



# ChongHerr

I N V E S T M E N T S   L T D

## Annual Report 2014

# **CHONGHERR INVESTMENTS LTD**

**ABN 52 054 161 821**

## **CORPORATE INFORMATION**

### **Directors**

Mr De Hui Liu (Chairman, Managing Director)

Mr Zhen Lu

Ms Sophia Xiaoqing Kong

Mr Shao Liu

### **Company Secretary**

Ms Sophia Xiaoqing Kong

### **Registered Office**

17 Ribands Place

Sunnybank Hills 4109

Telephone 61-7- 3711 2088

Facsimile 61-7- 3711 2099

Email: [info@chongherr.com.au](mailto:info@chongherr.com.au)

Website: [www.chongherr.com.au](http://www.chongherr.com.au)

### **Solicitors**

CBP Pty Ltd

Level 5

307 Queen Street

GPO Box 142

Brisbane QLD 4001

### **Bankers**

Commonwealth Bank of Australia

### **Share Register**

Link Market Services Ltd

Level 15, 324 Queen Street

Brisbane QLD 4000

Telephone 1300 554 474

Facsimile 61-2-9287 0303

### **Auditors**

BDO Audit Pty Ltd

Level 10, 12 Creek Street

QLD 4000

Australia

# **ChongHerr Investments Ltd**

**ABN: 52 054 161 821**

## **Annual Report**

**for the Year Ended 31 December 2014**

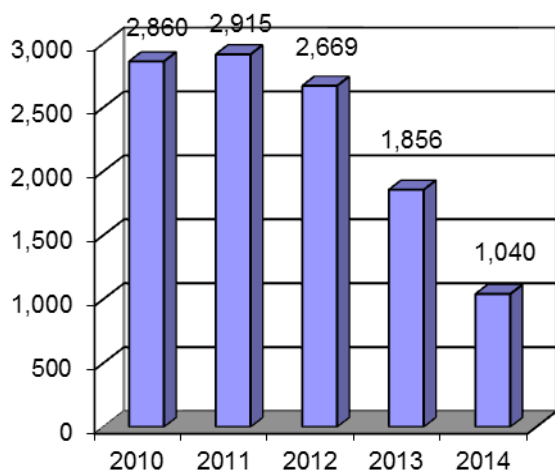
### **Table of Contents**

	<b>Page</b>
<b>2014 Operating and Financial Highlights</b>	<b>1</b>
<b>Chairman's Review</b>	<b>2</b>
<b>Quarry and Production</b>	<b>3</b>
<b>Market &amp; Business Outlook</b>	<b>4</b>
<b>Director's Report</b>	<b>5-13</b>
<b>Independent Auditor's Declaration</b>	<b>14</b>
<b>Consolidated Financial Statements</b>	
Statement of Profit or Loss and Other Comprehensive Income	<b>15</b>
Statement of Changes in Equity	<b>16</b>
Statement of Financial Position	<b>17</b>
Statement of Cash Flows	<b>18</b>
Notes to the Financial Statements	<b>19-57</b>
Directors' Declaration	<b>58</b>
Independent Auditor's Report	<b>59</b>
<b>ASX Additional Information</b>	<b>62</b>
<b>Corporate Governance Statement</b>	<b>63-70</b>

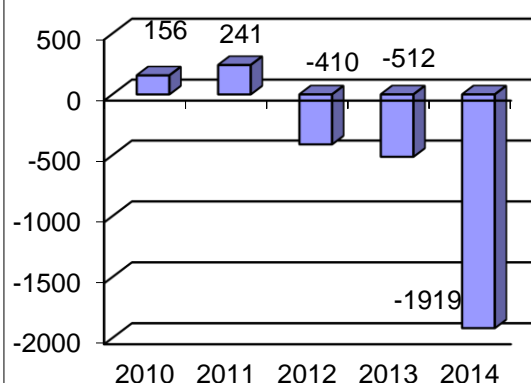
## 2014 Operating and Financial Highlights

	2014	2013	2012
Total Revenue and Other Income (\$'000)	1,040	1,856	2,669
Operating profit (loss) before tax (\$'000)	(1,919)	(512)	(410)
Net Cash flow (\$'000)	(12)	(147)	(99)
Borrowings (\$'000)	472	620	406
Total Shareholders' funds (\$'000)	2,388	4,153	4,664
Debt/Equity Ratio %	19.7	14.9	8.7
Earning per share (cents)	(1.66)	(0.45)	(0.36)

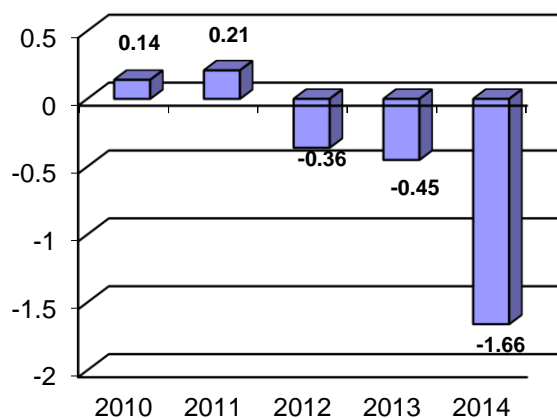
**Total Revenue and Other Income (\$'000)**



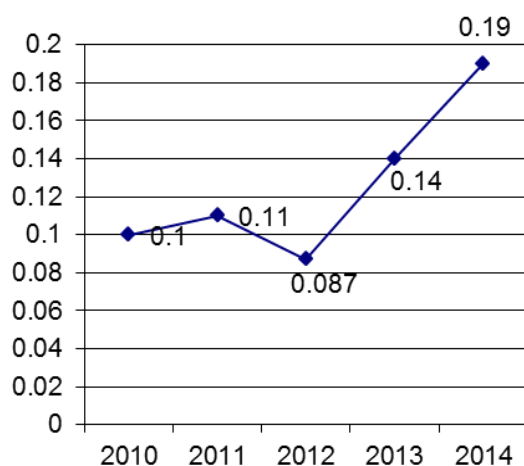
**Operating profit (loss) before tax (\$'000)**



**Earnings Per Share (Cents)**



**Debt/Equity Ratio**



## Chairman's Review

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It is my pleasure to present to you the Annual Report for the year to 31 December 2014.

Amidst the global economic slowdown, the Group halts its self-production of sandstone during the year while seeking for high corporate-valued personnel to transform its operational activities to turn around its business. 2014 is an extremely challenging year for the company. Sales to domestic market shrunk tremendously while overseas sales are on par with that of the previous year.

Sales revenue decreased by 57% to \$0.729 million from the previous year of \$1.704 million, largely attributable to temporary cessation of self-production of sandstone products. Out of the total sales, 76% of the sales is made up of domestic sales, from the operation of a sub-contractor within the company's quarry. The remaining 24% represents export of purchased blocks to China. Included in the other income is an amount of \$237,504 of fuel tax credit refund pertaining to fuel consumption in the previous four years.

Despite the operation being dormant during the year, fees for maintaining mining leases and financing plant and machineries remain considerable high and the company sustained an operating loss of \$1,919,301, after impairment of a loan receivable amounting to \$1,831,899, owed to the group by an unrelated party.

During the year, the group has exercised a share placement which increased the ordinary share of the group by 17,000,000 and raised \$170,000 in enhancing its operation. On the other hand, the Board resolved to buy back and cancel 1,401,556 unmarketable shares to cut down administrative cost associated with maintaining minor shareholders. The buyback exercise had reduced the paid up capital by \$15,417.

For more than a decade, sandstone have been a well-accepted building material for architects, property developers and construction companies alike with many high profile projects now completed in numerous cities showcasing Helidon sandstone, synonymous with the ASI Sandstone brand. The company continues to maintain sales network in China during 2014 and with economic activity and growth once again expanding we believe that demand from China will be strong again. As the popularity for sandstone grows across other parts of the world and the company also foresees potential buyers from these regions in the coming years.

While the company is paving to resume its full production with a more dynamic operational team, it continues to face challenges in keeping its production costs at a level that allows it to compete both locally and in export markets. The Board will continue to strive for efficiencies in the production process and look at the cost structure of the company to ensure that larger orders from the overseas customer base, especially China, translates into higher earnings.

Finally, I would like to thank our employees for their dedication and unfailing effort towards the group's progress and shareholders for their continued support of the company.

Best Regards,



Mr De Hui Liu  
Chairman  
ChongHerr Investments Ltd  
27 February 2015  
Brisbane, Australia

## Quarry and Production

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As mentioned above, the company did not carry out any extraction or mining of sandstone during the year, besides the operation by a sub-contractor. Local sales for the year were solely attributable to self-loading of boulders by the sub-contractor operating in Montgomery Quarry. The Group has, at the end of the year successfully recruited a qualified Site Senior Supervisor and is paving to resume its production in 2015. The quality of sandstone at the Montgomery Quarry continues to carry its future benefits to provide the company with the ability to produce all types of products including the highest quality export grade sandstone blocks.

