

**CUMI ABRASIVES & CERAMICS  
COMPANY LIMITED**

**ANNUAL REPORT 2009-2010**

**CUMI Abrasives & Ceramisc Co. Ltd.**

**Auditing Report**

**Dec 31, 2009**

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Client: CUMI Abrasives & Ceramics Co. Ltd..

Audited by: Beijing ZhongZe Certified Public Accountants Co., Ltd.

Tel: (010) 82617019、82617018

Fax: (010) 82617016



# Auditing Report

ZhongZe Shen Zi M(2010) 004

To Shareholders of CUMI Abrasives & Ceramics Co. Ltd.:

We have audited the attached financial statements of CUMI Abrasives & Ceramics Co. Ltd. (referred to the Company hereinafter), including the Balance Sheet of Dec 31, 2009.

## I、The Management's Responsibility for Financial Statements

It is the management of the Company that is responsible for compilation of financial statements as per Accounting Standard for Enterprises and Accounting System for Enterprises. They are responsible for (1) designing, carrying out and maintaining the internal control related to financial statements in case of serious misstatement; (2) selecting and performing suitable accounting policy; (3) making reasonable accounting estimates.

## II、CPAs' Responsibilities

We are responsible for auditing the financial statements according to Auditing Standard for CPA in China and making comments. The Auditing Standard for CPA in China requires that we observe professional ethics in auditing the financial statements to make sure that there is no significant misstatement in the consolidated financial statements.

Auditing work involves execution of audit procedures to obtain sums and audit evidence revealed in the financial statements. It depends on the CPA's own judgment and risky assessment of serious misstatement resulting from fraud and error in selecting of audit procedures. In risky assessment, we take into consideration the



internal control related to compilation of financial statements only for the purpose of designing the suitable audit procedures. We don't mean to make comments on the effectiveness of internal control. Auditing work also includes assessment of suitability of accounting policy selected by the management and rationality of accounting estimate as well as assessment of the financial statements.

We believe the evidence for auditing we obtained is adequate and suitable, on basis of which we may well make auditing comments.

### III、 Auditing Comments

We believe the financial statements of the Company have been compiled on the basis of Accounting Standard for Enterprises and Accounting System for Enterprises, reflecting, in all important aspects, the financial status of Dec 31, 2009.

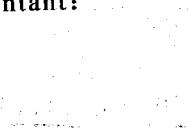
Beijing ZhongZe Certified Public  
Accountants Co., Ltd.

Beijing China



Chinese certified public accountant

Chinese certified public accountant:



Feb. 5, 2010

**CUMI ABRASIVES AND CERAMICS CO LTD**

**Balance Sheet**

**Dec. 31, 2009**

Prepared by: CUMI Abrasives & Ceramics Co.. Ltd.

