



中汇会计师事务所有限公司  
Zhonghui Certified Public Accountants Co., Ltd.

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## Auditor's Report

ZhongHuiKuaiShen[2010]No.1093

To the shareholders of Zhejiang Tata TEA Extraction Company Limited.,  
We have audited the attached financial statements of Zhejiang Tata TEA Extraction Company Limited. (Hereinafter referred to as "Tata Tea Company"), including balance sheets as of March 31, 2010, profit reports for the period from April 1<sup>st</sup>, 2009 to March 31, 2010, cash flow statements, statements of changes in equity, and notes to the financial statements.

### 1. The responsibilities of management in financial statements.

To prepare financial statements in accordance with the provisions in Accounting Standard for Business Enterprises is the responsibility of Tata Tea Company. Such responsibilities include: (1). Design, implementation and maintenance of the related internal controls for the preparation of financial statements to avoid material misstatement due to the frauds or errors of the financial statements. (2). Select and apply appropriate accounting policies; (3). Make reasonable accounting estimates.

### 2. CPA's responsibilities.

Our responsibility is to give audit opinions on the financial statements on the basis of implementation of the audit. We conducted the audit in accordance with the provisions in Auditing Standards for Chinese CPA. Auditing Standards for Chinese CPA requires us to comply with professional ethics, to plan and implement audit work to obtain reasonable assurance on whether material misstatements exist in the financial statements.

Audit work involves the implementation of audit procedures to obtain the audit evidences of the amount of financial statements and disclosure. The selection of audit procedures depends on CPA's judgment, including the risk assessment of material misstatement of the financial statements resulted by frauds or errors. When conducting risk assessment, we are considering the internal controls which are related to the preparation of financial statements so as to design appropriate audit procedures, but its purpose is not to give views on the effectiveness of internal control. An audit also includes assessing the management's appropriation in selection of accounting policies and the reasonableness of making accounting estimates, as well as the evaluation of the overall presentation of financial statement.

We believe that the evidences we obtained are adequate and appropriate and provide a good basis for the audit opinions.

### 3. Audit opinions.

We believe that the financial statements of Tata Tea Company had been compiled in accordance with the provisions of Accounting Standard for Business Enterprises, and in all significant respects, fairly reflected balance sheets as of March 31, 2010, the profit reports for the period from April 1<sup>st</sup>, 2009 to March 31, 2010, and the cash flow of Tata tea company.

Zhonghui Certified Public Accountants Company Limited  
Hangzhou, China.

Chinese CPA.



Chinese CPA.



April 19, 2010

## BALANCE SHEET

As of March 31, 2010

ZHEJIANG TATA TEA EXTRACTION COMPANY LIMITED

(In Rmb)

| Assets                                | Notes | Line | Ending balance       | Beginning balance    | Liabilities and shareholders' equity                 | Notes | Line | Ending balance       | Beginning balance    |
|---------------------------------------|-------|------|----------------------|----------------------|------------------------------------------------------|-------|------|----------------------|----------------------|
| <b>Current assets:</b>                |       |      |                      |                      | <b>Current liabilities:</b>                          |       |      |                      |                      |
| Monetary fund                         | 1     | 1    | 7,750,983.82         | 11,602,261.47        | Short-term loans                                     | 32    |      |                      |                      |
| Trade-off financial assets            | 2     | 2    |                      |                      | Trade-off financial liabilities                      | 33    |      |                      |                      |
| Notes receivable                      | 3     | 3    |                      |                      | Notes payable                                        | 34    |      |                      |                      |
| Accounts receivable                   | 4     | 4    |                      |                      | Accounts payable                                     | 35    |      | 837,139.46           |                      |
| Prepayments                           | 2     | 5    | 27,964,148.00        | 10,528,887.29        | Prepayments received                                 | 36    |      |                      |                      |
| Interest receivable                   | 6     | 6    |                      |                      | Employee's wage payable                              | 37    |      | 153,750.00           | 43,250.00            |
| Dividend receivable                   | 7     | 7    |                      |                      | Tax payable                                          | 38    |      | 640,356.07           | 10,751.43            |
| Other accounts receivable             | 3     | 8    | 472,278.30           |                      | Interest payable                                     | 39    |      | 26,400.00            |                      |
| Inventory                             | 4     | 9    | 1,083,739.46         | 534,266.57           | Dividend payable                                     | 40    |      |                      |                      |
| Non-current assets due in 1 year      | 10    | 10   |                      |                      | Other accounts payable                               | 41    |      | 1,202,784.77         | 685,728.00           |
| Other current assets                  | 11    | 11   |                      |                      | Non-current liabilities due in 1 year                | 42    |      |                      |                      |
| <b>Total of current assets</b>        |       | 12   | <b>37,282,249.58</b> | <b>22,665,715.33</b> | Other current liabilities                            | 43    |      |                      |                      |
| <b>Non-current assets:</b>            |       |      |                      |                      | <b>Total of current liabilities</b>                  | 44    |      | <b>1,599,918.16</b>  | <b>739,730.43</b>    |
| Available-for-sale financial assets   | 13    | 13   |                      |                      | <b>Non-current liabilities:</b>                      |       |      |                      |                      |
| Hold-to-maturity investment           | 14    | 14   |                      |                      | Long-term loans                                      | 45    |      | 20,000,000.00        | 20,000,000.00        |
| Long-term accounts receivable         | 15    | 15   |                      |                      | Bonds payable                                        | 46    |      |                      |                      |
| Long-term share equity investment     | 16    | 16   |                      |                      | Long-term payable                                    | 47    |      |                      |                      |
| Property investment                   | 17    | 17   |                      |                      | Special accounts payable                             | 48    |      |                      |                      |
| Fixed assets                          | 5     | 18   | 2,164,203.64         | 1,009,509.18         | Expected liabilities                                 | 49    |      |                      |                      |
| Construction in progress              | 6     | 19   | 17,859,393.45        | 8,364,813.44         | Deferred income tax liabilities                      | 50    |      |                      |                      |
| Engineer material                     | 20    | 20   |                      |                      | Other non-current liabilities                        | 51    |      |                      |                      |
| Disposal of fixed assets              | 21    | 21   |                      |                      | <b>Total of non-current liabilities</b>              | 52    |      | <b>20,000,000.00</b> | <b>20,000,000.00</b> |
| Productive living assets              | 22    | 22   |                      |                      | <b>Total of liabilities</b>                          |       |      | <b>21,589,918.16</b> | <b>20,739,730.43</b> |
| Oil and gas assets                    | 23    | 23   |                      |                      | <b>Shareholders' equity:</b>                         |       |      |                      |                      |
| Intangible assets                     | 7     | 24   | 12,870,680.19        | 13,528,428.00        | Paid-in capital                                      | 54    |      | 53,090,000.00        | 27,500,000.00        |
| Research and development expenditures | 25    | 25   |                      |                      | Capital reserves                                     | 55    |      | 42,378.00            | 20,940.00            |
| Goodwill                              | 26    | 26   |                      |                      | Less: Treasury stock                                 | 56    |      |                      |                      |
| Long-term prepaid expenses            | 8     | 27   |                      | 2,792,203.48         | Surplus reserves                                     | 57    |      |                      |                      |
| Deferred income tax assets            | 9     | 28   | 1,613,957.37         |                      | Foreign currency translation differences             | 58    |      |                      |                      |
| Other non-current assets              | 29    | 29   |                      |                      | Undistributed profit                                 | 59    |      | -4,841,872.12        |                      |
| <b>Total of non-current assets</b>    | 30    | 30   | <b>34,508,234.46</b> | <b>25,594,985.10</b> | <b>Total of shareholders' equity</b>                 | 60    |      | <b>58,209,665.88</b> | <b>27,520,940.00</b> |
| <b>Total of assets</b>                | 31    | 31   | <b>71,790,584.04</b> | <b>48,260,670.43</b> | <b>Total of liabilities and shareholders' equity</b> | 61    |      | <b>71,790,584.04</b> | <b>48,260,670.43</b> |