The company's second Quarry, Zacks Quarry, also in the Helidon region, has not been utilised for production by the company for a few years. The mining lease for this quarry has been renewed up to 2032, which will assist the company in its efforts to yield a suitable return on this asset.





## Market and Business Outlook

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## Overseas Market

The Group continues to maintain a sales office at Shenzhen, China to support products marketed throughout the major cities in China. However, in the light of unfavourable economy, the management observes cost savings and has trimmed administrative and selling costs substantially. The Board believes that China continues to provide the company with excellent opportunities to export large quantities of Sandstone and for this reason it has always been of strategic importance to the company to continue supporting a well-trained sales team to build and maintain strong relationships with our existing and potential clients to prepare for the upcoming growth.

Chongherr Investments Ltd also explores for opportunity to penetrate the marketing of its products to other countries in South East Asia.

# ChongHerr Investments Ltd

## Directors' Report 2014

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Your directors submit their report for the year ended 31 December 2014.

### 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

Mr De Hui Liu (Chairman) (Managing Director)	Mr Liu is currently the Chairman and Managing Director of ChongHerr Investments Ltd. He has over 29 years experience in corporate management with particular strengths in investment, company restructuring, international trade and property development. Mr Liu was appointed to the Board on 7 October 1999. <i>Other listed company directorships in the previous three years</i> Nil
Mr Zhen Lu	Mr Lu has worked for many years in the building materials & construction industry in China. He brings to the Board over 30 years experience in civil engineering. Mr Lu was appointed to the Board on 19 August 2002. <i>Other listed company directorships in the previous three years</i> Nil
Ms Sophia Xiaoqing Kong (Company Secretary)	Ms Kong holds a Master's Degree in Architecture Design and a Bachelor's Degree in Urban Planning. She was appointed a director in June 2003, bringing to the Board over 20 years professional and business management experience. Ms Kong was appointed Company Secretary in 8 July 2003. <i>Other listed company directorships in the previous three years</i> Nil
Mr Shao Liu (Appointed on 18 September 2013)	Mr Shao Liu has career experience in China and educational background in Australia, who is capable to establish sustainable and profitable relationships with customers, suppliers and stakeholders across the world. He was appointed to the board on 18 September 2013 <i>Other listed company directorships in the previous three years</i> Nil

#### 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 and their related entities	Balance 1/1/14	Movement	Balance 31/12/14
Green Mountain Holdings Pty Ltd (i)	56,584,357	-	56,584,357
Mr De Hui Liu & Mrs Peijuan Zhuang (ii)	16,418,057	-	16,418,057
Mr Zhen Lu	-	-	-
Ms Sophia Xiaoqing Kong	-	-	-
Mr Shao Liu	-	-	-

(i) Mr Liu is the shareholder in Green Mountain Holdings, holding 76.3% interest in that



## **ChongHerr Investments Ltd**

### **Directors' Report 2014**

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company.

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

- (ii) This interest is held via The Liu and Zhuang Family Trust, of which Mr Liu and the late Mrs Zhuang are trustees.

## **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.

### **Corporate Governance**

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

## **(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 result after income tax of the consolidated entity for the year ended 31 December 2014 was a loss of \$1,919,301.

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

Sales, totalling \$729,140 in the year, are down 57% from previous years, which was due decrease in both local and export sales. The impact is caused by no self-production during the year as a result of absence of qualified Site Senior Supervisor and the company had been relying on sales of self-loading boulders and sales of purchased export blocks. The Company has resumed its self-production on 1 January 2015 after an operational plan review

The Company has always actively been searching for ways to diversify its products so as to expand its customer base and to add value.

The Company continued to export sandstone block to China, while effort is also being continually made to increase domestic block and boulders sales.

At the balance date, the Company has two customers with high trade receivables pertaining to export block sales. One of the customers had a trade debt of \$134,641 which is past due; nevertheless the company had been making regular monthly repayments. The other major trade debtor, with record of \$175,184, is still current and a partial payment of \$100,000 has been received on 5 February 2015. The Directors are optimistic on the recovery of these receivables.

On the other hand, the Board had resolved to write off a significant loan receivable of

## ChongHerr Investments Ltd

### Directors' Report 2014

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\$1,831,899 owed to the Company from an unrelated party

The financial report has been prepared on a going concern basis that contemplates the continuity of normal operating activities and the realisation of assets and settlement of liabilities in the normal course of business (see note 2 in the financial statements).

#### 4. REVIEW OF OPERATIONS

##### SANDSTONE QUARRYING & PRODUCTION

Amidst the economic slowdown in China and absence of qualified Site Senior Supervisor, the company resolved to halt self-production during the year while paving to upgrade health and safety and optimise operational efficiency. Only 1 of the 4 pits in one of the Company's quarries was operated by a contractor

##### EXPORT OF SANDSTONE BLOCKS

Export sales in the year totalled \$175,184, a drop of 23% against the last year sale of \$227,388. The drop in total revenue is a result of decrease in both local and export sales.

After a decade of efforts and close cooperation with its counterparts in China, the Company now has a significant portfolio of finished developments within China, including museums, libraries, government buildings, residential and commercial estates, hotels and resorts, all of which are highlighted by their extensive use of Helidon sandstone. Although Chinese economic slowdown in the recent years had adverse impact on real estate development, the management still opines that China remains as the focus of the company's sales opportunities in years to come. The Company continues to develop its sales and marketing in the Chinese marketplace, primarily in commercial and residential construction.

The company is also exploring more sales opportunities in other overseas markets.

##### QUARRY TENURE

The company holds sandstone mining leases at Helidon, Queensland, an area famous for fresh water sandstone. The company also holds the ownership of the background tenures of the two quarries. Details of the quarrying interests are:

Mining lease	Quarry	Area (hectares)
ML 50013 (expires in 2032)	Zacks	129
ML 50016 (expires in 2017)	Montgomery	40
ML 50213 (expires in 2019)	Montgomery	36
Exploration permit EPM 11005 (expires 11 March 2015)	Montgomery and surrounding areas	230
Exploration permit EPM 18112 (expires 18 March 2015)	Montgomery and surrounding areas	2,400

##### FINANCIAL PERFORMANCE AND POSITION

The audited financial statements of the consolidated entity accompany this directors'

## **ChongHerr Investments Ltd**

### **Directors' Report 2014**

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report.

The financial statements show a loss for the year of \$1,919,301 and total assets of \$3,431,191. The result in the year decreased the consolidated entity's net assets to \$2,388,065.

Sales, totalling \$729,140 in the year, are down 57% from the previous year. In the current year, both exports to China and local sales have decreased which were impacted by temporary cessation of self-production

Results in the year have declined over 2013, mainly attributable to the impairment of a significant loan receivables from an unrelated company. The Group recorded lower cash flow with an overdraft balance of \$176,785. The Group has high credit risk on two customers, however the directors believe those debts are highly recoverable. The directors are carefully monitoring ChongHerr's financial performance and position (see also the comments in section 3 above).

The ability of the Group to continue as a going concern is principally dependent upon one

- the collection of the amounts owed by Shenzen Helidon and Yunfu Stone Company in line with the group's cash flow forecasts;
- the ability of the group to meet its forecast revenue figures; and
- the ability of the group to manage its creditors within available credit terms and working capital resources.

These conditions give rise to material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

The directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- the directors expect that Shenzen Helidon and Yunfu Stone Company will repay the amounts owing in line with the group's cash flow forecasts; and
- the directors closely monitor the group's cash flow projections and working capital position and expect to meet the forecasted revenue and cash flow results. The directors believe that these are sufficient to continue to fund the Group's working capital requirements.

#### **5. SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

Other than for the matters discussed in section 3 above there were no significant changes in the state of affairs of the company or the consolidated entity in the year.

#### **6. SIGNIFICANT EVENTS AFTER BALANCE DATE**

No matter or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

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

The directors are carefully monitoring ChongHerr's financial performance and position (see also the comments in section 3 above). Additionally, in the coming year the company will maintain its focus on sales opportunities in China and South East Asia, and production/quarrying efficiencies. Demand for sandstone is expected to remain

## **ChongHerr Investments Ltd**

### **Directors' Report 2014**

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strong, although current world economic conditions make forecasts very difficult.

The company will also continue to conduct its business so that profitability can be enhanced and the balance sheet strengthened. Further information about likely developments in the operations of the group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the group.

#### **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. The company is required at the cessation of the mining leases to rehabilitate the sites back to a land form with vegetation similar to what was present prior to disturbance.

#### **9. REMUNERATION REPORT - AUDITED**

This report outlines the remuneration arrangements in place for the directors and key management personnel of ChongHerr Investments Ltd (the Company).

Due to the size of the company and composition of the Board, Chongerr 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 more efficient for the entire Board to deal with remuneration matters.

##### **Remuneration Policy**

ChongHerr utilises the following guidelines to encourage directors and key management personnel 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 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 set amount has been approved for directors' fees over and above their remuneration as executives); and
- Any equity based remuneration requires shareholder approval.

