# TREYO LEISURE AND ENTERTAINMENT LTD

## ABN 93 131 129 489

# ANNUAL REPORT

# FOR THE YEAR ENDED 31 DECEMBER 2011

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## CORPORATE INFORMATION

**ABN 93 131 129 489**

**Directors**
Ling (Allan) Mao (Chairman)
Roger Smeed (Deputy Chairman)
Guohua Wei
Kwong Fat Tse
Edward Byrt
Zhongliang Zheng
Minghua Yu

**Company Secretary**
Jo-Anne Dal Santo

**Registered Office**
Level 2, 371 Spencer Street
Melbourne, Victoria 3000, Australia

**Share Registry**
Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnstone Street
Abbotsford, Victoria 3067, Australia
Phone: 1300 850 505

**Treyo Leisure and Entertainment Limited Shares are listed on the Australian Securities Exchange (ASX)**
**ASX Code: TYO**

**Bankers**
Westpac Banking Corporation Limited
360 Collins Street
Melbourne, Victoria 3000

**Auditors**
Grant Thornton Audit Pty Ltd
Level 1, 67 Greenhill Road
Wayville, South Australia 5034

**Legal Advisors**
Norton Rose
RACV Tower, 485 Bourke Street
Melbourne, Victoria 3000

**Website Address**
www.treyo.com.au

All monetary amounts in this Report are in Australian dollars unless stated otherwise.
The financial year begins on 1 January and ends on 31 December each year.

## REVIEW BY EXECUTIVE CHAIRMAN

On behalf of the Board of Treyo Leisure and Entertainment Ltd (Treyo) I am pleased to submit the fourth Annual Report to its Shareholders, since Treyo listed on the ASX in January 2009.

Through this Report, the Board seeks to provide an update to our Shareholders and the market, on the results that Treyo has achieved for the 2011 financial year (ended 31 December 2011). Again, it should be noted that, in accordance with Chinese accounting practices, Treyo's financial year runs January to December each year.

As we have previously announced to the market through our recent Appendix 4E, I advise that the Treyo Group realised an after tax profit of $AUD5.08 million for the 2011 financial year. This represents an increase of $AUD2.15 million or 73% on the previous year. The Board is pleased with this result in, what has again been, a difficult and competitive market.

**Group revenue for the year, including Shouken Electric Co. Ltd – (excluding interest received) was up by 29% to $AUD71.29 million.**

Unit sales of Treyo products increased by 21.9% over the previous year. **This was as a result of** solid sales growth by *"Treyo"* branded products, with the *"Treyo"* brand now a clear market leader, being much sought after by consumers.

Through prudent management and controls, Treyo's working capital is at very healthy $AUD25.60 million. The Company's cash and cash equivalents reserves remain strong at $AUD33.72 million. As always, the Company has maintained its diligent control of costs.

In the past two years, Treyo has been presented with a number of market challenges. Most particularly, intense price competition and attempts to copy the *"Treyo"* brand and technology. These attempts have failed dismally, with the Chinese courts enforcing the protection of the Group's brands and technology platforms and consumers seeking recognised brands and quality products. As a company, Treyo has emerged from these challenges stronger and more vibrant, and has consolidated our market leadership.

As the world's largest manufacturer of automated mahjong tables, Treyo continues to grow its market share and expand its extensive distributor network throughout China. Treyo holds approximately 70% of the premium end of the market for automatic mahjong tables – a market with total annual sales in China of over $AUD1.2 billion. With a forecast growth in China's GDP of 7.5% for 2012, China, Treyo's major market, continues to experience solid growth and is now recognised as the world's fastest growing and second largest economy.

To grow our market leadership, Treyo will continue to focus on innovation, technical excellence, and our commitment to quality, outstanding customer service and brand development.

In summary, I would like to thank all of the staff and management of the Treyo Group, our distributors and our suppliers, for their outstanding efforts on behalf of the Group over the last year. I would also like to thank my fellow Board members for their tireless efforts over the last 12 months. Their wisdom, advice and support have been a great help to me.

Finally, I would like to thank our Shareholders for their continuing belief in Treyo and what we do. I can assure you that your Board will continue to focus on identifying growth opportunities, and most importantly, improving the Company's profitability.

Yours sincerely

**Ling (Allan) Mao**
**Executive Chairman**

**Dated this 28th day of March 2012**

## BUSINESS OVERVIEW

### THE COMPANY

Treyo Leisure and Entertainment Ltd (Treyo) was listed on the Australian Securities Exchange (ASX) on 2 January 2009. Prior to Treyo's listing, the Company operated as Matsuoka Mechatronics (China) Co. ("Matsuoka"). Founded in March 2003, Matsuoka, is a wholly foreign-owned limited liability company incorporated in the People's Republic of China, now a wholly owned subsidiary of Treyo. In July 2011, Treyo acquired Hangzhou Shouken Electric Co. Ltd (Shouken) a highly regarded manufacturer of prestige electronic massage chairs and equipment.

**Matsuoka**
From its modern purpose built production facilities ideally located in the Xiaoshan Business District near Shanghai, Matsuoka designs, manufactures and markets automatic mahjong tables under the trade mark "Treyo".

Treyo through its subsidiary Matsuoka, is an industry leader. The Company has grown rapidly to become the largest automatic mahjong table manufacturer in China. Matsuoka was founded in March 2003 and carries on the business of manufacturing Treyo automated mahjong tables.

Treyo holds approximately 70% of the premium end of the market for automated mahjong tables. As the world's largest manufacturer of automated mahjong tables, Treyo continues to grow its market share despite strong competitive pressures. Treyo's mahjong table revenues alone, increased by 14% over the prior year. The Company's success is a result of its innovation, technical excellence, environmental standards, investment in advanced production lines, manufacturing processes, commitment to quality, outstanding customer service and brand development.

The Company currently employs approximately 730 staff and while its operations and product distribution are mainly based in China. Treyo intends to both leverage its market presence and reputation for high quality products, innovation and customer service to continue its domestic growth and increase international sales.

**Shouken**
Shouken was established in March 2006. The Company is a major manufacturer of prestige electronic massage chairs and equipment.

### OPERATIONAL HIGHLIGHTS

The Treyo Group realised an after tax profit of $5.08 million for the 2011 financial year which represents an **increase** of $2.15 million or **73%** on the previous year. As a result of the strengthening of the Chinese Renminbi, the Company incurred foreign exchange profit on translation of foreign operation of $1.28 million compared to losses the last year of $3.27 million, an increase of $4.54 million over the last year. Treyo's working capital remains strong at $25.60 million. The Company's cash and cash equivalents reserves remain strong at $33.72 million.

**Corporate Results Summary**

For the 2011 year, the Treyo Group, through its wholly owned China based subsidiaries, Matsuoka Mechatronics (China) Co. and Hangzhou Shouken Electric Co. Ltd (Shouken) acquired in July 2011, achieved:

- **Group revenue for the year, including Shouken – (excluding interest received) was up by 29% to $71.29 million.**
- Treyo's unit sales increased by 21.9% over 2010. **This was as a result of** solid sales growth by Treyo branded products in the marketplace, with Treyo, as market leader, being sought after by consumers.
- Group NPAT of **$5.08 million. An increase of 73% over the previous year;**
- Foreign exchange profit impacting on comprehensive income of $1.28 million;
- Continuing strong cash reserves of $33.72 million;
- Strong working capital of $25.60 million

## OPERATIONAL HIGHLIGHTS (CONTINUED)

As the world's largest manufacturer of automated mahjong tables, Treyo continues to grow its market share despite strong competitive pressures. Treyo's mahjong table revenues alone, increased by 14% over the prior year. In addition, the inclusion in the 2011 results of Shouken, a major manufacturer of prestige electronic massage chairs and equipment, has consolidated the Company's revenue increase and has reinforced Board's confidence in this acquisition.

The Company has maintained its diligent cost control and the strong brand recognition of Treyo and Shouken in the premium end of the market – which the brands dominate. In addition, the Company continues to expand its extensive distributor network for both brands, throughout China.

The total annual sales for automatic mahjong tables in the Chinese domestic market, One of Treyo's primary focus, exceeds RMB7.5 billion per annum (approximately $1.19 billion[1]).

[1] Exchange rate $0.1607:RMB1

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# DIRECTORS' REPORT

Your directors present their Report on Treyo Leisure and Entertainment Limited and its controlled entities for the financial year ended 31 December 2011.

In this Report, Treyo Leisure and Entertainment Limited and its controlled entities are referred to as "the Group" or the "Consolidated Group". The parent entity, Treyo Leisure and Entertainment Limited, is referred to as "the Company".

## DIRECTORS

The names and details of the Company's directors in office during the financial period and until the date of this Report are as follows. Directors were in office for this entire period unless otherwise stated.

### Names, qualifications, experience and special responsibilities

**Ling (Allan) Mao**
*Executive Chairman*

Mr Mao was appointed to the Board on 12 August, 2008 as Executive Chairman and is the Chief Executive Officer of the Group. He also serves on the Audit and Risk Committee. Mr Mao has held various leadership positions at Japan Da Yang Chemistry Ltd, Shanghai Da Yang Chemistry Ltd and Shanghai Lili Plastic Products Co.,Ltd. Mr Mao is a citizen of China and is a graduate of the Zhejiang Academy of Art.

**Roger Smeed** FAICD, FAIM
*Independent, Non-Executive Deputy Chairman*

Mr Smeed was appointed to the Board on 28 October 2008 as Deputy Chairman. He also serves on the Remuneration and Nomination Committee and as Chairman of the Audit and Risk Committee. Mr Smeed is an experienced company director with over 25 years of experience at chief executive and board level with large publicly listed and private companies and government business enterprises (GBEs). Currently, Mr Smeed is a member of the Board of four China based, ASX listed companies (Deputy Chairman of two). He is also Chairman of four Australian companies, where he is involved in strategic acquisitions and the planning, and the implementation of growth strategy initiatives. Mr Smeed is a citizen of Australia.

**Guohua Wei** EMBA (Zhejiang University, China)
*Executive Director*

Mr Wei was appointed to the Board on 13 August 2008 and is also the Chairman of the Company's subsidiary - Matsuoka Mechatronics. He also serves on the Remuneration and Nomination Committee. Mr Wei currently holds senior positions at China Finance & Investment Holding Co.,Ltd. Mr Wei is a citizen of China.

**Kwong Fat Tse**
*Non-Executive Director*

Mr Tse was appointed to the Board on 13 August 2008. Mr Tse currently holds the position of General Manager of Song Gang International Group Co., Ltd. Mr Tse is a citizen of Hong Kong.

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# DIRECTORS' REPORT

## DIRECTORS (CONTINUED)

**Edward Byrt** LLB (Adelaide University)
*Independent, Non-Executive Director*

Mr Byrt was appointed to the Board on 28 October 2008. He also serves on the Audit and Risk Committee and as Chairman of the Remuneration and Nomination Committee. Mr Byrt is a company director and legal consultant who for 35 years was a Partner of Norman Waterhouse Lawyers, where he provided strategic commercial advice to industry, commerce and government enterprises. Organisational development, corporate governance and succession planning have been the focus of his professional attention in recent years. In his professional career Mr Byrt has advised many companies undertaking business in Australia and overseas markets, as well as foreign companies operating in Australia. He has a particular interest in promoting Australia-China business. He is Chairman of the South Australian China Cluster and is a past National Vice-President of the Australia China Business Council. Over the past decade Mr Byrt has been appointed to a number of private and public corporation boards to which he brings general commercial legal skills and a diversity of experience from his legal and business background. Mr Byrt is a citizen of Australia.

