

**AUDITORS' REPORT AND APPENDICES**  
**TIANJIN MONOCON REFRACTORIES CO., LTD**  
**FISCAL YEAR 2007**  
**(ENGLISH TRANSLATION COPY)**

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# AUDITORS' REPORT

Ref: ZGX (2008) No.008

TO THE BOARD OF DIRECTORS OF TIANJIN MONOCON REFRACTORIES CO., LTD:

We have audited the accompanying financial statements of Tianjin Monocon Refractories Co., Ltd (the "Company"), which comprise the balance sheet as at 31 December 2007, and the income statement and profit appropriation and cash flow statement for the year then ended and explanatory notes.

## 1. Management's Responsibility for the Financial Statements

It is the responsibility of the Company's management to prepare the financial statements in accordance with the requirements of the Accounting Standards for Enterprises and the "Accounting System for Enterprises". This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

## 2. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Chinese Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.


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

### 3. Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Company as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with the relevant requirements of the Accounting Standards for Enterprises and the "Accounting System for Enterprises".

Zhong Gong Xin Certified Public Accountants  
Correspondent of Grant Thornton International

Chinese Certified Public Accountant:



February 21, 2008

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**BALANCE SHEET**  
FISCAL YEAR 2007

NAME OF ENTERPRISE: TIANJIN MONOCON REFRACTORIES CO.,LTD

Unit: RMB yuan

ASSETS	Note	12/31/2007	12/31/2006
<b>CURRENT ASSETS:</b>			
Cash & Bank	3	3,611,787.75	2,583,291.73
Marketable Securities		-	-
Notes receivable		-	-
Dividends receivable		-	-
Accounts receivable	4	11,664,503.42	13,739,954.45
Other receivable		632,910.14	293,251.34
Advanced payment		13,059.39	10,000.00
Subsidies receivable		-	-
Inventories	5	2,083,093.25	1,082,895.96
Deferred expenses		15,998.40	40,919.69
Long-term assets with less than 1 year term		-	-
Other current assets		-	-
<b>Total current assets</b>		<b>18,021,352.35</b>	<b>17,750,313.17</b>
<b>LONG-TERM INVESTMENTS:</b>			
Long-term equity investments		-	-
Long-term receivable		-	-
<b>Total long-term investments</b>		-	-
<b>FIXED ASSETS:</b>			
Fixed assets-cost	6	1,653,993.50	1,595,955.50
Less: Accumulated depreciation		791,298.86	604,256.03
Fixed assets-net		862,694.64	991,699.47
Less: Impairment		-	-
<b>Fixed assets net value</b>		<b>862,694.64</b>	<b>991,699.47</b>
Construction supplies		-	-
Fixed assets for disposal		-	-
<b>Total fixed assets</b>		<b>862,694.64</b>	<b>991,699.47</b>
<b>INTANGIBLE ASSETS AND OTHER ASSETS:</b>			
Intangible asset		-	-
Long-term deferred expenses		-	-
Other long term assets		-	-
<b>Total intangible assets</b>		-	-
<b>Deferred TAX:</b>			
Deferred tax assets		-	-
<b>TOTAL ASSETS</b>		<b>18,884,046.99</b>	<b>18,742,012.64</b>

