



上海申洲大通会计师事务所有限公司

Shanghai Shen Zhou Da Tong Certified Public Accountants

SZDT CPAs Co., Ltd.
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Auditors' Report

SZDT(2010)SZ1458

To Board of Directors

We have audited the accompanying balance sheet of Atul International Trading (Shanghai) Co., Ltd. as of March 31, 2010, and the statement of income, changes in equity and cash flows for the year then ended and notes to these financial statements.

These financial statements are the responsibilities of the company's management. The management responsibilities include: (1) design, execute and maintain the related internal control to assure the financial statements are free of material misstatements resulting from fraud or errors; (2) select and adopt appropriate accounting policies; (3) make reasonable accounting estimates.

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 observe professional ethic, plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes conducting audit procedures to obtain evidences supporting the amounts and disclosures in the financial statements. The audit procedures applied are based on the certified public accountants' judgments including an evaluation on the risk of material misstatement resulting from fraud or errors. When performing risk evaluation, we considered the financial statements presentation related internal control to design appropriate audit procedures. Our purpose is not to express an opinion on the effectiveness of internal control. An audit also includes assessing the accounting polices used and significant estimate made by management, as well as evaluating the overall financial statements presentation.

We believe the audit evidences we obtained are sufficient and appropriate and provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Atul International Trading (Shanghai) Co., Ltd. as of March 31, 2010 and the results of its operations and cash flows for the year then ended, in accordance with Accounting Standards for Business Enterprises.

Dai Yong, Certified Public Accountant

Li Hui, Certified Public Accountant

Shanghai Shen Zhou Da Tong CPAs Co., Ltd.

Shanghai 上海申洲大通

Date: 2010-4-15



SHEN ZHOU

Balance Sheet	<u>2010-3-31</u>	<u>2009-3-31</u>
Current assets		
Bank balance and cash	2,163,493.34	1,801,779.41
Trade accounts receivable	3,337,194.34	853,731.41
Other accounts receivable	-	351,983.54
Prepaid expenses	9,963.00	89,733.08
Inventories	399,373.2	1,762,136.78
	<u>5,910,023.88</u>	<u>4,859,364.22</u>
Fixed assets		
Fixed assets, at cost	496,528.28	871,325.28
Less: Accumulated depreciation	(374,466.62)	(579,800.26)
Fixed assets, net value	<u>122,061.66</u>	<u>291,525.02</u>
Intangible assets	12,499.90	17,499.94
Long-term prepaid expenses	37,006.23	94,329.58
Total assets	<u><u>6,081,591.67</u></u>	<u><u>5,262,718.76</u></u>
Current liabilities		
Trade accounts payable	4,713,877.56	3,511,294.21
Advance from customers	-	76,500.00
Other accounts payable	23,823.25	23,141.17
Taxes payable	21,989.45	18,408.93
Accrued taxes	181.47	122.38
	<u>4,759,871.73</u>	<u>3,629,466.69</u>
Owner's equity		
Paid-in capital	3,393,385.00	3,393,385.00
Accumulated profit	<u>(2,071,665.06)</u>	<u>(1,760,132.93)</u>
	1,321,719.94	1,633,252.07
Total liabilities and owner's equity	<u><u>6,081,591.67</u></u>	<u><u>5,262,718.76</u></u>

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Income Statement	<u>2009.04-2010.03</u>	<u>2008.04-2009.03</u>
Sales revenue	15,444,741.60	20,803,633.03
Less: Cost of sales	14,321,795.52	19,061,315.81
Sales tax	3,241.35	3,036.39
Sales profit	<u>1,119,704.73</u>	<u>1,739,280.83</u>
 Add: Other operating profit	 558,286.80	 644,911.85
Less: Administrative expenses	1,872,727.03	3,306,061.17
Financial expenses	<u>27,448.84</u>	<u>(35,430.80)</u>
 Operating profit/(loss)	 <u>(222,184.34)</u>	 <u>(886,437.69)</u>
 Add: Subsidy income	 -	 -
Non-operating expenses		
Less: Non-operating expenses	89,347.79	2,600.00
Profit/(loss) before income tax	<u>-311,532.13</u>	<u>-889,037.69</u>
 Less: Income tax	 -	 -
 Net profit/(loss)	 <u><u>-311,532.13</u></u>	 <u><u>-889,037.69</u></u>