**Zhongliang Zheng** MBA (Xi'an University of Technology, China)
*Executive Director*

Mr Zheng was appointed to the Board on 1 June 2010. Mr Zheng has held the position of Chief Financial Officer of Matsuoka Mechatronics since 12 May 2005. Prior to joining Matsuoka, Mr Zheng held senior positions in Shanghai Baosteel Metallurgical construction company, Walsin Investment (China) Company, and Nong Fu Spring Co., Ltd. Mr Zheng is a citizen of China.

**Minghua Yu**
*Independent, Non-Executive Director*

Mr Yu was appointed to the Board on 1 June 2010. Mr Yu currently holds the position of General Manager of Zhejiang Songgang Co., Ltd. Mr Yu is well regarded Chinese businessman with many years of commercial experience. Mr Yu is a citizen of China.

## DIRECTORSHIPS OF OTHER LISTED COMPANIES

In the three years immediately before the end of the financial year the only directors to hold other listed directorships are:

- Edward Byrt, who is also a director and chairman of Papyrus Australia Ltd (ASX:PPY), and a director of China JXY Group Ltd (ASX:CJG) ; companies listed on the ASX; and
- Roger Smeed, who is also a director of Xiaoxiao Education Limited (ASX:XXL), Rongtai International Group Limited (ASX:RIG) and the China JXY Group Limited (ASX:CJG); all companies are listed on the ASX.

## COMPANY SECRETARY

**Jo-Anne Dal Santo** B.Bus, ACIS, MAICD

Ms Dal Santo was appointed as Company Secretary to the Board on 28 October 2008. Ms Dal Santo has held a variety of roles in private industry and the finance sector and is currently company secretary to a number of private businesses. She is also Director of Red Consulting International Pty Ltd, an accounting and taxation support business located in Melbourne. Ms Dal Santo is a citizen of Australia.

## DIRECTORS' REPORT

### Directors' interest in shares and options

| | Ordinary Shares | Options over Ordinary Shares |
|---|---|---|
| Ling (Allan) Mao [(1)] [(2)] | 55,900,000 | - |
| Roger Smeed [(3)] | 100,000 | - |
| Guohua Wei [(4)] | 179,400,000 | - |
| Zhongliang Zheng [(5)] | 7,800,000 | - |
| Kwong Fat Tse | - | - |
| Minghua Yu | - | - |
| Edward Michael Byrt [(6)] | 100,000 | - |
| Total | 243,300,000 | - |

[(1)] Shares held by Laury Commercial INC in which Ling (Allan) Mao has a beneficial interest – 7,800,000 shares in total

[(2)] Shares held by Balatina Group Ltd in which Ling (Allan) Mao has a beneficial interest – 48,100,000 shares in total

[(3)] Shares held by Roger Smeed and Associates Pty Ltd (as trustee for RF Investment Trust) in which Roger Smeed has a beneficial interest.

[(4)] Shares held by Matoury Overseas Corp. in which Guohua Wei has a beneficial interest.

[(5)] Shares held by Yerigton Assets INC in which Zhongliang Zheng has a beneficial interest.

[(6)] Shares held by Stroud Nominees Pty Ltd (as trustee for Byrt Super Fund) in which Edward Byrt has a beneficial interest.

### Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in the Remuneration Report section of this Directors' Report.

## CORPORATE INFORMATION

### Corporate Structure

Treyo Leisure and Entertainment Limited is a company limited by shares and is incorporated and domiciled in Australia.

### Nature of operations and principal activities

The Company was listed on the Australian Securities Exchange on 2 January 2009 and official quotation commenced on 8 January 2009. The principal activity of the Group during the course of the financial year was the manufacture of automated mahjong tables. Refer to Note 27 for details of the Group's operating segments. In July 2011, Treyo acquired Hangzhou Shouken Electric Co. Ltd a highly regarded manufacturer of prestige electronic massage chairs and equipment.

There were no other significant changes in the nature of the Consolidated Group's principal activities during the financial year.

## DIRECTORS' REPORT

### REVIEW OF FINANCIAL POSITION

**Financial Results**

The net assets of the consolidated group have increased by $6,359,342 from 31 December 2010 to $40,486,007 at 31 December 2011. This increase has largely resulted from the following factors:

i. $1,275,719 decrease in foreign exchange loss reserve; and

ii. $5,083,823 profits after tax attributable to members.

The consolidated group's strong financial position has enabled the group maintain a healthy working capital ratio. The group's working capital, being current assets less current liabilities, has increased from $19,989,013 in 2010 to $25,605,010 in 2011.

The directors believe the Company is in a strong and stable financial position to expand and grow its current operations.

### DIVIDENDS

The Board has not recommended nor paid any dividends during the year ended 31 December 2011.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year Treyo Leisure and Entertainment Ltd acquired a new wholly owned subsidiary, Hangzhou Shouken Electric Co. Ltd, ("Shouken"), a premium-end massage and physical exercise equipment manufacturer.

There have been no other significant changes in the state of affairs of the parent entity during the financial year or prior year.

### FUTURE DEVELOPMENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Group, the results of those operations, or the state of affairs of the Consolidated Group in future financial years.

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# DIRECTORS' REPORT

## DIRECTORS' MEETINGS

The number of meetings of Directors held during the year and the number of meetings attended by each Director was as follows.

| | Audit and Risk Committee Meetings | Remuneration and Nomination Meetings |
|---|---|---|
| **Number of meetings held** | 1 | - |
| Ling (Allan) Mao | 1 | n/a |
| Roger Smeed | 1 | - |
| Guohua Wei | n/a | - |
| Kwong Fat Tse | n/a | n/a |
| Edward Michael Byrt | 1 | - |
| Zhongliang Zheng | n/a | n/a |
| Minghua Yu | n/a | n/a |

| | Board of Directors' Meetings | |
|---|---|---|
| | **Number of meetings eligible to attend** | **Number of meetings attended** |
| Ling (Allan) Mao | 8 | 6 |
| Roger Smeed | 8 | 8 |
| Guohua Wei | 8 | - |
| Kwong Fat Tse | 8 | 6 |
| Edward Michael Byrt | 8 | 8 |
| Zhongliang Zheng | 8 | 5 |
| Minghua Yu | 8 | 2 |

**Committee Membership**

As at the date of this Report, the Company had an Audit and Risk Management Committee and a Remuneration and Nomination Committee comprising members of the Board.

Members acting on the Committees of the Board at the date of this Report were as follows:

Audit and Risk Management Committee
- Roger Smeed (Chairman)
- Ling (Allan) Mao
- Edward Byrt

Remuneration and Nomination Committee
- Edward Byrt (Chairman)
- Roger Smeed
- Guohua Wei

# DIRECTORS' REPORT

## REMUNERATION REPORT (AUDITED)

The Remuneration Report outlines the Director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this Report key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company, and executives of the Group whose remuneration is amongst the highest.

For the purposes of this Report, the term 'executive' encompasses the Chief Executive, senior executives, general managers and secretaries of the Company and the Group

**Details of Key Management Personnel including the five senior executives of the Company and the Group.**

| **Directors** | | **Date Appointed** | |
|---|---|---|---|
| Ling (Allan) Mao | Chairman (Executive) | 13 Aug 2008 | |
| Roger Smeed | Deputy Chairman (Independent, Non-Executive) | 28 Oct 2008 | |
| Guohua Wei | Director (Executive) | 18 Mar 2003 | (1) |
| Kwong Fat Tse | Director (Non-Executive) | 13 Aug 2008 | |
| Edward Michael Byrt | Director (Independent, Non-Executive) | 28 Oct 2008 | |
| Zhongliang Zheng | Director (Executive) and Chief Finance Officer | 12 May 2005 | (2) |
| Minghua Yu | Director (Independent, Non-Executive) | 1 June 2010 | |
| **Executives** | | **Date Appointed** | |
| Lin Pan | Deputy General Manager | 30 Aug 2004 | |
| Yinan He | Deputy General Manager | 1 Aug 2005 | |
| Lixin Wang | Integrated Management Centre Director | 29 Jun 2005 | |
| Jo-Anne Dal Santo | Company Secretary | 28 Oct 2008 | |

(1) Appointed to the Board on 13 August 2008.

(2) Appointed to the Board on 1 June 2010.

**Remuneration policy**

There were no other changes of key management personnel between the reporting date and the date the financial report was authorised for issue

The remuneration policy of Treyo Leisure and Entertainment Ltd has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Treyo Leisure and Entertainment Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

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# DIRECTORS' REPORT

## REMUNERATION REPORT (AUDITED) (CONTINUED)

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- All key management personnel receive a base salary (which is based on factors such as length of service and experience).
- The Remuneration and Nomination Committee intends to review key management personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

All remuneration paid to key management personnel is valued at the cost to the Consolidated Group and expensed. Shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by the key management personnel. Options are valued using the Black-Scholes methodology.

### Non-Executive Remuneration

The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration and Nomination Committee will determine changes to the payments made to non-executive directors and will review their remuneration annually based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at an Annual General Meeting. The maximum aggregate remuneration of the non-executives is presently fixed at $300,000. Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

### Performance-based remuneration

No element of key management personnel remuneration contains a performance based component. The Group however pays out a "13$^{th}$ Month" salary annually to all staff, including key management personnel. The payment of the 13$^{th}$ month salary is not contractual and is dependent on group performance.

### Company performance, shareholder wealth and director and executive remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives by processing fixed remuneration adjustments annual for inflation and increased responsibility.

| | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Revenue | 71,288,950 | 55,285,342 | 66,523,248 | 71,751,297 |
| Net profit | 5,083,823 | 2,931,717 | 7,189,930 | 6,616,454 |
| Share price at end of year | 0.34 | 0.34 | 0.33 | 0.25 (1) |
| Dividends paid | - | - | - | - |

(1) At the date of official ASX quotation 8 January 2009.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (CONTINUED)

**Key Management Personnel Remuneration Policy**

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Group. The standard Chinese Government three year contracts for service between the Company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. The contract for service automatically renews at the end of the term. Any options not exercised before or on the date of termination lapse.

The Group seeks to emphasise payment for results through the establishment of a Directors and Senior Executive Options Plan, as detailed below.

The employment conditions of the executive director, Allan Mao and other Matsuoka Mechatronics (China) Co., Ltd's key management personnel are formalised in standard Chinese Government contracts of employment. With the exception of Roger Smeed, Edward Byrt and the Company Secretary, Jo-Anne Dal Santo all key management personnel are permanent employees of Matsuoka Mechatronics (China) Co., Ltd employed under a fixed three year contract, which commenced on the date of appointment, as shown in the 'Details of key management personnel' above and are renewed automatically at the end of term.

The Remuneration and Nomination Committee will determine the compensation for each key management personnel. Refer below.

