



ChongHerr

INVESTMENTS LTD



ChongHerr

INVESTMENTS LTD

ABN 52 054 161 821

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Annual Report 2004

CHONGHERR INVESTMENTS LTD

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

Solicitors

Hemming & Hart

2nd Floor

307 Queen Street

GPO Box 142

Brisbane QLD 4001

Bankers

Commonwealth Bank of Australia

HSBC Bank of Australia

Share Register

ASX Perpetual Limited

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

The 2004 financial year has been an important year for the Company.

During the year, your Company delivered its best ever result, a Net Profit after Tax of \$461,055 on increased revenue of \$2.99 million. This represents an increase in revenue by 54%, and increase in profit by 600%.

2004 has also been a year of reinforcement and consolidation in both our operations overseas and in Australia.

Our overseas representation has been largely strengthened during the year to embrace the increased demand for our products. Consolidation is evident in the company's decision to invest in key quarrying equipment and to adopt new quarrying technology resulting in a significant increase in productivity.

HIGHLIGHTS AND DEVELOPMENTS

1. EXPORT SALES

The Company continued to strengthen its overseas representation in the Chinese market in 2004.

During the year, we streamlined our overseas operation by setting up a central office in Shenzhen. This central office coordinates all marketing, sales and after-sales activities in China and surrounding regions. We now have a sales team of 30 people working from different areas of the country.

Two showrooms targeting individual consumers were set up. Although at a very early stage, we are encouraged by the amount of interest the showrooms have generated. It is exciting because this may prove to be an enormous potential source of revenue in the near future.

We continue to build our name in the country by various marketing initiatives. As more projects were completed, the company and our products are becoming increasingly better known. The buildings themselves have become a living endorsement of the quality of our products and are aiding sales efforts considerably.

It is particular encouraging to see that for the first time in the Company's history, we were able to successfully complete a series of large contracts within one year. These projects included one museum, one hotel, one community centre and several residential developments. It demonstrated that after years of marketing efforts, our products had gained a solid grounding in the Chinese marketplace. We expect the strong sales growth to continue into the future.

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

2. SANDSTONE QUARRYING & PRODUCTION

Quarrying and production operations continued to improve during the year as a result of the various production efficiency initiatives undertaken in the last 18 months.

Given the improved cashflow and sales performance and a positive outlook into the future, the Board made the decision to invest in additional plant and equipment for production. The Company now either owns or leases through commercial hire purchase agreements all its key equipment on site. The new equipment have not only improved production proficiency, but also reduced production costs.

On recommendation of production assessments carried out during the year, the Company adopted a new trimming technique using a wire saw in place of the traditional hydraulic hammer. This has seen the recovery rate improve from 10% in 2002 to 31% in 2004. The new technique is more cost effective and more environmentally friendly. Because the wire cutting technique can significantly ease rock breakage, we are now able to more effectively conserve our sandstone reserves.

These improvements are reflected in the gross margin achieved which is 71% of revenue for 2004 – up 82% on the prior year.

3. QUARRY RESOURCE & TENURE

During the year the company secured ownership of the background tenures of the Montgomery Quarry ML 50016 and the proposed new mining lease ML50213. An independent valuation completed in February 2005 has confirmed previous significant resource assessments and valuations.

The application for ML50213 was lodged with the Department of Natural Resources and Mines in November 2004, once approved, the mining lease area will double the present size of ML50016.

4. CAPITALISATION AND CORPORATE MANAGEMENT

During the year, the Company completed a Pro-Rata Rights Issue by issuing 19 million shares and raising over \$500,000. The funds were used to strengthen working capital and repay borrowings which has significantly improved the companies balance sheet.

The Board has also formalised a series of internal documents with an aim to establish a consolidated management structure with clear lines of responsibilities. A formal corporate governance statement is also in place. This consolidation process will assist the board to manage the business in a more efficient and transparent manner in future growth and expansion.

5. THE FUTURE OUTLOOK

The Board is especially excited about the future of the Company given its current position in the Chinese marketplace. The company is well placed to experience rapid growth and profit potential.

As the Chinese economy continues to advance at a high speed, the demand for superior and high quality building material will undoubtedly accelerate.

The Board believes that ChongHerr Investments Limited, being an Australia resource company with the best sandstone resource in the world and strong business connections in China, is well positioned to cater for the demand resulting from growth in the Chinese economy.

The Company is determined to make ASI Sandstone a product of choice within the international building industry.

The Company established its first China sales offices in 2003, and will set up a product development and processing centre in Guangdong Province, China in 2005. These overseas establishments will ensure a more cost-effective and timely service to Chinese customers.

In 2005, the management will continue its strategy of targeting Chinese and other Asian markets by focusing sales, marketing and product developments, and customer service activities in China. Its Australian operation will focus on improving production proficiency and resource management to ensure quality and timely supply to the Chinese market.



Dehui Liu
Chairman
28 February 2005

ChongHerr Investments Ltd

Directors' Report 2004

Your directors submit their report for the year ended 31 December 2004.

1. DIRECTORS

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

Names and qualifications

De Hui Liu (Chairman) (Managing Director)	Mr Liu is currently the Chairman and Managing Director of ChongHerr Investments Ltd. He has 20 years experience in corporate management with particular strengths in investment, company restructure, international trades and property development. Mr Liu was appointed to the Board in October 1999.
You He Wu	Mr Wu is the General Manager of Shenzhen Ying Long Build and Install Co. Ltd and has an extensive experience in construction engineering. Mr Wu was appointed to the Board in October 1999.
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 22 years experience in civil engineering, construction design and business management. Mr Lu was appointed to the Board in August 2002.
Sophia Xiaoqing Kong	Ms Kong holds a Master's Degree in Architecture Design and a Bachelor's Degree in Urban Planning. She was appointed a director in July 2003, bringing to the Board 11 years professional and business management experience. Ms Kong is also the Company Secretary.

