Toolux Sanding SA
Notes to the Consolidated Financial Statements for the financial year ended December 31, 2009

I. General Information

The consolidated financial statements of Toolux Sanding SA ("the Company") and its subsidiaries (collectively referred as "the Group") are published for the first time for the financial year ended December 31 2009, with comparative figures prepared on the basis of a first consolidation as of December 31, 2008.

The registered office is located at 69, boulevard de la Petrusse, L-2320, since May 15, 2009.

The company was incorporated on 2th October 2008 as a Société Anonyme with a fully paid share capital of Euros 350 000.

On 13th October 2008, the directors increased, by a contribution in kind, the capital of the Company by 1 000 000 euros to bring it from 350 000 euros to 1 350 000 euros by the issuance of 1 000 000 new shares with a nominal value of 1 euro each.

The contribution in kind was represented by 100 % of the share capital of Giant Dragon Holdings Ltd (Samoa), a company incorporated in Samoa on 17th January 2007 with registered number 30466 and located at Level 2, Nia Mall, Vaea Street, Apia, Samoa. The contribution in kind value was based on Giant Dragon Holdings Ltd net asset value as at June 30, 2008.

On December 17, 2008, in connection with the admission of the Company on Alternext Market of Euronext Paris, the board of directors realized an increase of the issued share capital paid up in cash to bring it from 1 350 000 Euros to 1 753 667 Euros (1 753 667 shares of 1 euro each). The total amount of the contribution is five million eighty-two thousand one hundred and sixty seven Euros fifty three cents (EUROS 5 082 167,53) represented by four hundred and three thousand six hundred and sixty seven Euros (403 667) for the capital and four million six hundred and seventy-eight thousand five hundred euro fifty three cents (4 678 500,53 Euros) for the share premium.

On December 2, 2008, the company acquired from Giant Dragon Holdings Ltd, for a consideration of 2 998 000 usd, 100 % of the share capital of Shaoxing Sanding Tools Ltd, a Chinese company with registered office at Industrial Park, Ganlin Town, Shenghzou City, Zhejiang Province, China.

The principal activities of Shaoxing Sanding Tools and of its subsidiary, Zhejiang Sanding Tools are the manufacturing and selling of plastic and metal tools.

II. Basis of preparation

Basis of accounting

The consolidated financial statements for the financial year starting on January 1, 2009 and ended December 31, 2009 were prepared on the basis of reviewed financial statements of the following companies :

- Toolux Sanding SA (the company)
- Giant Dragon Holdings Ltd (Samoa subsidiary) ;
- Shaoxing Sanding Tools Ltd (People's Republic of China subsidiary) ;
- Zhejiang Sanding Tools Ltd (People's Republic of China subsidiary) ;

The consolidated financial statements of the Group, expressed in euros, have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, except as disclosed in the accounting policies below.

Comparative figures

The comprehensive income figures for the year ended December 31, 2009 cannot be easily compared to those for the first period ended December 31, 2008.

Indeed, the first period is only a three month period starting on October 2, 2008 (incorporation date of the parent company Toolux Sanding SA).

Furthermore, 2008 being the first year of consolidation, the comprehensive income for the first period ended December 31, 2008 mainly includes badwill and profit and loss items related to the sole parent company.

Significant accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires the use of judgments, estimate and assumptions, if any, that affect the reported amounts of assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

Foreign Currency Translation

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the subsidiaries is Renminbi ("RMB") whereas the consolidated financial statements are presented in euros, which is the Group's presentation currency.

The subsidiaries' transactions in foreign currencies are converted at the market exchange rate published by People's Bank of China on the transaction date. The ending balances of various foreign currency accounts are adjusted per the exchange rate (the medium rate) prevailing at the last month of the period.

The financial statements of the overseas subsidiaries are translated into the Group's presentation currency using the year end rate for the balance sheet items (1 Euro = 9.835 Rmb as of December 31, 2009, 1 Euro=9.4956 Rmb as of December 31, 2008) and the average rate of exchange for the income statements items (1Euro = 9.523785 Rmb for the year 2009, 1 Euro=10.224760 Rmb for the year 2008). Exchange differences are dealt with as a movement exchange reserve accounted for in equity.