**Key Management Personnel Remuneration**

| | Short term benefit Cash, salary and commissions | Equity based remuneration | Total | Equity Based percentage |
|---|---|---|---|---|
| **31 December 2011** | **$** | **$** | **$** | **%** |
| Directors | | | | |
| Ling (Allan) Mao | 19,757 | - | 19,757 | - |
| Roger Smeed | 50,000 | - | 50,000 | - |
| Guohua Wei [(1)] | 24,949 | - | 24,949 | - |
| Edward Michael Byrt | 50,000 | - | 50,000 | - |
| Kwong Fat Tse | 11,973 | - | 11,973 | - |
| Zhongliang Zheng [(2)] | 17,477 | - | 17,477 | - |
| Minghua Yu [(4)] | 9,878 | - | 9,878 | - |
| Senior Executives | | | | |
| Jo-Anne Dal Santo | 38,000 | - | 38,000 | - |
| Yinan He | 17,152 | | 17,152 | |
| Lin Pan [(3)] | 18,594 | - | 18,594 | - |
| Lixin Wang | 14,645 | - | 14,645 | - |
| | 272,425 | - | 272,425 | |

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (CONTINUED)

| | Short term benefit Cash, salary and commissions | Equity based remuneration | Total | Equity Based percentage |
|---|---|---|---|---|
| | $ | $ | $ | % |
| **31 December 2010** | | | | |
| Directors | | | | |
| Ling (Allan) Mao | 20,891 | - | 20,891 | - |
| Roger Smeed | 50,000 | - | 50,000 | - |
| Guohua Wei [(1)] | 30,891 | - | 30,891 | - |
| Edward Michael Byrt | 50,000 | - | 50,000 | - |
| Kwong Fat Tse | 13,440 | - | 13,440 | - |
| Zhongliang Zheng [(2)] | 15,990 | - | 15,990 | - |
| Minghua Yu [(4)] | 10,445 | - | 10,445 | - |
| Senior Executives | | | | |
| Jo-Anne Dal Santo | 38,000 | - | 38,000 | - |
| Lin Pan [(3)] | 15,995 | - | 15,995 | - |
| Lixin Wang | 15,214 | - | 15,214 | - |
| | 260,866 | - | 260,866 | |

(1) Guohua Wei is provided with a company vehicle with a carrying value of $nil (2010: $36,537)

(2) Zhongliang Zheng is provided with a company vehicle with a carrying value of $24,286 (2010: $32,754)

(3) Lin Pan is provided with a company vehicle with a carrying value of $2,510 (2010: $3,882)

(4) Appointed 1 June 2010

**Shares and options issued as part of remuneration**

During year, prior year and since the end of the financial year no shares were issued to the directors or the five highest remunerated officers of the Company as part of their remuneration.

**Retirement, election and continuation in office of directors**

Directors are subject to retirement by rotation and election by shareholders at general meetings. No directors other than the Managing Director, Ling (Allan) Mao, may remain on the Board for more than three years without re-election. Where a director is appointed during the year, the directors will hold office until the next Annual General Meeting and then be eligible for election.

A third of the directors will retire at the 2012 Annual General Meeting of the Company. These directors, being eligible, will offer themselves for re-election.

# DIRECTORS' REPORT

## INDEMNIFYING OFFICERS OR AUDITOR

The Company has entered into Deeds of Indemnity with each of the current Directors and had paid insurance premiums to insure each of past, present and future directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The aggregate annual amount of the premium was $15,000 (2010: $18,150).

## OPTIONS

No options were issued or exercised during the year and to the date of this report.

## ENVIRONMENTAL ISSUES

The Group's operations are not subject to any significant environmental regulation under the law of the Chinese Government or any Australian Commonwealth or State Government.

## PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## AUDITOR

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

## NON-AUDIT SERVICES

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

## DIRECTORS’ REPORT

### NON-AUDIT SERVICES (CONTINUED)

- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 31 December 2011:

| | **2011** | **2010** |
|---|---|---|
| | **$** | **$** |
| Taxation Services | 5,000 | - |
| Due diligence investigations | - | - |
| | 5,000 | - |

**Auditor’s Independence Declaration**

The lead auditor’s independence declaration for the year ended 31 December 2011 has been received and can be found on page 16 of the annual report.

Signed in accordance with a resolution of the Board of Directors of Treyo Leisure and Entertainment Limited:

**Roger Smeed**
**Deputy Chairman**

**Dated this 28th day of March 2012**

Grant Thornton

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67 Greenhill Rd
Wayville SA 5034
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**AUDITOR'S INDEPENDENCE DECLARATION**
**TO THE DIRECTORS OF TREYO LEISURE AND ENTERTAINMENT LTD**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Treyo Leisure and Entertainment Ltd for the year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Director – Audit & Assurance Services

Adelaide, 28 March 2012

# CORPORATE GOVERNANCE STATEMENT

The Directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance these objectives in the best interests of the Group as a whole. The focus of the Board is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Treyo is committed to maintaining high standards of corporate governance appropriate to the size and operations of the Company and the Company complies with all Australian Securities Exchange ("ASX") Corporate Governance Council Best Practice Recommendations ('ASX Recommendations'), unless otherwise stated. This statement incorporates the required recommendations of the ASX Corporate Governance Council issued in August 2007 and amendments published in June 2010. All corporate governance documents noted in this Statement are available on the Company's website www.treyo.com.au.

Day to day management of the Group's affairs and implementation of corporate strategy and policy initiatives are delegated by the Board to the Managing Director and the senior management team.

**PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

The Board is responsible for the overall corporate governance of the Group including its strategic direction, establishing goals and responsibilities for management and monitoring the achievement of these goals. To assist in the execution of its responsibilities, the Board has established an Audit and Risk Committee and a Nomination and Remuneration Committee.

Whilst there is ongoing interaction between the Board and Management, the Board functions independently of management to establish the policy framework of the Company from which management works to perform the daily functions of the business.

The Board's Responsibilities

The primary responsibilities of the Board include:

- Setting the criteria for Board membership and reviewing the composition of the Board;
- Establishing the long term goals of the Group, and working with management to develop strategic and business plans to achieve those goals;
- Monitoring implementation of the Group's strategic and business plans and its financial performance;
- Appointing, and assessing the performance of, the Managing Director and the Chief Operating Officer, ensuring a clear relationship between performance and executive remuneration;
- Ensuring there is an effective internal control environment and appropriate monitoring activities in place to identify and manage any significant risks facing the Group;
- Approving major corporate initiatives;
- Approving the Group's annual and half-year financial reports;
- Enhancing and protecting the reputation of the organisation;
- Reporting to shareholders and the market; and
- Conducting an annual review of the Board Charter.

**Board Meetings**

The Board holds 10 to 12 formal meetings a year. Additional meetings are held as required. A meeting is held each year to review and approve the strategy and financial plan for the next financial year. The Board also meets with Executive Management to consider matters of strategic importance to the Group.

# CORPORATE GOVERNANCE STATEMENT

**PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (CONTINUED)**

**Management's Responsibilities**

The Managing Director is responsible for running the affairs of the Company under delegated authority from the Board and for implementing the policies and strategy set by the Board. In carrying out his responsibilities the Managing Director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial position and operational results. Clear lines of communication between the Chair and the Managing Director are established and the Managing Director consults with the Chair, in the first place, on matters which are sensitive, extraordinary or of a strategic nature.

The role of the senior management team is to support the Managing Director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

**Performance of Key Executives**

The performance of the Company's most senior executives has been assessed this year in accordance with the process adopted by the Board.

**PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**

**The Board**

The Board's aim is to ensure the Company has an appropriate mix of executive and non-executive directors with relevant expertise and experience to enable the Board to perform its duties with an effective understanding of the business and the operating environment. Currently the Board comprises three executive directors, one of which is the Managing Director and one of whom is the Chair and four independent, non-executive directors, one of which is the Deputy Chair.

Whilst the Board composition complies with ASX Recommendation 2.1, the Chair does not satisfy the test of independence. The Board has decided, given the size of the Board and the Company, that it is not appropriate for the position of Chair to be held by an independent, non-executive director.

**Board Renewal and Succession Planning**

It is the board's policy to consider the appointment and retirement of non-executive directors on a case by case basis. in doing so, the board will take into account the requirements of the ASX Listing Rules and the *Corporations Act* 2001 and has compiled a skills matrix to assist in the identification of any gaps in skills and experience on the board. The company does not seek external advice to identify or assess potential board candidates as it believes its own internal review process ensures a diverse range of candidates is considered. The selection process of potential candidates includes a review of industry experience and the skills the candidate will bring to the board.

Board succession planning is an important part of the governance process. The Board regularly reviews and evaluates its succession planning process with the last review occurring in 2010 which resulted in the appointment of Mr Minghua Yu as an independent, non-executive director on 1 June 2010.

## CORPORATE GOVERNANCE STATEMENT

### PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (CONTINUED)

The Board has not set a limit on director's tenure. It considers that longstanding directors can bring a level of expertise, judgement, dedication and breadth of perspective to the performance of their responsibilities that is of great value to the Board, management and shareholders.

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- less than 10% of Company shares are held by the director and any entity or individual directly or indirectly associated with the director;
- no sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and
- none of the directors' income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Currently all directors other than the Managing Director are required to be re-elected by shareholders at least every three years and at least one-third of such directors must retire at each annual general meeting. Due to the requirement for shareholder re-election, directors are not appointed for a fixed term. The period in office of each director is outlined in the Director's Report.

### Board Meetings

Each director must declare any potential conflict of interest in relation to any matter for Board consideration, and must not participate in discussions or resolutions pertaining to any matter in which that director has a material personal interest.

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee, established on 28 October 2008, currently consists of the following Directors of the Company:

- Mr Edward Byrt – Chair (Independent, Non-Executive Director)
- Mr Guohua Wei - (Executive Director)
- Mr Roger Smeed (Independent, Non-Executive Director)

Details regarding the directors' qualifications, the number of meetings held and attendance at those meetings are contained on pages 5 to 9 of the Directors' Report.

### Induction and Education

Each incoming director undertakes a Director Induction Programme which includes an overview of:

- the culture and values of the company;
- meeting arrangements; and
- director interaction with each other, senior executives and other stakeholders

On an ongoing basis, Directors are continually apprised of key developments in the Company, industry and the environment in which the company operates.

### Performance Evaluation

As a result of the Director appointments and resignations during the year a performance evaluation of the Board, its Committees and Directors was not undertaken during 2011. It is intended that these performance evaluations will take place during 2012.

## CORPORATE GOVERNANCE STATEMENT

**PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE (CONTINUED)**

**Access to Information**

Directors are encouraged to access members of senior management at any time to request relevant information in their role as Director.

In fulfilling their duties, each director and each committee of the Board may obtain independent professional advice at the Group's expense on matters relating to their role as Director, subject to prior written approval of the Chair of the Company.

**PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

**Integrity and Accountability**

During the year the Company had a Codes of Conduct in place which set out principles and practices to promote integrity and accountability and documented the underlying values of the Group which apply to all its business dealings. In addition, the Company has adopted a set of core values which serves as a constant reference point for assessing the way in which individuals and the Company operate.

Due to its close knit and compliance-focused culture, the Company has also been able to promote integrity in its dealings and accountability of individuals for reporting unethical practices through the ability of its Board, the Managing Director and the senior management team to oversee the Company's operations. The Company has an ongoing commitment to promoting its Codes of Conduct by:

- Providing ongoing guidance on the Company's principles and practices;
- Outlining the responsibility and accountability of individuals for reporting and investigating reports of unethical practices;
- Confirming the Board and Senior Executive's commitment to the Code, and;
- Providing assistance to employees to understand and comply with the Code.

The Codes applies to all employees, directors and officers of Treyo and its subsidiary companies and references other Treyo policies and procedures to provide further guidance where necessary.

**Ethical Standards**

The Board endeavours to ensure that the directors, officers and employees of the Group act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. The Company's ethical standards and expected ethical behaviour are discussed in the Codes of Conduct, and cover the following general areas:

- Compliance with and respect of applicable laws;
- Respectful treatment of others;
- Honesty, fairness and integrity in dealings with others;
- Confidentiality of information;
- Inside information;
- Personal accountability for actions and their consequences;
- Conflicts of interest; and
- Gifts and benefits.

**Diversity**

The company has not as yet established a diversity policy and acknowledges it is not fully compliant with ASX Recommendation 3. However the company acknowledges diversity is not limited to gender, age, ethnicity or cultural background. The company is committed to providing an environment in which employees have equal access to opportunities available at work, are treated with fairness and respect and are not judged by unlawful or irrelevant reference to their attributes. This ensures the company attracts and retains people with the best skills and abilities.

