

The directors present their report to the members together with the audited consolidated financial statements of GONGYOU MACHINES LIMITED. (the Company) and its subsidiaries (the Group) and the statements of financial position and statements of changes in equity of the Company for the financial year ended 30 June 2010.

DIRECTORS

The directors holding office at the date of this report are :

CHEN CHUANQING
DONG YANWEI
HOU ZHIHAO
LUO FUDING
LUO SHOUPING
SANDT JULIAN LIONEL

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES & DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate except for those mentioned in this report of the directors.

DIRECTORS' INTERESTS IN SHARES & DEBENTURES

The directors holding office at the end of the financial year and their interests in the share capital of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Companies Act, Cap. 50 were as follows: -

ORDINARY SHARES FULLY PAID

| | As at 01-07-2009 (or date of appointment) | As at 30-06-2010 |
|--|--|------------------|
| The Company | - | - |
| CHEN CHUANQING | - | - |
| DONG YANWEI | - | - |
| HOU ZHIHAO | - | - |
| LUO FUDING | - | - |
| LUO SHOUPING | - | - |
| SANDT JULIAN LIONEL | - | - |
| The Holding Company – CONTENTED ENTERPRISES LIMITED | | |
| CHEN CHUANQING | 19 | 19 |
| DONG YANWEI | 35 | 35 |
| HOU ZHIHAO | - | - |
| LUO FUDING | 22 | 22 |
| LUO SHOUPING | 24 | 24 |
| SANDT JULIAN LIONEL | - | - |

DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

SHARE OPTIONS

During the financial year, no option to take up unissued shares of the Company or the subsidiary was granted.

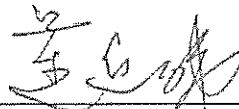
At the end of the financial year, there were no shares of the Company or the subsidiary issued by virtue of the exercise of any option to take up unissued shares.

There are no unissued shares under option.

INDEPENDENT AUDITORS

The independent auditors TAN, TEO & PARTNERS PAC, Public Accountants and Certified Public Accountants, have expressed their willingness to accept re-appointment as auditors.

ON BEHALF OF THE BOARD OF DIRECTORS,



DONG YANWEI



CHEN CHUANQING


SINGAPORE: 20 SEPTEMBER 2010

We, DONG YANWEI and CHEN CHUANQING, being two of the directors of GONGYOU MACHINES LIMITED state that in the opinion of the board of directors: -

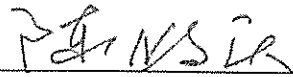
- (a) the accompanying statements of financial position, consolidated statement of comprehensive income, statements of changes in equity, and consolidated statements of cash flows together with the notes thereon are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2010, and the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year then ended; and
- (b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors authorised these financial statements for issue on the date of this statement.

ON BEHALF OF THE BOARD OF DIRECTORS,

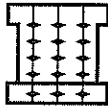


DONG YANWEI



CHEN CHUANQING

SINGAPORE: 20 SEPTEMBER 2010



TAN, TEO & PARTNERS PAC

PUBLIC ACCOUNTANTS AND CERTIFIED PUBLIC ACCOUNTANTS, SINGAPORE

ACRA No. 200800041H

190 Middle Road #12-10 Fortune Centre Singapore 188979
Telephone: 6336 8772 Facsimile: 6336 6165 Website: cpasingapore.com.sg

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

GONGYOU MACHINES LIMITED

Company Registration No. 200415128Z

(Incorporated in the Republic of Singapore)

Report on the Financial Statements

We have audited the accompanying financial statements of GONGYOU MACHINES LIMITED (the Company) and its Subsidiaries (the Group) set out on pages 6 to 32, which comprise the statements of financial position of the Group and the Company as at 30 June 2010, the consolidated statement of comprehensive income of the Group, the statements of changes in equity of the Group and Company and the consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes:

- (a) devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair statement of comprehensive income and statement of financial position and to maintain accountability of assets;
- (b) selecting and applying appropriate accounting policies; and
- (c) making accounting estimates that are reasonable in the circumstances.

Independent Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor's considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

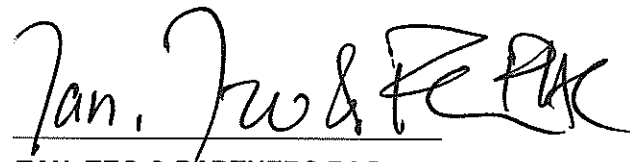
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

GONGYOU MACHINES LIMITED
Company Registration No. 200415128Z

(Incorporated in the Republic of Singapore)

In our opinion,

- (a) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2010 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.



TAN, TEO & PARTNERS PAC
Public Accountants and
Certified Public Accountants
Singapore