The Board assesses the appropriateness of the nature and amount of remuneration on a periodic basis. In setting remuneration, directors and key management personnel are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. The Group does not provide any equity based remuneration, nor does it presently specifically link director and key management personnel remuneration to company performance conditions, other than its overall financial position.

No remuneration consultants were engaged during the year ended 31 December 2014.

# ChongHerr Investments Ltd

## Directors' Report 2014

### Details of Directors and Key Management Personnel

#### *Directors*

Mr De Hui Liu (Chairman, Managing Director)

Mr Zhen Lu (Non-executive director)

Ms Sophia Xiaoqing Kong (Executive director)

Mr Shao Liu (Non-executive director)

#### *Key Management Personnel (KMP)*

Key management personnel are those directly accountable and responsible for the operational management and strategic direction of the Company and the Consolidated Entity. Apart from the directors identified above there are no other identified key management personnel.

### Remuneration of Directors and Key Management Personnel – audited

	Short-term employee benefits			Post Employ ment		Long- term benefits	Total
	Salary & Fees	Cash Bonus	Non- Monetary benefits	Superan- uation	Termin- ation benefits	Long service leave	
	\$	\$	\$	\$	\$	\$	\$
<b>31 December 2014</b>							
Mr De Hui Liu	18,421	-	-	1,727	-	-	20,148
Mr Zhen Lu	-	-	-	-	-	-	-
Ms Sophia Xiaoqing Kong	19,228	-	-	1,779	-	-	21,007
Mr Shao Liu	-	-	-	-	-	-	-
<b>Total</b>	<b>37,649</b>	<b>-</b>	<b>-</b>	<b>3,506</b>	<b>-</b>	<b>-</b>	<b>41,155</b>
<b>31 December 2013</b>							
Mr De Hui Liu	6,731	-	-	622	-	-	7,353
Mr Zhen Lu	-	-	-	-	-	-	-
Ms Sophia Xiaoqing Kong	45,623	-	-	4,227	-	-	49,850
Mrs Peijuan Zhuang	-	-	-	-	-	-	-
<b>Total</b>	<b>52,354</b>	<b>-</b>	<b>-</b>	<b>4,849</b>	<b>-</b>	<b>-</b>	<b>57,203</b>

No share based payments have been paid or accrued for any director or key management personnel in the year ended 31 December 2014 (2013: nil). For the year ended 31 December 2014 (2013: nil) no remuneration was performance based and no remuneration consisted of options (2013: nil).

### Employment Contracts

The employment agreement in place for Mr De Hui Liu provides for remuneration to be set annually in accordance with company policy, has no fixed term and can be terminated by either party with 4 weeks' notice (except in the case of serious misconduct where the company can terminate without notice).

No other director or KMP are employed under a contract.

# ChongHerr Investments Ltd

## Directors' Report 2014

### Discussion of the Relationship between the Remuneration Policy and the Consolidated Entity's Performance

As set out in the remuneration policy, the company sets director and key management personnel remuneration based on various factors, including financial performance of the Group. The table below sets out recent history of financial performance and remuneration.

	2010	2011	2012	2013	2014
	\$	\$	\$	\$	\$
Sales Revenue	2,409,256	2,622,855	2,520,261	1,704,933	729,140
Net result	156,450	240,676	(409,870)	(511,684)	(1,919,301)
Share Price at year end	0.003	0.016	0.003	0.011	0.011
Dividends	-	-	-	-	-
Total KMP Remuneration	41,664	41,075	18,365	57,203	41,155

### Shares issued on exercise of compensation options

No shares were issued on the exercise of compensation options in the 2013 or 2014 financial years. There are currently no outstanding compensation options on issue.

### Ordinary shares held in ChongHerr Investments Ltd

	Balance 01-Jan-14	Movement	Balance 31-Dec-14
Directors			
Green Mountain Holdings Pty Ltd (i)	56,584,357	-	56,584,357
Mr De Hui Liu & Mrs Peijuan Zhuang (ii)	16,418,057	-	16,418,057
Mr Zhen Lu	-	-	-
Ms Sophia Xiaoqing Kong	-	-	-
Mr Shao Liu	-	-	-
<b>Total</b>	<b>73,002,414</b>	<b>-</b>	<b>73,002,414</b>

### End of Remuneration Report – Audited



# ChongHerr Investments Ltd

## Directors' Report 2014

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### 10. DIRECTORS' MEETINGS

During the year, 5 directors' meetings were held. The number of meetings at which directors were in attendance is as follows:

<b>Directors' Meetings</b>		
	No. of Meetings held while in office	Meetings attended
Mr De Hui Liu	5	5
Mr. Zhen Lu	5	5
Ms Sophia Xiaoqing Kong	5	5
Mr Shao Liu	5	5

### 11. SHARE OPTIONS

There are no options outstanding at the date of this report.

### 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.

### 14. 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.

## **ChongHerr Investments Ltd**

### **Directors' Report 2014**

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#### **15. 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.

#### **16. NON-AUDIT SERVICES**

The auditors did not provide any non-audit services to the consolidated entity during the year.

As the auditor, BDO Audit Pty Ltd, did not provide any non-audit services during the year, the directors are satisfied that there was no compromise of the auditor's independence requirements of the Corporations Act 2001.

#### **17. AUDITOR INDEPENDENCE**

The lead auditor's independence declaration is set out on the page following this directors' report and forms part of the directors' report for the year ended 31 December 2014.

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



Mr De Hui Liu  
Managing Director  
ChongHerr Investments Ltd  
27 February 2015  
Brisbane, Australia

**DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF CHONGHERR INVESTMENTS LTD**

As lead auditor of Chongherr Investments Ltd for the year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Chongherr Investments Ltd and the entities it controlled during the period.



**C R Jenkins**  
Director

**BDO Audit Pty Ltd**

Brisbane, 27 February 2015

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTES	CONSOLIDATED	
		2014	2013
		\$	\$
<b>Revenue</b>			
Sale of goods		729,140	1,704,933
Cost of sales		(568,204)	(1,498,252)
<b>Gross profit</b>		160,936	206,681
Other income	4	310,884	151,040
Selling and distribution expenses		-	(161,900)
Corporate and administration expenses		(491,000)	(575,769)
Impairment of trade receivables		(22,063)	(77,951)
Finance costs	4	(46,159)	(53,785)
Impairment of other receivables		(1,831,899)	-
<b>(Loss) before tax</b>		(1,919,301)	(511,684)
Income tax expense	5	-	-
<b>(Loss) after tax</b>		(1,919,301)	(511,684)
Other Comprehensive Income		-	-
<b>Total Comprehensive Income</b>		(1,919,301)	(511,684)
Earnings per share (cents per share)	6		
– basic and diluted (loss) per share		(1.66)	(0.45)

*The accompanying notes form an integral part of this financial statement.*

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED ENTITY		
	Issued Capital \$	Accumulated Losses \$	Total Equity \$
<b>At 1 January 2013</b>	18,218,667	(13,554,200)	4,664,467
Comprehensive income for the year:			
Profit/(loss) for the year	-	(511,684)	(511,684)
Other comprehensive income	-	-	-
<b>Total comprehensive income for the year</b>	-	(511,684)	4,152,783
Transactions with owners in their capacity as owners	-	-	-
<b>At 31 December 2013</b>	18,218,667	(14,065,884)	4,152,783
Comprehensive income for the year:			
Profit/(loss) for the year	-	(1,919,301)	(1,919,301)
Other comprehensive income	-	-	-
<b>Total comprehensive income for the year</b>	-	(1,919,301)	(1,919,301)
Share issued during the year	170,000	-	170,000
Share buy-back and cancelled during the year	(15,417)	-	(15,417)
<b>At 31 December 2014</b>	18,373,250	(15,985,185)	2,388,065

*The accompanying notes form an integral part of this financial statement.*

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	NOTES	CONSOLIDATED	
		2014	2013
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	-	5,618
Trade and other receivables	9	402,360	472,542
Inventories	10	120,112	126,504
Prepayments		29,157	31,501
<b>Total Current Assets</b>		<b>551,629</b>	<b>636,165</b>
<b>Non-current Assets</b>			
Trade and other receivables	9	-	1,745,458
Other financial assets	11	90,742	142,045
Property, plant and equipment	12	756,138	962,983
Quarry and reserves	13	1,895,202	1,895,202
Exploration & evaluation assets		137,480	133,328
<b>Total Non-current Assets</b>		<b>2,879,562</b>	<b>4,897,016</b>
<b>TOTAL ASSETS</b>		<b>3,431,191</b>	<b>5,515,181</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	14	413,896	536,305
Borrowings	15	318,505	325,585
Provisions	16	5,776	56,736
<b>Total Current Liabilities</b>		<b>738,177</b>	<b>918,626</b>
<b>Non-current Liabilities</b>			
Borrowings	15	153,274	294,905
Provisions	16	151,675	148,867
<b>Total Non-current Liabilities</b>		<b>304,949</b>	<b>443,772</b>
<b>TOTAL LIABILITIES</b>		<b>1,043,126</b>	<b>1,362,398</b>
<b>NET ASSETS</b>		<b>2,388,065</b>	<b>4,152,783</b>
<b>EQUITY</b>			
Issued capital	17	18,373,250	18,218,667
Accumulated losses		(15,985,185)	(14,065,884)
<b>TOTAL EQUITY</b>		<b>2,388,065</b>	<b>4,152,783</b>

