

# ChongHerr

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INVESTMENTS LTD

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## Annual Report 2003

# **CHONGHERR INVESTMENTS LIMITED**

## **CORPORATE INFORMATION**

ABN 52 054 161 821

### **Directors**

D H Liu (Chairman, Managing Director)

Y H Wu

Z Lu

S Kong

### **Company Secretary**

Sophia Xiaoqing Kong

### **Registered Office**

Level 34, Central Plaza 1

345 Queen Street

Brisbane QLD 4000

Tel: 61 7 3221 1166, Fax: 61 7 3221 2188

[www.asisandstone.com](http://www.asisandstone.com)

### **Quarry Office**

ML50016 at Lot 1

Airforce Road, Helidon Qld 4344

Tel: 61 7 4697 6488, Fax: 61 7 4697 6288

Mobile Numbers: 0419 703 598, or 0419 703596

### **Solicitors**

Hemming & Hart

2<sup>nd</sup> Floor, 307 Queen Street

GPO Box 142, Brisbane QLD 4001

### **Bankers**

Commonwealth Bank of Australia

HSBC Bank of Australia

### **Share Register**

Pitcher Partners

Level 22, 300 Queen Street

Brisbane QLD 4000

### **Auditors**

Ernst & Young

Waterfront Place

1 Eagle Street

Brisbane QLD 4000

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## CHAIRMAN'S REVIEW OF THE YEAR

Your Company has had an improved year in 2003 with revenue up almost \$900,000 or 83% and a moderate but encouraging profit of \$65,857.

The result, which is the first operating profit before income tax in the last 9 years, is particularly inspiring, as it demonstrates significant progress from last years' \$1 million loss.

This result is achieved in a year when the Board was primarily concentrated on implementing a new overseas marketing and development program

To be more specific, the Board has accomplished the following in 2004:

### 1. Export Sales

The Revenue from export sales doubled in 2003 to reach \$1.4 million.

Commencing 2003, the Board initiated a strategy of directly promoting, supplying and servicing the Chinese market.

Two more sales offices were opened in Guangzhou and Beijing. A well-trained sales team now works tirelessly from 4 major cities in China, targeting stone factories, product wholesalers and retailers, as well as project owners and their design teams, offering a total solution from supplying, to manufacturing, installation and maintenance.

The Company has also invested in on-going advertising campaigns by publishing special columns and advertisements in newspapers and professional / trade journals, attending trade shows and opening display centres.

The renewed efforts, coupled with the consistent work of previous years, are bringing positive results, evidenced by the signing of a record sales contract of AUD910,000 in November for a landmark museum project in China.

While increasing numbers of projects are being completed in China, the Company will strategically brand ASI Sandstone in China, making it a well-known product.

### 2. Quarry Production

Production in 2003 was steady.

An extra piece of machinery was hired on an hourly basis to supplement the production. In a time when the Company is faced with many short-term financial restraints, the Board feels the temporary hire has allowed the Company to meet the supply demand while alleviating possible unfavourable elements that may be associated with capital purchase or long-term lease commitments.

The Board and the Management focused on increasing production by means of improved efficiency during the year.

A production planning and evaluation system was put into place. The system incorporates production targeting, planning and performance evaluation through a recording and reporting system. This has allowed better planning, coordination and control among production, sales and management teams.

As a result, block production in 2003 was 5.5 times greater than previous year, while Cost of Goods Sold for dimensional blocks decreased by more than 60%.

### 3. Improved Cash Flow

The Company has maintained a reasonable cash flow throughout the year, and especially during the second half of 2003, thanks to increased sales revenue and improved receivable collections. Costs reduction was achieved mainly by increasing production efficiency, which led to a positive impact on cash flows.

#### **4. Freehold Land**

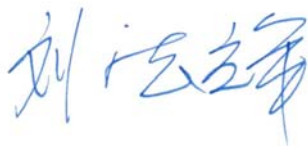
In 2003, the Company completed the purchase of land at Lockyer Siding Road. As advised in 2002, this property is expected to be exchanged, with the new expanded background tenure of Montgomery Quarry ML50016 in 2004. As a result, the ML50016 will not only be freehold but also double in size, ensuring long term financial benefit and stability.

#### **5. On-Site Factory**

The Company received 40% of the Federal Government Grant under the Dairy Regional Assistance Program in building a factory at Montgomery. Factory building and axillary facilities are now in place, machinery has now been installed and will soon finish commissioning. The factory will start to produce billets and slabs in 2004, thereby diversifying our lines of products and creating value-added sales locally and overseas.

The Directors believe, market development and company restructuring over the past few years has now placed your Company in a stronger position for sustained growth.

The improved results in 2003 and favourable market outlook has reinforced the Directors confidence of a bright future for the Company.



**Dehui Liu**  
**Chairman / Managing Director**

5 March 2004

# CHONGHERR INVESTMENTS LIMITED

## DIRECTOR'S REPORT 2003

Your directors submit their report for the year ended 31 December 2003.

### 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)	D H Liu is currently the Chairman and Managing Director of ChongHerr Investments Ltd. He has 19 years experience in corporate management with particular strengths in investment, company restructure, international trades and property development.
Robert Edgley	R Edgley is currently the Managing Director and Head of Sales, Asia Pacific Region, for Royal Bank of Scotland Financial Markets. He joined the board of ChongHerr Investments Ltd in January 2001, with 13 years experience in investment banking in Australia, Japan and the United Kingdom. Mr Edgley resigned from the Board on 2 May 2003.
You He Wu	Y H Wu is the General Manager of Shenzhen Ying Long Build and Install Co. Ltd and has an extensive experience in construction engineering.
Jianming Xiong	Mr Xiong is the founder and Executive Chairman of China's Shenzhen Fangda Group Limited (Fangda), which is one of the largest enterprises in China. Fangda Group specialises in the development, manufacturing and sale of innovative building material and products. He brings to the Board more than 20 years experience in business development and management, and an extensive sales network in China and South East Asia. Mr Xiong was appointed to the Board on 12 August 2002. He resigned on 5 June 2003.
Zhen Lu	Mr Lu is the Managing Director of Shenzhen Helidon Sandstone Industries Pty Ltd, a major building material supplier in China. He brings to the Board over 21 years experience in civil engineering, construction design and business management. Mr Lu was appointed to the Board on 12 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 to the Board on 8 July 2003, bringing to the Board 10 years professional and business management experience. Ms Kong is the Company Secretary.

**CHONGHERR INVESTMENTS LIMITED**  
**DIRECTOR'S REPORT 2003**

**Interest in the shares of the company**

Green Mountain Holdings Pty Ltd owns 55,117,691 shares of which each of the following directors are shareholders directly or indirectly: De Hui Liu and You He Wu. These directors hold significant influence over the decisions of Green Mountain Holdings Pty Ltd.

