

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 2011.

## 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 01-07-2010 (or date of appointment)	As at 30-06-2011
<b><i>The Company</i></b>		
CHEN CHUANQING	-	-
DONG YANWEI	-	-
HOU ZHIHAO	-	-
LUO FUDING	-	-
LUO SHOUPING	-	-
SANDT JULIAN LIONEL	-	-
<b><i>The Holding Company – CONTENTED ENTERPRISES LIMITED</i></b>		
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.

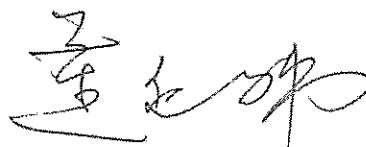
At the end of the financial year, there were no shares of the Company or the subsidiary issued by virtue of the exercise of any option to take up unissued shares.

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,



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DONG YANWEI



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CHEN CHUANQING

SINGAPORE: 26 SEP 2011

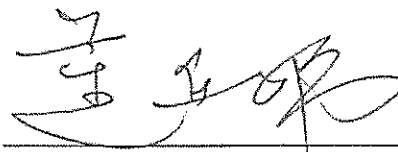
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We, DONG YANWEI and CHEN CHUANQING, being two of the directors of GONGYOU MACHINES LIMITED state that in the opinion of the board of directors: -


- (a) the accompanying statements of financial position, consolidated statement of comprehensive income, statements of changes in equity, and consolidated statement 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 2011, 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,



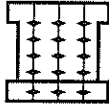
DONG YANWEI



CHEN CHUANQING

SINGAPORE: 26 SEP 2011

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# 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*

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(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 35, which comprise the statements of financial position of the Group and the Company as at 30 June 2011, 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 of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards, and for 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.

#### 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 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.

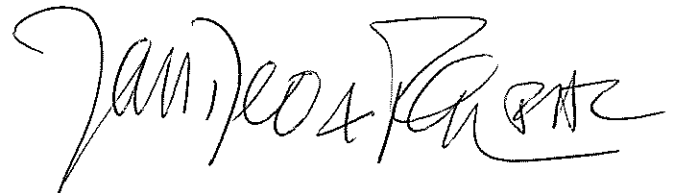
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF**

**GONGYOU MACHINES LIMITED**  
*Company Registration No. 200415128Z*  
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**(Incorporated in the Republic of Singapore)**

**In our opinion,**

- (a) the consolidated financial statements of the Group and the financial statements 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 2011 and the results, changes in equity and cash flows of the Group and 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.



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

SINGAPORE: 26 September 2011

		Group		Company	
		2011	2010	2011	2010
		CNY	CNY	CNY	CNY
<b>Non-Current Assets</b>					
Property, Plant & Equipment	<Note 3>	8,902,111	9,669,835	-	-
Investment in Subsidiary	<Note 4>	-	-	62,537,216	62,537,216
<b>Current Assets</b>					
Inventories	<Note 5>	72,549,909	62,117,098	-	-
Trade Receivables	<Note 6>	54,049,216	63,989,590	-	-
Other Receivables	<Note 7>	6,159,923	4,577,048	-	-
Amounts Owing By Related Parties	<Note 8>	140,276,768	70,317,329	-	-
Amounts Owing By Holding Company	<Note 9>	34,970	23,411	34,970	23,411
Amounts Owing By Subsidiary	<Note 10>	-	-	11,865,142	10,939,193
Deferred Tax Assets	<Note 11>	5,976,533	2,894,639	-	-
Cash & Cash Equivalent	<Note 12>	2,757,906	54,556,488	388,958	674,694
		281,805,225	258,475,603	12,289,070	11,637,298
<b>Current Liabilities</b>					
Trade Payables		45,909,776	43,296,136	-	-
Other Payables	<Note 13>	37,020,266	34,647,802	312,512	294,798
Amounts Owing To Bankers - Unsecured	<Note 14>	40,000,000	30,000,000	-	-
Amounts Owing To Related Parties	<Note 8>	22,411,609	15,086,471	-	-
Income Tax Payable	<Note 19>	3,177,291	3,200,443	1,330	1,226
		148,518,942	126,230,852	313,842	296,024
<b>Net Current Assets</b>		133,286,283	132,244,751	11,975,228	11,341,274
<b>TOTAL</b>		<b>142,188,394</b>	<b>141,914,586</b>	<b>74,512,444</b>	<b>73,878,490</b>
<b>Share Capital &amp; Reserves</b>					
Share Capital	<Note 15>	75,344,169	75,344,169	75,344,169	75,344,169
General Reserves	<Note 16>	8,215,522	8,215,522	-	-
Revenue Reserves		58,131,077	57,883,930	( 1,880,936)	( 1,562,281)
Translation Reserves		497,626	470,965	1,049,211	96,602
<b>TOTAL</b>		<b>142,188,394</b>	<b>141,914,586</b>	<b>74,512,444</b>	<b>73,878,490</b>

