reporting periods.

Segment result represents the profit earned by each segment without allocation of corporate/administration cost and finance costs. Segment result includes interest revenue of \$255,066 (2007: Nil) for South-east Asia and \$2,999 (2007:\$Nil) for Australia. All assets are allocated to reportable segments on the basis of geographical location.

### 14 CONTINGENT ASSETS AND LIABILITIES

As referred to in the Company's 31 December 2007 financial statements, the Company had commenced legal action relating to sub-lease arrangements over one of the Company's quarries. That matter has been settled in the court in favour of the Company. This matter has been appealed by the counter-party and the Company continues to litigate the matter. The Company does not believe there is any valid claim against it. The Company is however incurring significant legal costs on the matter, but it is not presently possible to estimate any final amount of costs recoverable.

There are no other material contingent assets or liabilities as at balance date.

# CHONGHERR INVESTMENT LTD – HALF YEAR REPORT

## NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2008

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### 15 EVENTS AFTER THE BALANCE SHEET DATE

Since balance date the company has entered into arrangements to purchase quarry equipment to the value of \$60,850, to be financed by way of a commercial loan.

There are no other matters or circumstances that have arisen since the end of the financial period that significantly affected or may significantly affect the operations of the ChongHerr Group, the results of those operations, or the state of affairs of the ChongHerr Group in subsequent financial periods.

### 16 CAPITAL COMMITMENTS

At 30 June 2008, the ChongHerr Group had no commitment to purchase capital equipment.

### 17 RELATED PARTY DISCLOSURES

The total amount of transactions entered into with key management personnel for the six months ended 30 June 2008 and 2007 are:

	<i>30 June 2008</i>	<i>30 June 2007</i>
	\$	\$
Messrs D Liu & Z Lu		
- loan balance	138,654	132,371
- interest accrued	4,635	3,821
- loan repayments	424	424

All transactions with related parties are made in an arm's length basis under normal commercial terms.

### 18 ECONOMIC DEPENDENCY

The ChongHerr group is economically dependent on Shenzhen Helidon Sandstone Ltd which is a company domiciled in China. Shenzhen Helidon Sandstone outstanding debtor balance as at 30 June 2008 is \$2,260,528 (2007 : \$1,989,315) of which \$1,245,223 is past due. This receivable amount is 96% (2007:96%) of total trade receivables. Sales to this customer in the 6 months to 30 June 2008 were \$1,286,022 (2007: \$1,645,337), being 97% (2007: 96%) of total Group sales. Further details of these amounts and arrangements with this debtor are set out in Note 5.

## CHONGHERR INVESTMENTS LTD– HALF YEAR REPORT

### Directors' Declaration

In the opinion of the directors of ChongHerr Investments Ltd (“the Company”):

- a) the financial statements and notes of the consolidated entity set out on pages 5 to 16 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2008 and of its performance as represented by the results of its operations and cashflows for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 “Interim Financial Reporting” and the 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.

Signed in accordance with a resolution of the directors

Dated this 29th day of August 2008.



Dehui Liu  
Managing Director



## **Independent auditor's review report to the members of ChongHerr Investments Limited**

We have reviewed the accompanying half-year financial report of ChongHerr Investments Limited, which comprises the consolidated interim balance sheet as at 30 June 2008, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes 2 to 18 and the directors' declaration set out on page 17 of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2008 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of ChongHerr Investment Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of ChengHerr Investments Limited is not in accordance with the *Corporations Act 2001*, including:


- (a) giving a true and fair view of the Group's financial position as at 30 June 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

*Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our conclusion, we draw attention to Note 1(b) in the interim financial report which indicates that the balance of trade receivables as at 30 June 2008 of \$2,301,753 includes \$2,260,528 owing by the Group's main customer, of which \$1,245,223 is outside normal credit terms. Furthermore, we draw attention to note 18 in the interim financial report which indicates the economic dependence of the Group on this customer.

Note 1(b) describes the actions that management has taken in relation to obtaining payment of this receivable and the basis upon which they consider it recoverable. This includes a repayment arrangement agreed with the debtor in February 2008 calling for cash repayments totalling \$1,490,000 over the period February 2008 to January 2009 and a second repayment schedule for outstanding amounts invoiced in the half-year ended 30 June 2008, entered into in July 2008, that calls for further cash repayments totalling \$1,428,000 over the period December 2008 to June 2009.

The dependence of the Group on the future cash flows associated with the collection of this receivable in accordance with the repayment arrangement, in order to fund ongoing operating activities, along with other matters as set forth in Note 1(b), indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.



KPMG



M L Gray  
*Partner*

Brisbane  
21 August 2008