At the date of this report, the interests of directors in the shares and options of Chongherr Investments Limited were:

	Ordinary Shares	Options over ordinary shares
D H Liu	-	600,000
R Edgley	4,860,893	400,000
Y Wu	-	400,000
J Xiong	12,960,000	-

**2. (a) CORPORATE STRUCTURE**

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

**2. (b) PRINCIPAL ACTIVITIES**

The principal activities during the year of the economic entity were the quarrying of sandstone and the export of sandstone blocks to overseas customers.

**2. (c) EMPLOYEES**

The consolidated entity employed 7 employees as at 31 December 2003 (2002: 5 employees).

**3. RESULTS AND DIVIDENDS**

The operating profit before income tax of the economic entity for the year ended 31 December 2003 was \$65,857 (2002 – loss of \$1,008,482).

The directors are not recommending the payment of any dividends for the year ended 31 December 2003.

**4. REVIEW OF OPERATIONS**

**RECAPITALISATION**

During the reporting period, the Company sourced \$180,000 from an overseas investor.

The funds have been used to reduce debts and improve cashflow.

**SANDSTONE QUARRYING**

In anticipation of increased demand for sandstone blocks, the Company has intensified the production efforts in the second half of 2003, which saw block production increase by a factor of 2.6 times compared with that of the first half of 2003. Total block production in 2003 was 5.5 times greater than the production in 2002. Cost of Goods Sold for dimensional blocks decreased by more than 60% in 2003.

# **CHONGHERR INVESTMENTS LIMITED**

## **DIRECTOR'S REPORT 2003**

### **EXPORT OF SANDSTONE BLOCKS**

During the reporting period, the Board continued to explore the overseas market. Two new sales offices were established in China in 2003. The Board believes that its strategy of directly promoting, supplying and servicing the markets has started to bring results, evidenced by the signing of a record sales contract in November 2003 to the value of AUD 910,000 and the significant increase in export sales in 2003. As the market starts to embrace ASI products more readily, we expect steady sales growth in the years to come.

### **PROCESSING FACTORY**

During the reporting period, the Company has received \$114,000 from the Department of Transport and Regional Service as part of the grant received as part of the Dairy Regional Assistance Program. The Grant was awarded in 2003 to assist the Company in building a factory at Montgomery Quarry.

As at the end of the reporting period, the machinery for the factory had arrived on site, factory building and most of the auxiliary facilities were in place.

The factory is expected to start producing billets and slabs in the first half of 2004, thereby increasing the value of the products, as well as creating further sales in the Asian and local markets.

### **FREEHOLD BACKGROUND TENURE**

The Company has reached an agreement with the holder of the background tenure of the Montgomery Quarry ML 50016, Initiating Explosives Systems Pty Ltd, to acquire the freehold of the background tenure of Montgomery Quarry.

This will be achieved through the exchange of land at Lockyer Siding Road, which has now been purchased by the Company.

With this exchange, the Company will hold the freehold background of tenure of the Montgomery Quarry, which ensures a more secured financial future.

## **5. SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

The Company has entered into an agreement to purchase the excavator that was being rented on site at Montgomery Quarry. The Board believes that by acquiring the machinery, the Company will further reduce production costs in future years.

## **6. LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

- 1) In 2004, the Company will set up shop fronts and display centres in Beijing, Shanghai, Guangzhou, Shenzhen and Quanzhou, which will not only provide sandstone products, but also consolidate full consulting service in designing, processing, installation and maintenance. These centres will further penetrate the market and assist in the branding of ASI sandstone products in China.
- 2) To further reduce the production costs, the Company plans to engage the Italian quarry machinery specialist Marini to carry out a full evaluation of current production practices and recommend alternative production methodology and machineries.
- 3) The Directors are confident of being granted a new mining lease at Montgomery Quarry (freehold), which doubles the current mining lease area. An application for new EPM will also be lodged for future reserve exploration.

The Board expects that the above developments will further improve operations at the quarry and increase the production capacity to meet the increasing demand from existing and potential overseas customers.

## **CHONGHERR INVESTMENTS LIMITED DIRECTOR'S REPORT 2003**

In the hope of catering for natural resource shortages in China, in 2004 the Company will commission some preliminary studies in investment opportunities in coal and iron ores mining, so as to maximise returns for the shareholders in the long term.

### **7. 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.

### **8. DIRECTORS' BENEFITS**

The Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of officers on a periodic basis by relevant employment market conditions.

Details of the nature and amount of each element of the emoluments of each director of the Company and the consolidated entity receiving the highest emoluments of the financial year are as follows.

The remuneration of Directors is not specifically linked to the performance of the consolidated entity.

#### **Emolument of directors of Chongherr Investments Limited for year ended 31 December 2003**

	Base Fee \$	Super- annuation \$	Other \$
D H Liu	120,000	-	-
R Edgley	-	-	-
Y H Wu	-	-	-
J Xiong	-	-	-
Z Lu	-	-	-
Sophia Kong	-	-	-

#### **Emolument of the five most highly paid executive officers of the company and consolidated entity.**

There exist no other executive officers who are not already disclosed as directors above.

### **9. SHARE OPTIONS**

#### **Unissued shares**

As at the date of this report, there were 1,400,000 unissued ordinary shares under options (1,400,000 at balance date). Refer to note 14 of the financial statements for further details and the options outstanding.

#### **Shares issued as a result of the exercise of options**

During the financial year, no employees or other directors exercised options to acquire ordinary shares. No options have been exercised since the end of financial year.

**CHONGHERR INVESTMENTS LIMITED  
DIRECTOR'S REPORT 2003**

**10. DIRECTORS' MEETINGS**

During the year, 9 directors' meetings were held. The number of meetings at which directors were in attendance is as follows:

	<b>Directors' Meetings</b>	
	No. of Meetings held while in office	Meetings attended
D H Liu	9	9
R Edgley	2	1
Y H Wu	9	0
Jianming Xiong	2	2
Zhen Lu	9	9
Sophia Kong	4	4

**11. INDEMNIFICATION AND INSURANCE OR DIRECTORS AND OFFICERS**

During the period the company did not indemnify or insure any directors or officers of the company.

**12. CORPORATE GOVERNANCE**

In recognising the need for the highest standard of corporate behaviour and accountability, the directors of ChongHerr Investments Ltd support and have adhered to the principles of corporate governance. The company's corporate governance statement is contained in the additional ASX information section of the annual report.

Signed in accordance with a resolution of the directors.