Person in Charge of the Company:

Person in Charge of Accounting Function:

Person in Charge of Accounting Department:

# INCOME STATEMENT

FOR THE PERIOD FROM APRIL 2009 TO MARCH 2010

ZHEJIANG TATA TEA EXTRACTION COMPANY LIMITED

(in Rmb)

| Items                                                      | Notes | Line | Ending balance | Beginning balance |
|------------------------------------------------------------|-------|------|----------------|-------------------|
| Revenues from main operations                              |       | 1    |                |                   |
| Less: Costs from main operations                           |       | 2    |                |                   |
| Business tax and surcharge                                 |       | 3    |                |                   |
| Selling expenses                                           |       | 4    |                |                   |
| General and administrative expenses                        |       | 5    | 7,125,829.49   |                   |
| Financial expenses(income)                                 |       | 6    |                |                   |
| Asset impairment loss                                      |       | 7    |                |                   |
| Plus: Income from change of fair value(loss: loss)         |       | 8    |                |                   |
| Investment income(loss: loss)                              |       | 9    |                |                   |
| Incl. Investment income from affiliates and joint-ventures |       | 10   |                |                   |
| Operation profit(loss: loss)                               |       | 11   | -7,125,829.49  |                   |
| Plus: Non-business income                                  | 1     | 12   | 670,000.00     |                   |
| Less: Non-business expenses                                |       | 13   |                |                   |
| Incl. Disposal loss of non-current assets                  |       | 14   |                |                   |
| Total of profit(loss: loss)                                |       | 15   | -6,455,829.49  |                   |
| Less: Income tax expenses                                  | 2     | 16   | -1,613,957.37  |                   |
| Net profit(loss: loss)                                     |       | 17   | -4,841,872.12  |                   |
| Earnings per share                                         |       | 18   |                |                   |
| ( I )Basic earnings per share                              |       | 19   |                |                   |
| ( II )Diluted earnings per share                           |       | 20   |                |                   |

Person in Charge of the Company:

Person in Charge of Accounting Function:

Person in Charge of Accounting Department:

# CASH FLOW STATEMENT

## FOR THE PERIOD FROM APRIL 2009 TO MARCH 2010

ZHEJIANG TATA TEA EXTRACTION COMPANY LIMITED

(In Rmb)

| Items                                                                                         | Notes | Line | Accumulated this year | Accumulated last year |
|-----------------------------------------------------------------------------------------------|-------|------|-----------------------|-----------------------|
| <b>I. Cash flows from operating activities:</b>                                               |       |      |                       |                       |
| Cash received from sale of goods or providing of services                                     |       | 1    |                       |                       |
| Refund of tax and levies                                                                      |       | 2    |                       |                       |
| Cash received relating to other operating activities                                          |       | 3    | 670,000.00            |                       |
| Subtotal of cash inflows                                                                      |       | 4    | 670,000.00            |                       |
| Cash paid for goods and services                                                              |       | 5    | 246,400.00            |                       |
| Cash paid to and on behalf of employees                                                       |       | 6    | 2,360,755.29          |                       |
| Payments of all types of taxes                                                                |       | 7    | 651,107.50            |                       |
| Cash paid relating to other operating activities                                              |       | 8    | 275,277.96            | 230,436.68            |
| Subtotal of cash outflows                                                                     |       | 9    | 3,533,540.75          | 230,436.68            |
| Net cash flows from operating activities:                                                     |       | 10   | -2,863,540.75         | -230,436.68           |
| <b>II. Cash flows from investing activities:</b>                                              |       |      |                       |                       |
| Cash received from investment retrieving                                                      |       | 11   |                       |                       |
| Cash received from returns on investments                                                     |       | 12   |                       |                       |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets |       | 13   |                       |                       |
| entities                                                                                      |       | 14   |                       |                       |
| Cash received relating to other investing activities                                          |       | 15   |                       |                       |
| Subtotal of cash inflows                                                                      |       | 16   |                       |                       |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets               |       | 17   | 27,288,234.90         | 19,181,818.65         |
| Cash paid to acquire investments                                                              |       | 18   |                       |                       |
| Net cash paid to acquire subsidiaries and other operating entities                            |       | 19   |                       |                       |
| Cash paid relating to other investing activities                                              |       | 20   |                       |                       |
| Subtotal of cash outflows                                                                     |       | 21   | 27,288,234.90         | 19,181,818.65         |
| Net cash flows from investing activities:                                                     |       | 22   | -27,288,234.90        | -19,181,818.65        |
| <b>III. Cash flows from financing activities:</b>                                             |       |      |                       |                       |
| Cash received from investment                                                                 |       | 23   | 27,521,598.00         |                       |
| Cash received from borrowings                                                                 |       | 24   |                       | 20,000,000.00         |
| Cash received relating to other financing activities                                          |       | 25   |                       |                       |
| Subtotal of cash inflows                                                                      |       | 26   | 27,521,598.00         | 20,000,000.00         |
| Cash paid to repay debts                                                                      |       | 27   |                       |                       |
| Cash paid for interest expenses and distribution of dividends and profits                     |       | 28   | 1,211,100.00          | 356,000.00            |
| Cash paid relating to other financing activities                                              |       | 29   |                       | 810,419.44            |
| Subtotal of cash outflows                                                                     |       | 30   | 1,211,100.00          | 1,166,419.44          |
| Net cash flows from financing activities:                                                     |       | 31   | 26,310,498.00         | 18,833,580.56         |
| Influence of exchange rate changes on cash and cash equivalents                               |       | 32   |                       |                       |
| Net increase in cash and cash equivalents                                                     |       | 33   | -3,841,277.65         | -578,674.77           |
| Plus: Balance of cash and cash equivalents at the beginning of period                         |       | 34   | 11,602,261.47         | 12,180,936.24         |
| Balance of cash and cash equivalents at the end of period                                     |       | 35   | 7,760,983.82          | 11,602,261.47         |