*The accompanying notes form an integral part of this financial statement.*



# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTES	CONSOLIDATED	
		2014	2013
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		815,170	2,076,500
Payments to suppliers and employees		(1,049,482)	(2,062,875)
Finance costs		(46,159)	(53,785)
Interest received		4,232	-
Receipts from fuel credit refund		237,504	-
<b>Net cash flows used in operating activities</b>	8	(38,735)	(40,160)
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		-	20,000
Payments for property, plant and equipment		(19,910)	-
Payments for exploration & evaluation assets		(4,152)	(5,102)
Proceeds from other financial assets		51,307	-
<b>Net cash flows used in investing activities</b>		27,245	(14,898)
<b>Cash flows from financing activities</b>			
Repayment of finance lease liabilities		(155,383)	(122,178)
Proceeds from capital raising		170,000	-
Payment for share buy-back		(15,417)	-
<b>Net cash flows used in financing activities</b>		(800)	(122,178)
Net (decrease) in cash and cash equivalents		(12,290)	(147,440)
Cash and cash equivalents at beginning of period		(164,495)	(17,055)
<b>Cash and cash equivalents at end of period</b>	8	(176,785)	(164,495)

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

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **1. CORPORATE INFORMATION**

The financial statements of ChongHerr Investments Ltd for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on 27 February 2015. The financial statements cover the consolidated entity of ChongHerr Investments Ltd and its controlled entities.

ChongHerr Investments Ltd is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange. The Address of the Group's registered office is 17 Ribands Place, Sunnybank Hills, QLD 4109.

The nature of the operations and principal activities of the Group are described in note 3.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **a) Basis of Preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Chongherr Investments Ltd is a for-profit entity for the purpose of preparing the financial statements.

##### **Compliance with IFRS**

The consolidated financial statements of the Chongherr Investments Ltd group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

##### **Historical cost convention**

The consolidated financial statements have been prepared on the historical cost basis and are presented in Australian Dollars, which is the Group's functional currency.

##### **Going Concern**

The Group incurred a net loss of \$1,919,301 for the year ended 31 December 2014. As at 31 December 2014 the Group has net cash reserves of -\$176,785 (overdraft), net current assets deficiency of \$186,548 and net assets surplus of \$2,388,065.

The Group has high credit risk on two customers, however the directors believe those debts are highly recoverable. The directors are carefully monitoring ChongHerr's financial performance and position.

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The ability of the Group to continue as a going concern is principally dependent upon one

- the collection of the amounts owed by Shenzhen Helidon and Yunfu Stone Company in line with the group's cash flow forecasts;
- the ability of the group to meet its forecast revenue figures; and
- the ability of the group to manage its creditors within available credit terms and working capital resources.

These conditions give rise to material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

The directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- the directors expect that Shenzhen Helidon and Yunfu Stone Company will repay the amounts owing in line with the group's cash flow forecasts; and
- the directors closely monitor the group's cash flow projections and working capital position and expect to meet the forecasted revenue and cash flow results. The directors believe that these are sufficient to continue to fund the Group's working capital requirements.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Group be unable to continue as a going concern.

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Accounting Standards and Interpretations**

##### **New and amended standards adopted by the group**

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2014:

AASB 10 Consolidated Financial Statements

AASB 13 Fair Value Measurement

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosures

AASB 2012-2 & AASB 2012-3 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 7 & AASB 132]

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle [AASB 1, AASB 101, AASB 116, AASB 132 & AASB 134 and Interpretation 2]

The adoption of these standards did not have any material impact on the current or any prior period and is not likely to materially affect future periods.

##### **New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 31 December 2014. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the company, are set out below.

AASB 9 – Financial Instruments - Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. (Annual reporting periods beginning on or after 1 January 2018)

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **b) Basis of consolidation**

The consolidated financial statements comprise the financial statements of ChongHerr Investments Ltd and its subsidiaries as at 31 December each year ('the Group'). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. In assessing control, potential voting rights that presently are exercisable are taken into account.

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 ChongHerr Investments Ltd has control.

In the company's financial statements, investments in subsidiaries are carried at cost.

##### **c) Foreign currency translation**

Both the functional and presentation currency of ChongHerr Investments Ltd and its subsidiaries is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial statements are taken to the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **d) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The costs of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit and loss as incurred.

Depreciation is calculated on a reducing balance basis over the estimated useful life of each asset.

Major depreciation periods are

- Plant & equipment 3-8 years
- Leased Plant & equipment 3-8 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is derecognised.

##### **e) Finance costs**

Finance costs are recognised as an expense when incurred and comprise interest expense on borrowings, unwinding of the discount on provisions and foreign currency losses. All borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit and loss using the effective interest method.



## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **f) Quarry and reserves**

Quarry and reserves represents expenditure on the acquisition, evaluation and development of mining leases. These costs are only carried forward to the extent that they are expected to be recouped through successful development. The cost of property, plant and equipment in relation to the quarry is recorded separately in the statement of financial position.

When production commences, the accumulated costs are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review of recoverable amount is undertaken to determine the appropriateness of continuing to carry forward costs.

Costs of restoration are provided over the life of the quarry from when the obligation becomes probable (usually from when evaluation commences) and are charged against profit. Restoration costs include the dismantling and removal of plant, equipment and building structures, waste removal, and rehabilitation in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on a discounted basis. Any changes in the estimates of the costs are accounted for on a prospective basis. In determining the costs of restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and legislation.

##### **g) Exploration and evaluation assets**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

Restoration costs that are expected to be incurred are provided for as part of the cost of the exploration, evaluation, development, construction and production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur. The costs include obligations relating to reclamation, waste site closure, plant closure and other costs associated with the restoration of the site. In determining the restoration obligations, the entity has assumed no significant changes will occur in the relevant Federal and State legislation in relation to restoration of such mines in the future.

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Both for close down and restoration and for environmental clean-up costs, provision is made in the accounting period when the related disturbance occurs, based on the net present value of estimated future costs.

For close down and restoration costs, which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas, movements in provision other than the amortisation of the discount, such as those resulting from changes in the cost estimates, lives of operations or discount rates, are capitalised into the carrying amount of development and amortised against future production.

#### **h) Impairment**

##### **Impairment – Non-financial Assets**

At each reporting date, the Group assesses whether there is any indication that an asset, other than inventories, may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

#### **i) Inventories**

Inventories, being finished goods and work-in-progress, are valued at the lower of cost and net realisable value.

Costs incurred in bringing inventories to their present location and condition are accounted for as costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **j) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above and bank overdraft.

##### **k) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

##### **Employee benefits**

###### **Short-term employee benefits**

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Other long-term employee benefits**

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any re-measurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

##### **Retirement benefit obligations**

Contributions are made by the company to defined contribution employee superannuation funds and are charged as expenses when incurred.

#### **1) Leases**

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### m) Financial Instruments

###### *Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified ‘at fair value through profit or loss, in which case transaction costs are expensed to immediately.

###### *Classification and subsequent measurement*

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- a) the amount at which the financial asset or financial liability is measured at initial recognition;
- b) less principal repayments;
- c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- i. Loans and receivables.  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.
- ii. Financial liabilities.  
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

##### *Impairment – Financial assets*

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a “loss event”) having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

##### *Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

The fair values of Group's financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

##### **n) Revenue**

Revenue is recognised at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### **Sale of goods**

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer. Any consideration deferred is treated as the provision of finance and is discounted at the rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

##### **Interest income**

Finance income includes interest income calculated on financial assets recognised at fair value and subsequently measured at amortised cost using the effective interest method.

##### **Fuel credit refund**

Fuel credit refund is recognized when the right to receive the refund was granted.

##### **o) Income tax**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income taxes relating to items recognised directly in equity.

The Group has substantial carry forward tax losses. The deferred tax benefit arising from these losses has not been brought to account as it is not yet probable that the Group will derive future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised.

### **p) Other taxes**

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 Cash Flow Statement 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.

### **q) Comparatives**

When required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current year.

### **r) Parent entity financial information**

The financial information for the parent entity, Chongherr Investments Ltd, disclosed in note 26 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### *(i) Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost in the individual financial statements of the parent entity.



## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **s) Critical accounting estimates and judgments**

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

##### **Quarry and reserves**

The cost of quarry and reserves is carried forward on the statement of financial position to the extent that it is expected that it can be recouped through successful development of the economically recoverable reserves, or through sale of the quarry.

Amortisation is based on the rate of depletion of reserves as compared to the estimate of the total economically recoverable reserves.

