

AUDITORS' REPORT AND APPENDICES
TIANJIN MONOCON ALUMINOUS REFRACTORIES CO., LTD
FISCAL YEAR 2006
(ENGLISH TRANSLATION COPY)

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AUDITOR'S REPORT

Ref: ZGX (2007) No.082

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

We have audited the accompanying financial statements of Tianjin Monocon Aluminous Refractories Co., Ltd (the "Company"), which comprise the balance sheet as at 31 December 2006, 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 2006, 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

Chinese Certified Public Accountant:



Correspondent of Grant Thornton International

April 10, 2007

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BALANCE SHEET
FISCAL YEAR 2006

NAME OF ENTERPRISE: TIANJIN MONOCON ALUMINOUS REFRACTORIES CO.,LTD Unit: RMB yuan

ASSETS	Note	2006-12-31	2005-12-31
CURRENT ASSETS:			
Cash & Bank	3	1,938,473.72	-
Marketable Securities		-	-
Notes receivable		-	-
Dividends receivable		-	-
Accounts receivable		-	-
Other receivable		245,220.00	-
Advanced payment	4	1,040,330.00	-
Subsidies receivable		-	-
Inventories		-	-
Deferred expenses		-	-
Long-term assets with less than 1 year term		-	-
Other current assets		-	-
Total current assets		<u>3,224,023.72</u>	<u>-</u>
LONG-TERM INVESTMENTS:			
Long-term equity investments		-	-
Long-term receivable		-	-
Total long-term investments		<u>-</u>	<u>-</u>
FIXED ASSETS:			
Fixed assets-cost		-	-
Less:Accumulated depreciation		-	-
Fixed assets-net		-	-
Less: Impairment		-	-
Fixed assets net value		<u>-</u>	<u>-</u>
Construction supplies		-	-
Construction in progress	5	4,193,971.55	-
Fixed assets for disposal		-	-
Total fixed assets		<u>4,193,971.55</u>	<u>-</u>
INTANGIBLE ASSETS AND OTHER ASSETS:			
Intangible asset		-	-
Long-term deferred expenses	6	879,247.83	-
Other long term assets		-	-
Total intangible assets		<u>879,247.83</u>	<u>-</u>
Deferred TAX:			
Deferred tax assets		-	-
TOTAL ASSETS		<u><u>8,297,243.10</u></u>	<u><u>-</u></u>

General Manager: Martin Burke

Financial Manager:Manoj Rakhecha

Prepared by: Chuzhimin

BALANCE SHEET

FISCAL YEAR 2006

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

Unit: RMB yuan

LIABILITIES AND OWNER'S EQUITY	Note	2006-12-31	2005-12-31
CURRENT LIABILITIES:			
Short-term loans		-	-
Notes payable		-	-
Accounts payable		2,748,343.05	-
Advance Received		-	-
Accrued payroll		-	-
Accrued employee benefits		-	-
Dividends payable		-	-
Taxes payable		-	-
Other levy payable		-	-
Other payable		-	-
Bonus and welfare fund for staff and workers		-	-
Anticipation liabilities		-	-
Long-term liabilities due within one year		-	-
Other current liabilities		-	-
Total current liabilities		2,748,343.05	-
LONG-TERM LIABILITIES:			
Long-term loans		-	-
Debentures payable		-	-
Long-term payable		-	-
Designated payable		-	-
Other long-term debt		-	-
Total long-term liabilities		-	-
DEFERRED TAX:			
Deferred tax liabilities		-	-
Total liabilities		2,748,343.05	-
OWNER'S EQUITY:			
Paid-in capital	7	5,491,460.00	-
Less: Investments returned		-	-
Actual paid-in capital		5,491,460.00	-
Capital reserve	8	57,440.05	-
Revenue reserve		-	-
Including: Statutory welfare fund		-	-
Undistributed profits		-	-
Total owner's equity		5,548,900.05	-
TOTAL LIABILITIES AND OWNER'S EQUITY		8,297,243.10	-

General Manager: Martin Burke

Financial Manager: Manoj Rakhecha

Prepared by: Chuzhimin

CASH FLOWS STATEMENT
FISCAL YEAR 2006

NAME OF ENTERPRISE: TIANJIN MONOCON ALUMINOUS REFRACTORIES CO.,LTD Unit: RMB yu

Items	No.	Amount
1.Cash Flows from Operating Activities:		
Cash received from sales of goods or rendering services	1	-
Receipts of tax refund received	2	-
Other cash receipts relating to operating activities	3	-
Sub-total of cash inflows	4	<u>-</u>
Cash paid for goods and services	5	-
Cash paid to and on behalf of employees	6	-
Payment of various taxes	7	-
Other cash payments relating to operating activities	8	-
Sub-total of cash outflows	9	<u>-</u>
Net cash flows from operating activities	10	<u>-</u>
2.Cash Flows from investing activities:		
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	-
Sub-total of cash inflows	15	<u>-</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	16	3,610,426.33
Cash paid to acquire equity investments	17	-
Other cash payment relating to investing activities	18	-
Sub-total of cash outflows	19	<u>3,610,426.33</u>
Net cash flows from investing activities	20	<u>-3,610,426.33</u>
3.Cash Flows from Financing activities:		
Proceeds from paid-in capital	21	5,491,460.00
Proceeds from issuing bonds	22	-
Other proceeds relating to financing activities	23	57,440.05
Sub-total of cash inflows	24	<u>5,548,900.05</u>
Cash repayments on loans	25	-
Cash payments for distribution of dividends, profits or interest	26	-
Other cash payments relating to financing activities	27	-
Sub-total of cash outflows	28	<u>-</u>
Net cash flows from financing activities	29	<u>5,548,900.05</u>
4.Effect of Foreign Exchange Rate Changes on Cash	30	
5.Net Increase in Cash and Cash Equivalents	31	<u>1,938,473.72</u>