Person in Charge of the Company: Person in Charge of Accounting Function: Person in Charge of Accounting Department:

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE PERIOD FROM APRIL 2009 TO MARCH 2010

DING BAO YUAN

| Items                                                                                  | Notes | Amount during this year |                  |                |                  |                      | Amount of Previous year       |                 |                  |                |                  |
|----------------------------------------------------------------------------------------|-------|-------------------------|------------------|----------------|------------------|----------------------|-------------------------------|-----------------|------------------|----------------|------------------|
|                                                                                        |       | Paid-in capital         | Capital reserves | Treasury stock | Surplus reserves | Undistributed profit | Total of shareholders' equity | Paid-in capital | Capital reserves | Treasury stock | Surplus reserves |
| I. Balance at the end of last year                                                     |       | 27,500,000.00           | 20,940.00        |                |                  |                      | 27,520,940.00                 | 27,500,000.00   | 20,940.00        |                |                  |
| Plus: Change of accounting policy                                                      |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| Previous corrections of errors                                                         |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| II. Balance at the beginning of this year                                              |       | 27,500,000.00           | 20,940.00        |                |                  |                      | 27,520,940.00                 | 27,500,000.00   | 20,940.00        |                |                  |
| III. Changed by this year (less decrease)                                              |       | 27,500,000.00           | 21,598.00        |                |                  | -4,841,872.12        | 22,679,225.88                 |                 |                  |                |                  |
| (I) Net profit                                                                         |       |                         |                  |                |                  | -4,841,872.12        | -4,841,872.12                 |                 |                  |                |                  |
| (II) Gains and losses recorded as owners' equity directly                              |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 1. Available-for-sale financial assets                                                 |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 2. Influence of change in other owners' equity of invested enterprises on equity basis |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 3. Income tax influence related to shareholders' equity items                          |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 4. Others                                                                              |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| Total of (I) and (II)                                                                  |       |                         |                  |                |                  | -4,841,872.12        | -4,841,872.12                 |                 |                  |                |                  |
| (III) Capital inputted or reduced by owners                                            |       | 27,500,000.00           | 21,598.00        |                |                  |                      | 27,521,598.00                 |                 |                  |                |                  |
| 1. Capital inputted by owners                                                          |       | 27,500,000.00           | 21,598.00        |                |                  |                      | 27,521,598.00                 |                 |                  |                |                  |
| 2. Amount of shares paid and accounted as owners' equity                               |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 3. Others                                                                              |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| (IV) Profit distribution                                                               |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 1. Providing of surplus reserves                                                       |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 2. Dividend to owners                                                                  |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 3. Others                                                                              |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| (V) Internal settlement of shareholders' equity                                        |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 1. Capital reserves transferred to share capital                                       |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 2. Surplus reserves transferred to share capital                                       |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 3. Making up losses by surplus reserves                                                |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| 4. Others                                                                              |       |                         |                  |                |                  |                      |                               |                 |                  |                |                  |
| IV. Balance at the end of this year                                                    |       | 55,000,000.00           | 42,538.00        |                |                  | -4,841,872.12        | 50,200,665.88                 | 27,500,000.00   | 20,940.00        |                |                  |

Person in Charge of the Company:

Person in Charge of Accounting Function:

Person in Charge of Accounting Department:

## **ZHEJIANG TATA TEA EXTRACTION COMPANY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2010** (All amounts in RMB Yuan unless otherwise stated)

#### **I. GENERAL INFORMATION**

Zhejiang Tata Tea Extraction Company Limited Company ("the Company") is Sino-foreign investment equity joint venture enterprise set up by Tata Tea Limited, India and Zhejiang Tea Group Company Limited, China according to the approval letter No. zhefuzihuzi [2007]00181 issued by the People's Government of Zhejiang Province on September 4, 2007. The Company was registered with the Huzhou Administration Bureau of Industry and Commerce on September 14th of 2007, with the business license numbered 330500400002483.

The Company's registered capital is RMB 55 million, the entire amount of which has been contributed by the partners till now. Tata Tea, India contributed capital of 38.50 million, accounting for 70% of the registered capital; and Zhejiang Tea Group Company Limited contributed capital of 16.50 million, accounting for 30% of the registered capital.

The Company's approved operating scope includes researching and developing tea extractions.

#### **II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the People's Republic of China and other supplementary regulations.

The Company implemented the New Accounting Standards issued by the Ministry of Finance on February 15, 2006 since January 1, 2009. And in accordance with Article 5 to Article 19 and other relevant provisions in "No. 38 of Accounting Standards for Business Enterprises -- the first time to implement the Accounting Standards for Business Enterprises" (hereinafter

referred to as "No. 38 Standard"), we made retrospective adjustments on the comparable annual financial statements.

### III. STATEMENTS OF COMPLIANCE

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the People's Republic of China. These financial statements present truly and completely the financial position, the results of operations and the results of cash flows of the Company.

### IV. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION

#### 1. Accounting period

The Company's accounting year starts on 1 April and ends on 31 March.

#### 2. Recording currency

The recording currency of the Company is the Renminbi (RMB).

#### 3. Basis of accounting and measurement base

The Company follows the accrual basis of accounting and the measurement base is historical cost. Impairment testing is done for assets and necessary provisions for impairment are done in accordance with relevant provisions.

#### 4. Cash and cash equivalents

Cash equivalents refer to short-term and highly-liquid investments with original maturities within three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

#### 5. Foreign currency transactions

Foreign currency transactions are translated into RMB at the spot exchange rate of the transaction date.