Corporate Governance

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

Interest in the shares of the company

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

Director	Balance 1/1/04	Movement	Balance 31/12/04
Green Mountain Holdings Pty Ltd (i)	55,117,691	1,466,666	56,584,357
Mr Dehui Liu (ii)	-	16,418,057	16,418,057
Mr Zhen Lu	-	-	-
Ms Sophia Kong	-	-	-
Mr You He Wu	-	-	-

- (i) Mr Liu and Mr Wu are shareholders in Green Mountain Holdings. During the year Mr Liu's interest in Green Mountain Holdings increased from 61.6% to 76.1% whilst Mr Wu's interest decreased from 19.4% to 0.04%.

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

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

ChongHerr Investments Ltd

Directors' Report 2004

2. (a) CORPORATE STRUCTURE

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

2. (b) PRINCIPAL ACTIVITIES

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

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

3. RESULTS AND DIVIDENDS

The operating profit before income tax of the economic entity for the year ended 31 December 2004 was \$461,055 (2003 – \$65,857).

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

4. REVIEW OF OPERATIONS

CORPORATE MANAGEMENT

The Board and the management have formulated a series of management papers during the year. These papers will guide the Company in its future strategic directions, and also assist in sales and market planning, as well as production planning. A formal corporate governance statement is now also in place. All these processes will assist the board to manage the business in a more efficient and transparent manner in this time of growth.

SANDSTONE QUARRYING & PRODUCTION

Quarrying and production operations continued to improve during the year as a result of the various production efficiency initiatives undertaken in the last 18 months.

The Company now either owns or leases through hire purchase agreements all its key equipment on site. This has significantly reduced machinery rental costs.

New quarrying methods using a wire saw have improved the recovery rate from 10% in 2002 to 31% in 2004. The production team is pleased with the new technique which is more efficient and more environmentally friendly. More importantly, the wire cutting technique has largely reduced resource breakage and thus effectively conserves the sandstone reserves.

These improvements are reflected in the gross margin which is 71% of revenue for 2004 – up 82% on the prior year.

EXPORT OF SANDSTONE BLOCKS

Following a successful year of marketing and sales in 2003, the positive trend continued in 2004. Strong export sales have been achieved in the year totalling \$2,557,829, an increase of 82% on the previous year 2003 (\$1,433,084).

For the first time in many years, the Company was able to successfully complete a series of large contracts within one year. These projects included one museum, one hotel, one community centre and several residential developments. It demonstrated that after years of marketing efforts, the Company's products

ChongHerr Investments Ltd

Directors' Report 2004

had gained reputation in the Chinese market. The Board expects the strong sales growth to continue in future years.

Among other marketing initiatives, the Company continued its efforts in China by participating in a series of national and international trade shows. A new bilingual product catalogue was released, and our sales team now consists of 30 highly trained sales professionals.

The showrooms opened by the company during the year have proven popular among the general public. The board intends to open more outlets in 2005.

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

QUARRY TENURE

During the year the company secured ownership of the background tenures of the Montgomery Quarry ML 50016 and the proposed new mining lease ML50213. This will ensure a more secure financial future for the Company.

The mining lease for ML50016 expires in 2017. The application for ML50213 was lodged with the Department of Natural Resources and Mines in November 2004.

The company also holds a second quarry – Zack's Quarry under mining lease ML 50013 (expiry 2012). One section of the Zack's Quarry has been rented out to a landscaping company for boulder extractions.

The exploration permit EPM 11005 held by the Company will expire in March 2005 and is subject to annual renewal.

5. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the company raised capital as follows:

- 1) under a private placement in June, \$65,000 was raised on issue of 1,000,000 shares.
- 2) Under a rights issue in December, \$534,045 was raised on issue of 19,101,497 shares.

The funds raised were used to strengthen working capital and to repay borrowings.

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

6. SIGNIFICANT EVENTS AFTER BALANCE DATE

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

7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

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

ChongHerr Investments Ltd

Directors' Report 2004

8. ENVIRONMENTAL RESPONSIBILITIES

The company's quarries are operated under environmental provisions contained in mining leases granted by the Queensland Government. There have been no significant known breaches of these provisions.

9. DIRECTORS' & EXECUTIVES' REMUNERATION

The Board of Directors is responsible for determining and reviewing compensation arrangements. Details of remuneration amounts and guidelines are set out in note 22 of the financial statements which accompany this report.

10. DIRECTORS' MEETINGS

During the year, 6 directors' meetings were held. The number of meetings at which directors were in attendance is as follows:

	Directors' Meetings	
	No. of Meetings held while in office	Meetings attended
D H Liu	6	6
Y H Wu	6	0
Z Lu	6	6
S Kong	6	6

11. SHARE OPTIONS

There are no options outstanding at the date of this report. No options over issued shares or interests in the company were granted during or since the end of the financial year. The 1,400,000 options on issue at the start of the year expired on 30 June 2004.

12. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND AUDITOR

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

13. PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

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



Managing Director
Dehui Liu
28 February 2005

CHONGHERR INVESTMENTS LTD
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 December 2004

	Notes	Consolidated		Parent Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
REVENUES FROM ORDINARY ACTIVITIES	2	2,992,195	1,935,776	2,992,195	1,935,776
Changes in inventories of finished goods and work in progress		133,491	158,024	133,491	158,024
Raw materials and consumables used		(109,922)	(79,318)	(109,922)	(79,318)
Depreciation and amortisation expense	3	(251,738)	(220,138)	(251,738)	(220,138)
Borrowing costs expensed	3	(66,590)	(71,324)	(66,590)	(71,324)
Salaries and employee benefits expense		(674,004)	(441,927)	(674,004)	(441,927)
Bad debts expense		(15,624)	6,822	(15,624)	6,822
Transportation expenses		(397,872)	(315,553)	(397,872)	(315,553)
Administration expenses		(136,344)	(121,686)	(136,344)	(121,686)
Promotional expenses		(521,771)	(119,688)	(521,771)	(119,688)
Rental expense		(304,510)	(505,590)	(304,510)	(505,590)
Repairs and maintenance expense		(53,310)	(29,118)	(53,310)	(29,118)
Cost of investments sold		-	(67,250)	-	(67,250)
Other expenses from ordinary activities		(132,946)	(63,173)	(132,946)	(63,173)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		<u>461,055</u>	<u>65,857</u>	<u>461,055</u>	<u>65,857</u>
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES		-	-	-	-
NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF CHONGHERR INVESTMENTS LIMITED	15	<u>461,055</u>	<u>65,857</u>	<u>461,055</u>	<u>65,857</u>
EQUITY RAISING COSTS	14	39,002	-	39,002	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RELATING FROM TRANSACTIONS WITH OWNERS AS OWNERS		<u>422,053</u>	<u>65,857</u>	<u>422,053</u>	<u>65,857</u>
Basic earnings per share (cents per share)	20	0.48	0.07		
Diluted earnings per share (cents per share)	20	<u>0.48</u>	<u>0.07</u>		

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

CHONGHERR INVESTMENTS LTD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 December 2004

	Notes	Consolidated		Parent Entity	
		2004	2003	2004	2003
			\$		\$
CURRENT ASSETS					
Cash assets		197,184	87,566	197,184	87,566
Receivables	5	271,462	168,374	271,462	168,374
Inventories	6	518,671	385,180	518,671	385,180
Other	7	28,530	6,629	28,530	6,629
TOTAL CURRENT ASSETS		<u>1,015,847</u>	<u>647,749</u>	<u>1,015,847</u>	<u>647,749</u>
NON CURRENT ASSETS					
Other financial assets	8	-	-	10	10
Property, plant and equipment	9	5,009,815	4,506,418	5,009,815	4,506,418
Other	10	70,474	54,368	70,474	54,368
TOTAL NON CURRENT ASSETS		<u>5,080,289</u>	<u>4,560,786</u>	<u>5,080,299</u>	<u>4,560,796</u>
TOTAL ASSETS		<u>6,096,136</u>	<u>5,208,535</u>	<u>6,096,146</u>	<u>5,208,545</u>
CURRENT LIABILITIES					
Payables	11	344,626	391,451	344,636	391,461
Interest bearing liabilities	12	263,804	127,385	263,804	127,385
Provisions	13	19,882	3,409	19,882	3,409
TOTAL CURRENT LIABILITIES		<u>628,312</u>	<u>522,245</u>	<u>628,322</u>	<u>522,255</u>
NON CURRENT LIABILITIES					
Interest bearing liabilities	12	659,799	938,363	659,799	938,363
TOTAL NON CURRENT LIABILITIES		<u>659,799</u>	<u>938,363</u>	<u>659,799</u>	<u>938,363</u>
TOTAL LIABILITIES		<u>1,288,111</u>	<u>1,460,608</u>	<u>1,288,121</u>	<u>1,460,618</u>
NET ASSETS		<u>4,808,025</u>	<u>3,747,927</u>	<u>4,808,025</u>	<u>3,747,927</u>
EQUITY					
Contributed equity	14	18,218,667	17,619,624	18,218,667	17,619,624
Accumulated losses	15	(13,410,642)	(13,871,697)	(13,410,642)	(13,871,697)
TOTAL EQUITY		<u>4,808,025</u>	<u>3,747,927</u>	<u>4,808,025</u>	<u>3,747,927</u>

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

CHONGHERR INVESTMENTS LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 December 2004

	Notes	Consolidated		Parent Entity	
		2004	2003	2004	2003
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		2,855,120	1,773,270	2,855,120	1,773,270
Payments to suppliers and employees		(2,550,095)	(1,664,487)	(2,550,095)	(1,664,487)
Other income		169,421	-	169,421	-
Borrowing costs		(66,590)	(71,324)	(66,590)	(71,324)
Net cash flows used in operating activities	16 (b)	<u>407,856</u>	<u>37,459</u>	<u>407,856</u>	<u>37,459</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		(378,154)	(300,837)	(378,154)	(300,837)
Proceeds from sale of investments		<u>-</u>	<u>67,250</u>	<u>-</u>	<u>67,250</u>
Net cash flows used in investing activities		<u>(378,154)</u>	<u>(233,587)</u>	<u>(378,154)</u>	<u>(233,587)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		151,581	-	151,581	-
Proceeds from borrowings		-	180,000	-	180,000
Repayment of borrowings		(17,720)	-	(17,720)	-
Repayment of finance lease		(53,945)	(20,342)	(53,945)	(20,342)
Net cash flows from financing activities		<u>79,916</u>	<u>159,658</u>	<u>79,916</u>	<u>159,658</u>
Net (decrease) /increase in cash held		109,618	(36,470)	109,618	(36,470)
Add: opening cash brought forward		<u>87,566</u>	<u>124,036</u>	<u>87,566</u>	<u>124,036</u>
CLOSING CASH CARRIED FORWARD	16 (a)	<u><u>197,184</u></u>	<u><u>87,566</u></u>	<u><u>197,184</u></u>	<u><u>87,566</u></u>

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

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the consolidated entity of ChongHerr Investments Ltd and its controlled entity, and ChongHerr Investments Ltd as parent entity. ChongHerr Investments Ltd is a listed public company incorporated and domiciled in Australia.

Basis of accounting

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

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of consolidation

The consolidated financial statements are those of the economic entity, comprising Chongherr Investments Ltd (the parent entity) and all entities which Chongherr Investments Ltd 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.

(b) 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.