2010年3月31日

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Cash Flows Statement	<u>2009.04-2010.03</u>
Cash flows in operating activities	
Cash received from sales of goods & render of service	19,708,035.99
Cash received from Subsidy income	-
Cash received from other operating activities	2,752.84
Cash paid for procurements of goods & services	(16,500,211.32)
Cash paid to or for staff	(603,550.73)
Cash paid for taxation	(386,791.06)
Cash paid for other operating activities	(1,945,506.69)
Net cash flow in operating activities	<u>274,729.03</u>
Cash flows in investing activities	
Cash received from procurement of capital assets	100,000.00
Cash payment for procurement of capital assets	(4,407.00)
Net cash flow in investing activities	<u>95,593.00</u>
Cash flows in financing activities	
Net cash flows in financing activities	
Influences of changes in exchange rates on cash	<u>(8608.10)</u>
Net increase in cash & cash equivalents	<u><u>361,713.93</u></u>
Net increase in cash & cash equivalents	
Ending balance of cash & cash equivalents	2,163,493.34
Less: Beginning balance of cash & cash equivalents	1,801,779.41
Net increase in cash & cash equivalents	<u><u>361,713.93</u></u>

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I. General

Atul International Trading (Shanghai) Co., Ltd. ("The Company" hereafter) is a wholly foreign owned enterprise established by Atul Limited India on April 21, 2004 in Pudong New Area. Its approved operational period is 20 years. The company is mainly engaged in international trade, re-export business, trade and trade agent among the enterprises in bonded zone; trade with the enterprises outside the bonded zone through domestic enterprise agents with import-export operations right; simple mercantile process and commodity exhibition inside the bonded zone; consulting service concerned trade inside the bonded zone (operate according to license if relating to operation permission). The Company's registered capital is USD 410,000. Refer to the note 10 on paid-in capital for the detail information on the capital contribution.

II. Summary of Significant Accounting Policies

Accounting system & accounting standards

The company has adopted the "Accounting Standards for Business Enterprises", the "Accounting System for Business Enterprises" and the supplementary regulations thereto.

Basis of accounting & principle of measurement

The Company follows the accrual basis of accounting and uses the historical cost convention as the principle of measurement.

Financial year

The company's financial year in China is from January 1 to December 31, but the company can also have audited financial statements from April 1 to March 31 of next year as per the requirement of investor, Atul Limited, India.

Reporting currency

The company's reporting currency is RMB Yuan.

Foreign currency transactions

Other than the calculation of foreign capital, foreign currency transactions are translated into the reporting currency at the prevailing market exchange rate of the first day of each month quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into the reporting currency at the prevailing market exchange rate quoted by the People's Bank of China. Translation gain and loss are recognized in the income statement.

Cash and cash equivalent

The cash refers to cash on hand and bank deposits available for payment at any time; the cash equivalents refer to short term, no more than 3 months, and highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Short-term investment

The short-term investments include those debentures, bonds and fund investments that can be realized at any time and are not to be held more than one year. The valuation of short-term investment at the end of the year is calculated by the lower one between the cost and market value, wherein for the difference of market value lower than cost, the provision for devaluation is withdrawn for short-term investment.

Accounts receivable and provision for bad debt

Accounts receivable includes accounts receivable and other accounts receivable. The company uses allowance method to register possible bad debts. Accounts receivable is stated as the net value after provision for bad debt deducts from the carrying amounts.