Managing Director  
Dehui Liu  
Brisbane, 05 March 2004

**CHONGHERR INVESTMENTS LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 31 December 2003**

	Notes	Consolidated		Parent Entity	
		2003	2002	2003	2002
		\$	\$	\$	\$
<b>REVENUES FROM ORDINARY ACTIVITIES</b>	2	1,935,776	1,057,482	1,935,776	1,057,482
Changes in inventories of finished goods and work in progress		158,024	(448,747)	249,979	(448,747)
Raw materials and consumables used		(79,318)	(83,205)	(171,273)	(83,205)
Depreciation and amortisation expense	3	(220,138)	(143,676)	(220,138)	(143,676)
Borrowing costs expensed	3	(71,324)	(84,048)	(71,324)	(84,048)
Salaries and employee benefits expense		(441,927)	(389,785)	(441,927)	(389,785)
Bad debts expense		6,822	(186,158)	6,822	(186,158)
Transportation expenses		(315,553)	(120,775)	(315,553)	(120,775)
Administration expenses		(121,686)	(132,118)	(121,686)	(132,118)
Promotional expenses		(119,688)	(68,229)	(119,688)	(68,229)
Rental expense		(505,590)	(212,313)	(505,590)	(212,313)
Repairs and maintenance expense		(29,118)	(20,322)	(29,118)	(20,322)
Cost of investments sold		(67,250)	-	(67,250)	-
Other expenses from ordinary activities		(63,173)	(176,588)	(63,173)	(176,588)
<b>PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		65,857	(1,008,482)	65,857	(1,008,482)
<b>INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES</b>		-	-	-	-
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF CHONGHERR INVESTMENTS LIMITED</b>	15	<u>65,857</u>	<u>(1,008,482)</u>	<u>65,857</u>	<u>(1,008,482)</u>
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RELATING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>		65,857	(1,008,482)	65,857	(1,008,482)
Basic earnings per share (cents per share)	20	0.07	(1.15)	0.07	(1.15)
Diluted earnings per share (cents per share)	20	0.07	(1.15)	0.07	(1.15)

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

**CHONGHERR INVESTMENTS LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 31 December 2003**

	Notes	Consolidated		Parent Entity	
		2003	2002	2003	2002
			\$		\$
<b>CURRENT ASSETS</b>					
Cash assets		87,566	124,036	87,566	124,036
Receivables	5	168,374	254,835	168,374	254,835
Inventories	6	385,180	227,156	385,180	227,156
Other financial assets		-	67,250	-	67,250
Other	7	6,629	3,266	6,629	3,256
<b>TOTAL CURRENT ASSETS</b>		<u>647,749</u>	<u>676,543</u>	<u>647,749</u>	<u>676,533</u>
<b>NON CURRENT ASSETS</b>					
Other financial assets	8	-	-	10	10
Property, plant and equipment	9	4,506,418	4,237,178	4,506,418	4,237,178
Other	10	54,368	33,993	54,368	33,993
<b>TOTAL NON CURRENT ASSETS</b>		<u>4,560,786</u>	<u>4,271,171</u>	<u>4,560,796</u>	<u>4,271,181</u>
<b>TOTAL ASSETS</b>		<u>5,208,535</u>	<u>4,947,714</u>	<u>5,208,545</u>	<u>4,947,714</u>
<b>CURRENT LIABILITIES</b>					
Payables	11	391,451	347,254	391,461	347,254
Interest bearing liabilities	12	127,385	25,117	127,385	25,117
Provisions	13	3,409	12,302	3,409	12,302
<b>TOTAL CURRENT LIABILITIES</b>		<u>522,245</u>	<u>384,673</u>	<u>522,255</u>	<u>384,673</u>
<b>NON CURRENT LIABILITIES</b>					
Interest bearing liabilities	12	938,363	880,971	938,363	880,971
<b>TOTAL NON CURRENT LIABILITIES</b>		<u>938,363</u>	<u>880,971</u>	<u>938,363</u>	<u>880,971</u>
<b>TOTAL LIABILITIES</b>		<u>1,460,608</u>	<u>1,265,644</u>	<u>1,460,618</u>	<u>1,265,644</u>
<b>NET ASSETS</b>		<u>3,747,927</u>	<u>3,682,070</u>	<u>3,747,927</u>	<u>3,682,070</u>
<b>EQUITY</b>					
Contributed equity	14	17,619,624	17,619,624	17,619,624	17,619,624
Accumulated losses	15	(13,871,697)	(13,937,554)	(13,871,697)	(13,937,554)
<b>TOTAL EQUITY</b>		<u>3,747,927</u>	<u>3,682,070</u>	<u>3,747,927</u>	<u>3,682,070</u>

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

**CHONGHERR INVESTMENTS LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 December 2003**

	Notes	Consolidated		Parent Entity	
		2003	2002	2003	2002
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		1,773,270	825,263	1,773,270	825,263
Payments to suppliers and employees		(1,664,487)	(1,236,055)	(1,664,487)	(1,236,055)
Dividends received		-	461	-	461
Borrowing costs		(71,324)	(84,048)	(71,324)	(84,048)
Net cash flows used in operating activities	16 (b)	<u>37,459</u>	<u>(494,379)</u>	<u>37,459</u>	<u>(494,379)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Acquisition of property, plant and equipment		(300,837)	(64,728)	(300,837)	(64,728)
Proceeds from sale of property, plant and equipment		-	12,300	-	12,300
Proceeds from sale of investments		67,250	-	67,250	-
Purchase of investments		-	(67,250)	-	(67,250)
Net cash flows used in investing activities		<u>(233,587)</u>	<u>(119,678)</u>	<u>(233,587)</u>	<u>(119,678)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		-	1,036,800	-	1,036,800
Proceeds from borrowings		180,000	275,382	180,000	275,382
Repayment of borrowings		-	(163,425)	-	(163,425)
Repayment of finance lease		(20,342)	(21,846)	(20,342)	(21,846)
Net cash flows from financing activities		<u>159,658</u>	<u>1,126,911</u>	<u>159,658</u>	<u>1,126,911</u>
Net (decrease) /increase in cash held		(36,470)	512,854	(36,470)	512,854
Add: opening cash brought forward		<u>124,036</u>	<u>(388,818)</u>	<u>124,036</u>	<u>(388,818)</u>
<b>CLOSING CASH CARRIED FORWARD</b>	16 (a)	<u>87,566</u>	<u>124,036</u>	<u>87,566</u>	<u>124,036</u>

The accompanying notes form an integral part of this statement of cash flows.

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting**

The financial statements are prepared on an accruals basis from the records of the company. They are based on historic cost except for property, plant and equipment measured at revalued amounts.

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of Corporations Act 2001, Australian Accounting Standards, other authoritative pronouncements of the AASB and Urgent Issues Group Consensus Views.

**Going concern**

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

The economic entity has incurred significant losses in past years.

The Directors believe that it is reasonable to prepare the financial report on a going concern basis due to the following:

- 1) The company's ability to source increased customers' orders since the end of the financial year, which will increase the cash flow of the economic entity;
- 2) The company being able to produce sufficient sandstone block to meet international sales; and
- 3) The company has a positive net equity position.

Consequently, no adjustments have been made relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the economic entity not continue as a going concern.

**Changes in accounting policies**

The accounting policies adopted are consistent with those of the previous year except for the accounting policies with respect to employee benefits.

*Employee Benefits*

The consolidated entity has adopted the revised Accounting Standard AASB 1028 "Employee Benefits", which has resulted in a change in the accounting policy for measurement of employee benefit liabilities. Previously, the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition for the liability. In accordance with the requirements of the revised Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. The effect of this change is immaterial to the financial statements.