SINGAPORE: 20 SEPTEMBER 2010

| | Note | Group | | Company | |
|--------------------------------------|------|---------------------------|---------------------------|--------------------------|--------------------------|
| | | 2010 | 2009 | 2010 | 2009 |
| | | CNY | CNY | CNY | CNY |
| Non-Current Assets | | | | | |
| Property, Plant & Equipment | 3 | 9,669,835 | 11,054,913 | - | - |
| Investment in Subsidiary | 4 | - | - | 62,537,216 | 62,537,216 |
| Current Assets | | | | | |
| Inventories | 5 | 62,117,098 | 61,215,131 | - | - |
| Trade Receivables | 6 | 63,989,590 | 70,559,020 | - | - |
| Other Receivables | 7 | 4,577,048 | 6,112,131 | - | - |
| Amounts Owing By Related Parties | 8 | 70,317,329 | 78,659,986 | - | - |
| Amounts Owing By Holding Company | 9 | 23,411 | 110,534 | 23,411 | 110,534 |
| Amounts Owing By Subsidiary | 10 | - | - | 10,939,193 | 10,634,982 |
| Deferred Tax Assets | 11 | 2,894,639 | 1,362,796 | - | - |
| Cash & Cash Equivalent | 12 | 54,556,488 | 4,926,736 | 674,694 | 1,021,890 |
| | | <u>258,475,603</u> | <u>222,946,334</u> | <u>11,637,298</u> | <u>11,767,406</u> |
| Current Liabilities | | | | | |
| Trade Payables | | 43,296,136 | 42,460,011 | - | - |
| Other Payables | 13 | 34,647,802 | 28,959,833 | 294,798 | 575,868 |
| Amounts Owing To Bankers - Unsecured | 14 | 30,000,000 | - | - | - |
| Amounts Owing To Related Parties | 8 | 15,086,471 | 15,095,310 | - | - |
| Income Tax Payable | 19 | 3,200,443 | 4,028,368 | 1,226 | 1,192 |
| | | <u>126,230,852</u> | <u>90,543,522</u> | <u>296,024</u> | <u>577,060</u> |
| Net Current Assets | | 132,244,751 | 132,402,812 | 11,341,274 | 11,190,346 |
| TOTAL | | <u><u>141,914,586</u></u> | <u><u>143,457,725</u></u> | <u><u>73,878,490</u></u> | <u><u>73,727,562</u></u> |
| Share Capital & Reserves | | | | | |
| Share Capital | 15 | 75,344,169 | 75,344,169 | 75,344,169 | 75,344,169 |
| General Reserves | 16 | 8,215,522 | 8,215,522 | - | - |
| Revenue Reserves | | 57,883,930 | 59,443,264 | (1,562,281) | (1,392,804) |
| Translation Reserves | | 470,965 | 454,770 | 96,602 | (223,803) |
| TOTAL | | <u><u>141,914,586</u></u> | <u><u>143,457,725</u></u> | <u><u>73,878,490</u></u> | <u><u>73,727,562</u></u> |

GONGYOU MACHINES LIMITED

Company Registration No. 200415128Z

(Incorporated In The Republic Of Singapore)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For The Financial Year Ended 30 June 2010

| | Note | Group | |
|--|------|---------------|---------------|
| | | 2010 | 2009 |
| | | CNY | CNY |
| Turnover | 17 | 142,845,204 | 119,967,564 |
| Cost Of Sales | | (124,752,330) | (108,220,963) |
| Gross Profits | | 18,092,874 | 11,746,601 |
| Other Operating Income | | 7,614,421 | 3,541,709 |
| Selling & Distribution Expenses | | (7,530,998) | (8,049,237) |
| Administrative & Other Operating Expenses | | (20,905,876) | (21,176,575) |
| Finance Costs | | (361,598) | (158,128) |
| Loss Before Taxation | 18 | (3,091,177) | (14,095,630) |
| Income Tax Expenses | 19 | 1,531,843 | 120,899 |
| Net Loss After Taxation | | (1,559,334) | (13,974,731) |
| Other Comprehensive Income / (Expenses) | | | |
| Foreign Currency Translation Differences From Foreign Operations | | 16,195 | (95,098) |
| Other Comprehensive Income / (Expenses), Net Of Tax | 20 | 16,195 | (95,098) |
| Total Comprehensive Expense For The Year | | (1,543,139) | (14,069,829) |

| | Share Capital CNY | General Reserves CNY | Revenue Reserves CNY | Translation Reserves CNY | Total Equity CNY |
|--|-------------------------|----------------------------|----------------------------|--------------------------------|------------------------|
| Group | | | | | |
| Balance At 01 July 2008 | 75,344,169 | 8,215,522 | 73,417,995 | 549,868 | 157,527,554 |
| Total Comprehensive Expense For The Year | - | - | (13,974,731) | (95,098) | (14,069,829) |
| Balance At 30 June 2009 | 75,344,169 | 8,215,522 | 59,443,264 | 454,770 | 143,457,725 |
| Total Comprehensive Income / (Expense) For The Year | - | - | (1,559,334) | 16,195 | (1,543,139) |
| Balance At 30 June 2010 | 75,344,169 | 8,215,522 | 57,883,930 | 470,965 | 141,914,586 |
| Company | | | | | |
| Balance At 01 July 2008 | 75,344,169 | - | (679,913) | 599,551 | 75,263,807 |
| Total Comprehensive Income / (Expense) For The Year | - | - | (712,891) | (823,354) | (1,536,245) |
| Balance At 30 June 2009 | 75,344,169 | - | (1,392,804) | (223,803) | 73,727,562 |
| Total Comprehensive Income / (Expense) For The Year | - | - | (169,477) | 320,405 | 150,928 |
| Balance At 30 June 2010 | 75,344,169 | - | (1,562,281) | 96,602 | 73,878,490 |

- (1) The holders of ordinary shares are entitled to receive dividends as and when declared by the company. Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividends.