Inventories

Inventories include raw materials and finished goods etc, which are stated at lower of cost or net realizable value concept.

Inventories are stated at acquisition cost. Deliveries of inventories are stated based on first-in-first-out method.

Inventory provision for devaluation

Inventories of balance sheet date are stated at lower of cost or net realizable value. If the inventory cost is higher than its net realizable value, provision for devaluation is determined by the difference between net realizable selling value and inventory cost of a single item.

The Company made no inventory provision for devaluation in 2009.

Fixed assets and depreciation

Fixed assets refer to durable assets with acquisition cost more than RMB 1,000 and estimated service life more than 1 year.

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Fixed assets are stated at acquisition cost. Depreciated is charged to write off the cost of assets over their estimated useful lives from the month after they are put into use, using the straight-line method. The estimated salvage value, service life and annual depreciation rate of each category of fixed assets are as follows:

Categories	Estimated Salvage Value	Service Life	Annual Depreciation rate
Vehicles	10%	5 years	18%
Office equipment	10%	5 years	18%

Deferred assets

Deferred assets are amortized over the beneficial period.

Revenue recognition

- (1) Revenue from sales of goods is recognized when significant risk and benefit relating to the ownership are transferred to buyer and, when The Company can no longer control the goods sold and, when economic interest relating to the transaction can flow to The Company and, when related income and cost can be properly measured.
- (2) Service income is recognized as revenue if the render of service is completed in the same year of the contract signing. For services cannot be completed in the year of the contract signing, percentage of completion is applied if the results of services can be properly measured, otherwise, the related expenses incurred are recognized as both the income and expenses of the year on condition they will sure be compensated.
- (3) Interest income is recognized on a time proportion basis taking into account deposit balances and the effective yield.
- (4) Subsidy income is recognized upon receipt.

III. Taxation

Value added tax (VAT)

The sales of products and purchased stock for resale are subject to VAT. The applicable tax rate for local sales (output VAT) is 17%. Input VAT on stock purchase can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

Corporate income tax (CIT)

The charge for current income tax is based on the results of the year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been substantively enacted by the balance sheet date. Currently, the CIT rate for The Company is 20%.

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Other taxes

Business tax is 5% of service income.

V. Other Notes to Financial Statements

1. Bank balance and cash

	<u>2010-3-31</u>
Petty cash	3,865.56
Bank deposit	2,159,627.78
CNY	432,452.85
USD 253,017.73	<u>1,727,174.93</u>
Total	<u>2,163,493.34</u>

2. Trade accounts receivable

	<u>2010-3-31</u>		
	Carrying value	Provision	Net value
	<u>3,337,194.34</u>	-	<u>3,337,194.34</u>

Accounts with significant balance are as follows:

<u>Debtors</u>	<u>Currencies</u>	<u>Balance</u>	<u>Age</u>
Atul Americas Inc.	USD270,043.60	1,843,398.63	Within 1 year

3. Inventories and provision for inventory impairment

	<u>2010-3-31</u>
Goods in transit	
Goods in stock	399,373.20
Less: Provision for impairment	-
Net value	<u>399,373.20</u>

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4、 Fixed assets

	<u>Leasehold Improvements</u>	<u>Office Equipment</u>	<u>Vehicles</u>	<u>Total</u>
At cost				
Balance at 2009-4-1	145,324.75	549,010.58	176,989.95	871,325.28
Addition	0.00	4,407.00	0.00	4,407.00
Disposal/Retirement	0.00	379,204.00	0.00	379,204.00
Balance at 2010-3-31	145,324.75	174,213.58	176,989.95	496,528.28
Accumulated depreciation				
Balance at 2009-4-1	128,370.23	403,642.61	47,787.42	579,800.26
Charge in 2009-2010	16,954.52	63,392.85	31,858.08	112,205.45
Write-off		317,539.09		317,539.09
Balance at 2010-3-31	145,324.75	149,496.37	79,645.50	374,466.62
Net value				
Balance at 2009-4-1	16,954.52	145,367.97	129,202.53	291,525.02
Balance at 2010-3-31	-	24,717.21	97,344.45	122,061.66