III. Summary of significant accounting policies

Consolidation

All inter-company balances and significant inter-company transactions and resulting unrealized profits or losses are eliminated on the consolidation and the consolidated financial statements reflect external transactions and balances only.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Group Structure

All subsidiaries of the group are consolidated following the global integration method and all the reporting dates are the same as the reporting date used for the consolidated financial statements (31 December 2009).

The associated company Shengzhou Sanding Sanheng Co Ltd is accounted for using the equity method.

The hold interest of the Company in fully consolidated companies is:

Company	Country	% of interest	% of votes
Giant Dragon Holdings Ltd	Samoa	100%	100%
Shaoxing Sanding Tools Ltd	People's Republic of China	100%	100%
Zhejiang Sanding Tools Ltd	People's Republic of China	100%	100%
Shengzhou Sanding Business Travelling Services Co	People's Republic of China	90%	90%

Negative goodwill

The surplus of interest of the purchaser in the fair value of the assets, liabilities and contingent liabilities acquired with regard to the cost is recognized in the income statement after an audit of proper identification an evaluation of the assets, liabilities and contingent liabilities.

Cash and cash equivalents

Cash equivalents are investments which are characterized by a short maturity (generally mature within 3 months since the date of purchase), strong liquidity, ready convertibility and low volatility.

Trade and other receivable

Trade and other receivable that have fixed determinable payments that are not quoted in an active market are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition trade and other receivable are measured at amortized cost using the effective interest method, less any impairment.

The accounts are considered as bad debts by Group's management within its authority.

The loss of bad debts of the Company is accounted with allowance method, in which the allowance is allocated to offset the loss arising from bad debts.

The range for allowance accounting of bad debts includes the accounts receivable and other receivable.

Trade and other payable

Trade and other payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and service received.

Trade and other payable that have fixed determinable payments that are not quoted in an active market are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition trade and other payable are measured at amortized cost using the effective interest method, less any impairment.

Inventories

Inventories are stated at the lower of cost and net realizable value.

Inventories include the finished products or commodities that are reserved for sale during production and operating activities, or the in-process materials that are under production for sale, or the materials that are consumed during production, operating and R&D activities.

Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labor costs, other direct costs and related production overhead expenses but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Depreciation of property, plant and equipment

Property, plant and equipment are booked at their initial cost less accumulated depreciation and impairment losses. The initial cost comprises the purchase price and any directly attributable cost of bringing the assets to its working condition and location for its intended use.

Property, plant and equipment are depreciated on a straight-line basis over their estimate useful lives. Management estimates that the useful lives of these property, plant and equipment to be within 5 to 30 years.

The depreciation rate is based on the initial costs and estimated economic useful lives of all fixed assets after being reduced by the estimated residual value of 5%.

The estimated residual value and annual depreciation rates of each fixed asset category are as bellow:

Category	Year of Depreciation	RV (%)	Annual Depreciation Rate (%)
House & buildings	5-20	5	19 - 4,75
Machinery	5-10	5	19 – 9,5
Office facilities	5-10	5	19 – 9,5
Vehicles	5	5	19
Other Equipments	5	5	19

Impairment of non financial assets

The carrying amounts of non-current assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss, if any, is recognized when the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are charged in the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognized for the asset no longer exists or decreases.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined of no impairment loss had been recognized.

A reversal of an impairment loss is credited as income in the income statements.

Construction in Progress

The estimated value of the construction in progress is transferred into the fixed assets per its actual cost upon its reaching readiness for use.

At the period end, if one or more of the following cases occur, the provision for construction-in-progress devaluation will be allocated, based on the difference of the recoverable value of a single item of construction in progress less its book value:

- The construction in progress is suspended for a long time and will not be completed in three years;

- The project is outdated in terms of technique and functions and uncertain in terms of profitability for the Company;

- Other cases of devaluation of the construction in progress with sufficient evidences.