| | Group | |
|--|--------------|---------------|
| | 2010 | 2009 |
| | CNY | CNY |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss Before Taxation | (1,559,334) | (13,974,731) |
| Adjustments For: | | |
| Gain On Disposal Of Property, Plant & Equipment | - | (27,984) |
| Interest Income | (2,573,240) | (2,759,841) |
| Depreciation Of Property, Plant And Equipment | 1,744,366 | 2,421,873 |
| Income Tax Expenses | (1,531,843) | (120,899) |
| <i>Operating Loss Before Working Capital Changes</i> | (3,920,051) | (14,461,582) |
| (Increase) / Decrease In Inventories | (901,967) | 29,091,089 |
| Decrease In Trade Receivables | 6,316,901 | 3,414,650 |
| Decrease / (Increase) In Advance To Supplier | 342,077 | (2,346,329) |
| Decrease In Trade Payables | (3,937,741) | (781,088) |
| Increase / (Decrease) In Accrued Operating Expenses, Receipts In Advance and Tax Payables | 7,426,747 | (1,136,685) |
| <i>Cash Generated From Operations</i> | 5,325,966 | 13,780,055 |
| Interest Income | 2,573,240 | 2,759,841 |
| Income Tax Paid | (827,959) | (102,133) |
| <i>Net Cash Flows From Operating Activities</i> | 7,071,247 | 16,437,763 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase Of Property, Plant & Equipment | (359,288) | (476,762) |
| Proceeds From Disposal Of Property, Plant & Equipment | | 32,180 |
| <i>Net Cash Flows Used In Investing Activities</i> | (359,288) | (444,582) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment From Other Receivables | 1,193,006 | 7,159,775 |
| (Repayment To) / Loan From Other Payables | (1,738,778) | 1,597,058 |
| Proceed Of Loan From Bankers | 30,000,000 | - |
| Repayment From / (Loan To) Holding Company | 87,123 | (110,534) |
| Repayment From / (Loan To) Related Parties | 13,360,213 | (27,316,778) |
| <i>Net Cash Flows From / (Used In) Financing Activities</i> | 42,901,564 | (18,670,479) |
| INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS | 49,613,523 | (2,677,298) |
| CASH & CASH EQUIVALENTS AT BEGINNING OF THE YEAR | 4,926,736 | 7,699,202 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 16,229 | (95,168) |
| CASH & CASH EQUIVALENTS AT END OF YEAR | 54,556,488 | 4,926,736 |

Notes to the Statement Of Cash Flows

(a) Cash and cash equivalents consist of cash & bank balances at financial institution.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

(1) CORPORATE INFORMATION

The financial statements of the Company for the financial year ended 30 June 2010 were authorised for issue in accordance with a resolution of the directors as stated in the statement of directors. The Company is a public limited company incorporated in Singapore. The immediate and ultimate holding company is Contented Enterprises Limited, Company Registration No. 622651, a Company incorporated and domiciled in British Virgin Islands which is held in trust by DBS Nominees (Private) Limited, company registration no. 19690222R, a company incorporated in Singapore.

The registered office and principle place of the Company is located at 190 Middle Road #12-10 Fortune Centre Singapore 188979.

The principal activities of the Company are those of an investment holding company. The principal activities of the subsidiary are disclosed in note 4 on page 21.

(2) SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Accounting*

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (FRS) as required by the Companies Act.

The financial statements of the Group are presented in Chinese Yuan ("CNY") and are prepared in accordance with the historical cost convention except for the accounting policies as stated below.

All of the Group's business operations are conducted in the People's Republic of China. Accordingly, the financial statements of the Group have been prepared in CNY, being the functional currency of the Group as sales values and major costs of providing good and services are primarily influenced by fluctuation in the functional currency ("CNY") of the Group.

The accounting policies have been consistently applied by the Group are consistent with those used in the previous financial year.

During the financial year, the Company has adopted all the new and revised FRSs and Interpretations of FRSs ("INT FRS") that are relevant to its operations and effective for the current financial period. The adoption of these new / revised FRSs and INT FRSs does not result in changes to the Company's accounting policies and has no material effect on the amounts reported for the current year or prior years except as disclosed in these financial statements.

The Company has not applied the new FRSs that have been issued but are not yet effective. The Company is in the process of making an assessment of what the impact of these new FRSs where relevant is expected to be in the period of initial application.

(2) **SIGNIFICANT ACCOUNTING POLICIES – cont'd**

(b) ***Critical Accounting Judgements And Key Sources Of Estimation Uncertainty***

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(c) ***Basis of Consolidation***

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiary). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiary acquired or disposed off during the year are included in the consolidated profit and loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with those used by other members of the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

In the company's financial statements, investments in subsidiary are carried at cost less any impairment in net recoverable value that has been recognised in the profit and loss.

(d) ***Subsidiary Company***

A subsidiary is a company, in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

An assessment of investment in subsidiary company is performed when there is indication that the asset has been impaired or the impairment losses recognised in the prior years no longer exist.

In the Company's separate financial statements, investments in subsidiary company are accounted for at cost less impairment losses.

(2) **SIGNIFICANT ACCOUNTING POLICIES – cont'd**

(e) ***Property, Plant & Equipment & Depreciation***

Property, plant & equipment are stated at cost less accumulated depreciation and any impairment losses. The Company computes depreciation using the straight-line method to write off the cost of the assets over their estimated useful lives, which have been taken as follows: -

| | |
|-----------------------|--------------|
| Machinery & Equipment | 1 - 10 Years |
| Motor Vehicles | 1 - 10 Years |

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

The gain or loss arising on disposal of an item of property, plant & equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the income statement.

(f) ***Financial Assets***

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. The designation of financial assets at fair value through profit or loss is irrevocable.