**Cash and cash equivalents**

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Receivables**

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

**Recoverable amount**

Non-current assets are not revalued to an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. A recoverable value test has been utilised in determining the recoverable amount of the quarry assets. The recoverable amount has been calculated using the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate.

**Inventories**

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- ❖ Finished goods, work-in-progress and raw materials – cost of direct material and labour and a proportion of manufacturing overhead based on normal operating capacity and on a weighted average basis.

**Property, plant and equipment**

*Cost and valuation*

Property (including quarry and reserves), plant and equipment is brought to account at cost or directors' valuation less where applicable any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the amount recoverable from those assets. The amount recoverable is assessed on the basis of expected net cash flows, which will be received from the assets employed and subsequent disposal discounted to this present value.

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount.

*Depreciation/amortisation*

Depreciation is provided on a reducing balance basis on all property, plant and equipment, other than freehold land.

Major depreciation periods are:	2003	2002
Plant and equipment	4% - 33.3%	4% - 33.3%
Leasehold improvements	the lease term	the lease term

Mining lease and quarry infrastructure, development and evaluation costs are amortised on a production output basis, with reference to proven and probable quarry reserves.

**Quarry development costs**

Quarry development costs are capitalised on an absorption costing basis. These costs are amortised on a production output basis, with reference to proven and probable quarry reserves.

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Leases**

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

*Operating Leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

*Finance leases*

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term.

Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to net profit.

**Revenue recognition**

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

*Sales of Goods*

Control of the goods has passed to the buyer.

*Grant Revenue*

Revenue in the form of grant income is recognised when earned and receivable.

**Financial instruments**

Refer to Note 25(a) for accounting policies related to financial instruments.

**Principles of consolidation**

The consolidated financial statements are those of the economic entity, comprising Chongherr Investments Limited (the parent entity) and all entities, which Chongherr Investments Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. 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 the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent account policies. Adjustments are made to bring into line any dissimilar account policies, which 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.

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income tax**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the accounts and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing difference is not carried forward as an asset unless the benefit is virtually certain of being realised.

**Payables**

Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related entities are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

**Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is charged as an expense as it accrues. Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

**Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the share proceeds received.

**Earnings Per Share**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- ❖ Costs of servicing equity (other than dividends) and preference share dividends;
- ❖ The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- ❖ Other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares.

Divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**Comparatives**

Where necessary comparatives have been reclassified and repositioned for consistency with current year disclosures.

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Goods and services tax (GST)**

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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

**Employee benefits**

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts.

Employee benefits expenses and revenues arising in respect of the following categories:

- ❖ wages and salaries, non-monetary benefits, annual leave, long service leave, and other leave benefits; and
- ❖ other types of employee benefits are charged against profits on a net basis in their respective categories.

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	\$	\$	\$	\$
<b>2. REVENUES FROM ORDINARY ACTIVITIES</b>				
<b>Revenues from operating activities</b>				
Revenue from the sale of goods	<u>1,630,464</u>	<u>924,721</u>	<u>1,630,464</u>	<u>924,721</u>
Total revenue from operating activities	<u>1,630,464</u>	<u>924,721</u>	<u>1,630,464</u>	<u>924,721</u>
<b>Revenues from non-operating activities</b>				
Rent	24,194	120,000	24,194	120,000
Proceeds from disposals of non-current assets	67,250	12,300	67,250	12,300
Interest income	403	-	403	-
Grant revenue	152,014	-	152,014	-
Other	<u>61,451</u>	<u>461</u>	<u>61,451</u>	<u>461</u>
Total revenue from non-operating activities	<u>305,312</u>	<u>132,761</u>	<u>305,312</u>	<u>132,761</u>
<b>Total revenues from ordinary activities</b>	<u><u>1,935,776</u></u>	<u><u>1,057,482</u></u>	<u><u>1,935,776</u></u>	<u><u>1,057,482</u></u>
<b>3. EXPENSES AND LOSSES/(GAINS)</b>				
<b>Cost of Goods Sold</b>	992,668	1,064,548	992,668	1,064,548
<b>Depreciation of non-current assets</b>				
Plant and equipment	154,456	99,640	154,456	99,640
Plant and equipment under lease	<u>19,780</u>	<u>23,251</u>	<u>19,780</u>	<u>23,251</u>
Total depreciation of non-current assets	<u>174,236</u>	<u>122,891</u>	<u>174,236</u>	<u>122,891</u>
<b>Amortisation of non-current assets</b>				
Quarries and reserves	<u>45,902</u>	<u>20,785</u>	<u>45,902</u>	<u>20,785</u>
Total amortisation of non-current assets	<u>45,902</u>	<u>20,785</u>	<u>45,902</u>	<u>20,785</u>
<b>Total depreciation and amortisation</b>	<u><u>220,138</u></u>	<u><u>143,676</u></u>	<u><u>220,138</u></u>	<u><u>143,676</u></u>
<b>Borrowing costs</b>				
Interest expense				
Finance lease	3,799	11,121	3,799	11,121
Related parties	33,127	48,106	33,127	48,106
Other	<u>34,398</u>	<u>24,821</u>	<u>34,398</u>	<u>24,821</u>
<b>Total borrowing costs</b>	<u><u>71,324</u></u>	<u><u>84,048</u></u>	<u><u>71,324</u></u>	<u><u>84,048</u></u>
Bad and doubtful debts – trade debtors	-	317,341	-	317,341
Bad and doubtful debts recovered	(6,822)	(131,183)	(6,822)	(131,183)
Loss on disposal of non-current assets	-	7,812	-	7,812
Operating lease rental				
- minimum lease rental		505,590	212,313	505,590

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>4. INCOME TAX</b>				
The prima facie tax on operating loss differs from the income tax provided in the financial statements as follows:				
Operating profit/(loss) before income tax	65,857	(1,008,482)	65,857	(1,008,482)
Prima facie tax at 30%	19,757	(302,545)	19,757	(302,545)
Tax effect of permanent differences:				
Other	3,264	86	3,264	86
Non-deductible amortisation	13,770	6,318	13,770	6,318
Income tax benefit adjusted for permanent differences	36,791	(296,141)	36,791	(296,141)
Tax effect of future income tax benefit not recognised	(36,791)	296,141	(36,791)	296,141
Income tax attributable to operating loss	-	-	-	-
<b>Income tax losses</b>				
Future income tax benefit arising from tax losses of the entity not brought to account at balance date as realisation of benefit is not regarded as virtually certain	3,742,451	3,442,718		

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 outcome for deductibility imposed by tax legislation continue to be compiled with; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

The amount of franking credits available for the subsequent financial year are:

Franking account balance as at the end of the financial year	214,846	214,846	214,846	214,846
	214,846	214,846	214,846	214,846