General Manager: Manoj Rakhecha

Financial Manager: Manoj Rakhecha

Prepared by: Chuzhimin

**BALANCE SHEET**  
FISCAL YEAR 2007

NAME OF ENTERPRISE: TIANJIN MONOCON REFRACTORIES CO.,LTD

Unit: RMB yuan

LIABILITIES AND OWNER'S EQUITY	Note	12/31/2007	12/31/2006
<b>CURRENT LIABILITIES:</b>			
Short-term loans		-	-
Notes payable		-	-
Accounts payable	7	8,676,980.39	6,714,179.00
Advance Received		-	-
Accrued payroll		-	-
Accrued employee benefits		-	-
Dividends payable	8	6,505,941.06	4,560,000.00
Taxes payable	9	303,144.70	398,390.40
Other levy payable		-	-
Other payable		242,454.29	247,775.83
Bonus and welfare fund for staff and workers		183,573.38	131,658.01
Anticipation liabilities		-	-
Long-term liabilities due within one year		-	-
Other current liabilities		-	-
<b>Total current liabilities</b>		<b>15,912,093.82</b>	<b>12,052,003.24</b>
<b>LONG-TERM LIABILITIES:</b>			
Long-term loans		-	-
Debentures payable		-	-
Long-term payable		-	-
Designated payable		-	-
Other long-term debt		-	-
<b>Total long-term liabilities</b>		<b>-</b>	<b>-</b>
<b>DEFERRED TAX:</b>			
Deferred tax liabilities		-	-
<b>Total liabilities</b>		<b>15,912,093.82</b>	<b>12,052,003.24</b>
<b>OWNER'S EQUITY:</b>			
Paid-in capital	10	1,655,373.00	1,655,373.00
Less: Investments returned		-	-
Actual paid-in capital		1,655,373.00	1,655,373.00
Capital reserve		-	-
Revenue reserve		1,316,580.17	1,316,580.17
Including: Statutory welfare fund		-	-
Undistributed profits	11	-	3,718,056.23
<b>Total owner's equity</b>		<b>2,971,953.17</b>	<b>6,690,009.40</b>
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>		<b>18,884,046.99</b>	<b>18,742,012.64</b>

General Manager: Manoj Rakhecha

Financial Manager: Manoj Rakhecha

Prepared by: Chuzhimin

## INCOME STATEMENT AND PROFIT APPROPRIATION

FISCAL YEAR 2007

NAME OF ENTERPRISE: TIANJIN MONOCON REFRACTORIES CO.,LTD

Unit: RMB yuan

ITEMS	Note	Year2007	Year2006
<b>1. Sales</b>	12	<b>46,700,557.25</b>	<b>45,066,560.75</b>
Less: Cost of goods sold		24,020,739.81	23,986,317.02
Turnover tax and surcharge		-	-
<b>2. Gross profit</b>		<b><u>22,679,817.44</u></b>	<b><u>21,080,243.73</u></b>
Add: Other operating income		40,440.17	127,346.32
Less: Selling expenses		13,384,869.65	8,727,938.50
General and administrative expenses		3,090,513.32	2,199,533.24
Financial expenses		630,239.84	223,576.48
<b>3. Income from operation</b>		<b><u>5,614,634.80</u></b>	<b><u>10,056,541.83</u></b>
Add: Investment income		-	-
Subsidy income		-	-
Non-operating income		-	1,569.95
Less: Non-operating expense		2,000.00	1,742.00
<b>4. Net income before income tax</b>		<b><u>5,612,634.80</u></b>	<b><u>10,056,369.78</u></b>
Less: Income tax		421,097.61	755,183.00
<b>5. NET INCOME</b>		<b><u>5,191,537.19</u></b>	<b><u>9,301,186.78</u></b>
Add: Opening balance of retain earnings		3,718,056.23	-
<b>6. Profit available for distribution</b>		<b><u>8,909,593.42</u></b>	<b><u>9,301,186.78</u></b>
Less: Staff and workers' bonus and welfare fund	11	51,915.37	93,011.87
Reserve fund			930,118.68
<b>7. Profit available for distribution to owners</b>		<b><u>8,857,678.05</u></b>	<b><u>8,278,056.23</u></b>
Less: Dividends declared	11	8,857,678.05	4,560,000.00
<b>8. Undistributed profits</b>		<b><u>-</u></b>	<b><u>3,718,056.23</u></b>