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in other comprehensive income is recognised in the profit and loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(2) **SIGNIFICANT ACCOUNTING POLICIES – cont'd**

(f) **Financial Assets – cont'd**

i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets classified as held for trading, and those designated at fair value through profit or loss at inception. Financial assets classified as held for trading are derivatives (including separated embedded derivatives) or are acquired principally for the purpose of selling or repurchasing it in the near term. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Company investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in the profit and loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

iii) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary items and interest calculated using the effective interest method are recognised in the profit and loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit and loss as a reclassification adjustment when the financial asset is derecognized.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

(2) **SIGNIFICANT ACCOUNTING POLICIES – cont'd**

(g) ***Impairment Of Non-Financial Assets***

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is requested, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit and loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Reversal of an impairment loss is recognised in the profit and loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(h) ***Impairment Of Financial Assets***

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

i) ***Assets carried at amortised cost***

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit and loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred; the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

(2) **SIGNIFICANT ACCOUNTING POLICIES – cont'd**

(h) ***Impairment Of Financial Assets – cont'd***

i) ***Assets carried at amortised cost – cont'd***

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognized in the profit and loss.

ii) ***Assets carried at cost***

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

iii) ***Available-for-sale financial assets***

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss, is transferred from equity to the profit and loss. Reversals of impairment losses in respect of equity instruments are not recognised in the profit and loss. Reversals of impairment losses on debt instruments are recognised in the profit and loss if the increase in fair value of the debt instrument can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss.

(i) ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is determined on a weighted average basis. Net realisable value is arrived at after due allowance is made for all obsolete and slow-moving inventories. Inventories comprised mainly raw materials, semi finished and finished goods materials of electromotor and industrial machineries.

(2) **SIGNIFICANT ACCOUNTING POLICIES – cont'd**

(j) ***Cash And Cash Equivalents***

Cash and cash equivalents comprise cash on hand and at bank, demand deposits and short-term, highly liquid investments which are readily convertible to cash and which are subject to an insignificant risk of changes in value, net off bank overdrafts which are repayable on demand and which form an integral part of the Group's cash management.

(k) ***Financial Liabilities***

Financial liabilities at amortised cost

Financial liabilities are initially stated at fair value less directly attributable transactions costs and are subsequently measured at amortised cost, using the effective interest method.

Gains or losses are recognised in the profit and loss when the liabilities are derecognised as well as through the amortisation process.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. The difference between the carrying value of the financial liability derecognised and the consideration paid is recognised in the profit and loss.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit and loss.

(l) ***Provisions***

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(m) ***Share Capital***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

(2) **SIGNIFICANT ACCOUNTING POLICIES – cont'd**

(n) **Revenue Recognition**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- (i) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (ii) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (iii) the amount of revenue can be measured reliably;
- (iv) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (v) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Other operating income is recognised when the related services were rendered.

Interest income is recognised on an accrual basis.

(o) **Employee Benefits**

Contributions to defined contribution pension plans are recognised as an expense in the period in which the related service is performed.

Employee entitlements to annual leave are recognised when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date, if material

(p) **Income Tax**

Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates and tax laws enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences, except: where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss; in respect of taxable temporary differences associated with investments in subsidiary where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(2) **SIGNIFICANT ACCOUNTING POLICIES – cont'd**

(p) ***Income Tax – cont'd***

Deferred Tax – cont'd

Deferred tax assets are recognised in respect of deductible temporary differences and carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they are income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, and current tax liabilities and assets are intended to be settled on a net basis.

(q) ***Foreign Currency Transactions***

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchanges as at the dates of the initial transactions.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

(2) **SIGNIFICANT ACCOUNTING POLICIES – cont'd**

(q) ***Foreign Currency Transactions – cont'd***

The assets and liabilities of the foreign operations are translated into in Chinese Yuan using exchange rates prevailing on the reporting date and their statement of comprehensive income are translated at the average exchange rates for the year. Exchange differences arising on the translation are taken directly to in other comprehensive income. Such translation differences are recognised in profit and loss in the period in which the foreign operation is disposed off.

(r) ***Operating Lease***

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(s) ***Capital Management***

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy working ratios in order to support its business and maximise shareholder value.

The Group's working capital comprises receivables (including amounts owing by related parties), cash and short term deposits, payables (including amounts owing to related parties), accruals and provisions and borrowings stated on the statement of financial position. The Group manage its working capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the working capital structure, the Group may adjust the dividend payment to shareholders. No changes were made in the objectives, policies or processes during the current financial period.

The Group manages capital by regularly monitoring its current and expected liquidity requirements. The Group is not obliged to meet capital requirements, both internally and externally imposed.

(3) **PROPERTY, PLANT & EQUIPMENT**

| <u>Group</u> | Machinery & Equipment CNY | Motor Vehicles CNY | Total CNY |
|----------------------------|---------------------------------|--------------------------|-------------------|
| Cost @ | | | |
| 01-07-2009 | 22,224,959 | 2,300,602 | 24,525,561 |
| Additions | 359,288 | - | 359,288 |
| Written Off / Disposals | - | - | - |
| 30-06-2010 | <u>22,584,247</u> | <u>2,300,602</u> | <u>24,884,849</u> |
| Accumulated Depreciation @ | | | |
| 01-07-2009 | 11,911,884 | 824,958 | 12,736,842 |
| Current Period | 1,516,825 | 227,541 | 1,744,366 |
| Discharge | - | - | - |
| 30-06-2010 | <u>13,428,709</u> | <u>1,052,499</u> | <u>14,481,208</u> |
| Accumulated Impairment @ | | | |
| 01-07-2009 | 733,806 | - | 733,806 |
| Impairment In Value | - | - | - |
| 30-06-2010 | <u>733,806</u> | <u>-</u> | <u>733,806</u> |
| Net Carrying Value @ | | | |
| 30-06-2010 | <u>8,421,732</u> | <u>1,248,103</u> | <u>9,669,835</u> |
| <u>Group</u> | Machinery & Equipment CNY | Motor Vehicles CNY | Total CNY |
| Cost @ | | | |
| 01-07-2008 | 21,754,752 | 2,300,602 | 24,055,354 |
| Additions | 476,762 | - | 476,762 |
| Written Off / Disposals | (6,555) | - | (6,555) |
| 30-06-2009 | <u>22,224,959</u> | <u>2,300,602</u> | <u>24,525,561</u> |
| Accumulated Depreciation @ | | | |
| 01-07-2008 | 9,719,008 | 598,320 | 10,317,328 |
| Current Period | 2,195,235 | 226,638 | 2,421,873 |
| Discharge | (2,359) | - | (2,359) |
| 30-06-2009 | <u>11,911,884</u> | <u>824,958</u> | <u>12,736,842</u> |
| Accumulated Impairment @ | | | |
| 01-07-2008 | 733,806 | - | 733,806 |
| Impairment In Value | - | - | - |
| 30-06-2009 | <u>733,806</u> | <u>-</u> | <u>733,806</u> |
| Net Carrying Value @ | | | |
| 30-06-2009 | <u>9,579,269</u> | <u>1,475,644</u> | <u>11,054,913</u> |