CASH FLOWS STATEMENT
FISCAL YEAR 2006

NAME OF ENTERPRISE: TIANJIN MONOCON ALUMINOUS REFRACTORIES CO.,LTD Unit: RMB yu

Supplemental Information	No.	Amount
1.Reconciliation of Net Profit to Cash Flows from Operating Activities		
Net profit	32	-
Add: Fixed assets impairment	33	-
Depreciation of fixed assets	34	-
Amortization of intangible assets	35	-
Amortisation long-term deferred expenses	36	-
Decrease(-:increase) in deferred expenses	37	-
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	-
Decrease in accounts receivables (-: increase)	45	-
Increase in accounts payables (-: decrease)	46	-
Others	47	-
Net cash flows from operating activities	48	-
2. Investing and Financing Activities that do not Involving Cash		
Conversion of debts into assets	49	-
Convertible bonds due within one year	50	-
Capital lease	51	-
3. Net Increase in Cash and Cash Equivalents		
Cash at the end of the period	52	1,938,473.72
Less: Cash at the beginning of the period	53	-
Plus: Cash equivalents at the end of the period	54	-
Less: Cash equivalents at the beginning of the period	55	-
Net increase in cash and cash equivalents	56	<u>1,938,473.72</u>

General Manager: Martin L. Burke

Financial Manager:Manoj Rakhecha

Prepared by: Chuzhimin

TIANJIN MONOCON ALUMINOUS REFRACTORIES CO., LTD

Notes to the Financial Statements

1. GENERAL

Tianjin Monocon Aluminous Refractories Co., Ltd(The company) is a wholly owned foreign company established by IFGL Worldwide Holdings Ltd in Tianjin province with approval certification ("Shang Wai Zi Jin Wai Shang Zi No [2006] 02114"). The company obtained business license " Qi Du Jin Zong Zi No.018644" from the State Administration of Industry and Commerce of Tianjin on August 08, 2006. The registered capital of the Company is USD 1,000,000.00 with operating term of 20 years, certificated by Zhong Gong Xin CPAs firm with Capital Verification Report " ZGX (2007) Yan Zi No.003.

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-off 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 rate (%)</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.

Construction in progress

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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.

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>2006</u>	<u>2005</u>
Cash in hand	4,550.43	-
Cash at banks	<u>1,933,923.29</u>	<u>-</u>
	<u>1,938,473.72</u>	<u>-</u>
In which		
RMB Bank Accounts		
<u>Name of the bank</u>	<u>Account No</u>	<u>2006</u>
Bank of China Tianjin Binhai Branch	856012445908091001	1,901,908.72
HSBC Tianjin Taida Branch	725-001556-011	22,265.33
USD Bank Accounts		
<u>Name of the bank</u>	<u>Account No</u>	<u>2006</u>
HSBC Tianjin Taida Branch	105-001556-060	9,749.24

Appendix 3

4. PREPAYMENT	<u>2006</u>	<u>2005</u>
Within one year	1,040,330.00	-
5. CONSTRUCTION IN PROGRESS		
Cost		-
At 1 Jan 2006		4,193,971.55
Addition		-
Transfer to Fixed Assets		4,193,971.55
At 31 Dec 2006		
Provision for the impairment		-
At 1 Jan 2006		-
Provision for the year		-
Reversal		-
At 31 Dec 2006		<u>4,193,971.55</u>
Net carrying amount		
6. LONG-TERM DEFERRED EXPENSES		
At 1 Jan 2006		879,247.83
Addition		-
Amortization		-
Transfer out		879,247.83
At 31 Dec 2006		<u>879,247.83</u>
7. PAID-IN CAPITAL		
	<u>2006</u>	<u>2005</u>
	<u>RMB</u>	<u>RMB</u>
IFGL Worldwide Holdings Limited	<u>5,491,460.00</u>	<u>-</u>

The amount of paid-in capital, equaled to USD 700,000, had been verified by Zhong Gong Xin Certified Public Accountant with Capital Verification Report.

8. CAPITAL RESERVE

The balance of capital reserve indicated over provided registered capital by foreign investor IFGL Worldwide Holdings Limited.

9. RELATED PARTY RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

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

<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
Tianjin Monocon 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) Equipment/Construction Purchased

	<u>2006</u>	<u>2005</u>
Monocon International Refractories Ltd	1,190,506.05	-

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

		<u>2006</u>	<u>2005</u>
Account payables	Monocon International Refractories Ltd	1,190,506.05	-
	Tianjin Monocon Refractories Co.,Ltd	3,796.00	-
Total		<u>1,194,302.05</u>	<u>-</u>

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

Appendix 3

10. 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>2006</u>
Within one year	956,280.00
One to two years	956,280.00
Two to three years	956,280.00
Over three years	478,140.00
	<u>3,346,980.00</u>

(b) Capital commitment

	<u>2006</u>
Purchase of fixed assets	216,420.00

11. CONTINGENT LIABILITIES

None.

12. POST BALANCE SHEET EVENTS

None.