(c) 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.

(d) 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:

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004

- ❖ 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.

(e) 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 discounted to their present value using a market determined risk adjusted discount rate.

(f) 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:	2004	2003
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.

(g) 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.

(h) 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.

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004

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.

(i) 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.

(j) 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".

(k) 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 based on remuneration rates which are expected to be paid when the liability is settled.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

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.

(l) 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.

(m) Financial instruments

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

(n) 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.

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004

(o) 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.

(p) 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.

(q) 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.

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004

Comparatives

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

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
2. REVENUES FROM ORDINARY ACTIVITIES				
Revenues from operating activities				
Revenue from the sale of goods	<u>2,822,774</u>	<u>1,630,464</u>	<u>2,822,774</u>	<u>1,630,464</u>
Total revenue from operating activities	<u>2,822,774</u>	<u>1,630,464</u>	<u>2,822,774</u>	<u>1,630,464</u>
Revenues from non-operating activities				
Rent	17,742	24,194	17,742	24,194
Proceeds from disposals of non-current assets	-	67,250	-	67,250
Interest income	-	403	-	403
Grant revenue	151,679	152,014	151,679	152,014
Other	<u>-</u>	<u>61,451</u>	<u>-</u>	<u>61,451</u>
Total revenue from non-operating activities	<u>169,421</u>	<u>305,312</u>	<u>169,421</u>	<u>305,312</u>
Total revenues from ordinary activities	<u><u>2,992,195</u></u>	<u><u>1,935,776</u></u>	<u><u>2,992,195</u></u>	<u><u>1,935,776</u></u>
3. EXPENSES AND LOSSES/(GAINS)				
Cost of Goods Sold	816,421	992,668	816,421	992,668
Depreciation of non-current assets				
Plant and equipment	173,997	154,456	173,997	154,456
Plant and equipment under lease	<u>30,785</u>	<u>19,780</u>	<u>30,785</u>	<u>19,780</u>
Total depreciation of non-current assets	<u>204,782</u>	<u>174,236</u>	<u>204,782</u>	<u>174,236</u>
Amortisation of non-current assets				
Quarries and reserves	<u>46,956</u>	<u>45,902</u>	<u>46,956</u>	<u>45,902</u>
Total amortisation of non-current assets	<u>46,956</u>	<u>45,902</u>	<u>46,956</u>	<u>45,902</u>
Total depreciation and amortisation	<u><u>251,738</u></u>	<u><u>220,138</u></u>	<u><u>251,738</u></u>	<u><u>220,138</u></u>
Borrowing costs				
Interest expense				
Finance lease	15,412	3,799	15,412	3,799
Related parties	42,472	33,127	42,004	33,127
Other	<u>8,706</u>	<u>34,398</u>	<u>19,174</u>	<u>34,398</u>
Total borrowing costs	<u><u>66,590</u></u>	<u><u>71,324</u></u>	<u><u>66,590</u></u>	<u><u>71,324</u></u>
Bad and doubtful debts – trade debtors	15,624	-	15,624	-
Bad and doubtful debts recovered	-	(6,822)	-	(6,822)
Operating lease rental				
- minimum lease rental	304,510	212,313	304,510	212,313

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
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	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
4. INCOME TAX				
The prima facie tax on operating profit differs from the income tax provided in the financial statements as follows:				
Operating profit before income tax	461,055	65,857	461,055	65,857
Prima facie tax at 30%	138,317	19,757	138,317	19,757
Tax effect of permanent differences:				
Other	4,299	3,264	4,299	3,264
Non-deductible amortisation	14,087	13,770	14,087	13,770
Income tax expenses adjusted for permanent differences	156,703	36,791	156,703	36,791
Tax effect of income tax losses not previously brought to account.	(156,703)	(36,791)	(156,703)	(36,791)
Income tax attributable to operating profit	-	-	-	-
Income tax losses				
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	3,565,226	3,742,451		
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 group anticipates entering into a tax cons consolidation arrangement for the current year.				
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 LTD
NOTES TO THE ACCOUNTS
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	Consolidated		Parent Entity	
	2004	2003	2004	2003
		\$	\$	\$
5. RECEIVABLES (CURRENT)				
Trade debtors	263,490	127,245	263,490	127,245
Provision for doubtful debts	-	-	-	-
	<u>263,490</u>	<u>127,245</u>	<u>263,490</u>	<u>127,245</u>
Goods and services tax	<u>6,580</u>	<u>37,199</u>	<u>6,580</u>	<u>37,199</u>
Amounts receivable from other parties:				
- Other	1,392	400	1,392	400
-Related entity	-	3,530	-	3,530
	<u>1,392</u>	<u>3,930</u>	<u>1,392</u>	<u>3,930</u>
	<u>271,462</u>	<u>168,374</u>	<u>271,462</u>	<u>168,374</u>
6. INVENTORIES (CURRENT)				
Work in progress				
At cost	-	-	-	-
Finished goods				
At cost	518,671	385,180	518,671	385,180
At net realisable value	-	-	-	-
	<u>518,671</u>	<u>385,180</u>	<u>518,671</u>	<u>385,180</u>
	<u>518,671</u>	<u>385,180</u>	<u>518,671</u>	<u>385,180</u>
7. OTHER ASSETS (CURRENT)				
Prepayments	<u>28,530</u>	<u>6,629</u>	<u>28,530</u>	<u>6,629</u>
8. OTHER FINANCIAL ASSETS (NON-CURRENT)				
Investments at cost comprise:				
Controlled entities – unlisted (note 24)	<u>-</u>	<u>-</u>	<u>10</u>	<u>10</u>
9. PROPERTY, PLANT AND EQUIPMENT				
<i>Quarry and reserves</i>				
At deemed cost 1996 (a)	4,672,028	4,672,028	4,672,028	4,672,028
At cost	214,680	158,113	214,680	158,113
Provision for amortisation	<u>(1,004,014)</u>	<u>(957,058)</u>	<u>(1,004,014)</u>	<u>(957,058)</u>
Total quarry and reserves	<u>3,882,694</u>	<u>3,873,083</u>	<u>3,882,694</u>	<u>3,873,083</u>