<b>Item</b>	<b>Row</b>	<b>Amount in Yen</b>	<b>Amount in Rupees</b>
current assets:	1	-	-
Cash	2	-	-
held for trading	3	-	-
short term investments	4	-	-
notes receivable	5	-	-
accounts receivable	6	1,964,065.83	13,512,772.91
prepayments supplies	7	366,855.42	2,523,965.29
dividends receivable	8	-	-
interest receivable	9	-	-
other receivables	10	2,375,659.55	16,344,537.70
inventories	11	6,223,149.64	42,815,269.52
in: raw material	12	2,662,556.24	18,318,386.93
FG	13	2,227,394.56	15,324,474.57
matured long time investments within year	14	-	-
other current assets	15	-	-
total current assets	16	10,929,730.44	75,196,545.43
non-current assets	17	-	-
available-for-sale financial assets	18	-	-
held-to-maturity investment	19	-	-
Long-term investment on bonds	20	-	-
long term accounts receivable	21	-	-
Long term investment on stocks	22	-	-
share distribution right	23	-	-
investment real estate	24	-	-
fixed assets-cost	25	41,475,674.56	285,352,640.97
less: accumulated depreciation	26	-	-
fixed assets-net value	27	41,475,674.56	285,352,640.97
less: impairment of fixed assets	28	-	-
fixed assets-net value	29	41,475,674.56	285,352,640.97
construction in process	30	-	-
Project goods and material	31	-	-
disposal of fixed assets	32	-	-
productive assets	33	-	-
Oil and gas asset	34	-	-
intangible assets	35	8,089,494.50	55,655,722.16
in: land occupancy right	36	8,089,494.50	55,655,722.16
development expenditure	37	-	-
Goodwill	38	-	-
cost-book value differentials	39	-	-
deferred and prepaid expenses	40	1,105,557.34	7,606,234.50
deferred tax asset	41	-	-
debit side of deferred tax	42	-	-
other non-current assets	43	-	-
in: Physical asset reserve specifically authorized	44	-	-
total non-current assets	45	50,670,726.40	348,614,597.63
	46	-	-
	47	-	-
	48	-	-
	49	-	-
	50	-	-
	51	-	-
	52	-	-
<b>Total assets</b>	<b>53</b>	<b>61,600,456.84</b>	<b>-</b>

**CUMI ABRASIVES AND CERAMICS CO LTD**

**Balance Sheet**

**Dec. 31, 2009**

Unit:Yuan & Rupee

<b>Item</b>	<b>Row</b>	<b>Amount in Yen</b>	<b>Amount in Rupees</b>
current liabilities:	54	-	-
short term loans	55	12,500,000.00	86,000,000.00
held for trading	56	-	-
warrant payable	57	-	-
notes payable	58	-	-
accounts payable	59	3,275,763.68	22,537,254.12
Deposit received	60	387,372.24	2,665,121.01
employ compensation payable	61	78,358.06	539,103.45
in: accrued payroll	62	36,916.80	253,987.58
staff and worker bonus and welfare funds	63	-	-
Taxes Payable	64	-	-
in:taxes payable	65	-	-
interest payable	66	58,218.75	400,545.00
dividends payable	67	-	-
other payables	68	7,355,159.57	50,603,497.84
matured long term liabilities within a year	69	-	-
other current liabilities	70	-	-
total current liabilities	71	23,654,872.30	162,745,521.42
non—current liabilities:	72	-	-
long term loans	73	-	-
debentures payable	74	-	-
accounts payable over a year	75	-	-
Specific payable	76	-	-
Accrued liabilities	77	-	-
Deferred Income Tax Liability	78	-	-
Deferred taxation credit	79	-	-
other non current liabilities	80	-	-
in: Authorized Reserve Fund	81	-	-
total non—current liabilities	82	-	-
total liabilities	83	23,654,872.30	162,745,521.42
owneis' equity: -	84	-	-
paid in capital	85	51,135,000.00	351,808,800.00
national capital	86	-	-
Collective capital	87	-	-
Legal person"s capital	88	-	-
in State-owned corporate capital	89	-	-
Collective Corporate Capital	90	-	-
personal capital	91	-	-
Foreign businessmen"s capital	92	51,135,000.00	351,808,800.00
accumulation of capital	93	-	-
less: treasury stock	94	-	-
Surplus reserves	95	-	-
loan loss provision	96	-	-
uncertained investment loss	97	-	-
undistributed profit	98	-13,189,415.46	-90,743,178.36
in: Cash dividends	99	-	-
converted difference in Foreign Currency statements	100	-	-
Total owner's equity of parent company	101	37,945,584.54	261,065,621.64
Minority interest	102	-	-
Total owner's equity	103	37,945,584.54	261,065,621.64
less: untreated loss of assets	104	-	-
Total owner's equity	105	37,945,584.54	261,065,621.64
total liabilities and owners' equity	106	61,600,456.84	423,811,143.06