Intangible Assets

The intangible assets refer to the land-use rights, trademark rights, property rights and software related to the production that have been obtained by the Company. The intangible assets are accounted at actual cost when acquired, of which the purchased intangible assets are accounted for based upon the actual payments and the intangible assets invested by the investors are accounted for based upon the values rationally assessed

The intangible assets are amortized in equal installments over their expected useful life. In the event that a certain intangible asset cannot presumably bring future benefit to the Company, all the book value of this intangible asset will be transferred to the administrative expenses of the current period.

At the period end, the anticipated economic benefit that the intangible asset can bring to the Company is measured. Based on the difference of the recoverable value of a single intangible asset less than its book value, a provision for impairment is booked.

Investments in associates

Associates are all entities over which the Group has significant influence (power to participate in the financial and operating policy decisions of the investee) but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method and are initially recognized at cost except for situation when the investor's share of the net fair value of the associate's identifiable assets and liabilities is over the cost of the investment and it is recognized as income in the investor's share of the associate's profit or loss in the period in which the investment is acquired.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss for the period, and its share of post-acquisition movements in other comprehensive income is recognized separately as a component of other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

Related parties

Related parties are entities in which one or more common direct/indirect/ shareholders and/or directors have the ability to control or exercise significant influence over the other party in financial and operating decision making.

Income Recognition Principle

Revenue from the sales of goods is recognized when significant risks and rewards of ownership of goods are transferred to the buyer.

Revenue excludes value added tax.

No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or possible return of goods.

Retirement benefit plan

The eligible employees of the Group, who are all citizens of the People's Republic of China, are members of a state-managed retirement benefit scheme operated by the local government. The company is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the company to respect the retirement scheme is to make the specified contributions.

Income taxes

Current taxation provided at the current taxation rate based on the income for the financial period that is chargeable to tax. Deferred taxation is provided at the current taxation rate on all temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax liabilities are recognized for all deductible temporary differences to the extent that it is probable that the future taxable profit will be available against which the deductible temporary differences can be recognized.

The statutory tax rates enacted at the balance sheet date are used to determine deferred income tax.

The subsidiaries' income tax rate is 25 % of the income. In the event that the domestic equipments are purchased for the purpose of technical reconstruction and comply with national requirements on tax exempt, credit and refund, the tax will be exempt at the amount approved by the local taxation agency in the current year.

IV. Notes to the Financial Statements

(I). Consolidated statement of financial position

1. CASH AND CASH EQUIVALENTS

	Financial years ended 31 December	
Euros	**2009**	**2008**
Cash on hand	24 819	12 553
Cash at banks	3 745 605	7 279 265
Total	**3 770 424**	**7 291 818**

2. TRADE DEBTORS

	Financial years ended 31 December	
Euro	**2 009**	**2008**
Trade debtors	2 075 245	2 291 662
Total	**2 075 245**	**2 291 662**

All trade receivables have a residual maturity of less than 30 days and are all aged less than 30 days.

3. OTHER RECEIVABLE

	Financial years ended 31 December	
Euro	**2009**	**2008**
Loans to corporations (1)	1 037 417	2 653 334
Loans to individuals (2)	1 342 161	21 062
Other	291 296	205 379
Total	**2 670 874**	**2 879 776**

(1)	Annual Interest rate	Amount	Month 6-12
Shengzou Shanghui Real Estate	10%	821 861	821 861
Paishu Textil	6%	50 839	50 839
Hengyan Equipement	6%	73 208	73 208
Gedan	6%	91 509	91 509

(1) These companies are business partners of the Group and the amount due by Shengzhou Shanghui Real Estate is guaranteed by the shareholders of the Group.

(2) Loans to individuals, having no contractual maturities and bearing no interest rate, are considered as short term loans.

4. ADVANCES TO SUPPLIERS

	Financial years ended 31 December	
Euro	**2009**	**2008**
Payments on account to suppliers	1 851 158	535 899
Total	**1 851 158**	**535 899**

All advances have a residual maturity of less than one year.

5. INVENTORIES

	Financial years ended 31 December	
Euros	**2009**	**2008**
Raw Materials	484 756	267 163
Finished Products	78 979	25 898
In-process Products	195 508	110 154
Low-value consumption goods	0	21 104
Total	**759 242**	**424 319**

There is no impairment on the inventories as at December 31, 2009 and 2008.