At the balance sheet date, foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. Foreign currency non-monetary items measured at historic costs will be translated at the spot exchange rate on the transaction date.



Foreign currency non-monetary items accounted at fair value are accounted at the spot exchange rate on the day when the fair value was calculated, the differences will be treated as change of fair value and accounted into income account of current period or shareholders' equity.

**6. Bad debts of receivables**

An impairment test shall be made on the receivables (including account receivable and other receivable) with significant single amounts. If any objective evidence shows that it has been impaired, the impairment-related losses shall be recognized and shall be recorded into the profits and losses of the current period.

With regard to the receivables (including account receivable and other receivable) with insignificant single amounts, an independent impairment test may be carried out, or they may be included in a combination of financial assets with similar credit risk features so as to carry out an impairment-related test.

Bad debt provision is made for the end balances of receivables, including account receivables and other receivables at the following percentages:

The detailed percentage is as follows:

| Ageing        | Provision for bad debts as a percentage of receivables |
|---------------|--------------------------------------------------------|
| Under 3 years | 0.00%                                                  |
| Over 3 years  | 0.50%                                                  |

Towards other receivables (including prepaid expenses), the provision for bad debts should be made based on the difference between the present value of future cash flows and its book value after individual testing.

**7. Fixed assets and accumulated depreciation**

**(1) Criteria of fixed assets**

Fixed assets is defined as the tangible assets which are held for the purpose of producing goods, providing services, lease or for operation & management, and have more than one year of useful life.

Fixed assets should be recognized when satisfying following conditions at the same time: Firstly, the economic interest related to the fixed asset is probably flowed into the Company; secondly, the cost of the fixed asset is reliably measured. The

subsequent expenditures related to the fixed asset should be recognized as fixed asset cost, if complying with above recognition conditions. If not complying with above recognition conditions, it should be recognized as current profit or loss when occurred.

(2) Initial measurement of fixed assets

Fixed assets are initially recorded at cost.

- A. Purchased fixed assets are recorded at purchase price, related taxes, and some expenses that occurred before the assets are ready for their intended use and are attributed to the fixed assets such as delivery costs, handling fees, installation costs, and professional service fees and so on. If a certain payment is made for purchasing several fixed assets not priced separately, the cost of each fixed asset shall be ascertained by allocating the payment according to the proportion of fair value of each fixed asset to the total cost of all assets acquired. If payment of purchasing fixed assets is deferred beyond normal credit terms and has financing nature substantially, its cost is recorded at the present value of purchasing price. The difference between actual payment and the present value of purchasing price is recognized as current profit or loss over the credit period except these capitalized according to "Accounting Standard for Business Enterprise NO. 17—Borrowing Costs".
- B. Self-constructed fixed assets are recorded at the total expenditure incurred for the construction before the assets are ready for their intended use.
- C. Fixed assets contributed by the Company's investors are recorded at the value agreed in the investing contract, except that the value agreed in the contract is not fair.
- D. Fixed assets acquired from exchange of non-monetary assets, debt restructuring, business combination and finance lease are recorded separately in accordance with "No. 7 of Accounting Standards for Business Enterprises—Exchange of Non-monetary Assets", "No. 12 of Accounting Standards for Business Enterprises—Debt Restructuring", "No. 20 of Accounting Standards for Business Enterprises—Business Combinations", "No. 21 of Accounting

Standards for Business Enterprises—Lease”.

(3) Depreciation of fixed assets

Fixed Assets are depreciated over the useful life of each asset class using the straight line method. The depreciation rates are determined as follows based on asset class estimated useful lives and estimated residual values (10% of the original cost):

| Class of fixed assets          | Estimated useful lives | Annual depreciation rate |
|--------------------------------|------------------------|--------------------------|
| Buildings                      | 20 years               | 4.5%                     |
| Machinery and equipment        | 10 years               | 9%                       |
| Vehicles                       | 10 years               | 9%                       |
| Auxiliary equipment            | 5 years                | 18%                      |
| Electronic and Other equipment | 5 years                | 18%                      |

Capitalized expenditures arising from the renovation of fixed assets are depreciated by using the method of average life length over the shorter period of interval between the current renovation to the next and the expected remaining useful life of the renovated fixed assets.

- (4) The fixed assets are recognized as vacant fixed asset when they are not available for continuous three months caused by shortage of work time and natural disaster (except seasonal unavailability). The vacant fixed assets are depreciated in accordance with other fixed assets in the same class.

(5) Impairment of fixed assets

At the balance sheet date, if there is evidence that the value of fixed assets has declined, the provision for impairment of fixed assets should be made in accordance with the method explained in the IV (11) of the Notes to the Financial Statement.

8. Construction in progress

- (1) Construction in progress shall be recognized when satisfying that the economic interest has probably flowed in and that the cost can be reliably measured.

Construction in progress is measured at actual cost before the construction reaches useful status.

- (2) Construction in progress is transferred to fixed assets at practical construction

expenditures as soon as the construction reaches useful status. If it has reached useful status, but has not achieved completion, it should be first transferred to fixed assets at its estimated value. Then the estimated value should be adjusted according to its actual cost when it has achieved completion, however, accumulated depreciation is never adjusted.

- (3) At the balance sheet, if there is evidence that the value of construction in progress has declined, the provision for impairment of construction in progress should be made in accordance with the method explained in the IV(11) of the Notes to the Financial Statement.

## **9. Intangible assets**

### **(1) Initial measurement of intangible assets**

The cost of intangible assets shall include the purchase price, relevant taxes and other necessary expenditures directly attributable to intangible assets for the expected purpose.

### **(2) Useful lives and amortization of intangible assets**

As for the intangible assets with limited service life, the company shall estimate the years of its service life, or the amount of the output or any other similar measurement unit, which constitutes its service life. If it is unable to forecast the period when the intangible asset can bring economic benefits to the enterprise, it shall be regarded as an intangible asset with uncertain service life.

An intangible asset with limited service life should be systematic and appropriate amortized according to the expected realization pattern of economic interest related to the intangible asset. If the expected realization pattern cannot be determined reliably, it should be amortized by straight-line method. An intangible asset with uncertain service life is not amortized, but is tested for impairment and reviewed for its useful life on an annual basis.

- (3) At the balance sheet date, evaluate the ability that the intangible assets may bring future economic interest to the Company and make the provision for impairment of intangible assets.

## **10. Long-term prepaid expenses**

Long-term prepaid expenses are recorded at actual amount as incurred and amortized

on a straight-line basis over the period that obtains benefit from the expenses. If a certain item of long-term period expenses cannot bring economic benefits for the future accounting periods, the remaining carrying amount is recognized as gain or loss in the period.

#### 11. Impairment of assets

This accounting policy refers to the impairment of other main assets except inventory, investments in real estate and financial assets.

(1) Non-financial assets including fixed assets, constructions in progress, intangible assets and goodwill.

At each balance sheet date, the Company verify on fixed assets, constructions in process, and intangible assets with fixed useful life to find out whether there is sign of impairment. Goodwill and intangible assets formed by merger of enterprises, whether or not there is impairment evidence, shall be verified annually for impairment.

If evidence shows that impairment has happened, then the residual value will be estimated. Estimation of residual value is on basis of single asset. If it is hard to estimate the retrievable value of a particular asset, then the residual value shall be estimated upon the asset group in which the target asset is included. If the residual value of an asset is lower than its book value, impairment provision shall be provided at the balance of the two, and shall be accounted into current income account.

(2) Once impairment losses of above assets are confirmed, they won't be reversed in subsequent accounting periods

#### 12. Borrowing expenses

(1) Recognition of borrowing expenses

Borrowing expenses include borrowing interests, amortizing of discount or premium, auxiliary expenses, and exchange balances due to borrowings in foreign currencies. Borrowing expenses that can be attributed for purchasing or construction of assets that are complying with capitalizing conditions start to be capitalized when the payment of asset and borrowing expenses have already been

incurred, and the purchasing or production activities in purpose of make the asset usable have started; Capitalizing will be terminated as soon as the asset that complying with capitalizing conditions has reached its usable or saleable status. The other borrowing expenses are recognized as expenses when incurred.

(2) Capitalization period of borrowing expenses

A. The capitalization of borrowing expenses commences as the following three conditions are met: (a) the capital expenditures are incurred; (b) the borrowing expenses are incurred; (c) the acquisition or construction activities have commenced to enable the assets to be ready for their intended use.

B. The capitalization of borrowing expenses should be suspended during the periods when the acquisition or construction activities are abnormally interrupted and the interruption period is more than three consecutive months; the borrowing expenses are expensed during the period until the acquisition or construction activities are resumed.

C. The capitalization of borrowing expenses ceases when the assets being acquired or constructed are ready for their intended use. Borrowing expenses incurred thereafter should be recognized as expense in the period in which they are incurred.

(3) Capitalization amount of borrowing expenses

Interest expenses practically occurred at the current term of a special borrowing are capitalized after deducting the interest earned on the unused borrowing loans. The capitalized borrowing costs for each accounting period are determined by using the weighted average amount of accumulated expenditures incurred in that period for the acquisition or construction of fixed assets and the capitalization rate of the borrowings. The procedures are in accordance with the Accounting Standards for Business Enterprises – Borrowing Costs.;

13. Government subsidy

(1) Government subsidies are recognized when the conditions attached to the subsidies are satisfied and the subsidies are received.

(2) Monetary government subsidies are measured at the amount received or receivable.

Non-monetary government subsidies are measured at fair value. If no fair value is available, nominal amount will be adopted. Government subsidies measured at nominal amount are accounted into current income account directly.

#### 14. Income tax

- (1) The differences between the book values and taxable basis of certain assets and liability items, and provisional differences occurred between the book value and taxable basis which are not recognized as assets and liabilities, but may be recognized for taxable basis according to the law, are recognized as deferred income tax asset and deferred income tax liabilities on liability basis of the balance sheet.
- (2) Those tax deductions which can be used to deduct losses and can be carried on to future years, to the extent of the amount of taxable income used to deduct the deductible losses and deductible tax which can possibly be obtained, are recognized as corresponding deferred income tax assets.
- (3) At the balance sheet day, verification will be performed on the book value of deferred income tax assets. If it is not possible to obtain enough taxable income to neutralize the benefit of deferred income tax assets, then the book value of the deferred income tax assets shall be reduced. Whenever obtaining of taxable income became possible, the reduced amount shall be restored.

### V. CHANGE IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATIONS AND CORRECTIONS OF ACCOUNTING ERRORS

#### 1. Change in accounting policies

In application of the accounting policies as described in Note 2, the Company implemented the New Accounting Standards issued by the Ministry of Finance on February 15, 2006 since January 1, 2009 and restated comparable financial statements during the period from April 1, 2009 to March 31, 2010. The change of accounting policies at the beginning of this year retrospectively calculated by adopting new accounting policy has no accumulated effect on financial statements.

#### 2. Change of accounting estimations

There is no change of accounting estimations during this period.

#### 3. Correction of accounting errors

There is no previous correction of accounting errors during this period.

## VI. TAXATION

### 1. Business taxes

Business tax is calculated at 5% of the taxable income.

### 2. Enterprise income taxes

Enterprise income tax is calculated at 25% of the taxable income.

## VII. PROFIT DISTRIBUTION

There is no distribution as no profit this period.

## VIII. NOTES TO MAIN ITEMS OF THE FINANCIAL STATEMENTS

(In RMB)

### 1. Notes to main items of the balance sheet

#### (1) Monetary fund

##### A. Details

|              | Ending balance      | Beginning balance    |
|--------------|---------------------|----------------------|
| Cash in hand | 2,415.00            | 31,955.00            |
| Bank deposit | 7,758,568.82        | 11,570,306.47        |
| Total        | <u>7,760,983.82</u> | <u>11,602,261.47</u> |

##### B. Cash in foreign currency

|                | Ending balance       |                  |                        | Beginning balance    |                  |                        |
|----------------|----------------------|------------------|------------------------|----------------------|------------------|------------------------|
|                | Original<br>currency | Exchange<br>Rate | Translated<br>into RMB | Original<br>currency | Exchange<br>Rate | Translated<br>into RMB |
| US Dollar(USD) | 32.01                | 6.82863          | 218.51                 |                      |                  |                        |

#### (2) Prepayment

##### A. Age analyze of prepaid accounts

| Ageing        | Ending balance       |                |                               |                      | Beginning balance    |                |                               |                      |
|---------------|----------------------|----------------|-------------------------------|----------------------|----------------------|----------------|-------------------------------|----------------------|
|               | Book<br>value        | Percent<br>(%) | Provision<br>for bad<br>debts | Net book<br>value    | Book<br>value        | Percent<br>(%) | Provision<br>for bad<br>debts | Net book<br>value    |
| Within 1 year | 19,512,443.00        | 69.78          |                               | 19,512,443.00        | 10,528,887.29        | 100.00         |                               | 10,528,887.29        |
| 1-2 years     | 8,451,905.00         | 30.22          |                               | 8,451,905.00         |                      |                |                               |                      |
| Total         | <u>27,964,348.00</u> | 100.00         |                               | <u>27,964,348.00</u> | <u>10,528,887.29</u> | <u>100.00</u>  |                               | <u>10,528,887.29</u> |



B. No prepaid account to shareholders with 5% or above shares of the Company.

C. Prepayment with large amount:

| Name of companies                                                | Relationship        | Ending balance       | Nature and content                 |
|------------------------------------------------------------------|---------------------|----------------------|------------------------------------|
| Hefei Shijiemao Engineering Company Limited                      | Equipment supplier  | 11,033,973.00        | Prepayment of equipment            |
| Wenzhou Rizhong Light Industry and Machinery Company Limited     | Equipment supplier  | 5,190,435.00         | Prepayment of equipment            |
| Anji Borui Construction Company Limited                          | Building contractor | 4,209,042.00         | Prepayment of building             |
| Zhejiang Anji General Electric Power Development Company Limited | Electronic supplier | 1,420,000.00         | Prepayment of electrical equipment |
| Subtotal                                                         |                     | <u>21,853,450.00</u> |                                    |

### (3) Other receivables

A. Other accounts receivable are presented according to the categories as the following:

| Items                            | Ending balance    |               |                         |                   | Beginning balance |               |                         |                   |
|----------------------------------|-------------------|---------------|-------------------------|-------------------|-------------------|---------------|-------------------------|-------------------|
|                                  | Book value        | Percent (%)   | Provision for bad debts | Net book value    | Book value        | Percent (%)   | Provision for bad debts | Net book value    |
| Single account with large amount | 362,371.00        | 76.57         |                         | 362,371.00        | 492,277.57        | 92.09         |                         | 492,277.57        |
| Other minor accounts             | 110,907.3         | 23.43         |                         | 110,907.3         | 42,289.00         | 7.91          |                         | 42,289.00         |
| Total                            | <u>473,278.30</u> | <u>100.00</u> |                         | <u>473,278.30</u> | <u>534,566.57</u> | <u>100.00</u> |                         | <u>534,566.57</u> |

B. Account age analyze of other account receivable

| Ageing        | Ending balance    |               |                         |                   | Beginning balance |               |                         |                   |
|---------------|-------------------|---------------|-------------------------|-------------------|-------------------|---------------|-------------------------|-------------------|
|               | Book value        | Percent (%)   | Provision for bad debts | Net book value    | Book value        | Percent (%)   | Provision for bad debts | Net book value    |
| Within 1 year | 395,789.30        | 83.63         |                         | 395,789.30        | 534,566.57        | 100.00        |                         | 534,566.57        |
| 1-2 years     | 77,489.00         | 16.37         |                         | 77,489.00         |                   |               |                         |                   |
| Total         | <u>473,278.30</u> | <u>100.00</u> |                         | <u>473,278.30</u> | <u>534,566.57</u> | <u>100.00</u> |                         | <u>534,566.57</u> |

C. No other receivable account to shareholders with 5% or above shares of the Company.

D. In the end, the amount of related other receivable is RMB 362,371.00.

(4) Inventory

| Items        | Ending balance |                      |                | Beginning balance |                      |                |
|--------------|----------------|----------------------|----------------|-------------------|----------------------|----------------|
|              | Book value     | Impairment provision | Net book value | Book value        | Impairment provision | Net book value |
| Material tea | 1,083,739.46   |                      | 1,083,739.46   |                   |                      |                |

(5) Fixed assets

A. Details

a. Original cost

|                                | Beginning balance   | Increase            | Decrease | Ending balance      |
|--------------------------------|---------------------|---------------------|----------|---------------------|
| Auxiliary equipment            | 479,300.00          | 1,243,100.76        |          | 1,722,400.76        |
| Vehicles                       | 542,600.00          | 213,620.00          |          | 756,220.00          |
| Electronic and other equipment | 77,500.00           | 12,855.41           |          | 90,355.41           |
| Total                          | <u>1,099,400.00</u> | <u>1,469,576.17</u> |          | <u>2,568,976.17</u> |

b. Accumulated depreciation

|                                | Beginning balance | Increase          | Decrease | Ending balance    |
|--------------------------------|-------------------|-------------------|----------|-------------------|
| Auxiliary equipment            | 43,317.80         | 245,443.50        |          | 288,761.30        |
| Vehicles                       | 33,775.23         | 53,483.73         |          | 87,258.96         |
| Electronic and other equipment | 12,797.79         | 15,954.68         |          | 28,752.47         |
| Total                          | <u>89,890.82</u>  | <u>314,881.91</u> |          | <u>404,772.73</u> |

c. The provision for impairment is not made as there is no evidence that the value of fixed assets has declined in the end.

d. Net book value

|                                | Beginning balance   | Increase            | Decrease          | Ending balance      |
|--------------------------------|---------------------|---------------------|-------------------|---------------------|
| Auxiliary equipment            | 435,982.20          | 1,243,100.76        | 245,443.50        | 1,433,639.46        |
| Vehicles                       | 508,824.77          | 213,620.00          | 53,483.73         | 668,961.04          |
| Electronic and other equipment | 64,702.21           | 12,855.41           | 15,954.68         | 61,602.94           |
| Total                          | <u>1,009,509.18</u> | <u>1,469,576.17</u> | <u>314,881.91</u> | <u>2,164,203.44</u> |

(6) Construction in progress

A. Details

| Name of construction | Ending balance |                      | Beginning balance |                      |
|----------------------|----------------|----------------------|-------------------|----------------------|
|                      | Book value     | Impairment Provision | Book value        | Impairment Provision |
| ANJI factory         | 17,859,393.46  |                      | 8,264,813.44      |                      |

B. Movements of construction in progress

| Name of construction | Beginning balance | Current period increase | Current period transfer into fixed assets | Other decrease in current period | Ending balance |
|----------------------|-------------------|-------------------------|-------------------------------------------|----------------------------------|----------------|
| ANJI factory         | 8,264,813.44      | 9,594,580.02            |                                           |                                  | 17,859,393.46  |

C. The provision for impairment is not made as there is no evidence that the value of construction in progress has declined in the end.

