

21 April 2020

Ms Lauren Osbich
Compliance Adviser, Listings Compliance

Dear Ms Osbich,

ChongHerr Investments Ltd ('CDH'): Query letter

We acknowledge receipt of your query letter ref: 16323 dated 6 April 2020.
In relation to your questions and request for information, we furnish as follows:

Q1. Please explain how the Directors satisfied themselves that the carrying value of \$732,342 for Zacks Quarry and Reserves is appropriate and adheres to the current Australian Accounting Standards.

Ans : In 2017, the directors based on managements' assessment of future performance with reference to historical EBITDA (for FY2015-FY2017), future estimates, internal and external factors re- valued Zacks Quarry and Reserve to \$732,342. The directors are of the opinion that Zacks Quarry and Reserve can still be realised in the market for \$732,342 and the stated carrying value is fair, appropriate and adheres to the current Australian Accounting Standards.

Q2. Please provide a copy of the 2017 Directors' valuation of Zacks Quarry and Reserves (not for release to the market).

Ans: As per calculation attached, the deficiency \$739,572 was allocated equally as impairment between Montgomery Quarry and Zacks Quarry. As a result Zacks quarry and reserves were re-valued from \$1,102,128 to \$732,342.

Q3. Please explain why no independent valuation of Zacks Quarry and Reserves has been prepared.

Ans: The last independent valuation report was prepared in 2016. Since then, there had not been much changes in the market value of the neighbouring quarries and thus the obtaining of independent valuation was not necessary to the directors.

Q4. Noting that the Qualified Opinion relates to the Auditor's inability to obtain sufficient appropriate audit evidence to support the carrying value (Directors' valuation) of Zacks Quarry and Reserves, please provide a detailed explanation why

the Auditor has been unable to obtain sufficient appropriate audit evidence to verify the carrying value of Zacks Quarry and Reserves.

Ans: The directors had not been advised to show independent valuation reports as audit evidence during the process of auditing until the reporting date on 31/03/2020. The directors could not show documentation on the negotiation of sales of Zacks Quarry as audit evidence because the negotiation was still in a confidential state and no documentation had been signed between the directors and the perspective buyers.

Q5. What steps, if any, has CDH taken since the release of the Annual Report to obtain an unqualified audit opinion in relation to its future financial statements? Q6. What steps, if any, does CDH intend to take to obtain an unqualified audit opinion in relation to its future financial statements?

Ans to both Q5 & Q6: The directors do not agree to the auditor's qualified opinion in the Annual reports. The directors are confident that Zacks Quarry can be realised at higher than the carrying value. The directors would be able to obtain an independent valuation report as audit evidence if the request was made earlier by the auditor.

Q7. Does CDH consider that its level of operations is sufficient to warrant the continued quotation of its securities and its continued listing on ASX as required under listing rule 12.1? In answering this question, please explain the basis for your conclusion and specifically comment on both the Montgomery Quarry Production Suspension and the production halt at Montgomery Quarry during the half year ended 31 December 2019.

Ans: Yes, the production operation will be resumed after two months once the epidemic is brought under control. Under the current critical situations, the decision to suspend or halt operation was unavoidable, it was also made to ensure safety of the operators and adjustment for a better future.

Q8. Does CDH consider that its financial condition is sufficient to warrant continued listing on ASX as required under listing rule 12.2? In answering this question, please explain the basis for your conclusion and specifically comment on the Emphasis of Matter and the anticipated impact of the Montgomery Quarry Production Suspension.

Ans: Yes, The directors believe that the group will continue to operate as going concern because the sunk cost is low during the production suspension. The directors are committed to provide unsecured interest free-loan to the group and the group is also able to issue more share capital to fund the working capital of the group. The group has

many years of operating history and great insights about its market. It is renowned for its quality products and has many loyal customers that will be returning once production is resumed.

Q9. If the answer to question 7 or 8 above is 'No', please explain what steps CDH proposes to take to warrant continued listing on ASX in accordance with the requirements of listing rules 12.1 and 12.2.

Ans: Not applicable

Q10. Please confirm that CDH is complying with the listing rules and, in particular, listing rule 3.1.

Ans: CDH confirms its belief that it is in compliance with the listing rules, and in particular, the listing rule 3.1.

Q11. Please confirm that CDH's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of CDH with delegated authority from the board to respond to ASX on disclosure matters.

Ans: CDH confirms that the responses to the questions Q1 to Q10 above as per ASX's letter dated 6th April 2020 had been authorised and approved by the Board in accordance with its published continuous disclosure policy.

On behalf of the Directors

Yours truly,



Densen Liu
CEO / Chairman
ChongHerr Investments Limited



6 April 2020

Reference: 16323

Ms Sophia Kong
Company Secretary
Chongherr Investments Ltd
Lot 50, Goldmine Road
Helidon QLD 4344

By email: sophia@chongherr.com.au

Dear Ms Kong

Chongherr Investments Ltd ('CDH') - Query letter

ASX Limited ('ASX') refers to the following;

- A. CDH's announcement titled 'Suspension of Production Activities' which was released on the ASX market announcements platform ('MAP') on 23 March 2020 and disclosed that CDH had suspended its production activities until further notice due to the COVID-19 outbreak ('Montgomery Quarry Production Suspension').
- B. CDH's Annual Report for the financial year ended 31 December 2019, including its financial statements, which was released on MAP on 31 March 2020 ('Annual Report') and included the following statements:
 - (i) *'The group's second Quarry, Zacks Quarry, also in the Helidon region, is currently not utilised for production and the directors' [sic] are considering selling this Quarry in the foreseeable future.'*
 - (ii) *'Sales, totalling \$333,161 in the year, a fall of 71% from previous year as result of halting production for a period of 6 months while the Group was undertaking human resources restructuring at the quarry.'*
 - (iii) *'On 23 March 2020, the directors made a decision to suspend production at the Montgomery Quarry as a result of the COVID-19 pandemic until further notice.'*

ASX notes that CDH owns two quarries, Montgomery Quarry and Zacks Quarry, and that Zacks Quarry has not been utilised for production for a number of years.