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
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9. PROPERTY, PLANT AND EQUIPMENT (continued)	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<i>Land</i>				
Land at cost	141,042	116,635	141,042	116,635
<i>Plant and equipment</i>				
Plant and equipment				
At cost	1,874,570	1,577,390	1,874,570	1,577,390
Accumulated depreciation	(1,333,014)	(1,159,016)	(1,333,014)	(1,159,016)
	541,556	418,374	541,556	418,374
<i>Plant and equipment under lease (b)</i>				
At cost	525,075	148,093	525,075	148,093
Accumulated amortisation	(80,552)	(49,767)	(80,552)	(49,767)
	444,523	98,326	444,523	98,326
Total plant and equipment	986,079	516,700	986,079	516,700
<i>Total property, plant and equipment</i>				
Deemed cost	4,672,028	4,672,028	4,672,028	4,672,028
Cost	2,755,367	2,000,231	2,755,367	2,000,231
	7,427,395	6,672,259	7,427,395	6,672,259
Accumulated depreciation and amortisation	(2,417,580)	(2,165,841)	(2,417,580)	(2,165,841)
Total written down amount	5,009,815	4,506,418	5,009,815	4,506,418

(a) Valuations

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

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

The company also holds Exploration Permit for Minerals EPM No. 11005. This permit will expire on 11 March 2005 with the Department of Mines and Energy, and is subject to an annual renewal process.

(b) Assets under lease are pledged as security for the corresponding lease liability.

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
9. PROPERTY, PLANT AND EQUIPMENT (continued)				
(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	3,873,083	3,891,189	3,873,083	3,891,189
Additions	56,567	27,796	56,567	27,796
Amortisation expense	<u>(46,956)</u>	<u>(45,902)</u>	<u>(46,956)</u>	<u>(45,902)</u>
	<u>3,882,694</u>	<u>3,873,083</u>	<u>3,882,694</u>	<u>3,873,083</u>
Land				
Carrying amount at beginning	116,635	-	116,635	-
Additions	<u>24,407</u>	<u>116,635</u>	<u>24,407</u>	<u>116,635</u>
	<u>141,042</u>	<u>116,635</u>	<u>141,042</u>	<u>116,635</u>
Plant and equipment				
Carrying amount at beginning	418,374	227,883	418,374	227,883
Additions	297,179	344,947	297,179	344,947
Disposals	-	-	-	-
Depreciation expense	<u>(173,997)</u>	<u>(154,456)</u>	<u>(173,997)</u>	<u>(154,456)</u>
	<u>541,556</u>	<u>418,374</u>	<u>541,556</u>	<u>418,374</u>
Plant and equipment under lease				
Carrying amount at beginning	98,326	118,106	98,326	118,106
Additions	376,982	-	376,982	-
Amortisation expense	<u>(30,785)</u>	<u>(19,780)</u>	<u>(30,785)</u>	<u>(19,780)</u>
	<u>444,523</u>	<u>98,326</u>	<u>444,523</u>	<u>98,326</u>
10. OTHER NON-CURRENT ASSETS				
Security deposits	<u>70,474</u>	<u>54,368</u>	<u>70,474</u>	<u>54,368</u>

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
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	Consolidated	2003	Parent Entity	2003
	2004	2003	2004	2003
	\$	\$	\$	\$
11. PAYABLES (CURRENT)				
Trade creditors	344,626	308,299	344,636	308,309
Other creditors	-	83,152	-	83,152
	<u>344,626</u>	<u>391,451</u>	<u>344,636</u>	<u>391,461</u>
12. INTEREST BEARING LIABILITIES				
CURRENT				
Unsecured – director loans (i)	-	100,000	-	100,000
Unsecured – other loans	151,535	-	151,535	-
Secured lease liability-finance lease (ii)	112,269	27,385	112,269	27,385
	<u>263,804</u>	<u>127,385</u>	<u>263,804</u>	<u>127,385</u>
NON- CURRENT				
Secured lease liability-finance lease (ii)	294,659	56,506	294,659	56,506
Unsecured - director loans (i)	365,140	881,857	365,140	881,857
	<u>659,799</u>	<u>938,363</u>	<u>659,799</u>	<u>938,363</u>
Terms and conditions relating to the above financial instruments:				
(i) These loans incur interest of 5.47% p.a.				
(ii) Finance leases have lease terms ranging up to 5 years with an option to purchase the asset at the completion of the lease term for the asset's market value. The discount rate implicit in these leases range between 7-9%. Secured lease liabilities are secured by a charge over the leased assets.				
13. PROVISIONS (CURRENT)				
Employee entitlements	19,882	3,409	19,882	3,409
Number of employees (full time equivalent)	41	7	41	7
14. CONTRIBUTED EQUITY				
(a) Issued and paid up capital				
Ordinary shares fully paid	18,218,667	17,619,624	18,218,667	17,619,624
(b) Movements in shares on issue				
	Number of	2004	Number of	2003
	Shares	\$	Shares	\$
Beginning of the financial year	94,507,455	17,619,624	94,507,455	17,619,624
Issued during the year				
- private placement 7 May 2004	1,000,000	65,000	-	-
- rights issue 23 December 2004	19,101,497	573,045	-	-
- transaction costs relating to issues	-	(39,002)	-	-
End of the financial year	<u>114,608,952</u>	<u>18,218,667</u>	<u>94,507,455</u>	<u>17,619,624</u>

**CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004**

14. CONTRIBUTED EQUITY (continued)

(b) Movements in shares on issue (continued)

(i) In December 2004, ChongHerr made a rights issue (3¢ per share) on a one for five basis to existing shareholders. The shortfall in issue was taken up by the underwriters.

