

MANAGEMENT DISCUSSION AND ANALYSIS (MDNA)

TOOLUX GROUP

CONSOLIDATED DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2008

BUSINESS SITUATION AND RESULTS FOR THE TOOLUX GROUP DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2008.

1. The Consolidated Turnover of Shaoxing Sanding Tools Co., Ltd and Zhejiang Sanding Tools Co., Ltd and Results for the Financial year 2008. Shaoxing Sanding Tools Co., Ltd and Zhejiang Sanding Tools Co., Ltd are subsidiaries to Toolux Sanding SA.

The consolidated turnover for the financial year 2008 was [8,466,645] €, a [13%] decrease compared with the consolidated turnover of financial year 2007. Net turnover, amounted to [79,688] € in 2008, it's [1,956,313.41]€ in 2007.

This decrease of consolidated turnover mainly caused by the global financial crisis started from the mid term of 2008, this crisis did affect some customers of Toolux Group, and brought some impact to Group. [5] orders was cancelled directly by the customers valued at [627,890.91] €, and [10] orders which was already under production cancelled by customers valued at [313,945.46] € though factory got the compensation.

The main activity of TOOLUX is Hardware Production which is the screwdriver manufacturing, this lead business represented [95] % of the total income in financial year 2008.

Operating costs had [7] % up compared with last year as the financial year 2007 due to the rise of the raw material cost and the decrease of the sales under the affection of finance crisis.

The operating income for the year of 2008 is [184,570]€, the income before tax is [176,664]€. In 2007, the operating income is [2,303,803.24]€, and income before tax is [2,297,761.41]€.

In 2008, the listing in NYSE Euronext Alternext Paris cost Toolux over 1 million €. This action did affect the operating in company, and this affection will be eliminated in a certain time.

The consolidated accounts for the Toolux Group are presented under IFRS.

2. Significant events of Toolux Group during the financial year 2008

On December 2nd 2008, TOOLUX SANDING SA based in Luxemburg, acquired 100% of the shares of Giant Dragon Holdings LTD, which is established in Samoa at level 2, Nia Mall, Vaea Street, Apia.

On 22nd October 2008, TOOLUX SANDING SA got the admission for the listing on the ALTERNEXT

market in Euronext in Paris. And on 23rd December 2008, the company's new shares were issued in the public market, the listing price was **12.59** per share and **403,667** new shares were issued.

On 24th December 2008, TOOLUX SANDING SA acquired 100% of the shares of Shaoxing Sanding Tools Co., Ltd (PR CHINA) in the amount of USD **2,998,000** (EUR **2,145,413**) from Giant Dragon.

At the same date, TOOLUX SANDING SA increased of the capital of Shaoxing Sanding Tools Co., Ltd to an amount of USD **7,287,799** (EUR **5,100,000**). Shaoxing Sanding Tools Co., Ltd's registered office is located in Ganlin Town, Shengzhou City, Zhejiang Province, CHINA.

OUTLOOK

We are expecting a turnover of **12** millions € in 2009, it's a **[38]** % increase compared with the turnover from the financial year 2008.

Although the recession is still lingering in the world market since the second half in 2008, we are able to expect above increase. Because in the first quarter in 2009, we have already received some orders from our customers which valued at **[2,092,969.71]** €, that implies the global economy is going to be better in next quarters and it's optimistic.

In addition, depending on the strong cooperation with strategic partners, Toolux Group will definitely receive more than orders of **[5,232,424.29]** €, and recently company's R&D are focusing on developing of a certain number of new items, which will be registered in the USA and China to extend the market share.

Since 1st January 2009, the Management of Toolux Group in the headquarter has made a decision to improve the wage of each employee by 30% based on the original wages in order to make the workforce more efficient and more diligent, which became a good story circulated in local community and even had been broadcasted in the local TV. Otherwise company produced a promotion plan which has covered every worker. Based on this strategy widely covered in the company, the management believe it would bring more profits which can be forecasted.

FIXED ASSETS ADDITION

The Toolux Group's additions of tangible and intangible fixed assets during 2008 respond to the investment of the tangible and intangible fixed assets to the workshops and office building.

Additions of tangible fixed assets amounted to **[809,979.28]** € in 2008, which mainly are the machines such as the milling and grinder settled in the metal process workshop accounted for **[42.6]**% of the amount and computers settled in the office building accounted for **[40]**% of the amount.

Additions of intangible fixed assets amounted to **[58,726.62]** € in 2008, which mainly are the application software purchased from professional companies.

RISKS

The following are the main risks and uncertainties that Toolux Group might face in 2009:

Competition Risk

In the hardware market, there still is a challenge company should face although company has established the leading position in screwdrivers field in China, that's the price competition from small companies. But based on long-term friendly cooperation with most customers, with more than 10 years' experience on screwdriver production, as well as with great R&D team and powerful support from local government, we optimistically consider that our products would be accepted worldwide with both good quality and price.

Customers and Suppliers Dependency Risk

The risk of dependency on suppliers and customers is limited. None of the suppliers holds a more than 25% of position to the company, that means the NO1 of suppliers changes from time to time. And none of the customers holds a more than 25% of position to company, no customer is a significant role within the turnover of Toolux Group.

Another point is that the suppliers were cultivated by the company, the relationship is so strong that means live together and die together.

Key Person Risk

The most important part of our advance is the stable senior management.

The loyalty of key persons in the senior management is secured by the good dividend sharing.

Personnel

The average number of employee of Toolux Group is around [219] in 2008, being [241] in 2007.

SHAREHOLDING

The followings are the main shareholders with direct or indirect holding after listing in the Alternext market in Euronext Paris which is equal to or more than 20%:

<u>Crystal Sky Holding Co., Ltd</u>	<u>76.98%</u>
<u>KUNYUAN CAPITAL LIMITED</u>	<u>22.8%</u>

The Toolux Group is aware of that there is no other shareholder holding more than 20% of the capital or voting rights.

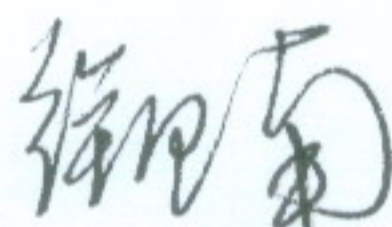
FORMULATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND DIRECTORS' REPORT

In compliance with current company law, the administrators have drawn up the Directors' Report for the financial year ended 31st December 2008 and comprising the MDNA from number 1 to 4.

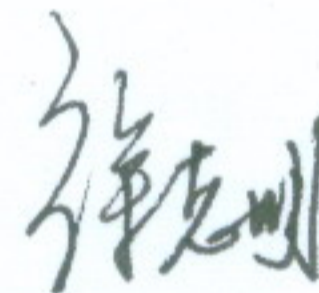
Ganlin industry park, Shengzhou City, Zhejiang Province, China

29th June, 2009

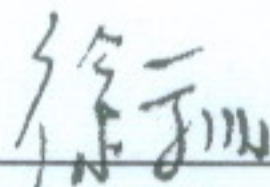
The Administrators



XU JINAN
Chairman



XU ZHIMING
Director



XU XUEMING
Director