The carrying value of quarry and reserves is assessed for recoverability by reference to value in use or by reference to fair value. Cashflow forecasts to assess value in use apply estimates of sales volumes and prices, production costs including capital items, and a discount rate based on cost of funds and risk.

The provision for restoration is based on estimates of future costs, and requirements as set out in the Group's mining leases.

##### **Income tax**

The Group has substantial carry forward losses which are applied as an offset to assessable income. This future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### **Receivables**

As discussed in note 18, the Group's export sales are made on 90 day credit terms, albeit that payment history indicates that the collection period associated with export sales can extend over a longer term.

#### **3. SEGMENT INFORMATION**

##### **Determination and presentation of operating segments**

The Group determines and presents operating segments based on the information that internally is provided to the Managing Director, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The ChongHerr Group operates solely within the sandstone quarrying industry in Queensland. A significant amount of product is exported to south-east Asia. The Group manages its business on a geographical basis which reflects the strategic, financial and operational needs – South-east Asia and Australia reflect the two major markets for product, and Australia reflects the production and corporate activities, as well as some local product sales. The South-east Asia segment is closely integrated with the Australian segment, as it draws its product from Australia.

Group performance is monitored through segment performance, as this is most relevant to the Group structure. The following table presents financial information regarding geographical segments:

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$2,788,820 (2013: \$3,009,513) and the total of these non-current assets located in other countries is nil (2013: nil). Segment assets are allocated to countries based on where the assets are located.

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 3. SEGMENT INFORMATION (Continued)

	<i>South-east Asia</i>	<i>Australia</i>	<i>Total</i>
	\$	\$	\$
<b>31 December 2014</b>			
External revenue	175,184	553,956	729,140
Other revenue		239,211	239,211
Interest income	67,441	4,232	71,673
Interest expense	-	(46,159)	(46,159)
Depreciation and amortisation	-	227,855	227,855
Reportable segment profit/(loss) before income tax	(1,922,242)	226,147	(1,696,095)
Unallocated corporate expenses			
-Employee benefits			(86,253)
-All other costs			(136,953)
Consolidated loss before income tax			(1,919,301)
<b>31 December 2013</b>			
External revenue	227,388	1,477,545	1,704,933
Interest income	130,600	3,565	139,565
Interest expense	-	(54,785)	(53,785)
Depreciation and amortisation	-	308,785	308,785
Reportable segment profit/(loss) before income tax	(140,499)	1,736	(138,763)
Unallocated corporate expenses			
-Employee benefits			(81,869)
-All other costs			(291,052)
Consolidated profit before income tax			(511,684)

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 3. SEGMENT INFORMATION (continued)

	<i>South-east Asia</i>	<i>Australia</i>	<i>Total</i>
	\$	\$	\$
<b>31 December 2014</b>			
Segment assets	309,825	3,121,366	3,431,191
Unallocated assets			-
Total assets			3,431,191
Segment liabilities	19,509	1,023,617	1,043,126
Unallocated liabilities			-
Total liabilities			1,043,126
Other material non-cash items:			
Impairment loss	(1,831,899)	-	(1,831,899)
Capital expenditure	-	25,161	25,161
<b>31 December 2013</b>			
Segment assets	2,053,785	3,461,396	5,515,181
Unallocated assets			-
Total assets			5,515,181
Segment liabilities	-	1,362,398	1,362,398
Unallocated liabilities			-
Total liabilities			1,362,398
Other material non-cash items:			
Impairment loss		(77,951)	(77,951)
Capital expenditure	-	293,702	293,702

The revenue reported above represents revenue generated from external customers on the basis of geographical location of customer. Refer to Note 18 for details of economic dependency on a South-east Asia based customer. There were no intersegment sales during the reporting periods.

Segment result represents the profit earned by each segment without allocation of corporate/administration cost and finance costs. All assets and liabilities are allocated to reportable segments on the basis of geographical location.

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 4. REVENUES AND EXPENSES

	<b>CONSOLIDATED</b>	
	2014	2013
	\$	\$
<b>(a) Other income</b>		
Finance income:		
Interest income on trade receivables at amortised cost	-	-
Other interest income	71,673	139,565
Refund from fuel tax credit	237,504	-
Recovery of security deposit written off	1,707	-
Profit on sale of property, plant and equipment	-	11,475
	<u>310,884</u>	<u>151,040</u>
 <b>(b) Expenses</b>		
Depreciation of plant and equipment	227,855	249,725
Amortisation of quarry and resources	-	59,060
Quarry restoration provision	2,808	2,962
Minimum lease payments - operating lease	-	116,068
 <b>(c) Finance costs</b>		
Interest expense on financial liabilities at amortised cost:		
Other borrowings	11,186	14,001
Finance charges payable under finance leases	34,973	39,784
Total finance costs	<u>46,159</u>	<u>53,785</u>
 <b>(d) Employee benefits expense</b>		
Wages and salaries	427,370	824,613
Workers' compensation costs	10,127	19,433
Superannuation costs	44,800	65,232
	<u>482,297</u>	<u>909,278</u>

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 5. INCOME TAX

	<b>CONSOLIDATED</b>	
	2014	2013
	\$	\$
A reconciliation of income tax expense applicable to accounting profit/(loss) before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2014 and 2013 is as follows:		
Accounting profit/(loss) before tax from continuing operations	(1,919,301)	(511,684)
At the statutory income tax rate of 30% (2013: 30%)	(575,790)	(153,505)
Non-deductible expenses	990	21,195
Net amount of temporary differences	(16,203)	26,734
Deferred tax assets not recognised	591,003	105,576
Income tax expense	-	-
<b>Recognised deferred tax assets</b>		
(i) Unused tax losses	-	-
(ii) Deductible temporary differences	58,413	58,413
	58,413	58,413
<b>Recognised deferred tax liabilities</b>		
Assessable temporary differences	58,413	58,413
	58,413	58,413
<b>Net deferred tax recognised</b>	-	-
<b>Unrecognised temporary differences and tax losses</b>		
Unused tax losses and temporary differences for which no deferred tax asset has been recognised	5,453,357	3,483,346
Potential tax benefit @ 30%	1,636,007	1,045,004

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise these benefits.

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit/ (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated on the same basis as basic earnings per share as there are no dilutive potential ordinary shares.

The following reflects the income and share data used in the total basic and diluted earnings per share computations:

	<b>CONSOLIDATED</b>	
	2014	2013
	\$	\$
Net profit/(loss) attributable to equity holders from continuing operations	(1,919,301)	(511,684)
Weighted average number of ordinary shares for basic earnings per share	115,698,028	114,608,952

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

#### 7. DIVIDENDS PAID AND PROPOSED

	<b>CONSOLIDATED</b>	
	2014	2013
	\$	\$
Declared and paid during the year	-	-
Proposed for approval at AGM (not recognised as a liability as at 31 December)	-	-
Franking credit balance	-	-



# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 8. CASH AND CASH EQUIVALENTS

	<b>CONSOLIDATED</b>	
	2014	2013
	\$	\$
Cash at bank and in hand	-	5,618

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The Group's exposure to interest rate risk is disclosed in note 19.

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash at bank and in hand	-	5,618
Bank overdraft (note 15)	(176,785)	(170,113)
	<u>(176,785)</u>	<u>(164,495)</u>

#### **Reconciliation of the profit/(loss) after tax to the net cash flows from operating activities**

Net profit/(loss) after tax	(1,919,301)	(511,684)
Depreciation	227,855	249,725
Amortisation	-	59,060
Loan interest receivable	(67,441)	(139,569)
Net (profit)/loss on disposal of property, plant and equipment	-	(114,475)
Impairment provision – trade and other receivables	1,853,962	77,951

#### *Changes in operating assets and liabilities*

(Increase)/decrease in inventories	6,392	(39,728)
(Increase)/decrease in trade and other receivables	29,117	236,129
(Increase)/decrease in prepayments and other assets	2,339	3,362
(Decrease)/increase in trade and other payables	(123,506)	15,760
(Decrease)/increase in provisions	(48,152)	20,309
Net cash from/(used in) operating activities	<u>(38,735)</u>	<u>(40,160)</u>

#### **Non-cash financing and investing activities**

During the year the Group acquired equipment to the value of \$21,010 (2013: \$288,600), of which \$ nil (2013: \$185,000) is by way of finance lease. The leased item has been excluded from the statement of cash flows.

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 9. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2014	2013
	\$	\$
<b>Current</b>		
Trade receivables (a)	498,880	411,374
Less: Impairment provision	(100,013)	(77,951)
	<u>398,867</u>	<u>333,423</u>
 Other receivables	 3,493	 139,119
	<u>402,360</u>	<u>472,542</u>
 <b>Non-current</b>		
Other receivables (b)	-	1,745,458
	<u>-</u>	<u>1,745,458</u>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 19.

(a) Included in trade receivables is an amount of \$134,641 (2013: \$172,328) which is past due normal trading terms. This debt relates to a customer Shenzhen Helidon Sandstone Ltd. Refer note 18 for further details.