## CORPORATE GOVERNANCE STATEMENT

**PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING (CONTINUED)**

The proportion of female employees to male employees within the Group at 31 December 2011 was 36% female and 64% male. There is a strong female representation in all areas including management with 16% of female employees at this level.

**Diversity**

The company actively supports diversity within the business including but not limited to gender, age, ethnicity and cultural background as it believes diversity maximises the achievement of the Company's corporate goals.

The company does not have a formal diversity policy in place and will address the formulation of a diversity policy in 2012.

**PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

**Financial Reports**

The Chief Finance Officer ensures that the Company's financial reports are prepared in accordance with relevant accounting standards and that monthly financial reports are distributed to the Board. The annual and half yearly financial reports, and any other financial reports for release to the market, are presented for review by the Audit and Risk Committee prior to their adoption by the Board.

All annual and half-yearly financial reports presented to the Board have been reviewed by the Managing Director and Chief Finance Officer who confirm in writing to the Board that the relevant report represents a true and fair view of the Company's financial position in all material respects and is in order for adoption by the Board.

**Audit and Risk Committee**

The Audit and Risk Committee, established on 28 October 2008, currently consists of the following Directors of the Company:

- Mr Roger Smeed - Chair (Independent, Non-Executive Director)
- Mr Edward Byrt (Independent, Non-Executive Director)
- Mr Ling Mao (Executive Director)

Details regarding the directors' qualifications, the number of meetings held and attendance at those meetings are contained on pages 5 to 9 of the Directors' Report.

The composition of the Audit and Risk Committee does not strictly comply with Recommendation 4.2 in that it comprises two independent directors and one executive director. The committee is chaired by an independent director.

Although there was not strict compliance with Recommendation 4.2, the Board considers that given the composition of the Board, and qualifications and availability of Board members, the existing Audit and Risk Committee has the best and most suitable composition to effectively carry out its functions. This situation is regularly reviewed by the Board.

## CORPORATE GOVERNANCE STATEMENT

**PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING (CONTINUED)**

The main responsibilities of the Audit and Risk Committee include:

- Review and report to the Board on the annual and half-year financial report and all other financial information published by the Company or released to the market;
- Consider the appropriateness of the Group's accounting policies and principles and any changes and methods of application;
- Assist the Board in reviewing the effectiveness of the organisation's internal control environment and oversee the operation of the risk management system;
- Recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and the auditor's independence;
- Review the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- Review policies on risk oversight and management;
- Provision of advice to the Board on risk management and the establishment of a risk management system and risk management profile;
- Referring matters of significant concern to the board; and
- Conducting a regular review of the Committee Charter.

The Charter also includes details of:

- Committee composition;
- Meetings;
- Role and Objectives; and
- Reporting to the Board.

In fulfilling its responsibilities, the Audit and Risk Committee receives regular reports from management and the external auditors. It also meets with the external auditors at least twice a year, or more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chair of the Audit and Risk Committee or the Chair of the Board.

The Audit and Risk Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Committee also receives technical input and experience from the Chief Finance Officer who attends all meetings by invitation**.**

**PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

**Continuous Disclosure**

As a company listed on the ASX, the Company is a disclosing entity under the *Corporations Act 2001*. As such, it has regular reporting and disclosure obligations to the ASX. In particular, the Company is required to disclose to the ASX information of which it is, or becomes, aware which concerns the Company and which a reasonable person would expect to have a material effect on the price or value of securities of the Company, unless certain exceptions apply.

During the year the Company had in place a continuous disclosure compliance program which required timely disclosure through the ASX companies' announcement platform of information that could reasonably be expected to have a material effect on a person's consideration of whether to buy, hold, or sell the Company's shares. Under this program the Company Secretary was the nominated continuous disclosure officer for the Company and reported directly to the Board on disclosure matters as well as consulting with directors and senior executives concerning these matters.

# CORPORATE GOVERNANCE STATEMENT

**PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE (CONTINUED)**

Through an internal review process, the Company ensures that ASX company announcements are presented in a factual and balanced manner to keep the market fully informed. The disclosure of financial results is usually accompanied by a commentary, which provides further detail to assist investors.

As part of the corporate governance review the Company has adopted a Continuous Disclosure Policy which applies to all employees and comprises policies and procedures and an audit system.

The policy outlines:

- The Company's continuous disclosure obligations under the ASX Listing Rules;
- A procedure for the notification of potential disclosure information to the Continuous Disclosure Officer (Company Secretary);
- Authorised persons to handle media and shareholder enquiries; and
- The accountabilities of employees, executives, senior management and the Continuous Disclosure Manager and Officer.

In addition, the Board determines whether there is a disclosure requirement in respect of each item of business considered at Board and Committee meetings.

**PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

**Communications Strategy**

The Company is committed to providing shareholders and the market with relevant and timely information concerning its operations with a view to assisting shareholders assess the Company's performance and encouraging their effective participation at general meetings. It does this by:

- Continuously reporting developments through the companies' announcements platform of the ASX;
- Reporting through the Annual Report;
- Releasing appropriate information on its website;
- Providing shareholders with the opportunity to correspond by phone, in writing**,** as well as over the Internet; and
- Requesting the attendance of a representative from the Company's external auditor at the Annual General Meeting to answer questions about the audit and the preparation and content of the auditors' report.

A summary of this communications strategy is provided on the Company's website. The Company plans to enhance its website to facilitate further electronic shareholder communication and to this end will make Annual Reports to shareholders available electronically. Hard copy reports will continue to be distributed to shareholders who elect to receive them.

**General Meetings**

Treyo holds its AGM in May of each year. Shareholders are encouraged to participate in general meetings. The Company's auditor is required to attend each AGM and be available to answer questions about the conduct of the audit and the preparation and contents of the auditor's report.

An Explanatory Memorandum accompanies each Notice of General Meeting. The Explanatory Memorandum seeks to explain the nature of business of the meeting in a clear and accurate manner. The full Notice of General Meeting and Explanatory Memorandum is placed on the Treyo website, www.treyo.com.au.

All holders of fully paid ordinary shares are able to vote on all resolutions unless specifically stated otherwise in the Notice of Meeting. Shareholders who are unable to attend a General Meeting in person are encouraged to vote on the proposed motions by appointing a proxy.

## CORPORATE GOVERNANCE STATEMENT

**PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

**Risk Assessment and Management**

Risk management is an integral part of good business practice and the Board is committed to the highest standards of risk management. The Board is responsible for identifying and monitoring areas of significant business risks, with assistance from management. Internal control measures include:

- A documented risk management system and the adoption of a Risk Management Policy;
- Notification, recording and monitoring of complaints and exceptions;
- Regular reporting to the Board in respect of operations and the Group's financial position, with a monthly comparison of actual results against budget; and
- Reports to the Board by appropriate members of the senior management team, the external auditors and/or independent advisers, outlining the nature of particular risks.

The Board will ensure that any identified risks are properly assessed and that action is taken to implement any required enhancements to the internal control environment.

**Financial Reporting**

At the time of confirming the integrity of financial reports to the Board in compliance with Principle 4, the Managing Director and Chief Operating Officer confirm in writing that the reports are founded on a sound system of risk management, internal compliance and control which implements the policies adopted by the Board. In addition, they confirm in writing that the Company's risk management and control system is operating efficiently and effectively in all material aspects.

Written confirmation that the 2009 reports are founded on a sound system of risk management, internal compliance and control has been submitted to the Board by the Managing Director and the Chief Finance Officer.

Written confirmation that the Company's risk management and control system is operating efficiently and effectively in all material aspects has been submitted to the Board by the Managing Director and the Chief Finance Officer.

**PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**

**Nomination and Remuneration Committee**

The Nomination and Remuneration Committee currently consists of the following directors:
- Mr Edward Byrt – Chair (Independent, Non-Executive Director)
- Mr Guohua Wei - (Executive Director)
- Mr Roger Smeed (Independent, Non-Executive Director)

Details regarding the directors' qualifications, the number of meetings held and attendance at those meetings are contained on pages 5 to 9 of the Directors' Report.

The Nomination and Remuneration Committee advises the Board on remuneration policies and practices generally. It makes specific recommendations on remuneration packages and other terms of employment for non-executive directors, the Managing Director and senior executives, having regard to an individual's performance, relevant comparative information, and if appropriate, independent expert advice. As well as a base salary, remuneration packages may include retirement and termination entitlements, performance-related incentives and fringe benefits.

The Nomination and Remuneration Committee's terms of reference include responsibility for reviewing any transactions between the Group and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed.

The Board has adopted a Nomination and Remuneration Committee Charter which outlines the roles and responsibilities, composition, authorities and operation of the Committee.

## CORPORATE GOVERNANCE STATEMENT

**PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY (CONTINUED)**

***Executive Remuneration***

The Nomination and Remuneration Committee sets quantitative and qualitative objectives to be achieved by the Managing Director and the senior executives. The aim of these objectives is to assist successful delivery on the Company's strategic objectives and therefore, these objectives are consistent with the Company's strategic objectives and are linked to the at-risk component of the executives' remuneration. The Committee is responsible for assessing the performance of the Managing Director and senior executives against the predetermined quantitative and qualitative objectives. The Nomination and Remuneration Committee annually reviews whether the remuneration structure has been successful in achieving its aim and takes this into account in setting objectives.

Further information on Board and Executive Management remuneration is contained in the Remuneration Report.

The Remuneration Committee is also responsible for making recommendations to the Board in relation to the terms of any issue of equity-based remuneration to employees as a part of their individual package or a wider staff incentive and retention scheme, and for ensuring that any such issue is made in accordance with the ASX Listing Rules.

The Remuneration Committee is also responsible for considering remuneration by gender.

***Non-Executive Director Remuneration***

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

**OTHER INFORMATION**

Further information relating to the Company's corporate governance practices and policies has been made publicly available on the Company's web site at www.treyo.com.au.

## FINANCIAL REPORT

TREYO

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR YEAR ENDED 31 DECEMBER 2011

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| Revenue | 2 | 71,288,950 | 55,285,342 |
| Cost of goods sold | | (54,492,261) | (45,013,642) |
| Gross profit | | 16,796,689 | 10,271,700 |
| | | | |
| Other income | 2 | 1,611,608 | 952,235 |
| | | | |
| Distributions and selling expenses | | (4,077,922) | (2,831,913) |
| Administrative expenses | | (7,646,246) | (4,669,175) |
| Finance costs | | (455,476) | (355,511) |
| Profit/(loss) before income tax | 3 | 6,228,653 | 3,367,336 |
| Income tax expense | 4 | (1,144,830) | (435,619) |
| Profit/(loss) from continuing operations | | 5,083,823 | 2,931,717 |
| | | | |
| Other comprehensive income | | | |
| Exchange differences on translation of foreign operations | | 1,275,519 | (3,265,502) |
| Total comprehensive income for the year | | 6,359,342 | (333,785) |
| | | | |
| Profit attributable to members of the parent entity | | 5,083,823 | 2,931,717 |
| Total comprehensive income attributable to members of the parent entity | | 6,359,342 | (333,785) |
| | | | |
| **Earnings per share (on profit attributable to ordinary equity holders)** | | **Cents** | **Cents** |
| Basic earnings per share (cents per share) | 8 | 1.63 | 0.94 |
| Diluted earnings per share (cents per share) | 8 | 1.63 | 0.94 |

The accompanying notes form part of these financial statements.