5、 Trade accounts payable

	2010-3-31	
	Amounts in original currency	Amounts in CNY
USD	690,546.50	4,713,877.56
CNY		-
		<u>4,713,877.56</u>

Accounts with significant balance are as follows:

<u>Creditors</u>	<u>Amounts in original currencies</u>	<u>Amounts in CNY</u>	<u>Age</u>
Atul Limited--PI	US\$196,000.00	1,337,954.80	Within 1 year
Jiangsu yabang	US\$320,075.00	2,184,927.97	Within 1 year

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6. Taxes payable

	<u>2010-3-31</u>
Value added tax	13,761.58
Business tax	3,831.87
Individual income tax	4,396.00
	<u>21,989.45</u>

7. Accrued tax

	<u>2010-3-31</u>
Riverway maintenance tax	181.47
	<u>181.47</u>

8. Other accounts payable

	<u>2010-3-31</u>	
	Amounts in original currency	Amounts in CNY
CNY		23,823.25
		<u>23,823.25</u>

9. Paid-in capital

	<u>Beginning and Ending Balance</u>		
	<u>Amount in USD</u>	<u>Share</u>	<u>Amount in CNY</u>
Atul Limited	410,000.00	100%	3,393,385.00

The above capital contribution has been audited by Shanghai Shenzhou Certified Public Accountants, which issued *HSZ(2005)YZ#157 Capital Verification Report*.

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10、 Accumulated profits

	<u>2010-3-31</u>
Balance at 2009-4-1	(1,760,132.93)
Add: Net profit	<u>(311,532.13)</u>
Balance at 2010-3-31	<u>(2,071,665.06)</u>

11、 Revenue from sales of goods

	<u>2009.04-2010.03</u>
Revenue from domestic sales	7,460,896.30
Revenue from export sales	<u>7,983,845.30</u>
	<u>15,444,741.60</u>

12、 Cost of sales

	<u>2009.04-2010.03</u>
Cost of domestic sales	6,991,628.44
Cost of export sales	<u>7,330,167.08</u>
	<u>14,321,795.52</u>

13、 Sales taxes

	<u>Total</u>
Riverway maintenance tax	<u>3,241.35</u>
Total	<u>3,241.35</u>

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14. Other operating profit

2009.04-2010.03

Commission income 558,286.80

15. Administration expenses

2009.04-2010.03

1,872,727.03

Including:

Salary	603,550.73
Social benefit	108,482.78
Office supply	19,861.72
Traveling	38,949.50
Transportation	2,148.00
Entertainment	12,274.75
Rent	330,703.30
Communication	52,177.16
Internet & web	10,420.00
Insurance	20,247.03
Vehicle fees	42,357.00
Registration fees	6,046.00
Audit	10,500.00
Advertising	1,600.00
Welfare of staff	14,911.56
Courier & speed post	27,894.92
Utilities	19,269.64
Laboratory	5,886.10
Depreciation	112,205.45
Training	50,671.25
Dock charge	25,635.00

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Freight	63,496.65
Insurance	11,607.48
Magazine & journals	1,690.00
Warehouse	57,492.32
Agency service	63,154.21
Testing	2,720.00
Repair	910.00
Amortization of intangible assets	5,000.04
Decoration of new office	20,610.80
Sample fees	796.00
Information services	76,180.00
Financial advisory fees	63,075.63
Others	6,057.01
Amortization of consumption goods	-15,855.00

16. Financial expenses

	<u>2009.04-2010.03</u>
Interest income	(2,752.84)
Net exchange income	8,608.10
Bank fees	<u>21,593.58</u>
Total	<u><u>27,448.84</u></u>

* * *End of the Financial Statements and Disclosures* * *