**CUMI Abrasives & Ceramics Co. Ltd**

Attachment To the Financial Statement

As of Dec 31, 2009

(Refer to RMB Except as otherwise Stated)

**I. Basic Introduction**

JingRi-CUMI Super-Hard Materials Co. Ltd. (referred to as the JingRi-CUMI), established on September 28, 2006, is a sino-foreign joint venture with registered capital of 105,000,000.00 Yuan (read as one hundred and five million Yuan) (Rs. 722,400,000.00) The shareholders are China Metallurgical Geology Bureau, Carborundum Universal Limited of India and CUMI International Limited of Cyprus. The shareholders of JingRi—CUMI Limited held the 12<sup>th</sup> Session of The Board on Resolution for Termination of Contract and Charter for Joint Venture in August, 2009 and signed separating agreement, under which JingRi—CUMI is divided into JingRi Diamond Industry Limited and CUMI Abrasives & Ceramics Limited. CUMI Abrasives & Ceramics Limited takes over all assets, rights of credit, debts, business personnel relating to abrasives and grinding tools business from JingRi—CUMI and is completely owned by Carborundum Universal Limited of India and CUMI International Limited of Cyprus or appointed entity by them. The Managing Committee of Economy & Technology Development Zone of Yanjiao issued a document (YanQu JingZi (2009) 134) on December 23, 2009, ratifying JingRi CUMI Limited can be divided into JingRi Diamond Industry Limited and CUMI Abrasives & Ceramics Limited.

The newly established CUMI Abrasives & Ceramics Limited (referred to as The Company hereinafter) obtained Ratification Certificate For Foreign-Invested Enterprises of People's Republic of China with Ratification No. Shang 'Wai Zi Ji Lang B Zi (2009) 0003 issued by the People's Government of Hebei Province on December 30, 2009 and obtained Enterprise Business Permit with Registration No. 131082400002050 issued by Industry & Commerce Administration of Sanhe City on December 31, 2009. The registered capital is 51,135,000.00 Yuan (Rs. 351,808,800.00) (read as fifty—one million one hundred and thirty—five thousand Yuan) The legal representative is Praveen Tiwari (India). The category of the Company is joint-venture enterprise. The Company is located on the east of Eastern Ring Road and south of Guihua Road of Development Zone, Yanjiao Township, Sanhe City. Business Scope: Manufacturing of Bonded Grinding Tools, Coated Grinding Tools, Non—woven Grinding Tools, Super—hard Grinding Tools; Industrial Ceramic Products; Fire—proof Materials and Abrasives; Sales of Self—produced Products and Provision of After—sale Services.

**II. Financial Statements Basis**

These financial statements are drawn up on the basis of Enterprises Accounting Standards issued by the Financial Ministry of People's Republic of China on February 15, 2006, the Consolidated Balance Sheet of JingRi CUMI Super—Hard Materials Co., Ltd on December 30, 2009 as well as Assets—Separating Plan stipulated in The Separating Agreement. The consolidated statements have been audited and produced with Auditing Report No. ZhongZe Shen M Zi (2010) 003 by Beijing ZhongZe Certified Public Accountants Co., Ltd.

### Notes For Financial Statements

#### 1. Account Receivable

Items	Amount	
	In Yuan	In Rupee
Account Receivable	1,964,065.83	13,512,772.91
Advance Money	366,855	2,523,962.40
Other Receivables	2,375,659.55	16,344,537.70

#### 2. Inventory

Items	Amount	
	In Yuan	In Rupee
Raw Material	2,021,962.10	13,911,099.25
Low value Consumbles	640,594.14	4,407,287.68
Goods In Transit	11,516.67	79,234.69
Stock Goods (Finished Products)	2,215,877.89	15,245,239.88
Self-made Semi-finished Product	1,333,198.84	9,172,408.02
Total	6,223,149.64	42,815,269.52

#### 3. Fixed Assets

Items	Amount	
	In Yuan	In Rupee
Houses and Structures	24,379,663.40	167,732,084.19
Machine	16,946,989.28	116,595,286.25
Vehicles	149,021.88	1,025,270.53
Total	41,475,674.56	285,352,640.97

Property certificates for all the houses and buildings are in the process of application.