TREYO

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2011

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 9 | 33,723,184 | 28,054,338 |
| Trade and other receivables | 10 | 917,630 | 1,181,058 |
| Prepayments and other current assets | 11 | 6,473,807 | 2,203,629 |
| Inventories | 12 | 6,500,772 | 5,157,979 |
| Held to maturity financial assets | 13 | 9,295,372 | 8,953,609 |
| Current tax receivable | 20 | 35,587 | - |
| **TOTAL CURRENT ASSETS** | | 56,946,352 | 45,550,613 |
| **NON-CURRENT ASSETS** | | | |
| Other receivables | 10 | - | 895,200 |
| Deposit – land acquisition | 11 | 1,174,432 | - |
| Long term investment | 11 | 49,405 | - |
| Property, plant and equipment | 15 | 13,105,979 | 12,685,709 |
| Intangible assets | 16 | 153,397 | 158,959 |
| Deferred tax assets | 20 | 397,784 | 397,784 |
| **TOTAL NON-CURRENT ASSETS** | | 14,880,997 | 14,137,652 |
| **TOTAL ASSETS** | | 71,827,349 | 59,688,265 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 17 | 22,278,649 | 13,468,496 |
| Notes payable | 18 | 4,430,993 | 2,972,468 |
| Financial liabilities | 19 | 4,631,700 | 8,953,219 |
| Current tax liabilities | 20 | - | 167,417 |
| **TOTAL CURRENT LIABILITIES** | | 31,341,342 | 25,561,600 |
| **TOTAL LIABILITIES** | | 31,341,342 | 25,561,600 |
| **NET ASSETS** | | **40,486,007** | **34,126,665** |
| **EQUITY** | | | |
| Issued capital | 22 | 23,302,770 | 23,302,770 |
| Foreign exchange translation reserve | 23 | (6,772,230) | (8,047,749) |
| Statutory general reserve | 23 | 1,132,522 | 1,132,522 |
| Retained earnings | | 22,822,945 | 17,739,122 |
| **TOTAL EQUITY** | | **40,486,007** | **34,126,665** |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR YEAR ENDED 31 DECEMBER 2011

| | Note | Issued Capital | Retained Earnings | Foreign Exchange Reserve | Statutory Reserves | Total |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| **Balance at 31 December 2009** | | 23,302,770 | 14,807,405 | (4,782,247) | 1,132,522 | 34,460,450 |
| Total comprehensive income | | - | 2,931,717 | (3,265,502) | - | (333,785) |
| **Balance at 31 December 2010** | | 23,302,770 | 17,739,122 | (8,047,749) | 1,132,522 | 34,126,665 |
| Total comprehensive income | | - | 5,083,823 | 1,275,519 | - | 6,359,342 |
| **Balance at 31 December 2011** | | 23,302,770 | 22,822,945 | (6,772,230) | 1,132,522 | 40,486,007 |

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOW
## FOR YEAR ENDED 31 DECEMBER 2011

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 74,246,345 | 55,623,972 |
| Payments to suppliers and employees | | (66,102,796) | (52,341,554) |
| Interest received | | 1,091,839 | 763,161 |
| Finance costs | | (455,476) | (356,361) |
| Income tax paid | | (1,409,362) | (471,439) |
| Net cash provided by (used in) operating activities | 28 | 7,370,550 | 3,217,779 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (517,007) | (4,877,733) |
| Proceeds from sale of property, plant and equipment | | 57,927 | 23,666 |
| Purchase of intangible assets | | (11,171) | (70,772) |
| Purchase of subsidiary, net cash acquired | | 2,723,108 | - |
| Purchase of investments | | (20,661) | - |
| Loans to other entities | | - | (322,681) |
| Loans repaid by other entities | | 1,161,804 | 187,681 |
| Placement of funds in financial assets | | - | (8,953,219) |
| Net cash provided used in investing activities | | 3,394,000 | (14,013,058) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds of borrowings | | 4,631,700 | 8,953,219 |
| Repayment of borrowings | | (10,390,398) | - |
| Net cash provided by (used in) financing activities | | (5,758,698) | 8,953,219 |
| Net increase in cash held | | 5,005,852 | (1,842,060) |
| Cash at beginning of financial year | 9 | 28,054,338 | 31,892,398 |
| Effect of exchange rates on cash holdings in foreign currencies | | 662,994 | (1,996,000) |
| **Cash at end of financial year** | **9** | **33,723,184** | **28,054,338** |

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of Treyo Leisure and Entertainment Ltd and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Treyo Leisure and Entertainment Ltd as an individual parent entity ('Parent Entity' or 'Company'). Treyo Leisure and Entertainment Ltd listed on the Australian Securities Exchange ("ASX") on 2 January 2009 and official quotation commenced on 8 January 2009 and is a company incorporated and domiciled in Australia.

The principal activities of the Group are manufacturing automated mahjong tables and major manufacturer of prestige electronic massage chairs and equipment.

Treyo Leisure and Entertainment Ltd was incorporated on 23 May 2008.

### Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards ("IFRS"). Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. **Principles of Consolidation**

A controlled entity is any entity over which Treyo Leisure and Entertainment Ltd has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 14 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered the Consolidated Group during the year, their operating results have been included from the date control was obtained.

All inter-group balances and transactions between entities in the Consolidated Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

*Business Combinations*

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method, unless required under AASB 3 "Business Combination" to apply reverse acquisition.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. **Principles of Consolidation (continued)**

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control. All transaction costs are expensed.

Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

The reverse acquisition method is where the cost of the business combination is deemed to have been incurred by the legal subsidiary (i.e. acquirer for accounting purposes is the entity whose equity interests have been acquired) in the form of equity instruments issued by the owners of the legal parent (i.e. acquiree for accounting purposes is the issuing entity). The method calculated the fair value by the legal parent on the basis of the fair value of the existing instruments in the legal subsidiary.

b. **Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. **Income Tax (continued)**

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

c. **Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

d. **Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**Property**

Freehold land and buildings and land use rights are shown at cost.

**Plant and equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Consolidated Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. **Property, Plant and Equipment (continued)**

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Buildings | 5% |
| Land use rights | 2% |
| Plant, machinery, office equipment and motor vehicles | 5%-20% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

e. **Financial Instruments**

*Recognition and Initial Measurement*

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

*Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

*Classification and Subsequent Measurement*

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. **Financial Instruments (continued)**

ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

iii. *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

iii. *Held to maturity investments*

These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Held-to-maturity investments held by the Group are stated at amortised cost using the effective interest rate method.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

f. **Impairment of Assets**

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

g. **Intangibles**

**Patents and trademarks**

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life ranging from 8 to 12 years.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. **Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the statement of comprehensive income.

**Group companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

i. **Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

j. **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

k. **Provision for Warranties**

Provision is made in respect of the Consolidated Group's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the Consolidated Group's history of warranty claims.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks.

m. **Revenue and Other Income**

Revenue is measures at the fair value of the consideration received or receivable after taking into account any discounts received.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST) or value added tax (VAT).

n. **Government Grants**

Grants that compensate the Group for expenses incurred are recognised as revenue in the statement of comprehensive income on a systematic basis in the same period in which the expense is incurred. Grants that compensate the Group for the costs of an asset are recognised in the statement of comprehensive income as other income on a systematic basis over the useful life of the asset.

o. **Trade and other payables**

These amounts represent liabilities for goods and services provided to the group prior to end of financial year which are unpaid. The amounts are unsecured and are usually paid according to term.

p. **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

q. **Goods and Services Tax (GST) and Value Added Tax (VAT)**

Revenues, expenses and assets are recognised net of the amount of GST and VAT, except where the amount of GST or VAT incurred is not recoverable from the Tax Office. In these circumstances the GST and VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST and VAT.

Cash flows are presented in the statement of cash flow on a gross basis, except for the GST and VAT component of investing and financing activities, which are disclosed as operating cash flows.

r. **Earnings per share**

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s. **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

t. **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

*Key Estimates — Impairment*

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

The Preliminary Financial Report was authorised for issue on 29 February 2012 and the Annual Report was authorised for issue on 28 March 2012 by the board of directors.

u. **Changes in Accounting Policies**

The Group has adopted the following revisions and amendments to AASB's issued by the Australian Accounting Standards Board and IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 July 20103.

- Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project- AASB 2009-5
- Improvements to IFRSs- AASB 2010-03

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described in notes 3.2 to 3.3. An overview of standards, amendments and interpretations to IFRSs and AASBs issued but not yet effective is given in Note 33.

*Adoption of improvements to IFRSs 2009 – AASB 2009-5*

The Improvements to IFRSs 2009 (issued as AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project) made several minor amendments to IFRSs. The only amendment relevant to the Group relates to AASB 117 Leases. The amendment did not have a material impact on the Group's financial statements.

*Adoption of Improvements to IFRSs 2010 - AASB 2010-3*

The IASB has issued Improvements to IFRS 2010 (2010 Improvements) which was issued in Australia as AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvement Project. Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of AASB 3, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The 2010 Improvements did not have a material impact on the Group's financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 2: REVENUE

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| Sales revenue | | | |
| Sale of goods | | 71,288,950 | 55,285,342 |
| Other income | | | |
| — Bank Interest received | | 1,091,839 | 764,195 |
| — Other income | | 519,769 | 188,040 |
| | | 1,611,608 | 952,235 |

### NOTE 3: PROFIT FOR THE YEAR

| | | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|---|
| a. | **Expenses** | | | |
| | Finance costs: | | | |
| | — Interest expense | | 407,183 | 327,596 |
| | — Bank charges | | 48,293 | 27,915 |
| | Total finance costs | | 455,476 | 355,511 |
| | Employee wages and benefits | | 4,954,680 | 3,862,048 |
| | Included in administrative expenses are: | | | |
| | — Depreciation and amortisation | | 1,145,287 | 1,124,139 |
| | — Audit fees | 6 | 158,500 | 160,463 |
| | — (Gain)/loss on the disposal of property, plant and equipment | | - | 8,256 |

### NOTE 4: INCOME TAX EXPENSE

| | | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|---|
| a. | The components of tax expense comprise: | | | |
| | Current tax | | 1,144,830 | 435,619 |
| | Deferred tax | 20 | - | - |
| | Current tax expense/(benefit) | | 1,144,830 | 435,619 |

The Australian assessable earning will be taxed at 30% (2010: 30%).

In respect of Chinese assessable earnings Matsuoka was honoured as a high-technology company with a tax exemption, resulting Matsuoka tax rates being reduced to 15% for three years including 31 December 2011; in addition, Shouken tax rates are 12% for 31 December 2011. In the prior year a tax ruling which was released on 20 March 2008, increased an existing tax exemption, resulting in Matsuoka tax rates being 11% for 31 December 2010. The tax rates in the Republic of China are 24% for 2011 and 25% for 2012 onwards.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 4: INCOME TAX EXPENSE (CONTINUED)

| | 2011 $ | 2010 $ |
|---|---|---|
| b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows: | | |
| Prima facie tax payable on profit from ordinary activities before income tax at local tax rates (Note 4a) | | |
| — consolidated group | 1,584,144 | 823,457 |
| — parent entity | - | - |
| Add: | | |
| Tax effect of: other non-allowable items | 75,175 | 15,624 |
| Less: | | |
| Tax effect of: Tax exemptions from the Peoples Republic of China | (745,057) | (534,575) |
| Tax effect of losses not brought into accounts as they do not meet the recognition criteria | 230,568 | 131,113 |
| Income tax attributable to entity | 1,144,830 | 435,619 |
| The applicable weighted average effective tax rates are as follows: | 18% | 15% |

The change in the weighted average effective consolidated tax rate for 2011 is a result of consolidated profits offset by overseas tax exemptions.

### NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

a. **Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:**

| **Directors** | | **Date Appointed** |
|---|---|---|
| Ling (Allan) Mao | Chairman (Executive) | 13 Aug 2008 |
| Roger Smeed | Deputy Chairman (Independent, Non-Executive) | 28 Oct 2008 |
| Guohua Wei(1) | Director (Executive) | 18 Mar 2003 |
| Kwong Fat Tse | Director (Non-Executive) | 13 Aug 2008 |
| Edward Michael Byrt | Director (Independent, Non-Executive) | 28 Oct 2008 |
| Zhongliang Zheng(3) | Director (Executive) | 12 May 2005 |
| Minghua Yu | Director (Independent, Non-Executive) | 1 June 2010 |
| **Executives** | | |
| Lin Pan | Operations Centre Director | 30 Aug 2004 |
| Lixin Wang | Integrated Management Centre Director | 29 Jun 2005 |
| Jo-Anne Dal Santo | Company Secretary | 28 Oct 2008 |

(1) Appointed to the Board on 13 August 2008.
(2) Appointed to the Board on 28 October 2008.
(3) Appointed to the Board on 1 June 2010

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

**Key management personnel remuneration**

| | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| Short term employee benefits | 272,425 | 260,866 |

Details of key management personnel remuneration have been included in the Remuneration Report section of the Directors Report.

b. **Options and Rights Holdings**

**Number of Options Held by Key Management Personnel**

No options were held by key management personnel during the year ended 31 December 2011 or 31 December 2010.

c. **Shareholdings**

**Number of Shares held by Key Management Personnel**

| 31 December 2011 | Balance 1.1.2011 | Received as Compen-sation | Options Exercised | Net Change Other | Resigned as Director | Balance 31.12.2011 |
|---|---|---|---|---|---|---|
| Ling (Allan) Mao (1) (2) | 55,900,000 | - | - | - | - | 55,900,000 |
| Roger Smeed (3) | 100,000 | - | - | - | - | 100,000 |
| Guohua Wei (4) | 179,400,000 | - | - | - | - | 179,400,000 |
| Kwong Fat Tse | - | - | - | - | - | - |
| Edward Michael Byrt (5) | 100,000 | - | - | - | - | 100,000 |
| Zhongliang Zheng (6) | 7,800,000 | | | | | 7,800,000 |
| Minghua Yu (9) | - | - | - | - | - | - |
| Jo-Anne Dal Santo | - | - | - | - | - | - |
| Total | 243,300,000 | - | - | - | - | 243,300,000 |

| 31 December 2010 | Balance 1.1.2010 | Received as Compen-sation | Options Exercised | Net Change Other | Resigned as Director | Balance 31.12.2010 |
|---|---|---|---|---|---|---|
| Ling (Allan) Mao (1) (2) | 7,800,000 | - | - | 48,100,000 | | 55,900,000 |
| Roger Smeed (3) | 100,000 | - | - | - | - | 100,000 |
| Guohua Wei (4) | 179,400,000 | - | - | - | - | 179,400,000 |
| Weiyun Chen (7) (10) | 7,800,000 | - | - | - | (7,800,000) | - |
| Kwong Fat Tse | 48,100,000 | - | - | (48,100,000) | - | - |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

| 31 December 2010 | Balance 1.1.2010 | Received as Compen-sation | Options Exercised | Net Change Other | Resigned as Director | Balance 31.12.2010 |
|---|---|---|---|---|---|---|
| Edward Michael Byrt [(5)] | 100,000 | - | - | - | - | 100,000 |
| Zhongliang Zheng [(6)] | - | | | 7,800,000 | - | 7,800,000 |
| Minghua Yu [(9)] | - | - | - | - | - | - |
| Bin Hu [(11)] | - | - | - | - | - | - |
| Jo-Anne Dal Santo | - | - | - | - | - | - |
| Total | 243,300,000 | - | - | 7,800,000 | (7,800,000) | 243,300,000 |

[(1)] Shares held by Laury Commercial INC in which Ling (Allan) Mao has a beneficial interest – 7,800,000 shares in total

[(2)] Shares held by Balatina Group Ltd in which Ling (Allan) Mao has a beneficial interest – 48,100,000 shares in total. Off market transfer.

[(3)] Shares held by Roger Smeed and Associates Pty Ltd (as trustee for RF Investment Trust) in which Roger Smeed has a beneficial interest.

[(4)] Shares held by Matoury Overseas Corp. in which Guohua Wei has a beneficial interest.

[(5)] Shares held by Stroud Nominees Pty Ltd (as trustee for Byrt Super Fund) in which Edward Byrt has a beneficial interest.

[(6)] Shares held by Yerigton Assets INC in which Zhongliang Zheng has a beneficial interest.

[(7)] Shares held by Yerigton Assets INC in which Weiyun Chen has a beneficial interest.

[(8)] Off market transfer.

[(9)] Appointed 1 June 2010.

[(10)] Resigned 15 September 2010.

[(11)] Resigned 18 October 2010

### NOTE 6: AUDITORS' REMUNERATION

| | | 2011 $ | 2010 $ |
|---|---|---|---|
| Remuneration of the auditor of the parent entity for: | | | |
| — | auditing or reviewing financial reports | 158,500 | 160,463 |
| — | taxation services | 5,000 | - |
| — | due diligence services | - | - |
| | | 163,500 | 160,463 |

### NOTE 7: DIVIDENDS

The Board has not recommended nor have paid any dividends during the year ended 31 December 2011 or 31 December 2010.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 8: EARNINGS PER SHARE

| | | 2011 $ | 2010 $ |
|---|---|---|---|
| a. | Reconciliation of earnings to profit or loss<br>Profit used to calculate basic earnings per share (“EPS”) | 5,083,823 | 2,931,717 |
| b. | Reconciliation of earnings to profit or loss from continuing operations<br>Profit from continuing operations used to calculate basic EPS from continuing operations. | 5,083,823 | 2,931,717 |
| c. | Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS. | 311,008,000 | 311,008,000 |

### NOTE 9: CASH AND CASH EQUIVALENTS

| | 2011 $ | 2010 $ |
|---|---|---|
| Cash at bank and in hand | 31,485,959 | 25,090,442 |
| Short term bank deposits | 2,237,225 | 2,963,896 |
| | 33,723,184 | 28,054,338 |

At 31 December 2011 $2,219,383 (2010: $1,486,032) was held in an interest bearing short term deposit as a guarantee for notes payable (Note 18).

### NOTE 10: TRADE AND OTHER RECEIVABLES

| | Note | 2011 $ | 2010 $ |
|---|---|---|---|
| CURRENT | | | |
| Trade receivables | 10a | 622,750 | 873,109 |
| Less provision for impaired trade receivables | 10b | (43,777) | (51,641) |
| | | 578,973 | 821,468 |
| Other receivables | 10c | 333,028 | 347,886 |
| Goods & service tax receivable | 10e | 5,659 | 11,704 |
| | | 917,630 | 1,181,058 |
| NON-CURRENT | | | |
| Other receivables | 10d | - | 895,200 |
| | | - | 895,200 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 10: TRADE AND OTHER RECEIVABLES (CONTINUED)

a. Trade receivables past due but not impaired:

Current trade receivables are non-interest bearing and generally on 30 day terms. As of 31 December 2011, trade receivables of $169,517 (2010: $388,561) were past due but not impaired. These relates to independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| 30-90 days | 91,397 | 301,654 |
| 91-180 days | 17,681 | 86,907 |
| 181-365 days | 49,055 | - |
| 365 days above | 11,384 | - |
| Total | 169,517 | 388,561 |

The other balances within trade receivables are not past due and do not contained impaired assets. Based on the credit history of these receivables, it is expected that these amounts will be received when due.

b. Impaired trade receivables

As at 31 December 2011, trade receivables of $43,777 (2010: $51,641) were impaired. These relates to individual customers which are in unexpectedly difficult economic situation. Movements in the provision for impairment of receivables are as follows:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| At 1 January | 51,641 | 56,519 |
| Provision for impairment recognised | - | - |
| Exchange difference on translation | (7,864) | (4,878) |
| At 31 December | 43,777 | 51,641 |

c. Other receivables - current

Other receivables arise from transaction outside the usual operating activities of the Group and are unsecured, interest free and repayable on demand.

There are no balances that are past due and impaired. It is expected these balances will be received when demanded.

d. Other receivables – non-current

During the prior year, the Group made a loan of $895,200 to external parties, which was repaid during the year ended 31 December 2011. The loan was receivable in 2012 and interest of 5.31% was charged on the amount outstanding.

e. Goods & service tax receivable

Goods & service tax ("GST") receivable relates to the GST recoverable on Australian incurred expenses and in the prior year included the GST recoverable on Australian incurred expenses and IPO costs.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 11: PREPAYMENTS AND OTHER CURRENT ASSETS

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| CURRENT | | |
| Prepayments | 6,473,807 | 1,076,095 |
| Deposits paid for land acquisition | - | 1,127,534 |
| | 6,473,807 | 2,203,629 |
| NON CURRENT | | |
| Deposit paid for land acquisition | 1,174,432 | - |
| Long term investments | 49,405 | - |

### NOTE 12: INVENTORIES

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| CURRENT | | |
| At cost and net realisable value | | |
| Raw materials and stores | 3,654,713 | 2,643,635 |
| Work in progress | 557,502 | 386,840 |
| Finished goods | 2,288,557 | 2,127,504 |
| | 6,500,772 | 5,157,979 |

Inventories are valued at the lower of cost and net realisable value.

### NOTE 13: FINANCIAL ASSETS

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| CURRENT | | |
| Held to maturity financial assets | 9,295,372 | 8,953,609 |

During the year, the Group places a sum of $9,263,400 (2010: $8,953,609) to be held to maturity with Agricultural Bank of China for the bank to lend to other parties. The term of the placement is one year ending on 23 May 2012 and earns interest at 8.5% (2010: 6.8%) per annum.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 14: CONTROLLED ENTITIES

| a. Controlled Entities Consolidated | Country of Incorporation | Percentage Owned (%)[1] 2011 % | 2010 % |
|---|---|---|---|
| Treyo Leisure and Entertainment Ltd | Australia | - | - |
| Subsidiaries of Treyo Leisure and Entertainment Ltd: | | | |
| Treyo International Holding (HK) Ltd[2] | Hong Kong | 100% | 100% |
| Matsuoka Mechatronics (China) Co., Ltd | Peoples Republic of China | 100% | 100% |
| Hangzhou Shouken Electric Co.Ltd | Peoples Republic of China | 100% | - |

[1] Percentage of voting power is in proportion to ownership

[2]Treyo International Holding (HK) Ltd is the intermediate parent entity of Matsuoka Mechatronics (China) Co., Ltd and Hangzhou Shouken Electric Co.Ltd.

**b. Acquisition of Controlled Entities**

On 21 July 2011 the parent entity acquired 100% of Hangzhou Shouken Electric Co.Ltd ("Shouken").