(c) Share options

At the end of the year there were no (2003: 1,400,000) unissued ordinary shares in respect of which options were outstanding. The options on issue in the prior year expired on 30 June 2004.

(d) Terms and conditions of contributed equity

Ordinary shareholders 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	
	2004	2003	2004	2003
	\$	\$	\$	\$
15. ACCUMULATED LOSSES				
Balance at beginning of year	(13,871,697)	(13,937,554)	(13,871,697)	(13,937,554)
Net profit attributable to members of Chongherr Investments Limited	461,055	65,857	461,055	65,857
Total available for appropriation	(13,410,642)	(13,871,697)	(13,410,642)	(13,871,697)
Dividends provided for or paid	-	-	-	-
Balance at end of year	<u>(13,410,642)</u>	<u>(13,871,697)</u>	<u>(13,410,642)</u>	<u>(13,871,697)</u>

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
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	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
16. STATEMENT OF CASH FLOWS				
(a) Reconciliation of Cash				
Cash balance comprises:				
- cash at bank	197,184	87,566	197,184	87,566
Closing cash balance	<u>197,184</u>	<u>87,566</u>	<u>197,184</u>	<u>87,566</u>
(b) Reconciliation of the operating profit/(loss) after tax to the net cash flows from Operations:				
Profit/(loss) from ordinary activities after tax	461,055	65,857	461,055	65,857
Depreciation of non-current assets	173,997	154,456	173,997	154,456
Depreciation of leased assets	30,785	19,780	30,785	19,780
Amortisation of non-current assets	46,956	45,902	46,956	45,902
Bad debts written off	15,624	-	15,624	-
Change in Assets and Liabilities:				
(Increase)/decrease in trade and other receivables	(118,712)	(101,982)	(118,712)	(101,982)
(Increase)/decrease in inventory	(133,491)	(158,024)	(133,491)	(158,024)
(Increase)/decrease in other assets	(16,105)	(20,375)	(16,105)	(20,375)
Increase/(decrease) in prepayments	(21,901)	3,363	(21,901)	3,363
Increase/(decrease) in trade and other creditors	(46,825)	44,197	(46,825)	44,197
(Decrease)/increase in provision for employee entitlements	16,473	(8,893)	16,473	(8,893)
(Decrease)/increase in provision for doubtful debts	-	(6,822)	-	(6,822)
Net cash flows used in operating activities	<u>407,855</u>	<u>37,459</u>	<u>407,855</u>	<u>37,459</u>

Non-cash financing and investing activities

During the year the company acquired equipment to the value of \$376,982 (2003: \$Nil) by way of finance leases. In the prior year the company purchased a saw, the consideration for which was the set off of an amount receivable from a customer.

17. EXPENDITURE COMMITMENTS

(a) Lease expenditure commitments

(i) Operating leases (non-cancellable):

Minimum lease payments				
- not later than one year	29,791	64,623	29,791	64,623
- later than one year but not later than five years	25,074	57,600	25,074	57,600
- later than five years	-	-	-	-
Aggregate lease expenditure contracted for at balance date	<u>54,865</u>	<u>122,223</u>	<u>54,865</u>	<u>122,223</u>

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
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	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
17. EXPENDITURE COMMITMENTS (continued)				
(ii) Finance leases				
- not later than one year	141,383	33,252	141,383	33,252
- later than one year but not later than five years	348,259	59,505	348,259	59,505
- total minimum lease payments	489,642	92,757	489,642	92,757
- future finance charges	(82,714)	(8,866)	(82,714)	(8,866)
Lease liability	406,928	83,891	406,928	83,891
- current liability	112,269	27,385	112,269	27,385
- non-current liability	294,659	56,506	294,659	56,506
	406,928	83,891	406,928	83,891

18. SUPERANNUATION COMMITMENTS

The consolidated 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 2004 was 9% (2003: 9%).

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

19. SEGMENT REPORTING

The company produces solely within the sandstone quarrying industry in Queensland.

A significant amount of company product is exported and the following geographical segment information is provided.

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Segment information by geographical segment is as follows:				
Revenues				
Australia	434,366	264,630	434,366	264,630
South-east Asia	2,557,829	1,433,084	2,557,829	1,433,084
Other	-	238,062	-	238,062
	2,992,195	1,935,776	2,992,195	1,935,776
Segment assets				
Australia	6,046,451	5,208,535	6,046,561	5,208,545
South-east Asia	49,685	-	49,685	-
Other	-	-	-	-
	6,096,136	5,208,535	6,096,146	5,208,545
Acquisition of non-current segment assets				
Australia	327,396	300,837	327,396	300,837
South-east Asia	50,758	-	50,758	-
Other	-	-	-	-
	378,154	300,837	378,154	300,837

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
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20. EARNINGS PER SHARE	2004	2003
(a) Basic earnings per share (cents per share)	0.48 cents	0.07 cents
Diluted earnings per share (cents per share)	<u>0.48 cents</u>	<u>0.07 cents</u>
(b) Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share 95,633,245 (2003: 94,507,455).		

21. AUDITORS' REMUNERATION

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

	Consolidated		Parent Entity	
	2004	2003	2004	2003
Auditing or reviews of accounts	45,102	43,000	45,102	43,000
Other services	-	-	-	-
	<u>45,102</u>	<u>43,000</u>	<u>45,102</u>	<u>43,000</u>

22. DIRECTORS & EXECUTIVES DISCLOSURES

(a) Remuneration

The names of the parent entity directors in office at any time during the financial year are:

Mr Dehui Liu – Chairman & Managing Director

Mr Zhen Lu – non executive director

Ms Sophia Kong – non executive director

Mr You He Wu – non executive director

The company has no specified executives.