**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 2011

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	Group	
	2011	2010
	CNY	CNY
<b>Turnover</b>	<Note 17> 143,109,801	142,845,204
Cost Of Sales	(111,700,955)	(124,752,330)
<b>Gross Profits</b>	31,408,846	18,092,874
Other Operating Income	6,900,820	7,614,421
Selling & Distribution Expenses	( 8,034,548)	( 7,530,998)
Administrative & Other Operating Expenses	( 30,086,552)	( 20,905,876)
Finance Costs	( 2,769,215)	( 361,598)
<b>Loss Before Taxation</b>	<Note 18> ( 2,580,649)	( 3,091,177)
Income Tax Expenses	<Note 19> 2,827,796	1,531,843
<b>Net Profit / (Loss) After Taxation</b>	247,147	( 1,559,334)
<b>Other Comprehensive Income</b>		
Foreign Currency Translation Differences From Foreign Operations	26,661	16,195
<b>Other Comprehensive Income, Net Of Tax</b>	<Note 20> 26,661	16,195
<b>Total Comprehensive Income / (Expense) For The Year</b>	273,808	( 1,543,139)

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	Share Capital CNY	General Reserves CNY	Revenue Reserves CNY	Translation Reserves CNY	Total Equity CNY
<b>Group</b>					
Balance At 01 July 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
Total Comprehensive Income For The Year	-	-	247,147	26,661	273,808
Balance At 30 June 2011	75,344,169	8,215,522	58,131,077	497,626	142,188,394
<b>Company</b>					
Balance At 01 July 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
Total Comprehensive Income / (Expense) For The Year	-	-	( 318,655)	952,609	633,954
Balance At 30 June 2011	75,344,169	-	( 1,880,936)	1,049,211	74,512,444

- (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	
	2011	2010
	CNY	CNY
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit / (Loss) For The Year	247,147	( 1,559,334)
Adjustments For:		
Interest Income	( 6,027,272)	( 2,573,240)
Depreciation Of Property, Plant And Equipment	1,565,363	1,744,366
Interest Expenses	2,427,661	338,630
Income Tax Expenses	( 2,827,796)	( 1,531,843)
<i>Operating Loss Before Working Capital Changes</i>	( 4,614,897)	( 3,581,421)
Increase In Inventories	( 10,432,811)	( 901,967)
Decrease In Trade Receivables	8,608,294	6,316,901
Decrease In Advance To Supplier	188,387	342,077
Increase / (Decrease) In Trade Payables	13,552,670	( 3,937,741)
Increase In Accrued Operating Expenses, Receipts In Advance And Tax Payables	164,373	7,426,747
<i>Cash Generated From Operations</i>	7,466,016	5,664,596
Interest Income	6,027,272	2,573,240
Interest Expenses	( 2,427,661)	( 338,630)
Income Tax Paid	( 277,354)	( 827,959)
<i>Net Cash Flows From Operating Activities</i>	10,788,273	7,071,247
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase Of Property, Plant & Equipment	( 797,639)	( 359,288)
(Loan To) / Repayment From Other Receivables	( 1,771,262)	1,193,006
Loan From / (Repayment To) Other Payables	2,208,091	( 1,738,778)
(Loan To) / Repayment From Related Parties	( 72,241,251)	13,360,213
<i>Net Cash Flows (Used In) / From Investing Activities</i>	( 72,602,061)	12,455,153
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceed Of Loan From Bankers	10,000,000	30,000,000
(Loan To) / Repayment From Holding Company	( 11,559)	87,123
<i>Net Cash Flows From Financing Activities</i>	9,988,441	30,087,123
<b>(DECREASE) / INCREASE IN CASH &amp; CASH EQUIVALENTS</b>	( 51,825,347)	49,613,523
<b>CASH &amp; CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	54,556,488	4,926,736
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	26,765	16,229
<b>CASH &amp; CASH EQUIVALENTS AT END OF YEAR</b>	2,757,906	54,556,488

**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 2011 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 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 24.