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
		\$	\$	\$
<b>5. RECEIVABLES (CURRENT)</b>				
Trade debtors	127,245	440,058	127,245	440,058
Provision for doubtful debts	-	(186,158)	-	(186,158)
	<u>127,245</u>	<u>253,900</u>	<u>127,245</u>	<u>253,900</u>
Goods and services tax	<u>37,199</u>	<u>-</u>	<u>37,199</u>	<u>-</u>
Amounts other trade debts receivable from related parties:				
- Other	400	135	400	135
-Related entity	3,530	800	3,530	800
	<u>3,930</u>	<u>935</u>	<u>3,930</u>	<u>935</u>
	<u>168,374</u>	<u>254,835</u>	<u>168,374</u>	<u>254,835</u>
<b>6. INVENTORIES (CURRENT)</b>				
<b>Work in progress</b>				
At cost	-	56,871	-	56,871
<b>Finished goods</b>				
At cost	385,180	87,008	385,180	87,008
At net realisable value	-	83,277	-	83,277
	<u>385,180</u>	<u>170,285</u>	<u>385,180</u>	<u>170,285</u>
	<u>385,180</u>	<u>227,156</u>	<u>385,180</u>	<u>227,156</u>
<b>7. OTHER ASSETS (CURRENT)</b>				
Prepayments	<u>6,629</u>	<u>3,266</u>	<u>6,629</u>	<u>3,256</u>
<b>8. OTHER FINANCIAL ASSETS (NON-CURRENT)</b>				
<b>Investments at cost comprise:</b>				
Controlled entities – unlisted (note 24)	<u>-</u>	<u>-</u>	<u>10</u>	<u>10</u>
<b>9. PROPERTY, PLANT AND EQUIPMENT</b>				
<i>Quarry and reserves</i>				
At directors' valuation 1996	4,672,028	4,672,028	4,672,028	4,672,028
At cost	158,113	130,316	158,113	130,316
Provision for amortisation	(957,058)	(911,155)	(957,058)	(911,155)
Total quarry and reserves	<u>3,873,083</u>	<u>3,891,189</u>	<u>3,873,083</u>	<u>3,891,189</u>

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

9. PROPERTY, PLANT AND EQUIPMENT (continued)	Consolidated		Parent Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
<i>Land</i>				
Land at cost	116,635	-	116,635	-
<i>Plant and equipment</i>				
Plant and equipment				
At cost	1,577,390	1,231,232	1,577,390	1,231,232
Accumulated depreciation	<u>(1,159,016)</u>	<u>(1,003,346)</u>	<u>(1,159,016)</u>	<u>(1,003,346)</u>
	<u>418,374</u>	<u>227,886</u>	<u>418,374</u>	<u>227,886</u>
<i>Plant and equipment under lease</i>				
At cost	148,093	148,092	148,093	148,092
Accumulated amortisation	<u>(49,767)</u>	<u>(29,988)</u>	<u>(49,767)</u>	<u>(29,988)</u>
	<u>98,326</u>	<u>118,104</u>	<u>98,326</u>	<u>118,104</u>
Total plant and equipment	<u>516,700</u>	<u>345,990</u>	<u>516,700</u>	<u>345,990</u>
<i>Total property, plant and equipment</i>				
Directors' valuation 1996	4,672,028	4,672,028	4,672,028	4,672,028
Cost	<u>2,000,231</u>	<u>1,509,639</u>	<u>2,000,231</u>	<u>1,509,639</u>
	6,672,259	6,181,667	6,672,259	6,181,667
Accumulated depreciation and amortisation	<u>(2,165,841)</u>	<u>(1,944,489)</u>	<u>(2,165,841)</u>	<u>(1,944,489)</u>
Total written down amount	<u><u>4,506,418</u></u>	<u><u>4,237,178</u></u>	<u><u>4,506,418</u></u>	<u><u>4,237,178</u></u>

(a) **Valuations**

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 holds the following Exploration Permits for Minerals (EPM)

EPM No. 11005 This permit will expire on 11 March 2004 with the Department of Mines and Energy.

Assets under lease are pledge as security for the corresponding lease liability.

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>9. PROPERTY, PLANT AND EQUIPMENT (continued)</b>				
(b) Reconciliations				
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year.				
Quarry and reserves				
Carrying amounts at beginning	3,891,189	3,869,350	3,891,189	3,869,350
Additions	27,796	42,624	27,796	42,624
Amortisation expense	<u>(45,902)</u>	<u>(20,785)</u>	<u>(45,902)</u>	<u>(20,785)</u>
	<u>3,873,083</u>	<u>3,891,189</u>	<u>3,873,083</u>	<u>3,891,189</u>
Land				
Carrying amount at beginning	-	-	-	-
Additions	<u>116,635</u>	<u>-</u>	<u>116,635</u>	<u>-</u>
	<u>116,635</u>	<u>-</u>	<u>116,635</u>	<u>-</u>
Plant and equipment				
Carrying amount at beginning	227,886	332,027	227,886	332,027
Additions	344,947	18,036	344,947	18,036
Disposals	-	(22,537)	-	(22,537)
Depreciation expense	<u>(154,456)</u>	<u>(99,640)</u>	<u>(154,456)</u>	<u>(99,640)</u>
	<u>418,377</u>	<u>227,886</u>	<u>418,377</u>	<u>227,886</u>
Plant and equipment under lease				
Carrying amount at beginning	118,103	134,862	118,103	134,862
Additions	-	6,492	-	6,492
Depreciation expense	<u>(19,780)</u>	<u>(23,251)</u>	<u>(19,780)</u>	<u>(23,251)</u>
	<u>98,323</u>	<u>118,103</u>	<u>98,323</u>	<u>118,103</u>
<b>10. OTHER NON-CURRENT ASSETS</b>				
Security deposits	<u>54,368</u>	<u>33,993</u>	<u>54,368</u>	<u>33,993</u>

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>11. PAYABLES (CURRENT)</b>				
Trade creditors	308,299	208,732	308,309	208,732
Other creditors	83,152	87,108	83,152	87,108
Directors and director related entities				
- Director fees	-	51,414	-	51,414
	<u>391,451</u>	<u>347,254</u>	<u>391,461</u>	<u>347,254</u>

**12. INTEREST BEARING LIABILITIES**

**CURRENT**

Unsecured – director loan	100,000	-	100,000	-
Secured lease liability-finance lease (ii)	27,385	25,117	27,385	25,117
	<u>127,385</u>	<u>25,117</u>	<u>127,385</u>	<u>25,117</u>

**NON- CURRENT**

Secured lease liability-finance lease (ii)	56,506	82,550	56,506	82,550
Unsecured - director loans (i)	881,857	798,421	881,857	798,421
	<u>938,363</u>	<u>880,971</u>	<u>938,363</u>	<u>880,971</u>

Terms and conditions relating to the above financial instruments

(i) One loan is non-interest bearing, the remaining loans incur interest of 5.47% p.a.