(7) Intangible assets

A. Details

|              | Beginning balance    | Increase         | Decrease | Ending balance       |
|--------------|----------------------|------------------|----------|----------------------|
| Land         | 13,528,429.00        | 4,438.00         |          | 13,532,867.00        |
| UFIDA system |                      | 21,680.00        |          | 21,680.00            |
| Total        | <u>13,528,429.00</u> | <u>26,118.00</u> |          | <u>13,554,547.00</u> |

B. Amortization

|              | Beginning balance | Increase          | Decrease | Ending balance    |
|--------------|-------------------|-------------------|----------|-------------------|
| Land         |                   | 677,242.38        |          | 677,242.384       |
| UFIDA system |                   | 6,624.43          |          | 6,624.43          |
| Total        |                   | <u>683,866.81</u> |          | <u>683,866.81</u> |

C. The provision for impairment is not made as there is no evidence that the value of intangible assets has declined in the end.

D. Net book value

|              | Beginning balance    | Increase         | Decrease          | Ending balance       | Residual amortization lives |
|--------------|----------------------|------------------|-------------------|----------------------|-----------------------------|
| Land         | 13,528,429.00        | 4,438.00         | 677,242.38        | 12,855,624.62        | 570 months                  |
| UFIDA system |                      | 21,680.00        | 6,624.43          | 15,055.57            | 25 months                   |
| Total        | <u>13,528,429.00</u> | <u>26,118.00</u> | <u>683,866.81</u> | <u>12,870,680.19</u> |                             |

(8) Long-term prepaid expenses

|                   | Beginning balance | Increase | Decrease | Ending balance |
|-------------------|-------------------|----------|----------|----------------|
| Organization Cost | 2,792,203.48      |          |          | 2,792,203.48   |

(9) Deferred income tax asset

A. Details

| Items                                    | Ending balance | Beginning balance |
|------------------------------------------|----------------|-------------------|
| Taxable influence from carry back losses | 1,613,957.37   |                   |

B. Deductible temporary differences

| Items             | Ending balance | Beginning balance |
|-------------------|----------------|-------------------|
| Carry-back losses | 6,445,829.48   |                   |

(10) Accounts payable

A. Details

| Items                        | Ending balance | Beginning balance |
|------------------------------|----------------|-------------------|
| Accounts payable of material | 837,339.46     |                   |

B. No accounts receivable account to shareholders with 5% or above shares of the Company.

C. No related accounts payable.

(11) Employee's wage payable

A. Details

| Items                           | Beginning balance | Increase            | Decrease            | Ending balance    |
|---------------------------------|-------------------|---------------------|---------------------|-------------------|
| Wage, bonus, allowance, subsidy | 43,250.00         | 1,708,204.00        | 1,587,704.00        | 163,750.00        |
| Employee welfare                |                   | 24,615.90           | 24,615.90           |                   |
| Social insurance                |                   | 24,391.50           | 24,391.50           |                   |
| Total                           | <u>43,250.00</u>  | <u>1,757,211.40</u> | <u>1,636,711.40</u> | <u>163,750.00</u> |

B. No employee's wage payable in arrears.

(12) Tax payable

| Items                          | Ending balance     | Beginning balance |
|--------------------------------|--------------------|-------------------|
| Value added tax                | -651,527.03        |                   |
| Withheld individual income tax | 11,170.96          | 10,751.43         |
| Total                          | <u>-640,356.07</u> | <u>10,751.43</u>  |

(13) Interest payable

| Items                   | Ending balance | Beginning balance |
|-------------------------|----------------|-------------------|
| Long-term loan interest | 26,400.00      |                   |

(14) Other accounts payable

A. Details

| Items               | Ending balance      | Beginning balance |
|---------------------|---------------------|-------------------|
| Deposit in security | \$65,737.00         | 100,000.00        |
| Designing fees      | 400,000.00          | 484,000.00        |
| Others              | 237,047.77          | 101,729.00        |
| Total               | <u>1,202,784.77</u> | <u>685,729.00</u> |

B. No other payable account to shareholders with 5% or above shares of the Company.

C. In the end, the amount of related other accounts payable is RMB 222,281.85.

D. Particulars about other accounts payable with large amount:

| Name of the companies                                                              | Ending balance    | Nature        |
|------------------------------------------------------------------------------------|-------------------|---------------|
| Hangzhou Light Industrial Construction and Designing Institute                     | 400,000.00        | Designing Fee |
| Hangzhou Environment Protection Research Institute of the Academy of Coal Sciences | 222,000.00        | Equipment Fee |
| Total                                                                              | <u>622,000.00</u> |               |

(15) Long-term loans

|                         | Currency | Loan terms                                 | Ending balance | Beginning balance |
|-------------------------|----------|--------------------------------------------|----------------|-------------------|
|                         |          | Land, Buildings and Machinery for Mortgage |                |                   |
| Standard Chartered Bank | RMB      |                                            | 20,000,000.00  | 20,000,000.00     |

PS: The land located in Anji (land-use rights: ANJIGUOYONG 2008 NO.6056) with an area of 71,700 square meters was mortgaged to banks to secure the bank loan granted to the Company. The mortgaged value is RMB 21,510,000.00.

(16) Paid-in capital

A. Details

| Investors                          | Beginning balance    | Shareholding percent (%) | Increase             | Decrease | Ending balance       | Shareholding percent (%) |
|------------------------------------|----------------------|--------------------------|----------------------|----------|----------------------|--------------------------|
| Tata Tea Limited, India            | 19,250,000.00        | 70.00                    | 19,250,000.00        |          | 38,500,000.00        | 70.00                    |
| Zhejiang Tea Group Company Limited | 8,250,000.00         | 30.00                    | 8,250,000.00         |          | 16,500,000.00        | 30.00                    |
| Total                              | <u>27,500,000.00</u> | <u>100.00</u>            | <u>27,500,000.00</u> |          | <u>55,000,000.00</u> | <u>100.00</u>            |

#### B. Movements of paid-in capital in current period

The registered capital is 55 million, of which 50%, 27.5million had been contributed by the partners in 2007. During current period, another 27.5 million has been contributed by partners. Till now, the paid-in capital is 55 million, in which Tata Tea Limited, India has 70% and Zhejiang Tea Group Company Limited has 30%. The paid-in capital was verified by Zhejiang Zhengyuan Certified Public Accountants Co., Ltd, with a capital verification report of ZheTianHuiYanZi No. [2009]155.

### (17) Capital stock

#### A. Details

|               | Beginning balance | Increase  | Decrease | Ending balance |
|---------------|-------------------|-----------|----------|----------------|
| Share premium | 20,940.00         | 21,598.00 |          | 42,538.00      |

#### B. Explanations of movement of capital stock

Current period increase in capital stock is created by the paid-in capital premium contributed by Tata Tea Limited, India.