**(2) SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Accounting**

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (FRS).

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 and are consistent with those used in the previous financial year.

During the financial year, the Group 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 Group'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 Group has not applied the new FRSs that have been issued but are not yet effective. The Group is in the process of making an assessment of what the impact of these new FRSs where applicable is expected to be in the period of initial application.

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

(b) ***Significant Accounting Judgements And Estimates***

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

i) Judgements Made In Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Determination Of Functional Currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiary. In determining the functional currencies of the entities in the Group, judgment is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sale prices.

ii) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities includes the below:

- a) the determination of useful lives of property, plant and equipment <note 3>;
- b) the determination of the adequacy of impairment of receivables <note 6>;
- c) the determination of value of deferred tax assets / liabilities <note 11>
- d) the determination of adequacy of income tax payable <note 19>.

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

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at the end of the reporting date. The financial statements of the subsidiary used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

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

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

(c) ***Basis of Consolidation – cont'd***

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until date that such control ceases.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in the host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in the profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in the profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value or at the non-controlling interest's proportionate share of the acquiree identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in the profit or loss on the acquisition date.

(d) ***Subsidiary Company***

A subsidiary is an entity 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 companies are accounted for at cost less accumulated 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 Group's 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.

The residual value, useful life and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

(f) ***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 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. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other fair value indicators.

Impairment losses of continuing operations are recognised in the profit and loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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

(f) ***Impairment Of Non-Financial Assets – cont'd***

For assets excluding goodwill, 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. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. 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. Such reversal of an impairment loss is recognised in the profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

(g) ***Financial Assets***

*Initial Recognition And Measurement*

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. The Group determines the classification of its financial assets at initial recognition.

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.

*Subsequent Measurement*

The subsequent measurement of financial assets depends on their classification as follows:

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 upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by FRS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Group has not designated any financial assets upon initial recognition at fair value through profit or loss.

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.

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

(g) **Financial Assets – cont'd**

*Subsequent Measurement – cont'd*

ii) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loan and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. 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

Non-derivative 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.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. 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 include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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 instruments 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 derecognised.

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

*Derecognition*

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. 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 had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e., the date that the Company 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**

(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) *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized are not included in a collective assessment of impairment.

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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current 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.

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) *Financial 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.

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

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

iii) *Available-for-sale financial assets*

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (1) significant financial difficulty of the issuer of obligor, (2) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (3) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit and loss, is transferred from other comprehensive income and recognized in the profit and loss. Reversals of impairment losses in respect of equity instruments are not recognised in the profit and loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed in the profit or 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.

(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 known amount of 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 Company's cash management.

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

(k) ***Financial Liabilities***

*Initial Recognition And Measurement*

Financial liabilities are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

*Subsequent Measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

i) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities 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 liabilities are recognized in the profit or loss.

The Group has not designated any financial liabilities upon initial recognition at fair value through profit or loss.

ii) *Other financial liabilities*

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through amortization process.

*Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. 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 the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit and loss.

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

(l) **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) 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**

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

(n) **Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, excluding discounts and rebates. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

- a) 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.
  - b) Interest Income  
Interest income is recognised on an accrual basis.
-

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

(o) ***Employee Benefits***

*Retirement benefit costs*

Pursuant to relevant regulations of the People's Republic of China ("PRC") government, the PRC subsidiary of the group ("PRC Subsidiary") has participated in central pension schemes ("the schemes") operated by local municipal government whereby the PRC subsidiary is required to contribute a certain percentage of the basis salaries of its employees to the Schemes to fund its retirement benefits. The local municipal government undertake to assume the retirement benefit obligations of all existing and future retired employees of the PRC subsidiary. The only obligation of the PRC subsidiary with respect to the Scheme is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to the consolidated statement of comprehensive income as incurred.

(p) ***Income Tax***

*Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date, in the countries where the Company operates and generates taxable income.