- C. The Independent Auditor's Report set out on pages 56-60 of the Annual Report which contains a qualified opinion in relation to the carrying value of the Zacks Quarry and Reserves ('Qualified Opinion') and an emphasis of matter regarding going concern ('Emphasis of Matter'). The auditor made the following statements regarding the basis for the Qualified Opinion and the Emphasis of Matter:

- (i) ***'Basis for qualified opinion***

As detailed in note 14 of the financial statements, the Zacks Quarry and Reserves has a carrying value of \$732,342 in the consolidated statement of financial position as at 31 December 2019. As outlined in note 14(b) the directors are of the opinion that the carrying value of Zacks Quarry and Reserves approximates its fair value. The carrying value is based on the most recent 2017 directors' valuation which was based on managements' assessment of future performance with reference to historical experience, future estimates, internal and external factors. This asset does not form part of the directors' impairment assessment at 31 December 2019. As outlined in note 14 (b) and note 25 of the financial statements, the directors are of the opinion that their 2017 valuation remains appropriate.

Our audit opinion is limited in respect of our ability to ascertain the fair value of this asset without a formal valuation and we were unable to obtain sufficient appropriate audit evidence at 31 December 2019 to support the directors' valuation. The evidence available to us was limited and consequently our audit procedures in respect of Zack's Quarry and Reserves were restricted. We are therefore unable to express an opinion on the carrying value or the recoverability of Zack's Quarry and Reserves at 31 December 2019 as we were unable to determine whether any adjustment to the carrying amount was necessary.'

(ii) **'Material uncertainty related to going concern**

We draw attention to note 2 in the financial report, which indicates that the ability of the Group to continue as a going concern is dependent upon the ability of the Group to meet its forecast revenue and manage its working capital. These conditions, along with other matters as set out in note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.'

- D. Listing rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.
- E. Listing rule 12.1, which states that the level of an entity's operations, must, in ASX's opinion, be sufficient to warrant the entity's continued quotation of the entity's securities and continued listing.
- F. Listing rule 12.2, which states that an entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.
- G. Listing rule 19.11A, which requires accounts given to ASX under the requirements of the listing rules, to be prepared to Australian accounting standards and if the entity is a foreign entity, the accounts may be prepared to other standards agreed by ASX.

Questions and Request for Information

Having regard to the above, ASX asks CDH to respond separately to each of the following questions and requests for information.

1. Please explain how the Directors satisfied themselves that the carrying value of \$732,342 for Zacks Quarry and Reserves is appropriate and adheres to the current Australian Accounting Standards.

In answering this question, reference should be made to the underlying assumptions used by the Directors in coming to this conclusion, and why the Directors consider that their 2017 valuation remains appropriate particularly given Zacks Quarry has not been utilised for production for a number of years.
2. Please provide a copy of the 2017 Directors' valuation of Zacks Quarry and Reserves (not for release to the market).
3. Please explain why no independent valuation of Zacks Quarry and Reserves has been prepared.
4. Noting that the Qualified Opinion relates to the Auditor's inability to obtain sufficient appropriate audit evidence to support the carrying value (Directors' valuation) of Zacks Quarry and Reserves, please provide a detailed explanation why the Auditor has been unable to obtain sufficient appropriate audit evidence to verify the carrying value of Zacks Quarry and Reserves.
5. What steps, if any, has CDH taken since the release of the Annual Report to obtain an unqualified audit opinion in relation to its future financial statements?

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6. What steps, if any, does CDH intend to take to obtain an unqualified audit opinion in relation to its future financial statements?
 7. Does CDH consider that its level of operations is sufficient to warrant the continued quotation of its securities and its continued listing on ASX as required under listing rule 12.1? In answering this question, please explain the basis for your conclusion and specifically comment on both the Montgomery Quarry Production Suspension and the production halt at Montgomery Quarry during the half year ended 31 December 2019.
 8. Does CDH consider that its financial condition is sufficient to warrant continued listing on ASX as required under listing rule 12.2? In answering this question, please explain the basis for your conclusion and specifically comment on the Emphasis of Matter and the anticipated impact of the Montgomery Quarry Production Suspension.
 9. If the answer to question 7 or 8 above is 'No', please explain what steps CDH proposes to take to warrant continued listing on ASX in accordance with the requirements of listing rules 12.1 and 12.2.
 10. Please confirm that CDH is complying with the listing rules and, in particular, listing rule 3.1.
 11. Please confirm that CDH's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of CDH with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under, and in accordance with, listing rule 18.7. Your response is required as soon as reasonably possible and, in any event, **by not later than 9am AEST on Tuesday, 14 April 2020**. Your response should be sent to me by return e-mail. It should not be sent to the Market Announcements Office.

You should note that if the information requested by this letter is information required to be given to ASX under listing rule 3.1 and it does not fall within the exceptions mentioned in listing rule 3.1A, CDH's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out above.

Please note that ASX reserves the right, under listing rule 18.7A to release this letter and CDH's response to the market. Accordingly, CDH's response should address each question separately and be in a format suitable for release to the market.

If you have any queries regarding any of the above, please contact me.

Yours sincerely,

Lauren Osbich
Compliance Adviser, Listings Compliance (Sydney)