General Manager: Manoj Rakhecha

Financial Manager: Manoj Rakhecha Prepared by: Chuzhimin

**CASH FLOWS STATEMENT  
FISCAL YEAR 2007**

**NAME OF ENTERPRISE: TIANJIN MONOCON REFRACTORIES CO.,LTD**

Items	No.	Amount
<b>1.Cash Flows from Operating Activities:</b>		
Cash received from sales of goods or rendering services	1	48,776,008.28
Receipts of tax refund received	2	
Other cash receipts relating to operating activities	3	38,440.17
<b>Sub-total of cash inflows</b>	<b>4</b>	<b>48,814,448.45</b>
Cash paid for goods and services	5	36,766,123.80
Cash paid to and on behalf of employees	6	1,642,763.86
Payment of various taxes	7	516,343.31
Other cash payments relating to operating activities	8	1,890,946.47
<b>Sub-total of cash outflows</b>	<b>9</b>	<b>40,816,177.44</b>
<b>Net cash flows from operating activities</b>	<b>10</b>	<b>7,998,271.01</b>
<b>2.Cash Flows from investing activities:</b>		
Cash received from return on investments	11	-
Cash received from distribution of dividends or profits	12	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	13	-
Other cash receipts relating to investing activities	14	-
<b>Sub-total of cash inflows</b>	<b>15</b>	<b>-</b>
Cash paid to acquire fixed assets,intangible assets and other long-term assets	16	58,038.00
Cash paid to acquire equity investments	17	-
Other cash payment relating to investing activities	18	-
<b>Sub-total of cash outflows</b>	<b>19</b>	<b>58,038.00</b>
<b>Net cash flows from investing activities</b>	<b>20</b>	<b>-58,038.00</b>
Proceeds from paid-in capital	21	-
Proceeds from issuing bonds	22	-
Other proceeds relating to financing activities	23	-
<b>Sub-total of cash inflows</b>	<b>24</b>	<b>-</b>
Cash repayments on loans	25	-
Cash payments for distribution of dividends, profits or interest	26	6,911,736.99
Other cash payments relating to financing activities	27	-
<b>Sub-total of cash outflows</b>	<b>28</b>	<b>6,911,736.99</b>
<b>Net cash flows from financing activities</b>	<b>29</b>	<b>-6,911,736.99</b>
<b>4.Effect of Foreign Exchange Rate Changes on Cash</b>	<b>30</b>	
<b>5.Net Increase in Cash and Cash Equivalents</b>	<b>31</b>	<b>1,028,496.02</b>

General Manager: Manoj Rakhecha

Financial Manager:Manoj Rakhecha

Prepared by: Chuzhimin

**CASH FLOWS STATEMENT  
FISCAL YEAR 2007**

NAME OF ENTERPRISE: TIANJIN MONOCON REFRACTORIES CO.,LTD

Unit: RMB yuan

Supplemental Information	No.	Amount
<b>1.Reconciliation of Net Profit to Cash Flows from Operating Activities</b>		
<b>Cash Flow from Operating Activities</b>		
Net profit After Tax	32	5,191,537.19
Add: Fixed assets impairment	33	-
Depreciation of fixed assets	34	187,042.83
Amortization of intangible assets	35	-
Amortisation long-term deferred expenses	36	-
Decrease(-:increase) in deferred expenses	37	24,921.29
Increase (-:decrease) in accrued expenses	38	-
Loss on disposal of fixed assets, intangible assets and other assets	39	-
Loss on scrapping fixed assets	40	-
Financial expenses	41	-
Investment loss(-: gains)	42	-
Deferred tax liabilities(-: debit)	43	-
Decrease in inventories(-: increase)	44	-1,000,197.29
Decrease in accounts receivables (-: increase)	45	2,075,451.03
Increase in accounts payables (-: decrease)	46	1,519,515.96
Others	47	-
<b>Net cash flows from operating activities</b>	<b>48</b>	<b><u>7,998,271.01</u></b>
<b>2. Investing and Financing Activities that do not Involving Cash</b>		
Conversion of debts into assets	49	-
Convertible bonds due within one year	50	-
Capital lease	51	-
<b>3. Net Increase in Cash and Cash Equivalents</b>		
Cash at the end of the period	52	3,611,787.75
Less: Cash at the beginning of the period	53	2,583,291.73
Plus: Cash equivalents at the end of the period	54	-
Less: Cash equivalents at the beginning of the period	55	-
<b>Net increase in cash and cash equivalents</b>	<b>56</b>	<b><u>1,028,496.02</u></b>

General Manager: Manoj Rakhecha

Financial Manager: Manoj Rakhecha

Prepared by: Chuzhimin

## TIANJIN MONOCON REFRACTORIES CO., LTD

### Notes to the Financial Statements

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#### 1. GENERAL

Tianjin MONOCON Refractories Co., Ltd. (the "Company") is a wholly foreign owned enterprise established on September 18, 2002. The company obtained the approval certification "Shang Wai Zi Jin Wai Zi Zi [2002] No. 0153" from Tianjin Municipal Government. The Company's business license is "Qi Du Jin Zong Fu Zi No.014514" issued by Stated Administration for Industry and Commerce of the Tianjin. The registered capital of the Company is USD200, 000.00 with operating term of 20 years, certified by Tianjin Tongxin CPAs firms with Capital Verification Report "Jin Tong Kuai Yan Zi (2002) No. 65"

The allowable business scope with the business license covers producing processing and selling refractory materials and providing related services.