(b) Other receivables as at 31 December 2013 comprised a secured loan to Jin Feng Da International Trading Co. Limited, an unrelated entity registered in Hong Kong with a total balance of \$1,884,577. During the period interest of \$67,441 was accrued and repayments of \$120,119 were received resulting in a total balance of \$1,831,899 as at 30 June 2014

The loan was fully provided for on 30 June 2014.

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 10 INVENTORIES

	<b>CONSOLIDATED</b>	
	2014	2013
	\$	\$
Finished goods	120,112	126,504
	<u>120,112</u>	<u>126,504</u>

### 11. OTHER FINANCIAL ASSETS (NON-CURRENT)

Security deposits	90,742	142,045
	<u>90,742</u>	<u>142,045</u>

The Group's exposure to credit and interest rate risks is disclosed in note 19.

Included in deposits is an amount of \$42,130 (2013: \$95,508) lodged as security for bank guarantees.

### 12. PROPERTY, PLANT AND EQUIPMENT

	<b>CONSOLIDATED</b>			
	Quarry Land	Owned Plant & Equipment	Leased Plant & Equipment	Total
	\$	\$	\$	\$
<i>Year ended 31 December 2014</i>				
At 1 January 2014, net of				
Accumulated depreciation	141,042	374,346	447,595	962,983
Additions	-	21,010	-	21,010
Depreciation charge for the year	-	(96,826)	(131,029)	(227,855)
At 31 December 2014	<u>141,042</u>	<u>298,530</u>	<u>316,566</u>	<u>756,138</u>
<i>At 31 December 2014</i>				
Cost	141,042	2,079,810	1,707,038	3,927,890
Accumulated depreciation and impairment	-	(1,781,280)	(1,390,472)	(3,171,752)
Net carrying amount	<u>141,042</u>	<u>298,530</u>	<u>316,566</u>	<u>756,138</u>

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 12. PROPERTY, PLANT AND EQUIPMENT (continued)

	CONSOLIDATED			
	Quarry Land	Owned Plant & Equipment	Leased Plant & Equipment	Total
	\$	\$	\$	\$
<i>Year ended 31 December 2013</i>				
At 1 January 2013, net of accumulated depreciation	141,042	378,622	412,969	932,633
Additions	-	103,600	185,000	288,600
Disposals	-	(8,525)	-	(8,525)
Depreciation charge for the year	-	(99,351)	(150,374)	(249,725)
Net carrying amount	141,042	374,346	447,595	962,983
At 31 December 2013				
Cost	141,042	2,058,800	1,707,038	3,906,880
Accumulated depreciation and impairment	-	(1,684,454)	(1,259,443)	(2,943,897)
Net carrying amount	141,042	374,346	447,595	962,983

The carrying value of plant and equipment held under finance leases at 31 December 2014 is \$316,566 (2013: \$447,595). Leased assets are pledged as security for the related finance lease liabilities.

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 13. QUARRY AND RESERVES

	<b>CONSOLIDATED</b>	
	2014	2013
	\$	\$
Capitalised expenditure on acquisition, evaluation and development		
- at cost	4,836,999	4,836,999
Accumulated amortisation	(1,307,012)	(1,307,012)
Provision for impairment	(1,634,785)	(1,634,785)
Total Helidon Quarry and Reserves (a)	1,895,202	1,895,202
Net carrying amount at beginning of year	1,895,202	1,954,262
Additions	-	-
Amortisation charge for the year	-	(59,060)
	1,895,202	1,895,202

##### (a) Helidon Quarry Reserves

The company operates two quarries in the Helidon area of Queensland. Details of the mining leases are as follows:

Mining lease No. 50013 renewed in 2012 and due to expire 2032;

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

Mining lease No. 50213 due to expire 31 December 2019.

The company also holds Exploration Permit for Minerals EPM No. 11005 and EPM No.18112 are due expiring in March 2015 respectively and the renewal application had been submitted to Department of Mine and Natural Resources for processing.

#### 14. TRADE AND OTHER PAYABLES (CURRENT)

	<b>CONSOLIDATED</b>	
	2014	2013
	\$	\$
Trade payables and accruals (unsecured)	413,896	536,305

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 15. BORROWINGS

	<b>CONSOLIDATED</b>	
	2014	2013
	\$	\$
<b>Current</b>		
Bank overdraft	176,785	170,113
Lease liabilities (note 20)	141,720	155,472
	<u>318,505</u>	<u>325,585</u>
<b>Non-current</b>		
Lease liabilities (note 20)	153,274	294,905
	<u>153,274</u>	<u>294,905</u>

#### Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

Total facilities:		
– bank overdraft	220,000	220,000
– other loans, finance leases/HP	294,994	450,377
	<u>514,994</u>	<u>670,377</u>
Facilities used at reporting date		
– bank overdraft	176,185	170,113
– other loans, finance leases/HP	294,994	450,377
	<u>471,179</u>	<u>620,490</u>
Facilities unused at reporting date		
– bank overdraft	43,215	49,887
– other loans, finance leases/HP	-	-
	<u>43,215</u>	<u>49,887</u>

The bank overdraft facility was established in November 2006 and is on normal commercial terms and conditions. The facility is secured by registered first mortgage over the Group's property and mining leases. The carrying amount of the assets pledged as security is \$2,036,244 (2013: \$2,036,244).

The lease liabilities are secured by charges over the assets subject to the liability.

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

#### 16. PROVISIONS

	CONSOLIDATED		
	Quarry restoration	Employee benefits	Total
	\$	\$	\$
At 1 January 2014	148,867	56,736	205,603
Arising during the year	2,808	33,489	36,297
Utilised/written back	-	(84,449)	(84,449)
At 31 December 2014	151,675	5,776	157,451
Current 2014	-	5,776	5,776
Non-current 2014	151,675	-	151,675
	151,675	5,776	157,451
Current 2013	-	56,763	56,763
Non-current 2013	148,867	-	148,867
	148,867	56,763	205,603

#### Quarry restoration

A provision is recognised for restoration and rehabilitation in accordance with the Group's mining permits (see Note 2 (f)).

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 17. ISSUED CAPITAL

	2014 \$	2013 \$
<i>Ordinary shares</i>		
Issued and fully paid	18,373,250	18,218,667
	<b>2014</b>	
<i>Movement in ordinary shares on issue</i>	<i>No.</i>	<i>\$</i>
At 1 January	114,608,952	18,218,667
Movement in the year		
-New issue	17,000,000	170,000
-Cancelled	(1,401,556)	(15,417)
At 31 December	130,207,396	18,375,250
	<b>2013</b>	
<i>Movement in ordinary shares on issue</i>	<i>No.</i>	<i>\$</i>
At 1 January	114,608,952	18,218,667
Movement in the year	-	-
At 31 December	114,608,952	18,218,667

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. One ordinary share entitles the holder to one vote, either in proxy or person, at a meeting of the Company. The Company does not have authorised capital or par value in respect of its issued shares.



## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise cash and cash equivalents, receivables, trade payables, borrowings and finance leases.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The Group has exposure to the following risks from their use of financial instruments – credit risk, liquidity risk and market risk. This note presents information about the exposure to each of the above risks, and the management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Managing Director is responsible for developing and monitoring the risk management policies. The Managing Director reports to the Board.

The risk management policies are established to identify and analyse the risks faced, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies are established within a governance framework which recognizes the following specific circumstances of ChongHerr:

- It is a relatively small Group;
- The Managing Director 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 and markets in which ChongHerr operates.

The fair values of the Group's financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organised markets in standardised form.

#### **Credit risk**

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables from customers and other receivables.

The Group trades mostly with strategically significant customers, who are subject to internal credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, and where necessary action is taken in respect of past due amounts.

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

The Group's export products are sold on an Free On Board ("FOB") basis with 90 day terms, and normally collateral is not required in respect of trade and other receivables.

Where necessary the Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance is raised for any specific loss component that relates to individually significant exposures.

The Group's exposure to credit risk is influenced significantly by the characteristics of its customer base. Over the past few years, the group has been actively exploring new markets to diversify its customers base and this year the group has engaged with new customers in China market and thus reduced its credit risk and its economic dependency with the long-dealing customer Shenzen Helidon Sandstone Ltd. There was no sales made to this customer during the year. However, included in trade receivables at balance date there is an amount of \$134,641 (2013: \$172,328) relating to this customer (see note 9). which is past due normal trading terms of 90 days. While the receivable is overdue, the directors consider the balance is fully recoverable as regular instalment payments has been received from this debtor.

Another amount of \$175,184 in trade receivables, which is still current at the balance date is related to another customer in China, representing 24% of the sales during the year. A partial payment of \$100,000 pertaining to this customer was received on 5 February 2015.

#### **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The approach to managing liquidity is to ensure, as far as possible, that there will always be sufficient liquidity to meet liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and overdraft balances, loans and finance leases. The Group monitors cashflow from these sources, and the collection of trade receivables and payment of trade payables.

As outlined above the Group has a significant receivable accounts, which has resulted in a low level of liquidity in the Group. The Directors are continually monitoring this situation and assessing options for increased funding of Group activities.