Current income taxes are recognised in the profit or loss except to the extent that the tax relates to items recognised outside the profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*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; and in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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, 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 except: where the deferred tax assets relating to the deductible temporary difference arises from the initial recognition 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 or loss; and in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences 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 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 tax relating to items recognised outside profit or loss is recognised outside the 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 the deferred taxes related to the same taxable entity and the same tax authority.

(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 translated 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 or on retranslation of monetary items are recognised in the profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in 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 recognised in other comprehensive income. Such translation differences are recognised in the profit and loss in the period in which the foreign operation is disposed off.

In the case a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are reattributed to non-controlling interest and are not recognised in the profit and loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

The Group has elected to recycle the accumulated exchange differences in the separate component of other comprehensive income that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

(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 inventories, receivables (including amounts owing by related parties and holding company), cash and short term deposits, payables (including amounts owing to related parties), accruals and provisions, loans and borrowings stated on the statement of financial position. The Group manages 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 @			
01-07-2010	22,584,247	2,300,602	24,884,849
Additions	797,639	-	797,639
Written Off / Disposals	-	-	-
30-06-2011	<u>23,381,886</u>	<u>2,300,602</u>	<u>25,682,488</u>
Accumulated Depreciation @			
01-07-2010	13,428,709	1,052,499	14,481,208
Current Period	1,365,004	200,359	1,565,363
Discharge	-	-	-
30-06-2011	<u>14,793,713</u>	<u>1,252,858</u>	<u>16,046,571</u>
Accumulated Impairment @			
01-07-2010	733,806	-	733,806
Impairment In Value	-	-	-
30-06-2011	<u>733,806</u>	<u>-</u>	<u>733,806</u>
Net Carrying Value @			
30-06-2011	<u>7,854,367</u>	<u>1,047,744</u>	<u>8,902,111</u>
<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>

(4) **INVESTMENT IN SUBSIDIARY**

	Company	
	2011	2010
	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	
			2011 %	2010 %	2011 CNY	2010 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	
	2011	2010	2011	2010
	CNY	CNY	CNY	CNY
Raw Materials	12,221,701	15,540,164	-	-
Product In Progress	31,835,021	22,900,360	-	-
Finished Goods	28,493,187	23,676,574	-	-
	<u>72,549,909</u>	<u>62,117,098</u>	<u>-</u>	<u>-</u>

The Group's cost of inventories recognised as expenses and included in 'cost of sales' amounted to CNY111,700,955 (2010: CNY 124,752,330).

(6) **TRADE RECEIVABLES**

	Group		Company	
	2011	2010	2011	2010
	CNY	CNY	CNY	CNY
Not Past Due And Not Impaired	1,200,000	4,640,000	-	-
Past Due But Not Impaired	52,849,216	59,349,590	-	-
	<u>54,049,216</u>	<u>63,989,590</u>	<u>-</u>	<u>-</u>
Impaired Receivables	22,863,518	10,786,539	-	-
Less: Accumulated Impairment	<u>22,863,518</u>	<u>10,786,539</u>	<u>-</u>	<u>-</u>
	-	-	-	-
Total Trade Receivables - Net	<u>54,049,216</u>	<u>63,989,590</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	
	2011	2010	2011	2010
	CNY	CNY	CNY	CNY
Trade receivables past due :				
Less than 3 months	27,365,826	17,254,494	-	-
3 months to 6 months	6,619,262	6,921,915	-	-
More than 6 months	18,864,128	35,173,181	-	-
	<u>52,849,216</u>	<u>59,349,590</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	
	2011	2010	2011	2010
	CNY	CNY	CNY	CNY
Movements in Accumulated Impairment: -				
Balance At Beginning Of Year	10,786,539	5,599,924	-	-
Charge To Income Statement	12,076,979	5,186,615	-	-
Balance At End Of Year	<u>22,863,518</u>	<u>10,786,539</u>	<u>-</u>	<u>-</u>

(6) **TRADE RECEIVABLES – cont'd**

The trade receivables are denominated in the following currencies:

	Group		Company	
	2011 CNY	2010 CNY	2011 CNY	2010 CNY
Chinese Yuan	50,259,026	59,149,555	-	-
United States Dollar	3,790,190	4,840,035	-	-
	<u>54,049,216</u>	<u>63,989,590</u>	<u>-</u>	<u>-</u>

(7) **OTHER RECEIVABLES**

	Group		Company	
	2011 CNY	2010 CNY	2011 CNY	2010 CNY
Advance To Supplier	3,153,304	3,341,691	-	-
Others	3,006,619	1,235,357	-	-
	<u>6,159,923</u>	<u>4,577,048</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 significant influences over its business and financial operations.