(ii) Finance leases have an average lease term of 5 years with an option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the lease is 6.75%. Secured lease liabilities are secured by a charge over the leased assets.

	Consolidated		Parent Entity	
	2003	2002	2003	2002
		\$		\$
<b>13. PROVISIONS (CURRENT)</b>				
Employee entitlements	<u>3,409</u>	<u>12,302</u>	<u>3,409</u>	<u>12,302</u>

**14. CONTRIBUTED EQUITY**

**(a) Issued and paid up capital**

Ordinary shares fully paid	<u>17,619,624</u>	<u>17,619,624</u>	<u>17,619,624</u>	<u>17,619,624</u>
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**(b) Movements in shares on issue**

	Number of Shares	2003 \$	Number of Shares	2002 \$
Beginning of the financial year	94,075,455	17,619,624	81,547,455	16,582,824
Issued during the year				
- public equity raising	-	-	12,960,000	1,036,800
End of the financial year	<u>94,075,455</u>	<u>17,619,624</u>	<u>94,507,455</u>	<u>17,619,624</u>

**CHONGHERR INVESTMENTS LIMITED  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31 December 2003**

**14. CONTRIBUTED EQUITY (continued)**

**(c) Share options**

At the end of the year there were 1,400,000 unissued ordinary shares in respect of which options were outstanding, having an average option price of 0.21c. These options were issued in 2002 and expire on 30 June 2004.

Information with respect to the number of options granted during the year.

	2003		2002	
	Number of options	Weighted average Exercise price	Number of Options	Weighted average exercise price
Balance at beginning of year	\$0.21	1,400,000	1,400,000	\$0.21
-granted	-	-	-	-
Balance at end of year	<u>\$0.21</u>	<u>1,400,000</u>	<u>1,400,000</u>	<u>\$0.21</u>
Exercisable at end of year	<u>\$0.21</u>	<u>1,400,000</u>	<u>1,400,000</u>	<u>\$0.21</u>

**(d) Terms and conditions of contributed equity**

**Ordinary shares**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle the holder to one vote, either in person or by proxy, at a meeting of the company.

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>15. ACCUMULATED LOSSES</b>				
Balance at beginning of year	(13,937,554)	(12,929,072)	(13,937,554)	(12,929,072)
Net profit/(loss) attributable to members of Chongherr Investments Limited	<u>65,857</u>	<u>(1,008,482)</u>	<u>65,857</u>	<u>(1,008,482)</u>
Total available for appropriation	(13,871,697)	(13,937,554)	(13,871,697)	(13,937,554)
Dividends provided for or paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>(13,871,697)</u>	<u>(13,937,554)</u>	<u>(13,871,697)</u>	<u>(13,937,554)</u>

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
<b>16. STATEMENT OF CASH FLOWS</b>				
<b>(a) Reconciliation of Cash</b>				
Cash balance comprises:				
- cash at bank	87,566	124,036	87,566	124,036
Closing cash balance	<u>87,566</u>	<u>124,036</u>	<u>87,566</u>	<u>124,036</u>
<b>(b) Reconciliation of the operating profit/(loss) after tax to the net cash flows from Operations:</b>				
Profit/(loss) from ordinary activities after tax	65,857	(1,008,482)	65,857	(1,008,482)
Depreciation of non-current assets	154,456	99,640	154,456	99,640
Depreciation of leased assets	19,780	23,251	19,780	23,251
Amortisation of non-current assets	45,902	20,785	45,902	20,785
Net loss on disposal of non-current assets	-	7,812	-	7,812
Change in Assets and Liabilities:				
(Increase)/decrease in trade and other receivables	(101,982)	212,016	(101,982)	212,016
(Increase)/decrease in inventory	(158,024)	448,747	(158,024)	448,747
(Increase)/decrease in other assets	(20,375)	18,273	(20,375)	18,273
Increase/(decrease) in prepayments	3,363	(4,880)	3,363	(4,880)
Increase/(decrease) in trade and other creditors	44,197	(187,521)	44,197	(187,521)
(Decrease)/increase in provision for employee entitlements	(8,893)	7,163	(8,893)	7,163
(Decrease)/increase in provision for doubtful debts	(6,822)	(131,183)	(6,822)	(131,183)
Net cash flows used in operating activities	<u>37,459</u>	<u>(494,379)</u>	<u>37,459</u>	<u>(494,379)</u>

**Non-cash financing and investing activities**

During the year the company purchased a saw, the consideration for which was the set off of an amount receivable from a customer. The purchase price of the saw was \$188,540.

**17. EXPENDITURE COMMITMENTS**

**(a) Lease expenditure commitments**

**(i) Operating leases (non-cancellable):**

Minimum lease payments

- not later than one year

- later than one year but not later than

five years

- later than five years

- aggregate lease expenditure

Contracted for at balance date

122,223	308,436	122,223	308,436
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**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	\$	\$	\$	\$
<b>17. EXPENDITURE COMMITMENTS (continued)</b>				
(iii) Finance leases				
- not later than one year	33,252	33,252	33,252	33,252
- later than one year but not later than five years	59,505	93,142	59,505	93,142
- total minimum lease payments	92,757	126,394	92,757	126,394
- future finance charges	<u>(8,866)</u>	<u>(18,721)</u>	<u>(8,866)</u>	<u>(18,721)</u>
lease liability	<u>83,891</u>	<u>107,673</u>	<u>83,891</u>	<u>107,673</u>
- current liability	27,385	25,117	27,385	25,117
- non-current liability	<u>56,506</u>	<u>82,556</u>	<u>56,506</u>	<u>82,556</u>
	<u>83,891</u>	<u>107,673</u>	<u>83,891</u>	<u>107,763</u>

On the 12<sup>th</sup> January 2004, the Company entered into a contract with Equipment Services Australia to purchase an excavator for the Montgomery Quarry for the purchase price of \$141,900. Payments will be made in three instalments in January, February and April.

The Company is currently in dispute with a creditor from whom it leases equipment. The equipment does not operate satisfactorily and the company is refusing to make lease payments. The matter is in the process of being settled and an undisputed amount of \$113,101 was paid to the creditor on the 24<sup>th</sup> December 2003. Discussions are continuing regarding the remaining disputed invoices. The Company believes that they will be released from the Rental Agreement without additional penalty.

**18. SUPERANNUATION COMMITMENTS**

The economic entity made contributions to externally established and administered accumulation superannuation funds to comply with its obligations under the Superannuation Guarantee Charge legislation. The contribution rate at 31 December 2003 was 9%.

The economic entity has no further legal obligation to contribute to the funds other than the Superannuation Guarantee Charge requirement.

**19. SEGMENT REPORTING**

The Company operates predominately in one geographical segment namely Australia. The location of its customer basis is different to the location of its assets and hence the following segment information is provided.