In the 2004 and 2003 financial years the only director in receipt (or receivable) of remuneration was Mr Dehui Liu, as follows:

	2004	2003
	\$	\$
Salary and fees	87,000	87,000
Superannuation contribution	<u>33,000</u>	<u>33,000</u>
	<u>120,000</u>	<u>120,000</u>

There are no post-employment or equity based remuneration arrangements in place for directors.

CHONGHERR INVESTMENTS LTD
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22. DIRECTORS & EXECUTIVES
DISCLOSURES (continued)

(b) Remuneration Guidelines

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

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

(c) Equity Interests

The equity interests of directors (where that interest is held directly, indirectly or beneficially) are as follows:

Director	Balance 1/1/04	Movement	Balance 31/12/04
Green Mountain Holdings Pty Ltd (i)	55,117,691	1,466,666	56,584,357
Mr Dehui Liu (ii)	-	16,418,057	16,418,057
Mr Zhen Lu	-	-	-
Ms Sophia Kong	-	-	-
Mr You He Wu	-	-	-
	<u> </u>	<u> </u>	<u> </u>

(i) Mr Liu and Mr Wu are shareholders in Green Mountain Holdings. During the year Mr Liu's interest in Green Mountain Holdings increased from 61.6% to 76.1% whilst Mr Wu's interest decreased from 19.4% to 0.04%.

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

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

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004

23. RELATED PARTY DISCLOSURES

(a) Directors

The names of the company's directors, and details of their remuneration and equity interests are set out in note 22.

Other transactions with directors and/or their related entities are set out below. All transactions with these related parties are on normal commercial terms and conditions, no more favourable than those available to other parties, unless otherwise stated.

(b) Loans (see also note 12)

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

(The loans are unsecured, interest is at commercial rates and there are no set repayment terms).

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

In the prior year, loans were also provided to the company by Mr R Edgley (31 December 2004: \$15,535), a director up to 2 May 2003.

Mr Hon Tak Tsoi is a director of Australian Sandstone Industries Pty Ltd (see note 24).

(c) Goods and services

During the year the company sold goods to an entity (Shenzhen Helidon Sandstone) of which Mr Zhen Lu is a director, to the value of \$1,848,707 (2003: \$772,405) under normal commercial terms.

During the year the company also paid commissions of \$383,383 (2003: \$Nil) and overseas representative office costs of \$429,330 (2003: \$Nil) to Shenzhen Helidon Sandstone under normal commercial terms.

During the year the company entered into an underwriting agreement with Mr Dehui Liu as trustee of the Liu and Zhuang Family Trust, in relation to the rights issue made by the company. The underwriting fee paid was \$29,553 (2003: \$Nil). The trust was also required to take up the unsubscribed rights in accordance with the underwriting agreement which amounted to 16,418,057 shares or \$492,542. This amount was partially satisfied by the conversion of Mr Lui's loan to the company for \$447,462.

24. INVESTMENTS IN CONTROLLED ENTITIES

	Beneficial % held by economic entity		Contribution to consolidated operating profit after tax	
	2004 %	2003 %	2004 \$	2003 \$
Australian Sandstone Industries Pty Ltd (Refer Note 8)	<u>100</u>	<u>100</u>	<u>Nil</u>	<u>Nil</u>

Country of incorporation: Australia.

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004

25. FINANCIAL INSTRUMENTS

(a) Terms, conditions, interest rate risk 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

	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
Financial Assets			
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.
Financial Liabilities			
Trade creditors, accruals and other creditors	11	Liabilities are recognised for amounts to be paid in the future by the economic entity.	Trade liabilities are normally settled on 30 to 60 day terms.

CHONGHERR INVESTMENTS LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004

25. FINANCIAL INSTRUMENTS (continued)

	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
Financial Liabilities			
Directors' Loans	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% (2003: 5.47%).
Leases and Loans	12	These liabilities are carried at principle amount plus accrued interest. Interest is charged as an expense as it accrues.	Interest is being charged at rates varying between 5-9% (2003: 6.75%).
Equity			
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.

(b) Net fair values

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

(c) 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 LTD
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 December 2004

26. INTERNATIONAL FINANCIAL REPORTING STANDARDS

Australia will adopt International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of ChongHerr. Management has begun their review of the impact and the implementation of the new standards but has not progressed sufficiently as yet to be able to quantify other impacts.

Impairment of Assets

Under AASB 136 Impairment of Assets the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the current accounting policy, which determines the recoverable amount of an asset on the basis of discounted cash flows. Under the new policy it is likely that impairment of assets may be recognised sooner and that the amount of write-downs may be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

Asset Valuation

Management is still to assess the impact of IFRS on the carrying values of quarry assets and reserves (cost or valuation). As a determination/assessment will need to be made as to whether these assets are covered by AASB 116 under Property Plant and Equipment or under AASB 138 under Intangible Assets.

Income taxes

Under AASB 112 Income Taxes, the company will be required to use a balance sheet liability method, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. Reliable estimation of the future financial effects of this change in accounting policy is impracticable at this stage as the company has significant carry forward losses.

Revenue – Government Grants

Currently government grants are treated as revenue as and when received. The revised standard however will require the following:

- Where grants are provided for the acquisition of assets, the grant will be treated as deferred revenue to be released over the life of the asset.
- Grants provided with a specific intention and/or performance criteria can only be recognised when these are met. This may result in grants being deferred over a number of reporting periods.
- Grants may only be recognised as revenue if there are no requirements for performance, repayment or where all performance criteria have been met.

The standard requires retrospective application.

Reliable estimation of the future financial effects of this change in accounting policy is not yet known as the receipt of continued government assistance is not yet known.