Pursuant to a share purchase and sale agreement dated 12 July 2011, Shouken became a wholly owned subsidiary of Treyo Leisure and Entertainment Ltd ("Treyo") on 21 July 2011.

| | |
|---|---|
| Purchase price is to be paid to Tak Chuan Limited | 1,680,000 |

| The assets and liabilities of Shouken as at 21 July 2011 were: | Fair Value $ |
|---|---|
| Cash and cash equivalents | 2,723,108 |
| Trade and other receivables | 975,459 |
| Inventory | 2,396,835 |
| Plant and equipment | 600,590 |
| Intangible Assets | 169,251 |
| Long term investments | 28,744 |
| Total assets | 6,893,987 |
| Trade and other payables | (3,776,808) |
| Short term loan | (1,437,179) |
| Total net assets acquired | 1,680,000 |

**c. Cross guarantee**

There is no deed of cross guarantee as at 31 December 2011 or 31 December 2010.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 15: PROPERTY, PLANT AND EQUIPMENT

**Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

| | Land use Right | Buildings | Motor Vehicles | Office Equipment | Plant & Machinery | TOTAL |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **31 December 2011** | | | | | | |
| **Cost** | | | | | | |
| At 1 January 2011 | 1,198,561 | 11,529,308 | 959,381 | 291,274 | 2,383,370 | 16,361,894 |
| Additions | - | 161,648 | 164,396 | 104,527 | 86,436 | 517,007 |
| Additions on acquisition of subsidiary | - | - | 138,848 | 99,155 | 1,098,605 | 1,336,608 |
| Disposals | - | - | (304,938) | - | - | (304,938) |
| Exchange differences | 41,693 | 405,837 | 39,524 | 20,589 | 167,048 | 674,691 |
| **At 31 December 2011** | **1,240,254** | **12,096,793** | **997,211** | **515,545** | **3,735,459** | **18,585,262** |
| **Accumulated Depreciation** | | | | | | |
| At 1 January 2011 | 183,779 | 1,686,339 | 472,899 | 166,999 | 1,166,169 | 3,676,185 |
| Depreciation for the period | 24,092 | 526,283 | 169,251 | 65,606 | 320,896 | 1,106,128 |
| Additions on acquisition of subsidiary | - | - | 18,738 | 49,944 | 667,336 | 736,018 |
| Depreciation on disposal | - | - | (247,011) | - | - | (247,011) |
| Exchange differences | 7,107 | 74,236 | 15,541 | 11,460 | 99,619 | 207,963 |
| **At 31 December 2011** | **214,978** | **2,286,858** | **429,418** | **294,009** | **2,254,020** | **5,479,283** |
| **Net book value** | | | | | | |
| **At 31 December 2011** | **1,025,276** | **9,809,935** | **567,793** | **221,536** | **1,481,439** | **13,105,979** |
| At 31 December 2010 | 1,014,782 | 9,842,969 | 486,482 | 124,275 | 1,217,201 | 12,685,709 |
| **Carrying amounts** | | | | | | |
| At 1 January 2010 | 1,137,086 | 7,072,134 | 340,322 | 131,233 | 1,352,252 | 10,033,027 |
| Additions | - | 4,020,994 | 425,258 | 70,485 | 360,996 | 4,877,733 |
| Disposals | - | - | (59,529) | - | - | (59,529) |
| Depreciation expense | (25,819) | (377,864) | (204,379) | (65,756) | (380,501) | (1,054,319) |
| Depreciation on disposal | - | - | 31,921 | - | - | 31,921 |
| Exchange differences | (96,485) | (872,295) | (47,111) | (11,687) | (115,546) | (1,143,124) |
| At 31 December 2010 | 1,014,782 | 9,842,969 | 486,482 | 124,275 | 1,217,201 | 12,685,709 |
| | | | | | | |
| At 1 January 2011 | 1,014,782 | 9,842,969 | 486,482 | 124,275 | 1,217,201 | 12,685,709 |
| Additions | - | 161,648 | 164,396 | 104,527 | 86,436 | 517,007 |
| Additions on acquisition of subsidiary | - | - | 138,848 | 99,155 | 1,098,605 | 1,336,608 |
| Disposals | - | - | (304,938) | - | - | (304,938) |
| Depreciation expense | (24,092) | (526,283) | (169,251) | (65,606) | (320,896) | (1,106,128) |
| Depreciation on acquisition of subsidiary | - | - | (18,738) | (49,944) | (667,336) | (736,018) |
| Depreciation on disposal | - | - | 247,011 | - | - | 247,011 |
| Exchange differences | 34,586 | 331,601 | 23,983 | 9,129 | 67,429 | 466,728 |
| At 31 December 2011 | 1,025,276 | 9,809,935 | 567,793 | 221,536 | 1,481,439 | 13,105,979 |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 16: INTANGIBLE ASSETS

| | 31 December 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Patents and Trademarks | Software | Total | Patents and Trademarks | Software | Total |
| | $ | $ | $ | $ | $ | $ |
| **Cost** | | | | | | |
| At 1 January | 291,388 | 140,124 | 431,512 | 318,972 | 81,461 | 400,433 |
| Additions | 311 | 10,860 | 11,171 | - | 70,772 | 70,772 |
| Additions on acquisition of subsidiary | 178,041 | - | 178,041 | - | - | - |
| Currency translation difference | (140,729) | 5,196 | (135,533) | (27,584) | (12,109) | (39,693) |
| At 31 December | **329,011** | **156,180** | **485,191** | **291,388** | **140,124** | **431,512** |
| **Accumulated amortisation and impairment** | | | | | | |
| At 1 January | 254,421 | 18,132 | 272,553 | 215,691 | 11,702 | 227,393 |
| Amortisation in the period | 31,680 | 7,479 | 39,159 | 61,805 | 8,015 | 69,820 |
| Additions on acquisition of subsidiary | 8,790 | - | 8,790 | - | - | - |
| Currency translation difference | 10,440 | 852 | 11,292 | (23,075) | (1,585) | (24,660) |
| At 31 December | **305,331** | **26,463** | **331,794** | **254,421** | **18,132** | **272,553** |
| **Net carrying value** | | | | | | |
| 31 December | **23,680** | **129,717** | **153,397** | **36,967** | **121,992** | **158,959** |
| **Carrying amount** | | | | | | |
| At 1 January | 36,967 | 121,992 | 158,959 | 103,281 | 69,759 | 173,040 |
| Additions | 311 | 10,860 | 11,171 | - | 70,772 | 70,772 |
| Additions on acquisition of subsidiary | 178,041 | - | 178,041 | - | - | - |
| Amortisation in the period | (31,680) | (7,479) | (39,159) | (61,805) | (8,015) | (69,820) |
| Depreciation on acquisition of subsidiary | (8,790) | - | (8,790) | - | - | - |
| Currency translation difference | (151,169) | 4,344 | (146,825) | (4,509) | (10,524) | (15,033) |
| At 31 December | **23,680** | **129,717** | **153,397** | **36,967** | **121,992** | **158,959** |

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 17: TRADE AND OTHER PAYABLES

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| CURRENT | | |
| Unsecured liabilities | | |
| Trade payables | 11,503,023 | 8,352,150 |
| Sundry payables and accrued expenses | 6,488,306 | 3,450,726 |
| Value Added Tax (VAT) and other indirect taxes payable | 788,731 | 413,368 |
| Prepayments from customers | 3,498,589 | 1,252,252 |
| | 22,278,649 | 13,468,496 |

### NOTE 18: NOTES PAYABLE

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| CURRENT | | | |
| Secured liabilities | | | |
| Notes payable | 9 | 4,430,993 | 2,972,468 |

The notes payable mature from January 2012 to June 2012 (2010: from January 2011 to June 2011). The notes payable are guaranteed against interest bearing short term bank deposits of $2,219,383 (2010: $1,486,032) (see Note 9) and by a personal guarantee from a director, Guohua Wei and a corporate guarantee from related party Zhejiang Matsuoka Mechatronics Industry Co. Ltd.

### NOTE 19: FINANCIAL LIABILITIES

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| CURRENT | | |
| Unsecured liabilities | | |
| Short term borrowings | 4,631,700 | 8,953,219 |

During the prior year, the Group obtained a short term borrowing of $4,631,700 from the Agricultural Bank of China for a term of one year ending on 24 May 2012. The borrowing is secured over the group's land-use right and buildings. Interest is payable at 7.216% (2010: 5.31%) per annum. The Group has repaid the full amount of bank loan from the Bank of China last year.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 20: TAX

| | 2011 $ | 2010 $ |
|---|---|---|
| a. **Liabilities** | | |
| CURRENT | | |
| Income Tax | - | 167,417 |
| b. **Assets** | | |
| CURRENT | | |
| Income Tax | 35,587 | - |
| Non-current | | |
| Deferred tax asset | 397,784 | 397,784 |

| **Consolidated Group** | **Opening Balance $** | **Charged to Income $** | **Charged directly to Equity $** | **Changes in Tax Rate $** | **Exchange Differences $** | **Closing Balance $** |
|---|---|---|---|---|---|---|
| Deferred tax asset | | | | | | |
| Balance at 1 January 2011 | 397,784 | - | - | - | - | 397,784 |
| Other | - | - | - | - | - | - |
| **Balance at 31 December 2011** | 397,784 | - | - | - | - | 397,784 |
| Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur: | | | | | | |
| — tax losses: operating losses for year $377,529 (2010: $131,113) | 19,211 | - | - | - | - | 19,211 |

### NOTE 21: PROVISIONS

The Consolidated Group and Parent Entity have no provisions at the 31 December 2011 (2010: $nil). No employees are eligible for Long-term employee benefits at the 31 December 2011 (2010: $nil).

### NOTE 22: ISSUED CAPITAL

| | 2011 $ | 2010 $ |
|---|---|---|
| At the beginning of reporting period 311,008,000 (2010: 311,008,000) fully paid ordinary shares | 23,302,770 | 23,302,770 |
| Shares issued during the year | - | - |
| At the end of reporting period 311,008,000 (2010: 311,008,000) fully paid ordinary shares | 23,302,770 | 23,302,770 |

The company has authorised share capital amounting to 311,008,000 ordinary shares of no par value.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 22: ISSUED CAPITAL (CONTINUED)

| Ordinary shares | 2011<br>Number | 2010<br>Number |
|---|---|---|
| At the beginning of reporting period | 311,008,000 | 311,008,000 |
| Shares issued during the year | - | - |
| At reporting date | 311,008,000 | 311,008,000 |

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.
At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**Capital Management**

The management's objectives when managing capital are to ensure that the group can fund its operations and continue as a going concern and to provide shareholders with adequate returns.

The management monitors capital on the basis of debt to equity ratio. This ratio is calculated as net liabilities divided by equity. Net liabilities is "Total liabilities" as shown on the consolidated balance sheet less cash and cash equivalent and equity is "equity" as shown on the consolidated balance sheet.

There are no externally imposed capital requirements

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year, which is to maintain the debt to equity ratio at not more than 100%. The debt-equity ratios as at 31 December 2011 and 31 December 2010 are as follows:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Total liabilities | 31,342,342 | 25,561,600 |
| Less: Cash and cash equivalent | (33,723,184) | (28,054,338) |
| Net liabilities/(net cash) | (2,380,842) | (2,492,738) |
| Total equity | 40,486,007 | 34,126,665 |
| (Net cash) to equity ratio | (6%) | (7%) |

The decrease in consolidated net cash – equity ratio during 2011 is primarily due to higher comprehensive income and higher liabilities.

### NOTE 23: RESERVES

**Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

**NOTE 23: RESERVES (CONTINUED)**

**Statutory General Reserve**

According to the current People's Republic of China Company Law, the subsidiary is required to transfer between 10% and 50% of its profit to Statutory General Reserve until the Statutory General Reserve balance reaches 50% of the registered capital. For the purposed of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under People's Republic of China accounting standards. The transfer to this reserve must be made before the distribution of dividends to shareholders.

**NOTE 24: CAPITAL AND LEASING COMMITMENTS**

The Consolidated Group has capital or leasing commitments at the 31 December 2011 of $9,361 (2010: $43,974).

The Consolidated Group has capital expenditure contracted

| | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| Intangible assets within 1 year | 9,361 | 43,974 |
| | 9,361 | 43,974 |

**NOTE 25: COMMITMENTS**

**Management services commitment**
During the year ended 31 December 2011, Matsuoka Mechatronics (China) Co., Ltd entered into an agreement for the provision, of management services with China Finance and Investment Holding Ltd, a related party, amounting to $166,752 (2010: $358,080) for the period from 1 July 2011 to 31 December 2012. The outstanding commitment for Matsuoka Mechatronics as at 31 December 2011 is $112,332 (2010: $nil).

**Other commitments**
Other commitments for Shouken Electric Co. Ltd is in relation to the consulting expenses of $37,132 (2010 $nil) within one year.