#### 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The significant accounting policies and accounting estimates adopted in the preparation of the financial statements are in conformity with the requirements of the Accounting Standards for Enterprises of the People's Republic of China and the "Accounting System for Business Enterprises" and the relevant supplementary regulations.

##### **Accounting system and accounting standards adopted**

The accounting policies adopted by the Company are in accordance with Accounting Standards for Enterprises of the People's Republic of China and "Accounting System for Business Enterprises" and the relevant supplementary regulations.

##### **Accounting year**

The Company adopts the calendar year as its accounting year, i.e. from 1 January to 31 December.

##### **Recording currency**

The recording currency and reporting currency of the Company is Renminbi unless otherwise specified.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### **Basis of accounting and principle of measurement**

The Company maintains its accounting records on accrual basis and its records are measured at historical cost. Each asset is recorded at actual cost on acquisition. At the end of each period, the Company determined whether an impairment loss should be recognized for any asset by considering the indication that such loss may have occurred in accordance with "Accounting System for Business Enterprises".

### **Foreign currency translation**

Transactions in foreign currencies are translated into Renminbi at the applicable rate of exchange prevailing at the dates of the transactions quoted by the People's Bank of China ("benchmark exchange rate").

Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi Yuan at the applicable rate of exchange prevailing at the balance sheet date. Exchange gains and losses on foreign currency translations are dealt with in the income statement.

### **Cash equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are held by enterprises and subject to limited risk on changes in value.

### **Provision for bad debts**

Criteria for recognition of bad debts are:

- The irrecoverable amount for a debtor who becomes bankrupt after pursuing the statutory recovery procedures or who dies and has no offsetting estate and obligatory undertakers;
- The irrecoverable amount or this amount with less possibility to be recovered with sufficient evidence for a debtor who does not comply with repayment obligation after the debt becomes due.

### **Inventories**

Inventories include raw materials, finished goods, packaging materials and low value consumables, etc. Inventories are stated at actual cost, which includes costs of purchase and processing and those overheads that have been incurred in bringing the inventories to their present location and condition. Actual cost is applied for the record of movement of inventories and is recognized on a weighted average basis. Low value consumables are expensed on a one-off write-of basis.

Inventories are measured at the lower of cost and net realizable value at the balance sheet date. The impairment of inventories is made when the net realizable value is lower than the cost. Net realizable value represents the balance of the estimated selling price less the estimated cost of completion, the estimated cost of marketing and the relevant taxes and levies in the ordinary cost

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

of business. Net realizable value is recognized on an individual basis with reference to general selling price.

Impairment on finished goods is provided on an individual basis. Impairment on raw materials is provided on a category basis.

### **Fixed assets**

Fixed assets are tangible assets held by the Company for production, provision of services, lease or operation, with useful life exceeding one year and with a relatively higher unit cost.

Fixed assets are recorded at actual cost on acquisition. Depreciation is provided to write off the cost of each category of fixed assets over their estimated useful lives using the straight-line method. The estimated useful lives, estimated residual values and annual depreciation rates of each category of fixed assets are as follows:

<u>Category</u>	<u>Estimated useful lives</u>	<u>Annual depreciation rates (%)</u>	<u>Estimated residual rates (%)</u>
Manufacture Equipment	10 years	9%	10%
Office Equipment	5 years	18%	10%
Motor Vehicle	5 years	18%	10%
Assistant Equipment	5 years	18%	10%

At the end of each period, fixed assets are measured at the lower of their carrying amounts and their recoverable amounts. Where the recoverable amount of any fixed asset is lower than its carrying amount, an impairment loss is recognized for the difference. Recoverable amount represents the higher of the net selling price of the asset and its value in use. Value in use is the present value of the future cash flows expected to be derived from the use of assets less costs to sell.

The net gains and losses arising from the disposal of fixed assets are recorded as non-operating revenues or expenses in the income statement.

### **Revenue recognition**

- (1) Revenue from rendering of services is recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.
- (2) Sales revenue is recognized when the Company has transferred the significant risks and rewards of ownership of the goods to the buyer; and the Company neither retains the managing rights nor control over the goods sold; and the economic benefits associated with the transactions will flow to the Company and relevant revenue and cost can be reliably measured.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### Income tax

Income tax is provided under the tax payable method. Income tax provision is calculated based on the accounting results for the year as adjusted for items which are non-assessable or disallowed under the relevant tax laws and regulations.

### Related parties

Parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions; or where the Company and the party are subject to common control.

## 3. CASH AND CASH EQUIVALENTS

	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
Cash in hand	6,149.97	1,939.89
Cash at banks	<u>3,605,637.78</u>	<u>2,581,351.84</u>
	<u>3,611,787.75</u>	<u>2,583,291.73</u>
In which		
RMB Bank Accounts		
<u>Name of the bank</u>	<u>Account No</u>	<u>2007</u>
Bank of China Tianjin Binhai Branch	08685108091001	2,084,208.19
	08685108096001	132,957.82
HSBC Tianjin Taida Branch	725-000699-011	271,269.28
USD Bank Accounts		
<u>Name of the bank</u>	<u>Account No</u>	<u>2007</u>
HSBC Tianjin Taida Branch	105-000699-055	1,117,202.49

## 4. ACCOUNTS RECEIVABLE

	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
Accounts Receivable	11,664,503.42	13,739,954.45
Provision for bad debts	-	-
Total	<u>11,664,503.42</u>	<u>13,739,954.45</u>

The aging analysis of account receivables is as follow:

	<u>2007</u>			<u>2006</u>		
	Book Value	%	Provision for bad debts	Book Value	%	Provision for bad debts
Within one year	11,664,503.42	100%	-	13,739,954.45	100%	-

Appendix 4

5. INVENTORIES

	<u>2007</u>	<u>2006</u>
	<u>RMB</u>	<u>RMB</u>
Raw Materials	761,329.56	563,819.06
Packaging Materials	118,736.33	97,743.49
Low Value Consumables	-	-
Finished Goods	1,203,027.36	421,333.41
	<u>2,083,093.25</u>	<u>1,082,895.96</u>
Provision for impairment loss of inventories	-	-
	<u>2,083,093.25</u>	<u>1,082,895.96</u>

6. FIXED ASSETS

	Office Equipment RMB	Manufacture Equipment RMB	Assistant Equipment RMB	Motor Vehicle RMB	Total RMB
Cost					
At 1 Jan 2007	86,435.02	1,166,707.00	164,866.48	177,947.00	1,595,955.50
Addition	29,258.00	-	28,780.00	-	58,038.00
Transfer from construction in progress	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 Dec 2007	115,693.02	1,166,707.00	193,646.48	177,947.00	1,653,993.50
Accumulated depreciation					
At 1 Jan 2007	44,738.41	428,764.73	78,602.23	52,150.65	604,256.03
Charge for the year	19,059.81	105,003.60	30,948.90	32,030.52	187,042.83
Write-back	-	-	-	-	-
At 31 Dec 2007	63,798.22	533,768.33	109,551.13	84,181.17	791,298.85
Net book amount					
At 31 Dec 2007	51,894.80	632,938.67	84,095.35	93,765.83	862,694.64
At 31 Dec 2006	41,686.61	737,942.27	86,264.25	125,796.35	991,699.47
Provision for the impairment					
At 1 Jan 2007	-	-	-	-	-
Provision for the year	-	-	-	-	-
Reversal	-	-	-	-	-
At 31 Dec 2007	-	-	-	-	-
Net carrying amount					
At 31 Dec 2007	51,894.80	632,938.67	84,095.35	93,765.83	862,694.64
At 31 Dec 2006	41,686.61	737,942.27	86,264.25	125,796.35	991,699.47

Appendix 4

**7. ACCOUNTS PAYABLE**

	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
Accounts payable	8,676,980.39	6,714,179.00

As at December 31 2007, VAT input estimated amounting to RMB 508,481.13 was not included in the balance of accounts payable as some VAT invoices were not received yet by the year end. However, the said pending VAT invoice amount has no effect on the Profit & Loss Account.

**8. DIVIDEND PAYABLE**

	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
Dividend - 2006	1,366,319.23	4,560,000.00
Dividend - 2007	5,139,621.83	
Total	<u>6,505,941.06</u>	<u>4,560,000.00</u>

The Company paid dividend to investor, IFGL Worldwide Holdings Ltd, amounting to RMB 4,560,000 during 2007. While, as per the decision made by board meeting held on 22 October, 2007, retained earnings generated from prior year's operation amounting to RMB 3,718,056.23 was decided to be repaid to the investor, among which RMB 2,351,737 was paid during 2007 and balance, RMB 1,366,319.23, remains as dividend payable. In addition, as per the decision made by board meeting held on 18 March, 2008, net profit generated from current year's operation amounting to RMB 5,139,621.83 is decided to be repaid to investor.

**9. TAXES PAYABLE**

	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
Value added tax	167,581.41	143,842.92
Income tax	108,384.76	237,582.71
Individual income tax withholding tax	27,178.53	16,964.77
Total	303,144.70	398,390.40

The Company's principal taxes and their tax rates are as follows:

- (1) Value-added tax ("VAT") -Sales are subject to VAT, at 17% for domestic sales. It is on "exempt, offset, refund" basis for export sales where the VAT refund rate is 13% from Jan to June 2007 and is 5% from July to Dec 2007 in accordance with <Announcement of Ministry of Finance PRC and State Administration of Taxation on reducing a part of commodities' export drawback rate>
- (2) Corporate income tax -The Company is established in the economic and technology development zone and classified as foreign investment manufacturing enterprise. Pursuant to the relevant regulations, the Company is subject to enterprise income tax at 15% and entitled to tax holiday of 2-year-exemption and 3-year-50% reduction commencing from the year after the accumulated tax losses of the past five years have been utilized. 2007 is the latest year to enjoy tax concessions. The Company is subject to enterprise income tax at 7.5% in 2007.
- (3) Individual income tax ("IIT") withholding tax -Pursuant to the relevant tax laws and regulations, the Company withholds IIT on salaries paid to employees.

Appendix 4

10. PAID-IN CAPITAL

	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
IFGL Worldwide Holdings Limited	1,655,373.00	1,655,373.00

11. STAFF AND WORKERS' BONUS AND WELFARE FUND, RESERVE FUND AND UNDISTRIBUTED PROFITS

In accordance with the Company's Articles of Association and the resolution of the Board of Directors, net profit available for appropriation and distribution for this year is as follows:

Staff and workers' bonus and welfare fund	2007 net profit 1%
-------------------------------------------	-----------------------

<u>Undistributed Profits</u>	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
Opening balance	3,718,056.23	-
Add: Net profit for the year	5,191,537.19	9,301,186.78
Transfer	-	-
Less: Appropriation of		
-revenue reserve	-	930,118.68
-bonus and welfare fund for staff and workers	51,915.37	93,011.87
Profit distribution for the year	8,857,678.05	4,560,000.00
	<u>-</u>	<u>3,718,056.23</u>

12. Revenue

Revenue is recognized basing on CIF price including freight, insurance and other expenses incurred during export process. In 2007, freight, insurance and other expenses incurred during export process was RMB 8,325,047.67.

Appendix 4

13. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The parent company with effective control over the Company is as below:

<u>Name</u>	Percentage of equity held in the Company and changes
IFGL Worldwide Holdings Limited	100%

During the year, the Company had transactions with the following major related parties

<u>Name of related parties</u>	<u>Relationship with the Company</u>
Monocon International Refractories Ltd.	Under a common control of the same parent
Monocon Taiwan Co.,Ltd.	Under a common control of the same parent
IFGL Refractories Ltd.	Under a common control of the same parent
Tianjin Monocon Aluminous Refractories Co., Ltd.	Under a common control of the same parent

During the year the Company had the following significant transactions with related parties:

(1) Sales of goods

	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
Monocon International Refractories Ltd.	1,318,226.51	1,217,920.47
Monocon Taiwan Co.,Ltd.	-	41,061.02
IFGL Refractories Ltd.	330,386.76	-
	<u>1,648,613.27</u>	<u>1,258,981.49</u>

The Company entered into the above transactions with the related parties on a cost plus margin basis.

(2) Inventory purchasing

	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
Tianjin Monocon Aluminous Refractories Co., Ltd.	151,302.16	-

(3) Particulars of the closing balance of accounts receivables and payables

Items	Name of related party	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
Accounts receivable	Monocon International Refractories Ltd	150,346.93	377,096.96

Items	Name of related party	<u>2007</u> <u>RMB</u>	<u>2006</u> <u>RMB</u>
Accounts payable	Monocon International Refractories Ltd	1,680,663.70	1,416,035.36
Other payable	Monocon International Refractories Ltd	58,483.95	58,483.95
Total		1,739,147.65	1,474,519.31

Accounts receivable and payable with related parties are interest free, unsecured and have no fixed repayment terms.

**14. COMMITMENTS**

(a) Operating lease commitment

At the balance sheet date, the Company was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which due as follows:

	<u>2007</u> <u>RMB</u>
Within one year	689,200.00
One to two years	-
Two to three years	-
Over three years	-

**15. CONTINGENT LIABILITIES**

None.

**16. POST BALANCE SHEET EVENTS**

None.

Tianjin MONOCON Refractories Co.,Ltd.  
February 10,2008

**TIANJIN MONOCON REFRACTORIES CO.,LTD**  
**TAXABLE INCOME ADJUSTMENT SHEET**  
**FISCAL YEAR 2007**

Unit: RMB yuan

ITEMS	Balance per Income Statement	Adjustment	Adjusted Balance
<b>Sales</b>	46,700,557.25	-	46,700,557.25
Less: Cost of sales	24,020,739.81	-	24,020,739.81
Turnover tax and surcharge	-	-	-
<b>Gross profit on sales</b>	<b>22,679,817.44</b>	-	<b>22,679,817.44</b>
Add: Other revenue	40,440.17	-	40,440.17
Less: Operating expense	13,384,869.65	-	13,384,869.65
General and administrative expense	3,090,513.32	-	3,090,513.32
Financial expense	630,239.84	-	630,239.84
<b>Income from operation</b>	<b>5,614,634.80</b>	-	<b>5,614,634.80</b>
Add: Non-operating income	-	-	-
Investment income	-	-	-
Receipts form subsidies	-	-	-
Less: Non-operating expense	2,000.00	-	2,000.00
<b>Net income before income tax</b>	<b>5,612,634.80</b>	-	<b>5,612,634.80</b>
Add: Adjustment increases	-	2,000.00	2,000.00
Less: Adjustment decreases	-	-	-
<b>Taxable income for current year</b>	<b>5,612,634.80</b>	<b>2,000.00</b>	<b>5,614,634.80</b>

**TIANJIN MONOCON REFRACTORIES CO., LTD**  
**Notes on Taxable Income Adjustment**

**Name of company: Tianjin Monocon Refractories Co. Ltd.**

1. The company incurred fines for delayed tax payment amounting to RMB 2,000.00, which was not deductible in calculating taxable income.

**Statement of Sundry Tax and Fee Payable**  
**FISCAL YEAR 2007**

NAME OF ENTERPRISE: TIANJIN MONOCON REFRACTORIES CO.,LTD

Unit: RMB yuan

Category	Beginning Balance	Amount payable for the year	Amount paid for the year	Closing Balance
Value added tax	143,842.92	1,176,321.02	1,152,582.53	167,581.41
Business tax	-	-	-	-
Consumption tax	-	-	-	-
Resource tax	-	-	-	-
Land value added tax	-	-	-	-
Foreign enterprise income tax	237,582.71	421,097.61	550,295.56	108,384.76
Vehicle and vessel usage tax	-	840.00	840.00	-
Property tax	-	-	-	-
Stamp duty	-	15,359.68	15,359.68	-
Individual income tax	16,964.77	310,518.56	300,304.80	27,178.53
Land use fee	-	-	-	-
Advanced income tax	-	-	-	-
<b>Total</b>	<b>398,390.40</b>	<b>1,924,136.87</b>	<b>2,019,382.57</b>	<b>303,144.70</b>