(4) INVESTMENT IN SUBSIDIARY

| | Company | |
|-------------------------------|-------------------|-------------------|
| | 2010 | 2009 |
| | CNY | CNY |
| Unquoted Shares At Cost | 62,537,216 | 62,537,216 |
| Less : Accumulated Impairment | - | - |
| | <u>62,537,216</u> | <u>62,537,216</u> |

Details of the subsidiary are as follows: -

| Name Of Subsidiary | Principal Activities | Country Of Incorporation And Place Of Business | Percentage Of Equity Held By The Company | | Cost Of Investment By The Company | |
|------------------------------------|--|---|---|------|--------------------------------------|------------|
| | | | 2010 | 2009 | 2010 | 2009 |
| | | | % | % | CNY | CNY |
| Asia Gongyou (Weihai) Co. Ltd.* | Producing And Selling Of Industrial Machines Woodworker, Electromotor, Electronic Products, Etc | People's Republic of China | 100 | 100 | 62,537,216 | 62,537,216 |

* Audited by Tianhengxin Certified Public Accountants Co., Ltd, a firm of certified public accountants in the PRC for local statutory reporting.

(5) INVENTORIES

| | Group | | Company | |
|---------------------|-------------------|-------------------|----------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Raw Materials | 15,540,164 | 15,424,291 | - | - |
| Product In Progress | 22,900,360 | 19,072,939 | - | - |
| Finished Goods | 23,676,574 | 26,717,901 | - | - |
| | <u>62,117,098</u> | <u>61,215,131</u> | <u>-</u> | <u>-</u> |

The Group's cost of inventories recognised as expenses and included in 'cost of sales' amounted to CNY124,752,330 (2009: CNY 108,220,963).

(6) TRADE RECEIVABLES

| | Group | | Company | |
|-------------------------------|-------------------|-------------------|----------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Not Past Due And Not Impaired | 4,640,000 | 4,331,617 | - | - |
| Past Due But Not Impaired | 59,349,590 | 66,227,403 | - | - |
| | <u>63,989,590</u> | <u>70,559,020</u> | <u>-</u> | <u>-</u> |
| Impaired Receivables | 10,786,539 | 5,599,924 | - | - |
| Less: Accumulated Impairment | 10,786,539 | 5,599,924 | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Trade Receivables - Net | <u>63,989,590</u> | <u>70,559,020</u> | <u>-</u> | <u>-</u> |

The Group has trade receivables that are past due at the reporting date but not impaired. These receivables are unsecured and the analysis of their aging at the reporting date is as follows:

| | Group | | Company | |
|------------------------------|-------------------|-------------------|----------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Trade receivables past due : | | | | |
| Less than 3 months | 17,254,494 | 14,812,338 | - | - |
| 3 months to 6 months | 6,921,915 | 12,246,668 | - | - |
| More than 6 months | 35,173,181 | 39,168,397 | - | - |
| | <u>59,349,590</u> | <u>66,227,403</u> | <u>-</u> | <u>-</u> |

Trade receivables are non-interest bearing and are generally granted 3 months credit terms. They are recognised and carried at their original invoice amounts which represent their fair values on initial recognition.

| | Group | | Company | |
|--|-------------------|------------------|----------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Movements in Accumulated Impairment: - | | | | |
| Balance At Beginning Of Year | 5,599,924 | 5,579,894 | - | - |
| Charge To Income Statement | 5,186,615 | 20,030 | - | - |
| Balance At End Of Year | <u>10,786,539</u> | <u>5,599,924</u> | <u>-</u> | <u>-</u> |

(6) TRADE RECEIVABLES – cont'd

The trade receivables are denominated in the following currencies:

| | Group | | Company | |
|----------------------|-------------------|-------------------|----------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Chinese Yuan | 59,149,555 | 65,733,223 | - | - |
| Euro Dollar | - | 64,865 | - | - |
| United States Dollar | 4,840,035 | 4,760,932 | - | - |
| | <u>63,989,590</u> | <u>70,559,020</u> | <u>-</u> | <u>-</u> |

(7) OTHER RECEIVABLES

| | Group | | Company | |
|---------------------|------------------|------------------|----------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Advance To Supplier | 3,341,691 | 3,683,768 | - | - |
| Others | 1,235,357 | 2,428,363 | - | - |
| | <u>4,577,048</u> | <u>6,112,131</u> | <u>-</u> | <u>-</u> |

(8) AMOUNTS OWING BY / (TO) RELATED PARTIES

Related parties refer to companies incorporated in People's Republic of China which certain directors have substantial control over its business and financial operations.