**NOTE 26: CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

The Consolidated Group has no contingent liabilities or contingent assets at 31 December 2011 (2010: $nil).

**NOTE 27: OPERATING SEGMENTS**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Executive Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group was managed primarily on the basis of geographical region as each geographical region has notably different risk profiles and performance assessment criteria. Since the acquisition of the new subsidiary Hangzhou Shouken Electirc Co.Ltd the Group is managed on a mixture of product and geographical segments. The reportable segments relate to two products over three different regions:

Products: - Treyo's premium-end mahjong tables
- Shouken's premium-end massage tables

Regions: - China, the segment which all goods are manufactured and sold in.
- Australia, the segment which manages all ASX related activities.
- Hong Kong, the segment which manages all other corporate activities.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

## NOTE 27: OPERATING SEGMENTS (CONTINUED)

**Accounting policies adopted**

Unless stated otherwise, all amounts reported to the executive directors, being the chief decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

Segment information provided to executive directors:

| | China Matsuoka $ | China Shouken $ | Hong Kong $ | Australia $ | Total $ |
|---|---|---|---|---|---|
| **31 December 2011** | | | | | |
| REVENUE | | | | | |
| Total revenue -external sales | 62,851,928 | 8,437,022 | - | - | 71,288,950 |
| RESULT | | | | | |
| Segment result | 6,876,432 | 802,742 | (669,928) | (325,117) | 6,684,129 |
| Unallocated expenses net of unallocated revenue | - | - | - | - | - |
| Finance costs | (258,639) | (16,143) | (180,515) | (179) | (455,476) |
| Profit/(loss) before income tax | 6,617,793 | 786,599 | (850,443) | (325,296) | 6,228,653 |
| Income tax expense | (1,031,764) | (113,066) | - | - | (1,144,830) |
| Profit after income tax | 5,586,029 | 673,533 | (850,443) | (325,296) | 5,083,823 |
| ASSETS | | | | | |
| Segment assets | 60,757,593 | 4,533,613 | 6,034,051 | 502,092 | 71,827,349 |
| LIABILITIES | | | | | |
| Segment liabilities | 27,469,739 | 2,030,951 | 1,683,443 | 157,209 | 31,341,342 |
| Reconciliation of segmental net assets to Group net assets | | | | | |
| Inter-segment eliminations | | | | | - |
| Total Group net assets from continuing operations | | | | | 40,486,007 |
| OTHER | | | | | |
| Depreciation and amortisation of segment assets | 1,078,293 | 66,994 | - | - | 1,145,287 |
| **31 December 2010** | | | | | |
| REVENUE | | | | | |
| Total revenue -external sales | 55,285,342 | - | - | - | 55,285,342 |
| RESULT | | | | | |
| Segment result | 4,173,405 | - | (33,138) | (417,420) | 3,722,847 |
| Unallocated expenses net of unallocated revenue | - | - | - | - | - |
| Finance costs | (355,175) | - | (101) | (235) | (355,511) |
| Profit/(loss) before income tax | 3,818,230 | - | (33,239) | (417,655) | 3,367,336 |
| Income tax expense | (435,619) | - | - | - | (435,619) |
| Profit after income tax | 3,382,611 | - | (33,239) | (417,655) | 2,931,717 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 27: OPERATING SEGMENTS (CONTINUED)

| | China Matsuoka $ | China Shouken $ | Hong Kong $ | Australia $ | Total $ |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Segment assets | 56,087,562 | - | 2,970,884 | 629,819 | 59,688,265 |
| LIABILITIES | | | | | |
| Segment liabilities | 25,404,975 | - | 588 | 156,037 | 25,561,600 |
| Reconciliation of segmental net assets to Group net assets | | | | | |
| Inter-segment eliminations | | | | | - |
| Total Group net assets from continuing operations | | | | | 34,126,665 |
| OTHER | | | | | |
| Depreciation and amortisation of segment assets | 1,124,139 | - | - | - | 1,124,139 |

All revenue is generated from customers in China, and no single customer accounted for more than 10% of the total revenue.

### NOTE 28: CASH FLOW INFORMATION

| | 2011 $ | 2010 $ |
|---|---|---|
| **Reconciliation of Cash Flow from Operations with Profit after Income Tax** | | |
| Profit/(loss) after income tax | 5,083,823 | 2,931,717 |
| Non-cash flows in profit | | |
| Amortisation | 39,159 | 69,820 |
| Depreciation | 1,106,128 | 1,054,319 |
| Net (gain)/loss on disposal of property, plant and equipment | - | 8,256 |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries | | |
| (Increase)/decrease in trade receivables | 635,199 | (305,110) |
| (Increase)/decrease in prepayments | (5,103,743) | (362,019) |
| (Increase)/decrease in inventories | 1,054,042 | (1,073,997) |
| Increase/(decrease) in trade payables and accruals | 4,820,474 | 929,957 |
| Increase/(decrease) in income taxes payable | (264,532) | (35,164) |
| Cashflow from operations | 7,370,550 | 3,217,779 |

### NOTE 29: EVENTS AFTER THE BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this Report any other items, transaction or event of a material and unusual nature likely, in the opinion of the directors, to effect significantly the operations, results of those operations, or the state of affairs of the Consolidated Group.

## NOTE 30: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions and balances with related parties:

| | 2011 $ | 2010 $ |
|---|---|---|
| **a. Other Related Parties** | | |
| **Transactions** | | |
| Rental received from related parties | | |
| - Hangzhou Songyan Electronics Co., Ltd. | - | 99,104 |
| Purchase from related parties | | |
| -Hangzhou Dibiao Mechatronics Co., Ltd | 2,298,869 | 2,542,511 |
| -Zhongronghuaying Holdings Co. Ltd | - | 385,680 |
| Total Purchase from related parties | 2,298,869 | 2,928,191 |
| **Balances** | | |
| Other related parties balances are included in the following: | | |
| Other receivables | | |
| -Zhe Jiang Matsuoka Mechatronics Industry Co. Ltd | | - |
| -Hangzhou Songyan Electronics Co., Ltd. | - | 62,011 |
| -Zhejiang Songjin Compound Materials Co. Ltd | 1,179,044 | 1,127,534 |
| -Hangzhou Guoshi Advertising Co. Ltd | 70,866 | 67,779 |
| Total other receivables | 1,249,910 | 1,257,324 |
| Trade and other payables | | |
| -Zhe Jiang Matsuoka Mechatronics Industry Co. Ltd | 4,369 | - |
| -Hangzhou Dibiao Mechatronics Co., Ltd | 85,800 | 137,885 |
| Total trade and other payables | 90,169 | 137,885 |

**b. Key Management Personnel**

A list of key management personnel and their shareholdings is shown in Note 5 and remuneration is disclosed in the Directors Report. No other person had the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, during the financial year.

## NOTE 31: FINANCIAL RISK MANAGEMENT

a. **Financial Risk Management Policies**

The Group's financial instruments consist mainly of deposits with banks, notes receivable, accounts receivable and payable and notes payable.

i. Treasury Risk Management

A finance committee consisting of senior executives of the Group meets on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The committee's overall risk management strategy seeks to assist the Consolidated Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 31: FINANCIAL RISK MANAGEMENT (CONTINUED)

ii. Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk, credit risk and price risk. The Group does not have any significant exposure on price risk and foreign currency risk.

Interest rate risk

The Company's exposure to interest rate risk relates principally to its short-term deposits placed with financial institutions. For further details on interest rate risk refer to Note 31(b)(i) & (iii).

Foreign currency risk

The Group does not have significant balances denominated in currency other than the functional currency of the respective companies within the group.

Liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that the Group maintains adequate level of liquidity for operations to meet its commitments.

Credit risk

Credit risk is managed on a group basis and reviewed regularly by the finance committee. It arises from exposures to customers as well as through deposits with financial institutions.

The finance committee monitors credit risk on a regular basis.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The Company performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectability of all trade and other receivables.

There are no other material amounts of collateral held as security at 31 December 2011.

Price risk

The Group's financial instrument is not exposed to price risk.

b. **Financial Instruments**

i. **Financial instrument composition and maturity analysis:**

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 31: FINANCIAL RISK MANAGEMENT (CONTINUED)

| | Weighted Average Effective Interest Rate | | Floating Interest Rate Maturing within 1 year | | Floating Interest Rate Maturing within 2 years | | Non-Interest Bearing Maturing within 1 year | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 % | 2010 % | 2011 $ | 2010 $ | 2011 $ | 2010 $ | 2011 $ | 2010 $ | 2011 $ | 2010 $ |
| **Financial Assets:** | | | | | | | | | | |
| Cash and cash equivalents | 1.02% | 1.54% | 33,664,272 | 28,034,772 | - | - | 58,912 | 19,566 | 33,723,184 | 28,054,338 |
| Receivables | - | 5.31% | - | - | - | 895,200 | 917,630 | 1,181,058 | 917,630 | 2,076,258 |
| Financial assets | 8.50% | 6.80% | 9,295,372 | 8,953,609 | - | - | - | - | 9,295,372 | 8,953,609 |
| **Total Financial Assets** | | | 42,959,644 | 36,988,381 | | 895,200 | 976,542 | 1,200,624 | 43,936,186 | 39,084,205 |
| **Financial Liabilities:** | | | | | | | | | | |
| Notes payable | - | - | - | - | - | - | 4,430,993 | 2,972,468 | 4,430,993 | 2,972,468 |
| Trade and other payables | - | - | - | - | - | - | 22,278,649 | 13,468,496 | 22,278,649 | 13,468,496 |
| Financial liabilities | 7.22% | 5.31% | 4,631,700 | 8,953,219 | - | - | - | - | 4,631,700 | 8,953,219 |
| **Total Financial Liabilities** | | | 4,631,700 | 8,953,219 | - | - | 26,709,642 | 16,440,964 | 31,341,342 | 25,394,183 |
| **Net Financial Assets** | | | | | | | | | 12,594,844 | 13,690,022 |

ii. **Fair values measurements**

The carrying value of financial assets and financial liabilities of the Consolidated Group are assumed to approximate their fair value due to their short term nature.

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1 – the fair value is calculated using quoted prices in active markets.
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

**NOTE 31: FINANCIAL RISK MANAGEMENT (CONTINUED)**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **31 December 2011** | **$** | **$** | **$** | **$** |
| **Financial assets:** | | | | |
| **Held to maturity financial assets** | | | | |
| -Fixed interest funds placement with Agricultural Bank of China | - | - | 9,295,372 | 9,295,372 |
| **Total Financial assets:** | - | - | 9,295,372 | 9,295,372 |
| **Total Financial liabilities:** | **-** | **-** | **-** | **-** |
| | | | | |
| **31 December 2010** | | | | |
| **Financial assets:** | | | | |
| **Held to maturity financial assets** | | | | |
| -Fixed interest funds placement with Agricultural Bank of China | - | - | 8,953,219 | 8,953,219 |
| **Total Financial assets:** | - | - | 8,953,219 | 8,953,219 |
| **Total Financial liabilities:** | **-** | **-** | **-** | **-** |

The carrying amounts of current receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities and non-current other receivables approximates the carrying amount as the impact of discounting is not significant.

iii. **Sensitivity analysis**

**Interest Rate Risk and Price Risk**

The Group has performed sensitivity analysis relating to its financial instrument's exposure to interest rate risk at balance date. The Group's financial instruments do not have significant exposure to price risk and foreign exchange risk. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

*Interest Rate Sensitivity Analysis*

At 31 December 2011, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Change in profit | | |
| — Increase in interest rate by 2% | 766,559 | 682,533 |
| — Decrease in interest rate by 2% | (766,559) | (682,533) |
| Change in Equity | | |
| — