

CHONGHERR INVESTMENTS LTD

ABN 52 054 161 821

CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

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

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

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

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

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

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

BOARD OF DIRECTORS

Board function

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

- Setting corporate mission, strategic direction and objectives,
- Input into and ratifying any significant business transactions and/or changes to the company,
- Adopting an annual business plan/budget, setting performance targets, and monitoring performance against the plan and targets,

CORPORATE GOVERNANCE STATEMENT

- Monitoring significant business risks and ensuring they are appropriately managed,
- Ensuring adequate internal controls exist and are appropriately monitored for compliance,
- Assessing company performance, Board structure and performance, and director (including the Managing Director) performance,
- Setting the business standards and ethical conduct of the company,
- Share capital management,
- Reporting to shareholders.

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

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

Board Structure

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

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

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

CORPORATE GOVERNANCE STATEMENT

Directors in office

The directors of ChongHerr currently are:

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

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

A number of the company's directors are not independent of the company. Directors of

ChongHerr are considered independent when:

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

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

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

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

CORPORATE GOVERNANCE STATEMENT

Practice Principles requiring that a separate sub-committee of the Board undertakes the responsibilities of nominations/selections. Given the size, history and activities of ChongHerr, the directors believe the existing Board composition is appropriate, and in these circumstances it is most efficient for the entire Board to deal with nominations/selections.

ETHICAL CONDUCT

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

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

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

Trading in company securities

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

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

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

CHONGHERR INVESTMENTS LTD

ABN 52 054 161 821

CORPORATE GOVERNANCE STATEMENT

directors and employees to buy and sell within the above 30 day windows as they may have knowledge of market sensitive information.

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

FINANCIAL REPORTING

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

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

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

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

CONTINUOUS DISCLOSURE

ChongHerr recognises the requirement to comply with ASX disclosure rules.

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

SHAREHOLDERS' RIGHTS

ChongHerr recognises the rights and interests of shareholders and other stakeholders, and

CORPORATE GOVERNANCE STATEMENT

aims to ensure that the market is informed of all major developments affecting the company's state of affairs.

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

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

RISK MANAGEMENT

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

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

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

REMUNERATION GUIDELINES

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

- Remuneration packages should be set in the context of what is reasonable and fair taking into account the company's legal obligations, labour market

CORPORATE GOVERNANCE STATEMENT

conditions, the scale of the business and competitive forces, and employee performance,

- In accordance with the company's Constitution, the amount of fees payable to directors is limited to that amount approved by shareholders (currently no amount has been approved),
- Any equity based remuneration requires shareholder approval.

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

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

APPLICATION

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

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