Extractive Industries


The impact of AASB 6 on the carrying values of extractive industry costs like exploration, evaluation and development expenditure are also to be considered by management as part of their IFRS implementation plan.

CHONGHERR INVESTMENTS LIMITED
DIRECTORS' DECLARATION
FOR THE YEAR ENDED ON 31 DECEMBER 2004

In accordance with a resolution of the Board of Directors of Chongherr Investments Ltd we state that:

- (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001:
 - (i) give a true and fair view of the financial position as at 31 December 2004 and of the performance for the year ended on that date of the company and the consolidated entity; and
 - (ii) comply with Accounting Standards and Corporations Regulations 2001;
- (b) in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Managing Director
Dehui Liu
28 February 2005

Independent audit report to members of ChongHerr Investments Ltd

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 2004. 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 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Mike Reid
Partner
Brisbane
28 February 2005

**CHONGHERR INVESTMENTS LTD
AUSTRALIAN STOCK EXCHANGE
ADDITIONAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2004**

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

The information is made up to 18 February 2005.

(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	56,584,357	49.37%
Mr Dehui Liu (Liu & Zhuang Family Trust)	16,418,057	14.33%
Mr Jianming Xiong	12,960,000	11.31%
Mr Robert John Edgley and Mrs Deborah Judith Edgley	5,833,072	5.09%
Mr Liu Dejun	3,000,000	2.62%
Mr Min Shi	2,997,635	2.62%
Mr Wing Fung Chung	2,040,000	1.78%
Desibi Pty Ltd	1,770,000	1.54%
Mr Zao Fa Wu	1,360,000	1.19%
Mr Yadong Zhang	1,000,000	0.87%
Ms Rosaline Choy	800,000	0.70%
Mr Timothy Frederick Berlet	600,000	0.52%
Jaysea Limited	500,000	0.44%
Merrill Lynch (Australia) Nominees	450,000	0.39%
Apex Marble & Granite Pty Ltd	435,500	0.38%
Mr Kevin Jan	375,000	0.33%
Tamborine Trees Pty Ltd	359,640	0.31%
Mr John Leeman and Mrs Irene Frances Leeman	350,000	0.31%
Mr Leighton Patrick	250,000	0.22%
Bujo Pty Ltd	220,000	0.19%
Portion held by 20 Largest Holders		94.50%

(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	25	7.48%	17,110	0.02%
1,001 – 5,000	127	38.02%	388,500	0.34%
5,001 – 10,000	47	14.07%	396,555	0.35%
10,001 – 100,000	105	31.43%	4,056,744	3.54%
Over 100,001	30	9.00%	109,750,043	95.75%

Marketable Parcel

The number of shareholders holding less than a marketable parcel is 215.

Substantial Shareholders

There are three substantial shareholders: Green Mountain Holdings Pty Ltd, The Lui and Zhuang Family Trust and Mr Jianming Xiong as disclosed above.

(c) 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 LTD
ABN 52 054 161 821

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

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

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

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

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

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

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

BOARD OF DIRECTORS

Board function

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

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

The conduct of the company's operational activities and its day-to-day business affairs are the responsibility of the Managing Director and company staff. The Board has a planned meeting process to undertake its responsibilities and to receive reports from the company's staff on the conduct of business. The Board is also able to meet on an unplanned basis where necessary. A Board member is also entitled to seek independent professional advice when deliberating on a matter (any such advice is at the company's expense).

CHONGHERR INVESTMENTS LTD
ABN 52 054 161 821

CORPORATE GOVERNANCE STATEMENT

Board Structure

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

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

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

Directors in office

The directors of ChongHerr currently are:

Mr Dehui Liu	Chairman & Managing Director, and a major shareholder
Mr Zhen Lu	Non-executive director
Ms Sophia Kong	Non-executive director
Mr You He Wu	Non-executive director, and a former major shareholder

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

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

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

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

Another of the directors, Mr Lu, is associated with a business that is a major customer of ChongHerr. Ms Kong is also considered not to be an independent director by virtue of the fact that she also is the Company Secretary.

Mr Wu is considered to be an independent director since his shareholding in Green Mountain Holdings Pty Ltd was reduced to an insignificant amount from 14 December 2004.. Green Mountain Holdings Pty Ltd is the major shareholder in ChongHerr Investments Limited.

The Board recognises that it is not in conformity with ASX Best Practice Principles requiring that a majority of the Board is independent, that the Chairperson is independent, and that the Chairperson and Chief Executive are not the same individual. The Board also does not have a nominations/selections sub-committee, this function is undertaken by the entire Board. The Board also recognises that it is not in conformity with ASX Best Practice Principles requiring that a separate sub-committee of the Board undertakes the responsibilities of nominations/selections.

CHONGHERR INVESTMENTS LTD
ABN 52 054 161 821

CORPORATE GOVERNANCE STATEMENT

Given the size, history and activities of ChongHerr, the directors believe the existing Board composition is appropriate, and in these circumstances it is most efficient for the entire Board to deal with nominations/selections.

ETHICAL CONDUCT

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

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

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

Trading in company securities

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

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

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

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

FINANCIAL REPORTING

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

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

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

CHONGHERR INVESTMENTS LTD
ABN 52 054 161 821

CORPORATE GOVERNANCE STATEMENT

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

CONTINUOUS DISCLOSURE

ChongHerr recognises the requirement to comply with ASX disclosure rules.

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

SHAREHOLDERS' RIGHTS

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

Information is communicated to shareholders and the marketplace in general:

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

RISK MANAGEMENT

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

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

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

REMUNERATION GUIDELINES

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

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

CHONGHERR INVESTMENTS LTD
ABN 52 054 161 821

CORPORATE GOVERNANCE STATEMENT

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

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

APPLICATION

ChongHerr's corporate governance framework, and the Corporate Governance Statement, have been formally developed over the 2003 and 2004 financial years.

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

----- The End -----