**4. Intangible Assets**

Items	Amount	
	In Yuan	In Rupee
Land Use Right	8,089,494.50	55,655,722.16
Total	8,089,494.50	55,655,722.16

Property certificates for all Land use right are in the process of application.

**5. Long-Term Prepaid Expenses**

Items	Amount		Remaining Amortization Period
	In Yuan	In Rupee	
Mould	1,105,557.34	7,606,234.50	27 Months
Total	1,105,557.34	7,606,234.50	

**6. Wages and Remuneration Paid to Employees**

Items	Amount	
	In Yuan	In Rupee
i, Wages, Reward, Allowance and Subsidy	36,916.80	253,987.58
ii, Employee Welfare	0.00	0.00
iii, Social Insurance	41,441.26	285,115.87
1. Medical Insurance	0.00	0.00
2. Basic Retirement Insurance	14,873.60	102,330.37
3. Annuity Fees	0.00	0.00
4. Unemployment Insurance	26,567.66	182,785.50
5. Injury Insurance	0.00	0.00
iv, Housing Surplus Reserve	0.00	0.00
v, Personnel Education	0.00	0.00
vi, Non-monetary Welfare	0.00	0.00
vii, Compensation for Dismissal	0.00	0.00
viii, Others	0.00	0.00
Share Paid in Cash	0.00	0.00
Total	78,358.06	539,103.45

**7. Short Term Loans**

Items	Amount	
	In Yuan	In Rupee
HSBC Bank	12,500,000.00	86,000,000.00
Total	12,500,000.00	86,000,000.00

**8. Accounts Payable**

Items	Amount	
	In Yuan	In Rupee
Accounts Payable	3,275,763.68	22,537,254.12
Advances from Clients	387,372.24	2,665,121.01
Other Payables	7,355,159.57	50,603,497.84
Interest Payable	58,218.75	400,545.00

**9. Paid-up Capital**

Investors	Amount		Proportion %
	In Yuan	In Rupee	
CARBORUNDUM UNIVERSAL LIMITED	38,960,000	268,044,800	76.19
CUMI INTERNATIONAL LIMITED	12,175,000	83,764,000	23.81
Total	51,135,000	351,808,800	100.00

The above paid-up capital has not been produced capital verification report yet.

**10. Retained Profits**

Items	Amount	
	In Yuan	In Rupee
Retained Profits	-13,189,415.46	- 9,743,178.36

**IV. Other Significant Items**

After separation, the imported fixed assets which are estimated for 7,675,142.75 Yuan (Rs. 52,804,982.12) and allocated to the Company have been covered by the preferential policy of Exemption From Import VAT and Customs Tariff stipulated in Notice On Adjustment of Taxation Policies For Imported Equipment By the State Council (Guo Fa (1997) 37). According to the rules of Resumption of Imposition of Import VAT and Customs Tariff for imported Equipment Declared from July 1, 2009 and on While Those Conforming with the Original Duty-Free Rules Continue to be Exempt From Customs Tariff stipulated in the Announcement Jointly Issued By the Financial Ministry, General Administration of Customs and State Taxation Administration (No. 43, 2008), the Company, as a newly establish one, shall pay additional Import VAT of 719,896.15 Yuan (Rs. 4,952,885.51) and Customs Tarrif of 257,843.38 Yuan ( Rs. 1,773,962.45)

**V. Approval of Accounting Statements**

This accounting statements have been approved of by the board..

Enterprise: CUMI Abrasive & Ceramic Co. Ltd.

In Charge of Unit: Praveen Tiwari

In Charge of Finance: Jia xinli

Date: Dec. 31, 2009

Date: Dec.31, 2009