## **CHONGHERR INVESTMENTS LTD – ANNUAL REPORT**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

##### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect income or the value of holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

As a result of significant sales markets in China, the Group's financial performance can be affected significantly by movements in the exchange rates. The foreign currency exposure has been minimised by conducting all sales transactions and purchase transactions in Australian dollars.

Risk remains however in that any movement in exchange rates may cause China based customers to re-assess their exposure to Australian dollars. The Group believes China to be the main market for its products. The exposure to commodity price risk is minimal.

The exposure to market risk for changes in interest rates relates primarily to borrowing obligations. The policy at present is to manage its interest cost using fixed and variable rate debt.

At reporting date 45% (2013: 46%) of the Group's liabilities are interest bearing (all fixed rate) with \$153,274 (2013: 294,905) due after 12 months – see notes 15 & 19 for further details.

##### **Capital management**

The Board's policy is to build and maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the capital mix, share price, as well as the return on capital.

In recent years the Board has sought to build the Group's total equity through profitable trading and retention of profits. Capital management has also seen the Group seek to utilise appropriate levels of debt and equity, for which it regularly assesses the availability and returns required on such capital sources.

The parent entity does not have any share purchase or option arrangements, and encourages directors and employees to own shares in the company. Policy is that directors and employees should only trade in the company's shares in circumstances where the market is fully informed.

There were no changes to the approach to capital management during the year. Neither the parent entity nor its subsidiary is subject to externally imposed capital requirements.

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 19. FINANCIAL INSTRUMENTS

#### Credit Risk

Exposure to credit risk

The carrying amount of the financial assets represents the maximum credit exposure.  
The maximum exposure to credit risk at the reporting date was:

	<b>Consolidated carrying amount</b>	
	2014	2013
	\$	\$
Cash and cash equivalents	-	5,618
Trade and other receivables	402,360	2,218,000
Other financial assets	90,742	142,045
	<u>493,102</u>	<u>2,365,663</u>

The Group's maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	<b>Carrying amount</b>	
	2014	2013
	\$	\$
Australia	92,535	164,215
South-east Asia	309,825	2,053,785
	<u>402,360</u>	<u>2,218,000</u>

Comments on the exposure to credit risk for receivables at the reporting date, including the major customer, are detailed in Notes 9 and 18.

#### Impairment losses

The ageing of the Group's trade receivables at the reporting date was:

	<b>Carrying amount 2014</b>		<b>Carrying amount 2013</b>	
	Gross \$	Impairment \$	Gross \$	Impairment \$
Not past due 0-60 days	227,580		99,790	-
Not past due 60-90 days	-	-	18,249	-
Past due 90-120 days	-	-	13,649	-
Past due 121-942 days	271,300	(100,013)	279,686	(77,951)
	<u>498,880</u>	<u>(100,013)</u>	<u>411,374</u>	<u>(77,951)</u>

Comments on the Group's exposure to credit risk for trade receivables past due at the reporting date are detailed in Note 18.

# CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

### 19. FINANCIAL INSTRUMENTS (continued)

The movement in the provision for impairment losses on receivables is:

	<b>CONSOLIDATED</b>	
	2014	2013
	\$	\$
At 1 January	77,951	-
Impairment loss recognised	22,062	77,951
Balance at 31 December	100,013	77,951

### Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

#### Consolidated 31 December 2014

	Carrying amount \$	Contract- ual cash flows \$	6 months or less \$	6-12 months \$	1-2 years \$	2-5 years \$	More than 5 years \$
Lease liabilities	294,994	329,666	93,663	68,197	89,064	78,742	-
Trade payables	413,896	413,896	395,186	18,710	-	-	-
Bank overdraft	176,785	176,785	176,785	-	-	-	-
	885,675	920,359	665,634	86,907	89,064	78,742	-

#### Consolidated 31 December 2013

	Carrying amount \$	Contract- ual cash flows \$	6 months or less \$	6-12 months \$	1-2 years \$	2-5 years \$	More than 5 years \$
Lease liabilities	450,337	520,034	96,693	93,663	161,860	168,818	-
Trade payables	536,305	536,305	405,336	130,969	-	-	-
Bank overdraft	170,113	170,113	170,113				
	1,156,795	1,226,452	672,142	224,632	161,860	168,818	-

### Currency risk

The Group has no exposure to foreign currency risk at balance date.

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 19. FINANCIAL INSTRUMENTS (continued)

##### Interest rate risk

##### Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	<b>Consolidated Carrying amount</b>	
	2014	2013
	\$	\$
<b>Fixed rate instruments</b>		
Financial assets	-	1,881,458
Financial liabilities	(471,779)	(620,490)
	<u>(471,779)</u>	<u>1,260,968</u>
<b>Variable rate instruments</b>		
Financial assets	-	-
Financial liabilities	-	-
	<u>-</u>	<u>-</u>

##### Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss at 31 December 2014. Therefore a change in interest rates at the reporting date would not affect profit and loss.

##### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rate at the reporting date would have increased (decreased) equity and profit and loss by \$nil (2012:nil). This analysis assumes that all other variables remain constant.

##### Fair values

The fair values of Group's financial instruments approximate their carrying value.

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 20. COMMITMENTS AND CONTINGENCIES

##### Operating lease commitments

The Group has no operating lease commitment at 31 December 2014.

##### Finance lease commitments

The Group has finance leases for various items of plant and machinery, with standard commercial terms and conditions.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	<b>2014</b> Minimum payments \$	<b>2013</b> Minimum Payments \$
<i>CONSOLIDATED</i>		
Within one year	161,877	190,356
After one year but not more than five years	167,789	329,678
Total minimum lease payments	329,666	520,034
Less amounts representing finance charges	(34,672)	(69,657)
Present value of minimum lease payments	294,994	450,377

##### Contingencies

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

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 21. SUBSIDIAIRES

The consolidated financial statements include the financial statements of ChongHerr Investments Ltd and the subsidiaries listed in the following table.

Name	Country of incorporation	% Equity interest	
		2014	2013
Australian Sandstone Industries Pty Ltd	Australia	100	100

#### 22. EVENTS AFTER THE BALANCE SHEET DATE

Since balance date, the Group has continued to pursue the matters detailed in Note 2(a) regarding going concern and the collection of amounts owing to the Group.

No other matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

#### 23. AUDITORS' REMUNERATION

	CONSOLIDATED	
	2014	2013
	\$	\$
(a) Amounts received or due and receivable by BDO for:		
Audit or review of the financial reports of the entity	44,760	50,000
Other non-audit services in relation to the entity	-	-
	<u>44,760</u>	<u>50,000</u>



## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2013

#### 24. DIRECTOR AND KEY MANAGEMENT PERSONNEL DISCLOSURES

##### a) Details of Directors and Key Management Personnel

Mr De Hui Liu	Chairman and Managing Director
Mr Zhen Lu	Director (non-executive)
Ms Sophia Xiaoqing Kong	Director (executive)
Mr Shao Liu	Director (non-executive)

##### b) Remuneration

	CONSOLIDATED	
	2014	2013
	\$	\$
Short term employee benefits	37,649	52,354
Share based payments	-	-
Post employment benefits	3,506	4,849
	<u>41,155</u>	<u>57,203</u>

##### c) Option holdings of directors and key management personnel

No options were held at 31 December 2014 or 31 December 2013.

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2014

#### 25. PARENT ENTITY DISCLOSURES

As at and throughout the financial year ending 31 December 2014 the parent company of the Group was ChongHerr Investments Ltd.

	<b>COMPANY</b>	
	2014	2013
<b>Result of the parent entity</b>	\$	\$
(Loss) for the period	(1,919,301)	(511,684)
Other comprehensive income	-	-
Total comprehensive income for the period	(1,919,301)	(511,684)
<b>Financial position of parent entity at year end</b>		
Current assets	551,629	636,165
Total assets	3,431,191	5,515,181
Current liabilities	738,177	918,626
Total liabilities	1,043,126	1,362,398
<b>Total equity of the parent entity</b>		
Share capital	18,373,250	18,218,667
Accumulated loss	(15,985,185)	(14,065,884)
<b>Total equity</b>	2,388,065	4,152,783

#### Commitments, Contingencies and Guarantees of the Parent Entity

The minimum committed expenditure for future periods of the Parent Entity is the same as those for the Consolidated Entity. Refer to Note 20 for details.

As at 31 December 2014 the parent entity had security deposit guarantees of \$90,374 (2013: \$116,239) with various entities.