### (18) Distributable profit

Distributable profit at the beginning of year(adjusted)

Plus: net profit of current period -4,841,872.12

Less: Statutory surplus reserves

Dividend payable

Distributable profit at the end of year -4,841,872.12

## 2. Notes to main items of the income statement

(1) Non-business income

| Items                | This period | Last period |
|----------------------|-------------|-------------|
| Government subsidies | 670,000.00  |             |

(2) Income tax expenses

| Items                       | This period   | Last period |
|-----------------------------|---------------|-------------|
| Deferred income tax expense | -1,613,957.30 |             |

3. Notes to main items of the cash flow statement

(1) Appendix of cash flow statement

| Items                                                                                     | This period   |
|-------------------------------------------------------------------------------------------|---------------|
| a. Net profit adjusted to cash flow of business operation                                 |               |
| Net profit                                                                                | -4,841,872.12 |
| Plus: Asset impairment provision                                                          |               |
| Depreciation of fixed assets, oil-gas assets and productive biological assets             | 314,881.91    |
| Amortization of intangible assets                                                         | 683,866.81    |
| Amortization of long-term prepaid expenses                                                |               |
| Loss of treating fixed assets, intangible assets and other long-term assets (less: gains) | 2,792,203.48  |
| Loss of disposing fixed assets (less: gains)                                              |               |
| Loss of fair value change (less: gains)                                                   |               |
| Financial expenses (less: gains)                                                          |               |
| Investment loss (less: gains)                                                             |               |
| Decrease of deferred income tax assets (less: increase)                                   | -1,613,957.37 |
| Increase of deferred income tax assets (less: decrease)                                   |               |
| Decrease of inventory (less: increase)                                                    | -1,083,739.46 |
| Decrease of operational receivables (less: increase)                                      | 61,288.27     |
| Increase of operational payables (less: decrease)                                         | 823,787.73    |
| Others                                                                                    |               |
| Net cash flow generated from business operation                                           | -2,863,540.75 |

|                                                                  |               |
|------------------------------------------------------------------|---------------|
| b. Investment and financing activities not involved in cash flow |               |
| Debt converted to capital shares                                 |               |
| Convertible bonds with one year due                              |               |
| Fixed assets obtained from financing lease                       |               |
| c. Net change of cash and cash equivalents:                      |               |
| Balance of cash at period end                                    | 7,760,983.82  |
| Less: original balance of cash                                   | 11,602,261.47 |
| Plus: balance of cash equivalents at the period end              |               |
| Less: original balance of cash equivalents                       |               |
| Net increasing of cash and cash equivalents                      | -3,841,277.65 |

(2) Cash and cash equivalents

| Items                                                                                 | This period         | Last period          |
|---------------------------------------------------------------------------------------|---------------------|----------------------|
| a. Cash                                                                               |                     |                      |
| Incl. Cash in stock                                                                   | 2,415.00            | 31,955.00            |
| Bank deposit on demand                                                                | 7,758,568.82        | 11,570,306.47        |
| Other monetary capital on demand                                                      |                     |                      |
| b. Cash equivalents                                                                   |                     |                      |
| Incl. Bonds investment with three months due                                          |                     |                      |
| c. Balance of cash and cash equivalents                                               | <u>7,760,983.82</u> | <u>11,602,261.47</u> |
| Constrained cash and cash equivalents of the parent company and internal subsidiaries |                     |                      |

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Qualification of related parties

According to "Accounting Standards for Business Enterprises No. 36—Disclosure of related parties", When a party controls, jointly controls or exercises significant influence over another party, or when two or more parties are under the control, joint control or significant influence of the same party, the affiliated party relationships are constituted.

2. Related parties

(1) Parent company and controlling related parties



| Name of entity          | Registered address | Principal business  | Paid-in capital | Percent (%) |
|-------------------------|--------------------|---------------------|-----------------|-------------|
| Tata Tea Limited, India | India              | Sale of Branded Tea | 38,500,000.00   | 70%         |

(2) Other related parties

| Name of entity                                   | Relationship with the Company |
|--------------------------------------------------|-------------------------------|
| Zhejiang Tea Group Company Limited               | Shareholder                   |
| Zhejiang Huada Tea Manufacturing Company Limited | Subsidiary of the shareholder |

3. Related party transactions

(1) Purchase of goods

| Name of entity                                   | Accumulated this year |            |                |
|--------------------------------------------------|-----------------------|------------|----------------|
|                                                  | Amount                | Percent(%) | Pricing policy |
| Zhejiang Huada Tea Manufacturing Company Limited | 1,083,700.00          | 100.00     | Contract price |

(2) Receivable from and payable to related parties

| Name of entity                                   | Ending balance |                         | Beginning balance |                         |
|--------------------------------------------------|----------------|-------------------------|-------------------|-------------------------|
|                                                  | Amount         | Provision for bad debts | Amount            | Provision for bad debts |
| a. Other receivables                             |                |                         |                   |                         |
| Zhejiang Huada Tea Manufacturing Company Limited | 362,371.00     |                         | 362,371.00        |                         |
| b. Accounts payable                              |                |                         |                   |                         |
| Zhejiang Huada Tea Manufacturing Company Limited | 837,339.46     |                         |                   |                         |
| b. Other accounts payable                        |                |                         |                   |                         |
| Zhejiang Tea Group Company Limited               | 31,817.85      |                         |                   |                         |
| Zhejiang Huada Tea Manufacturing Company Limited | 190,313.00     |                         | 77,313.00         |                         |

(3) Other transaction with related party:

- a. The company paid RMB 34,328.25 to Zhejiang Tea Group Company Limited for the office leased this period.

b. The company paid RMB 656,250.00 to Zhejiang Tea Group Company Limited for the consultant service it provided.

#### **X. CONTINGENCIES**

As at the balance sheet date, the Company has no material contingencies that need to be disclosed.

#### **XI. COMMITMENTS**

The Company entered purchase orders for Plant & Machinery during the reporting period.

Estimated amount of contracts remaining to be executed on capital account and not provided for as at balance sheet date aggregated RMB 10,620,089 (Last Year – RMB 19,940,120)

#### **XII. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

As at the approval date of the issue of the financial statements, the Company has no significant events occurring after the balance sheet date that need to be disclosed.

**ZHEJIANG TATA TEA EXTRACTION COMPANY LIMITED**

**April 19th, 2010**