The amounts owing by / (to) related parties are unsecured, with interest 6.31% per annum and are repayable on demand as follow:-

	Group		Company	
	2011 CNY	2010 CNY	2011 CNY	2010 CNY
Amounts Receivable – Trade	8,655,370	7,323,290	-	-
Amounts Receivable – Non -Trade	131,621,398	62,994,039	-	-
	<u>140,276,768</u>	<u>70,317,329</u>	<u>-</u>	<u>-</u>
Amounts Payable – Trade	21,260,474	10,321,444	-	-
Amounts Payable – Non -Trade	1,151,135	4,765,027	-	-
	<u>22,411,609</u>	<u>15,086,471</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	
	2011	2010	2011	2010
	CNY	CNY	CNY	CNY
Sales To Related Parties	2,529,287	3,350,486	-	-
Purchases From Related Parties	10,639,603	7,451,687	-	-

**(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 and Group have no significant transactions with its holding company.

The amounts owing by holding company are denominated in Singapore Dollars.

**(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	
	2011	2010	2011	2010
	CNY	CNY	CNY	CNY
Balance At Beginning Of Year	2,894,639	1,362,796	-	-
Accelerated Tax Depreciation <Note 19>	3,081,894	1,531,843	-	-
Balance At End Of Year	<u>5,976,533</u>	<u>2,894,639</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	
	2011	2010	2011	2010
	CNY	CNY	CNY	CNY
Chinese Yuan	2,365,127	53,878,729	-	-
Euro Dollar	348,399	614,013	345,334	610,948
Singapore Dollar	43,624	63,746	43,624	63,746
United States Dollar	756	-	-	-
	<u>2,757,906</u>	<u>54,556,488</u>	<u>388,958</u>	<u>674,694</u>

**(13) OTHER PAYABLES**

	Group		Company	
	2011	2010	2011	2010
	CNY	CNY	CNY	CNY
Accrued Operating Expenses	6,564,624	6,293,068	312,512	294,798
Receipts In Advance	11,465,933	11,660,179	-	-
VAT Payable	11,095,530	11,806,263	-	-
Stamp Tax Payable	5,294	115,259	-	-
Other Tax Payable	1,027,738	119,977	-	-
Others	6,861,147	4,653,056	-	-
	<u>37,020,266</u>	<u>34,647,802</u>	<u>312,512</u>	<u>294,798</u>

(13) **OTHER PAYABLES – cont'd**

The other payables are denominated in the following currencies:

	Group		Company	
	2011 CNY	2010 CNY	2011 CNY	2010 CNY
Chinese Yuan	34,238,895	31,815,320	-	-
Singapore Dollar	312,512	294,798	312,512	294,798
United States Dollar	2,468,859	2,537,684	-	-
	<u>37,020,266</u>	<u>34,647,802</u>	<u>312,512</u>	<u>294,798</u>

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

	Group		Company	
	2011 CNY	2010 CNY	2011 CNY	2010 CNY
Short Term Loan I	30,000,000	30,000,000	-	-
Short Term Loan II	10,000,000	-	-	-
	<u>40,000,000</u>	<u>30,000,000</u>	<u>-</u>	<u>-</u>

Short term loan I is obtained for the purpose of working capital. This loan is for a period of 12 months and interest is charged at 7.272% per annum. The short term loans are secured by the pledge of the land use right and guarantee of a related party, Shangdong Gongyou Holding Ltd and guarantees by Shangdong Gongyou Holding Ltd.

Short term loan II is obtained for the purpose of working capital. This loan is for a period of 360 days and interest is charged at 6.116% per annum. The short term loans are secured by guarantee by one of the director.