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	\$'000	\$'000	\$'000	\$'000
Segment information by geographical segment is as follows:				
Revenues				
Australia	197,380	282,993	197,380	282,993
South-east Asia	1,433,084	609,260	1,433,084	609,260
Other	238,062	165,229	238,062	165,229
	<u>1,868,526</u>	<u>1,057,482</u>	<u>1,868,526</u>	<u>1,057,482</u>

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

<b>20.</b>	<b>EARNINGS PER SHARE</b>	<b>2003</b>	<b>2002</b>
(a)	Basic earning per share (cents per share)	0.07 cents	(1.15) cents
	Diluted earnings per share (cents per share)	0.07 cents	(1.15) cents
(b)	Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	94,507,455	

The share options of 1,400,000 are not dilutive and therefore not included in the calculation of diluted earnings per share.

**21. AUDITORS' REMUNERATION**

Amounts received or due and receivable by the Auditors, from entities in the economic entity or related entities

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Auditing or reviews of accounts	43,000	37,000	43,000	37,000
Other services	-	-	-	-
	<u>43,000</u>	<u>37,000</u>	<u>43,000</u>	<u>37,000</u>

**22. REMUNERATION OF DIRECTORS**

Directors Remuneration

(i) Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Chongherr Investments Limited, directly or indirectly, by the entities of which they are directors or any related party.

<u>120,000</u>	<u>149,517</u>
----------------	----------------

(ii) Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the economic entity, directly or indirectly, by the entities of which they are directors or any related party.

<u>120,000</u>	<u>149,517</u>
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The number of directors of Chongherr Investments Limited whose remuneration falls within the following bands:

\$ 0 - \$ 9,999	-	-	-	-
\$ 20,000 - \$ 29,999	-	1	-	1
\$ 30,000 - \$ 39,999	-	-	-	-
\$120,000 - \$130,000	1	1	1	1

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

**22. REMUNERATION OF DIRECTORS (continued)**

Amounts received or due and receivable by executive officers of the economic entity and the company whose remuneration is \$100,000 or more, from entities in the economic entity and related entities.

	120,000	120,000	120,000	120,000
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The number of executives of the economic entity and the company whose remuneration falls within the following bands:

\$120,000 - \$130,000	1	1	1	1	1
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**23. RELATED PARTY DISCLOSURES**

(a) The directors of Chongherr Investments Limited during the financial year were:

- Mr D H Liu
- Mr Y H Wu
- Mr R Edgley (resigned 2 May 2003)
- Mr Z. Lu
- Mr J. Xiong (resigned 5 June 2003)
- Mrs S. Kong (appointed 8 July 2003)

(b) The following related party transactions occurred during the financial year:

*Transactions with director-related entities*

1. During the period Mr Tsoi ( a director of Australian Sandstone Industries Pty Ltd) provided a loan of \$180,000 to the company. Interest accrues on the loan from 1 January 2004.
2. During the year the Company sold goods to a company that Mr Z Lu is a director. The sales amounted to \$772,405 and were on normal terms and conditions.
3. Interest has accrued on director's loans during the period. Total interest accrued for the period \$38,978. Total interest paid during the period was \$29,508.

(a) Chongherr Investments Limited ultimate and Australian controlling company is Green Mountain Holdings Pty Ltd.

(b) Interests in the shares of entities within the economic entity held by directors of the reporting entity and their director-related entities at year end and any movements whilst directors during the year:

- Mr De Hui Liu (i)
- Mr You He Wu (i)

(i) Green Mountain Holdings Pty Ltd, of which each of these directors are shareholders either directly or indirectly, owns 55,117,691 ordinary shares.

(c) Chongherr Investments Limited ultimate and Australian controlling company is Green Mountain Holdings Pty Ltd.

**CHONGHERR INVESTMENTS LIMITED**  
**NOTES TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

**24. INVESTMENTS IN CONTROLLED ENTITIES**

	<b>Beneficial % held by economic entity</b>		<b>Contribution to consolidated operating loss after tax</b>	
	<b>2003 %</b>	<b>2002 %</b>	<b>2003 \$</b>	<b>2002 \$</b>
Australian Sandstone Industries Pty Ltd (Refer Note 8 (i))	100	100	Nil	Nil

Country of incorporation: Australia.

- (i) Under section 45A(2) of the Corporations Act 2001, Australian Sandstone Industries Pty Ltd is a small proprietary company and has not been requested under Section 283C of the Corporations Act 2001 to prepare or lodge with the ASIC audited financial statements.

**25. FINANCIAL INSTRUMENTS**

- (a) Terms, conditions and accounting policies.

The economic entity's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

Recognised Financial Instruments

	<b>Statement of Financial Position Notes</b>	<b>Accounting Policies</b>	<b>Terms and Conditions</b>
<b>Financial Assets</b>			
Trade and other receivables	5	Trade receivables are carried at nominal amounts due less any provisions for doubtful debts. A provision for doubtful debts is recognised when collection of the nominal amount is no longer probable.	Credit sales are on either 14 or 30 day terms, or in the form of commercial Letter of Credit.
Non-current deposits	10	Non-current deposits are stated at the lower of cost and net realisable value.	Non-current deposits are refundable at the end of the contract period.
<b>Financial Liabilities</b>			
Trade creditors, accruals and other creditors	11	Liabilities are recognised for amounts to be paid in the future economic entity.	Trade liabilities are normally settled on 30 to 60 day terms.

**CHONGHERR INVESTMENTS LIMITED**  
**NOTE TO THE ACCOUNTS**  
**FOR THE YEAR ENDED 31 December 2003**

**25. FINANCIAL INSTRUMENTS (continued)**

	<b>Statement of Financial Position Notes</b>	<b>Accounting Policies</b>	<b>Terms and Conditions</b>
<b>Financial Assets</b>			
Other related parties – directors	11	Liabilities are recognised for amount to be paid in the future whether or not billed to the economic entity.	Details of loans are contained in note 12.
Loan – director	12	The loans are carried at the principle amount plus accrued interest. Interest is charged as an expense as it accrues	Interest is being charged at 5.47%.
<b>Financial Liabilities</b>			
Finance lease	12	Finance lease liability is carried at principle amount plus accrued interest. Interest is charged as an expense as it accrues.	Interest is being charged at 6.75%.
<b>Equity</b>			
Ordinary shares	14	Ordinary share capital is recognised at the fair value of the consideration received by the company.	Details of shares issued are set out in note 14.

**Unrecognised Financial Instruments**

Options over ordinary shares. The fair value of options over ordinary shares has not been determined.

(c) Net fair values

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

(d) Credit risk exposure

The economic entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

**Concentrations of credit risk**

The company minimises concentrations of credit risk in relation to trade accounts receivable by undertaking transactions with customers, who are underlined by their sound financial positions. The majority of customers are situated in overseas countries.

Credit risk in trade receivables is managed in the following ways:

- Payment terms are either 14 or 30 days for local customers,
- A risk assessment process is used for all applications for credit, and
- Payments terms for overseas customers are either by telegraphic transfer or letter of credit.