## CHONGHERR INVESTMENTS LTD – ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

### Directors' Declaration

The directors of the company declare that:

1. The financial statements, comprising the statement of profit or loss and comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:
  - a) comply with Accounting Standards and the *Corporations Regulations 2001*; and
  - b) give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date.
2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. 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.
4. The remuneration disclosures included in pages 10 to 11 of the directors' report (as part of audited Remuneration Report), for the year ended 31 December 2014, comply with section 300A of the *Corporations Act 2001*.
5. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Mr De Hui Liu  
Managing Director  
ChongHerr Investments Ltd  
27 February 2015

## INDEPENDENT AUDITOR'S REPORT

To the members of Chongherr Investments Ltd

### Report on the Financial Report

We have audited the accompanying financial report of Chongherr Investments Ltd, which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Chongherr Investments Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

## Basis for Qualified Opinion

As set out in note 9, the Group had advanced a loan to Jin Feng Da International Trading Co. Limited of \$1,884,577 as at 31 December 2013 that was due for repayment on 28 February 2014. The audited financial report of Jin Feng Da International Trading Co. Limited was provided for the year ended 31 December 2013. Security was provided to Chongherr Investments Ltd by the directors of Jin Feng Da International Trading Co. Ltd over shares in an entity, Shenzhen Bay Marine Club Co. Ltd and a joint personal guarantee from the two Jin Feng Da International Trading Co. Limited's directors.

No information could be provided in relation to the financial report of Shenzhen Bay Marine Club Co. Ltd or in relation to the personal net worth of the directors of Jin Feng Da International Trading Co. Limited who were providing the security.

Accordingly, we were unable to obtain sufficient appropriate audit evidence as to the carrying value of the loan receivable of \$1,884,577 as at 31 December 2013.

Our audit opinion on the financial report for the year ended 31 December 2013 was modified for this limitation of scope.

For the year ended 31 December 2014, the Group has raised a provision for impairment against the carrying value of the loan for \$1,831,899.

Our opinion on the current period's financial report is modified because of the possible effect of this matter on the comparability of the current period's and the corresponding period's financial position and financial performance.

## Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph:

- (a) the financial report of Chongherr Investments Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.



## Emphasis of matter

Without further modifying our opinion, we draw attention to Note 2(a) in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the receipt of long outstanding trade debtors amounting to \$134,641 and the ability to meet its forecast revenue targets. These conditions, along with other matters as set out in Note 2(a), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 11 of the directors' report for the year ended 31 December 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Chongherr Investments Ltd for the year ended 31 December 2014 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit Pty Ltd**

A handwritten signature in black ink, appearing to read 'C R Jenkins', is written over a faint, stylized 'BDO' logo.

**C R Jenkins**  
Director

Brisbane, 27 February 2015

**CHONGHERR INVESTMENTS LTD**  
**AUSTRALIAN STOCK EXCHANGE ADDITIONAL INFORMATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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

The information was applicable as at 17 February 2015.

(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	43.46%
Mr Jingchun Liu	17,000,000	13.06%
Mr De Hui Liu (Liu & Zhuang Family Trust)	16,418,057	12.61%
Mr Jianming Xiong	12,960,000	9.95%
Rangeworthy Pty Ltd (The Edgley Family Account)	4,000,000	3.07%
Min Shi	2,997,635	2.30%
Mr Bin Zhuo	2,450,000	1.88%
Mr Wing Fung Chung	2,040,000	1.57%
Desibi Pty Ltd	1,770,000	1.36%
Mr Liu Dejun	1,650,000	1.27%
Mr Zao Fa Wu	1,360,000	1.04%
GA & AM Leaver Investments Pty Ltd	1,232,157	0.95%
Mr Trevor Neil Hay	956,934	0.73%
Dr Gordon Bradley Elkington	904,500	0.69%
Mr J. Macnaughtan & Mrs J Macnaught (Family Super Fund A/C)	833,500	0.64%
Mr Qingquan Liu	822,572	0.46%
Mr Timothy Frederick Berlet	600,000	0.35%
Citicorp Nominees Pty Limited	450,000	0.46%
Apex Marble & Granite Pty Ltd (Directors Super Fund A/c)	435,500	0.33%
Desibi Pty Ltd	375,000	0.29%
<b>Portion held by 20 Largest Holders</b>	<b>125,840,212</b>	<b>96.65%</b>

(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	21.37	16,012	0.01
1001 – 5,000	23	19.66	39,900	0.03
5,001 – 10,000	4	3.42	30,500	0.02
10,001 –100,000	29	24.78	1,550,465	1.19
100,001 and Over	36	30.77	128,570,519	98.75
Total	272	100.00	130,207,396	100.00

**Marketable Parcel**

**The number of shareholders holding less than a marketable parcel is 62.**

**Substantial Shareholders**

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

(c) **Voting Rights**

- On a show of hands every member present in 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 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 Corporate Governance Principles and Recommendations (2<sup>nd</sup> edition) (“Principles”) published by the Corporate Governance Council formed by the Australian Securities Exchange (“ASX”). The ChongHerr governance framework also recognizes the following specific circumstances of ChongHerr:

- It is a relatively small size company,
- Mr De Hui 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 & markets in which ChongHerr operates.

Due to the circumstances of ChongHerr’s size and scope of operations the corporate governance framework varies, in some instances, from the Principles. However the Board believes that ChongHerr operates at an acceptable level of corporate governance. The ASX recognises that such variations may occur as the Corporate Governance Principles and 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

*(Principle 1 – lay solid foundations for management and oversight; Principle 2 – structure the Board to add value)*

#### 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,
- 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 regularly assessed on a similar basis.

### **Directors in office**

The directors of ChongHerr currently are:

Mr De Hui Liu	Chairman & Managing Director, and a major shareholder
Mr Zhen Lu	Non-executive director
Ms Sophia Xiaoqing Kong	Executive director
Mr Shao Liu	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.

Ms Kong is also considered not to be an independent director by virtue of the fact that she also is the Company Secretary.

The Board recognises that it is not in conformity with the 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 the 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**

*(Principle 3 – promote ethical and responsible decision making)*

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.

## **Approach to Diversity**

The Board recognises that it is not in complete conformity with all aspects of the ASX Corporate Governance Principle 3 surrounding areas of diversity within the company. The Board takes the issue of diversity very seriously as evidenced, until the death of Mrs Peijuan Zhunag in September 2013, by its 50% level of gender diversity in its own board representation. In addition to the Board composition, there is strong female representation in the management of day to day operations with the appointment of a new female Office Manager.

As referred to in the introductory comments of this corporate governance statement the company is relatively small in size with employees as at the end of the 2013 financial year comprising 12 employees including board members. Of this total, 3 employees (25%) are female, one of whom is on the board. Despite this factor and the specialised nature of the industry the board is working towards further achievements in the area of Gender diversity. The Board recognises that to comply further with principle 3 of the 2010 amendments to the 2nd edition of the ASX Corporate Governance Principles it needs to institute further measurable objectives for achieving gender diversity across its entire workforce within a formalised diversity policy. The Board is in the process of developing this diversity policy and will require it to be published on the company website and will review these objectives and the progress in achieving them annually.

## **Trading in company securities**

Chongherr has separately published its Securities Trading Policy in respect of designated officers and staff of the company. The Securities Trading Policy covers matters such as:

- Restriction on trading (insider trading)
- Closed periods for trading
- Excluded trading
- Exceptional circumstances
- Procedures for obtaining prior written clearance

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;
- The directors and employees must not trade in the company's shares during the following 'closed periods':

- From 1 January to and including the day on which the company's full year results are released (which are released in February);
- From 1 July to and including the day on which the company's half year results are released (which are released in August); and
- 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 recognised that there may be circumstances where it may not be appropriate for directors and employees to buy and sell shares as they may have knowledge of market sensitive information.

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

## **FINANCIAL REPORTING**

*(Principle 4 – safeguard integrity in 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 statements, 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 the Principles 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**

*(Principle 5 – make timely and balanced disclosure)*

The Company has not established written policies and procedures to ensure compliance with ASX Listing Rule disclosure requirements and accountability for compliance.

The Company has in place informal procedures which it believes are sufficient for ensuring compliance with ASX Listing Rule disclosure requirements and accountability for compliance. All price sensitive matters are handled by directors, each of whom is aware of the listing rule requirements for disclosure of price sensitive information on a timely basis.

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. The Managing Director is authorised to make announcements regarding the company.

## **SHAREHOLDERS' RIGHTS**

*(Principle 6 - respect the rights of shareholders)*

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.

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, shareholders are encouraged to attend general meetings of the company. The company's auditor also attends the Annual General Meeting and is available to answer questions about the conduct of the audit.

## **RISK MANAGEMENT**

*(Principle 7 – recognise and manage risk)*

Given the size and scale of operations and stage of development of the Company, the Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate risk management committee. Presently, the full Board carries out the functions of a risk management committee.

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 risk management and internal control systems within the company under section 295A of the Corporations Act.

## **REMUNERATION GUIDELINES**

*(Principle 8 – remunerate fairly and responsibly)*

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 regularly assessed on a similar basis.

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 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); and,
- Any equity based remuneration requires shareholder approval.

Details of remuneration of directors and senior executives are included in the Director's Report within 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 the 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.

The Board assesses the appropriateness of the nature and amount of remuneration on a periodic basis. In setting remuneration, directors and key management personnel are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. The Group does not provide any equity based remuneration.

## **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.