The approximate average effective interest rate incurred during the year was 6.936% (2010: 2.124%)

(15) **SHARE CAPITAL**

	Group & Company	
	2011 CNY	2010 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 2011, management has decided not to distribute any amount (2010: \$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	
	2011	2010
	CNY	CNY
The above is arrived at after charging:		
Director's Remunerations	318,000	318,000
Exchange Loss – Trade	327,554	-
Interest Expenses	2,427,661	338,630
Impairment Of Receivables – Trade	12,076,979	5,186,615
Impairment Of Receivables – Non-Trade	250,599	-
Depreciation Of Property, Plant & Equipment	1,565,363	1,744,366
And after crediting:		
Exchange Gain – Non-Trade	15,086	-
Interest Income	6,027,272	2,573,240
Reversal Of Impairment Of Trade Receivables	-	5,145,550

**(18) LOSS BEFORE TAXATION – cont'd**

Salaries and employee benefits (including directors' CPF and remunerations) comprise the following:-

	Group	
	2011	2010
	CNY	CNY
Salaries, Wages And Bonuses	23,444,749	23,538,322
Other Employee Benefits	3,674,909	3,253,192
	<u>27,119,658</u>	<u>26,791,514</u>

**(19) INCOME TAX EXPENSES**

	Group	
	2011	2010
	CNY	CNY
Current Year's Taxation	254,098	-
Deferred Taxation <Note 11>	( 3,081,894)	( 1,531,843)
	<u>( 2,827,796)</u>	<u>( 1,531,843)</u>

The applicable income tax rate is 25% (2010: 25%) for coast opening city plus 3% (2010:3%) 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.

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	
	2011	2010
	CNY	CNY
Loss Before Taxation	( 2,580,649)	( 3,091,177)
Income Tax Expense At Statutory Rate	( 619,670)	( 394,024)
Non-Allowable Items	-	28,831
Tax Exemption	( 30)	( 3)
Deferred Assets Recognised	( 3,081,894)	( 1,531,843)
Others	873,798	365,196
	<u>( 2,827,796)</u>	<u>( 1,531,843)</u>

(19) **INCOME TAX EXPENSES – cont'd**

Movements In Income Tax Payable: -

	Group		Company	
	2011	2010	2011	2010
	CNY	CNY	CNY	CNY
Balance At Beginning Of Year	3,200,443	4,028,368	1,226	1,192
Current Tax Expense On Profit	254,098	-	-	-
Translation Differences	104	34	104	34
Income Tax Paid	( 277,354)	( 827,959)	-	-
Balance At End Of Year	<u>3,177,291</u>	<u>3,200,443</u>	<u>1,330</u>	<u>1,226</u>

(20) **OTHER COMPREHENSIVE INCOME, NET OF TAX**

	Group		
	Before Tax CNY	<u>2011</u> Tax CNY	After Tax CNY
Foreign Currency Translation Differences From Foreign Operations	<u>26,661</u>	<u>-</u>	<u>26,661</u>
	Before Tax CNY	<u>2010</u> Tax CNY	After Tax CNY
Foreign Currency Translation Differences From Foreign Operations	<u>16,195</u>	<u>-</u>	<u>16,195</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;

- CNY 4 million annual rental from 15 April 2008 to 14 April 2014; and
- 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 2011 were CNY 4 million (2010: 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.

**(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 (2010: 100) basis points lower/higher with all other variables held constant, the Group's profit have been approximately CNY27,932 (2010: CNY19,116) 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 Group, 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 (2010: 100) basis points change in EURO and SGD exchange rates against CNY with all other variables held constant as follows.

	2011	2010
	CNY	CNY
CNY/SGD	1,163,122	1,102,635
CNY/EURO	34,244	61,095
	<u>1,197,366</u>	<u>1,163,730</u>

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

(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.

**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:

Group	2011			2010		
	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	45,909,776	-	-	43,296,136	-	-
Other Payables	37,020,266	-	-	34,647,802	-	-
Amounts Owing To Bankers	42,793,200	-	-	31,911,600	-	-
Amounts Owing To Related Parties	22,411,609	-	-	15,086,471	-	-

(23) **FINANCIAL INSTRUMENTS**

- a) **Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value**

Trade and other receivables, trade and other payables, amounts owing by / (to) related parties, amounts owing by holding company and subsidiary, cash and cash equivalents, and non-current loans and borrowing at floating rate.

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

- b) **Financial instruments carried at other than fair value**

Unquoted shares stated at cost have no market prices and the fair value cannot be reliably measured using valuation techniques.