The amounts owing by / (to) related parties are unsecured, interest free and are repayable on demand as follow:-

| | Group | | Company | |
|---------------------------------|-------------------|-------------------|----------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Amounts Receivable – Trade | 7,323,290 | 7,070,761 | - | - |
| Amounts Receivable – Non -Trade | 62,994,039 | 71,589,225 | - | - |
| | <u>70,317,329</u> | <u>78,659,986</u> | <u>-</u> | <u>-</u> |
| Amounts Payable – Trade | 10,321,444 | 15,095,310 | - | - |
| Amounts Payable – Non -Trade | 4,765,027 | - | - | - |
| | <u>15,086,471</u> | <u>15,095,310</u> | <u>-</u> | <u>-</u> |

(8) AMOUNTS OWING BY / (TO) RELATED PARTIES

During the financial year, the Group and the Company had significant related parties' transactions at terms agreed between the parties as follows: -

| | Group | | Company | |
|--------------------------------|-----------|------------|---------|------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Sales To Related Parties | 3,350,486 | 2,644,983 | - | - |
| Purchases From Related Parties | 7,451,687 | 10,076,064 | - | - |

(9) AMOUNTS OWING BY HOLDING COMPANY

The Company's immediate and ultimate holding company is Contented Enterprises Limited, Company Registration No. 622651, a Company incorporated and domiciled in British Virgin Islands which is held in trust by DBS Nominees (Private) Limited, company registration no. 19690222R, a company incorporated in Singapore.

The amounts owing by holding company which are non-trade in nature, are unsecured, interest free and repayable on demand.

During the financial year, the Company has no significant transactions with its holding company.

The amounts owing by holding company are denominated in the following currencies:

| | Group | | Company | |
|------------------|--------|---------|---------|---------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Singapore Dollar | 23,411 | 14,097 | 23,411 | 14,097 |
| EURO | - | 96,437 | - | 96,437 |
| | 23,411 | 110,534 | 23,411 | 110,534 |

(10) AMOUNTS OWING BY SUBSIDIARY

The amounts owing by subsidiary which are non-trade in nature, are unsecured and repayable on demand.

During the financial year, the Company had no significant transactions with its subsidiary.

(11) DEFERRED TAX ASSETS

| | Group | | Company | |
|------------------------------|------------------|------------------|----------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Balance At Beginning Of Year | 1,362,796 | 1,167,201 | - | - |
| Accelerated Tax Depreciation | 1,531,843 | 195,595 | - | - |
| Balance At End Of Year | <u>2,894,639</u> | <u>1,362,796</u> | <u>-</u> | <u>-</u> |

The potential future income tax benefit is related to the subsidiary company write down of tangible assets including property, plant & equipment, inventories, and trade receivables impairment.

(12) CASH & CASH EQUIVALENTS

The cash & cash equivalents are denominated in the following currencies:

| | Group | | Company | |
|----------------------|-------------------|------------------|----------------|------------------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Chinese Yuan | 53,878,729 | 3,848,125 | - | - |
| Euro Dollar | 614,013 | 959,766 | 610,948 | 959,766 |
| Singapore Dollar | 63,746 | 62,124 | 63,746 | 62,124 |
| United States Dollar | - | 56,721 | - | - |
| | <u>54,556,488</u> | <u>4,926,736</u> | <u>674,694</u> | <u>1,021,890</u> |

(13) OTHER PAYABLES

| | Group | | Company | |
|----------------------------|-------------------|-------------------|----------------|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Accrued Operating Expenses | 6,293,068 | 3,944,884 | 294,798 | 575,868 |
| Receipts In Advance | 11,660,179 | 6,456,372 | - | - |
| VAT Payable | 11,806,263 | 11,771,297 | - | - |
| Stamp Tax Payable | 115,259 | 116,848 | - | - |
| Other Tax Payable | 119,977 | 278,599 | - | - |
| Others | 4,653,056 | 6,391,833 | - | - |
| | <u>34,647,802</u> | <u>28,959,833</u> | <u>294,798</u> | <u>575,868</u> |

(13) **OTHER PAYABLES – cont'd**

The other payables are denominated in the following currencies:

| | Group | | Company | |
|----------------------|-------------------|-------------------|----------------|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Chinese Yuan | 31,815,320 | 27,511,867 | - | - |
| Singapore Dollar | 294,798 | 575,868 | 294,798 | 575,868 |
| United States Dollar | 2,537,684 | 872,098 | - | - |
| | <u>34,647,802</u> | <u>28,959,833</u> | <u>294,798</u> | <u>575,868</u> |

(14) **AMOUNTS OWING TO BANKERS - UNSECURED**

| | Group | | Company | |
|---------------------------|-------------------|----------|-------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Short Term Loan - Secured | <u>30,000,000</u> | <u>-</u> | <u>30,000,000</u> | <u>-</u> |

The short term loans are for a period of 12 months and interest is charged at 6.372% per annum.

The short term loans are secured by the pledge of the land use right of a related party, Shangdong Gongyou Shareholding Ltd and guarantees by Shangdong Gongyou Shareholding Ltd.

The average effective interest rate incurred during the year was 2.124% (2009: NIL)

(15) **SHARE CAPITAL**

| | Group & Company | |
|--|-------------------|-------------------|
| | 2010 | 2009 |
| | CNY | CNY |
| Issued & Fully Paid Up, With No Par Value 9,795,599 Ordinary Shares | <u>75,344,169</u> | <u>75,344,169</u> |

(16) **GENERAL RESERVES**

The general reserves consist of the following statutory reserves:

(i) Statutory common reserve

According to the PRC Company Law, the subsidiary is required to transfer at least 10% of its profit after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital of the subsidiary. The transfer to this reserve must be made before the distribution of dividends to the shareholders.

Statutory reserve can be used to make good previous years' losses, if any, and for capitalisation issues provided that the balance after such issue is not less than 25% of the registered capital of the subsidiary.

(ii) Staff bonus and welfare fund

An amount must be transferred from the subsidiary company's profits after income tax annually to "staff bonus and welfare fund" in accordance with relevant PRC regulations. The amount to be transferred is solely at the discretion of the management of the subsidiary company. This "staff bonus and welfare fund" is for the purpose of providing facilities and other collective benefits to its employees. In the current financial year ended 30 June 2010, management has decided not to distribute any amount (2009: \$NIL) from the staff bonus & welfare fund.

(17) **TURNOVER**

Turnover represents invoiced sales of electromotor and industrial machineries.

Group turnover has excluded inter-company transactions, where applicable.

(18) **LOSS BEFORE TAXATION**

| | Group | |
|---|------------|------------|
| | 2010 | 2009 |
| | CNY | CNY |
| The above is arrived at after charging: | | |
| Director's Remunerations | 318,000 | 318,000 |
| Exchange Loss – Non-Trade | - | 99,942 |
| Interest Expenses | 318,600 | - |
| Impairment Of Receivables – Trade | 5,186,615 | 20,030 |
| Depreciation Of Property, Plant & Equipment | 1,744,366 | 2,421,873 |
| Loss On Disposal Of Property, Plant & Equipment | - | 4,196 |
| Other Staff Cost | 26,791,514 | 27,278,074 |
| And after crediting: | | |
| Gain On Disposal Of Property, Plant & Equipment | - | 27,984 |
| Interest Income | 2,573,240 | 2,759,241 |
| Reversal Of Impairment Of Trade Receivables | 5,145,550 | - |

(19) INCOME TAX EXPENSES

| | Group | |
|-------------------------------|---------------------|-------------------|
| | 2010 | 2009 |
| | CNY | CNY |
| Current Year's Taxation | - | 72,990 |
| Under Provision In Prior Year | - | 1,706 |
| Deferred Taxation | (1,531,843) | (195,595) |
| | <u>(1,531,843)</u> | <u>(120,899)</u> |

The applicable income tax rate is 25% (2009: 25%) for coast opening city plus 3% (2009:3%) local additional tax for the subsidiary company. The subsidiary company, being a production enterprise with an operation period of less than 10 years, is entitled to certain tax exemptions in accordance with PRC tax legislation applicable to foreign investment enterprises.

For the years 2007 to 2009, the subsidiary company is entitled to a preferential tax policy of 50% relief from PRC income tax. The income tax rate is 12.5% (2009: 12.5%)

The preferential tax policy of 50% relief from PRC income tax has expired on 31 December 2009. Income tax rate is revised to 25% with effect from 01 January 2010.

The income tax expense varied from the amount of income tax expense determined by applying the statutory rate to loss before income tax as a result of the following differences:

| | Group | |
|--------------------------------------|---------------------|-------------------|
| | 2010 | 2009 |
| | CNY | CNY |
| Loss Before Taxation | (3,091,177) | (14,095,630) |
| Income Tax Expense At Statutory Rate | (394,024) | (1,793,950) |
| Non-Allowable Items | 28,831 | 121,476 |
| Tax Exemption | (3) | (451) |
| Under Provision In Prior Year | - | 1,706 |
| Deferred Assets Recognised | (1,531,843) | (195,595) |
| Others | 365,196 | 1,745,915 |
| | <u>(1,531,843)</u> | <u>(120,899)</u> |

Movements In Income Tax Payable: -

| | Group | | Company | |
|-------------------------------|------------------|------------------|--------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| | CNY | CNY | CNY | CNY |
| Balance At Beginning Of Year | 4,028,368 | 4,055,875 | 1,192 | 1,108 |
| Current Tax Expense On Profit | - | 72,990 | - | 154 |
| Translation Differences | 34 | (70) | 34 | (70) |
| Income Tax Paid | (827,959) | (102,133) | - | (1,706) |
| Under Provision In Prior Year | - | 1,706 | - | 1,706 |
| Balance At End Of Year | <u>3,200,443</u> | <u>4,028,368</u> | <u>1,226</u> | <u>1,192</u> |

(20) OTHER COMPREHENSIVE INCOME, NET OF TAX

| | Group | | |
|---|-------------------|---------------------------|-------------------|
| | Before Tax CNY | <u>2010</u> Tax CNY | After Tax CNY |
| Foreign Currency Translation Differences From Foreign Operations | 16,195 | - | 16,195 |
| | <u> </u> | <u> </u> | <u> </u> |
| | Before Tax CNY | <u>2009</u> Tax CNY | After Tax CNY |
| Foreign Currency Translation Differences From Foreign Operations | (95,098) | - | (95,098) |
| | <u> </u> | <u> </u> | <u> </u> |

(21) COMMITMENTS

The Group signed a rental agreement on 15 April 2005 in which the Group leased a total of approximately 65,342 square meters of buildings and 27,390 square meters of land from Shangdong Gongyou Group Limited (Landlord). This agreement was subsequently modified on 1 July 2009 and the main outstanding commitments are as follows;

- a) 4 million CNY annual rental from 15 April 2008 to 14 April 2014; and
- b) Actual expenses incurred in respect of depreciation, maintenance, tax and other related expenses from 15 April 2014.