**CHONGHERR INVESTMENTS LIMITED  
DIRECTORS' DECLARATION  
FOR THE YEAR ENDED 31 December 2003**

In accordance with a resolution of the directors of Chongherr Investments Limited we 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 consolidated entity's financial position as at 31 December 2003 and of their performance for the year ended on that date; and
  - (ii) Complying with the Accounting Standards and Corporations Regulations 2002; 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 as a result of matters referred to in Note 1.

On behalf of the Board

Managing Director



Brisbane, 05 March 2004

## **Independent audit report to members of ChongHerr Investments Limited**

### **Scope**

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for ChongHerr Investments Limited (the company) and the consolidated entity, for the year ended 31 December 2003. 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.

#### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on it 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. 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.

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
- ❖ 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. 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 have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

**Audit opinion**

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

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of ChongHerr Investments Limited and the consolidated entity at 31 December 2003 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.

**Inherent Uncertainty Regarding Continuation as a Going Concern**

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters disclosed in Note 1, there is significant uncertainty whether ChongHerr Investments Limited and the consolidated entity will be able to continue as going concerns and therefore whether they will be able to pay their debts as and when they become due and payable and realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial statements. No adjustments have been made relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and consolidated entity not continue as going concerns.

Ernst & Young

(Signed by Mike Reid on 5 March 2004)

Mike Reid  
Partner  
Brisbane  
05 March 2004

**CHONGHERR INVESTMENTS LIMITED  
AUSTRALIAN STOCK EXCHANGE ADDITIONAL  
INFORMATION  
FOR THE YEAR ENDED 31 December 2003**

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere is as follows:

The information is made up to 26 February 2004.

(a) **Twenty largest shareholders**

**The names of the twenty largest holders of quoted shares are:**

<i>Name of shareholder</i>	<i>No of Shares Held</i>	<i>% of Total</i>
Green Mountain Holdings Pty Ltd	55,117,691	58.33%
Mr Jianming Xiong	12,960,000	13.71%
Mr Robert John Edgley and Mrs Deborah Judith Edgley	4,860,893	5.14%
Mr Liu Dejun	3,000,000	3.18%
Mr Min Shi	2,997,635	3.17%
Mr Wing Fung Chung	2,040,000	2.16%
Desibi Pty Ltd	1,770,000	1.87%
Mr Zao Fa Wu	1,360,000	1.44%
Ms Rosaline Choy	800,000	0.85%
Mr Timothy Frederick Berlet	600,000	0.64%
Jaysea Limited	500,000	0.53%
Merrill Lynch (Australia)	450,000	0.48%
Apex Marble & Granite Pty Ltd	435,500	0.46%
Mr Kevin Jan	375,000	0.40%
Mr John Leeman	350,000	0.37%
Tamborine Trees Pty Ltd	299,700	0.32%
Mr Leighton Patrick	250,000	0.26%
Bujo Pty Ltd	220,000	0.23%
Mr Camillo Martino	200,000	0.21%
Mr Timothy Frederick Berlet	200,000	0.21%
<b>Portion held by 20 Largest Holders</b>		<b>93.96%</b>

**Distribution of equity securities**

**The number of shareholders by size of holding, in each class of share are:**

<u>Range</u>	<u>No. of Holders</u>	<u>%</u>	<u>Quantity</u>	<u>%</u>
1 – 1000	28	8.23%	20,010	0.02%
1,001 – 5,000	138	40.58%	425,600	0.45%
5,001 – 10,000	50	14.70%	439,455	0.46%
10,001 – 100,000	97	28.52%	3,978,471	4.2%
Over 100,001	27	7.94%	89,643,919	94.85%

**Substantial Shareholders**

There are two substantial shareholders Green Mountain Holdings Pty Ltd and Mr Jianming Xiong as disclosed above.

(b) **Voting Rights**

- On a show of hands every member present is person or by proxy shall have one vote.
- Upon a poll, each fully paid share shall have one vote.

**CHONGHERR INVESTMENTS LIMITED  
CORPORATE GOVERNANCE STATEMENT  
FOR THE YEAR ENDED 31 December 2003**

The board of directors of Chongherr Investments Limited is responsible for the corporate governance of the economic entity. The board guides and monitors the business and affairs of Chongherr Investments Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure the board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the board.

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**Composition of the Board**

The composition of the board is determined in accordance with the following principles and guidelines:

**Retirement of Directors:**

- (a) Subject to Articles 70 and 80.2 at every annual general meeting, one third of the Directors (other than any Managing Director) or, if their number is not a multiple of three, then the number nearest to but not less than one must retire from office. A Director (other than a Director who is a Managing Director) must retire from office at the conclusion of the third annual general meeting after which the Director was elected and re-elected. A Director who is required to retire under this Article retains office until the dissolution or adjournment of the meeting at which the retiring Director retires.

**Who Must Retire**

- (b) The Directors to retire pursuant to Article 82(a) are the Directors longest in office since last being elected. As between Directors who were elected on the same day the Directors to retire are (in default of agreement between them) determined by ballot. The length of time a Director has been in office is calculated from the Director's last election or appointment. A retiring Director is eligible for re-election.

**Nomination of Directors**

- (c) No person (other than a retiring Director) is eligible for election to the office of Director at any general meeting unless the person or some shareholder intending to nominate the person has given notice in writing signed by the nominee giving consent to the nomination and signifying either candidature for the office or the intention of the shareholder to nominate the nominees. To be valid, the notice is required to be left at the Office not less than 28 days or more than 56 days before the meeting unless the nominee has been recommended by the Board of election, in which case the notice is required to be left at the Office at least 21 days before the meeting.

The directors in office at the date of this statement are:

<b>Name</b>	<b>Position</b>
D H Liu	Chairman, Managing Director
Y H Wu	Director
Z Lu	Director
S. Kong	Director

**CHONGHERR INVESTMENTS LIMITED  
CORPORATE GOVERNANCE STATEMENT  
FOR THE YEAR ENDED 31 December 2003**

**Audit Committee**

The board has established an audit committee, which operates under a charter approved by the board. It is the board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal control to deal with both effectiveness and efficiency of significant business processes. This includes the safeguarding of assets, the maintenance of proper accounting records and reliability of financial information. The members of the audit committee during the year were:

D H Liu  
Z Lu

**Board Responsibilities**

As the board acts on behalf of the shareholders and is accountable to the shareholders, the board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the economic entity is delegated by the board to the chief executive officer and the executive team. The board ensures that this team is appropriately qualified and has adequate experiences to discharge their responsibilities and has in place procedures to assess the performance of the chief executive officer and the executive team.

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**Monitoring of the Board's Performance and Communication to Shareholders**

The board of directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors. Information is communicated to the shareholders, through:

- ❖ the annual report which is distributed to all shareholders;
- ❖ the annual general meeting and other meetings so called to obtain approval for board action as appropriate;
- ❖ significant happenings are released to the Australian Stock Exchange as and when they happen;
- ❖ half yearly and final preliminary reports are released to the Australian Stock Exchange.