Rental charges recognised as expenses during the financial year ended 30 June 2010 were CNY 4 million (2009: CNY 4 million).

(22) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has no formal risk management policies and guidelines, which set out its overall business strategies, its tolerance for risk and its general risk management philosophy. It has however established informal processes to monitor and control such risks on a timely and accurate manner. Such policies are monitored and undertaken by the directors.

Risk management is integral to the whole business of the Group. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

No derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group does not apply hedge accounting.

The key financial risks include interest rate risk, foreign currency risk, credit risk and liquidity risk. The following provide details regarding the Group's exposure to the risks and the objectives, policies and processes for the management of these risks.

(22) **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – cont'd**

(a) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of the Group and Company's financial instruments will fluctuate because of changes in market interest rates.

The Group and Company's exposure to interest rate risk arises primarily from its loans and borrowings. The Group and Company's policy is to obtain comparative interest rates under the most favourable terms and conditions without increasing its foreign currency exposure. Cash are placed with reputable banks.

Sensitivity analysis for interest rate risk

At the reporting date, if Chinese Yuan interest rates had been 100 (2009: 100) basis points lower/higher with all other variables held constant, the Group's profit have been approximately CNY19,116 (2009: NIL) higher/lower respectively, arising mainly as a result of lower/higher interest expense on floating rate loans.

(b) **Foreign currency risk**

The Group and Company's has transactional currency exposures arising from purchases that are denominated in a currency other than the functional currency of the Company, primarily Euro Dollar (EURO) and Singapore Dollar (SGD). The Company's amounts owing to holding company, subsidiary and cash & cash equivalents at the reporting date have similar exposures.

Sensitivity analysis for foreign currency risk

At the reporting date, the company's profit would have been approximately higher / lower to a possible 100 (2009: 100) basis points change in EURO and SGD exchange rates against CNY with all other variables held constant as follows.

| | 2010 | 2009 |
|----------|-----------|---------|
| | CNY | CNY |
| CNY/SGD | 1,102,635 | 61,095 |
| CNY/EURO | 1,071,120 | 105,315 |

(c) **Credit risk**

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises mainly from trade and other receivables. For other financial assets (including cash and bank balances), the Group minimise credit risk by dealing with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis to minimise the Group exposure to credit risk.

At reporting date, the carrying amounts of trade and other receivables represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk. There was no significant concentration of credit risks.

(22) **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – cont'd**

(c) **Credit risk**

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy receivables. Cash and bank balances are placed with reputable financial institutions with high credit ratings and no history of default.

Financial assets that are past due but not impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables <see note 6>.

(d) **Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds.

To manage liquidity risk, the Group monitors its net operating cash flows and maintains an adequate level of cash and cash equivalents and funding facilities from the bank. In assessing the funding facilities, the management reviews its working capital requirements regularly.

The table below summarises the maturity profile of the Group's financial liabilities at the reporting date based on contractual undiscounted payments:

| <u>Group</u> | 2010 | | | 2009 | | |
|-------------------------------------|-------------------|----------------|-------------------------|-------------------|----------------|-------------------------|
| | 1 Year or Less | 2 – 5 Years | More Than 5 Years | 1 Year or Less | 2 – 5 Years | More Than 5 Years |
| | CNY | CNY | CNY | CNY | CNY | CNY |
| Trade Payables | 43,296,136 | - | - | 42,460,011 | - | - |
| Other Payables | 34,647,802 | - | - | 28,959,833 | - | - |
| Amounts Owing To Bankers | 31,911,600 | - | - | - | - | - |
| Amounts Owing To Related Parties | 15,086,471 | - | - | 15,095,310 | - | - |

(23) **FINANCIAL INSTRUMENTS**

The fair value of financial assets and liabilities is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments carried at fair value

The Group has carried its investments that are classified as available for sale at their fair value. Fair value has been determined by reference to published market bid prices at the reporting date.

(23) **FINANCIAL INSTRUMENTS – cont'd**

Financial instruments whose carrying amount approximate fair value

The management has determined that the carrying amounts of cash and short-term deposits, current trade and other receivables, current trade and other payables, amounts owing by / to related parties, holding company and subsidiary and current portion of loan, based on their notional amounts, reasonably approximate their fair values because these are mostly short-term in nature or are reprised frequently within a year.

Non-current loan is determined by discounting the relevant cash flow using current interest rate for similar instruments at reporting date and their carrying amounts are expected to approximate fair values.

Financial instruments carried at other than fair value

It is not practicable to determine with sufficient reliability without incurring excessive costs, the fair value of unquoted equity shares, as they do not have quoted market prices in an active market nor are other methods of reasonably estimating the fair values readily available.

The carrying amounts of financial instruments in each of the following categories are as follows:-

| | Group | |
|---|------------|------------|
| | 2010 | 2009 |
| | CNY | CNY |
| FINANCIAL ASSETS | | |
| Loans And Receivables | | |
| Trade Receivables | 63,989,590 | 70,559,020 |
| Other Receivables | 4,577,048 | 6,112,131 |
| Amounts Owing By Related Parties | 70,317,329 | 78,659,986 |
| Amounts Owing By Holding Company | 23,411 | 110,534 |
| Cash and Cash Equivalents | 54,556,488 | 4,926,736 |
| FINANCIAL LIABILITIES | | |
| Financial Liabilities Through Amortised Cost | | |
| Trade Payables | 43,296,136 | 42,460,011 |
| Other Payables | 34,647,802 | 28,959,833 |
| Amounts Owing To Bankers | 30,000,000 | - |
| Amounts Owing To Related Parties | 15,086,471 | 15,095,310 |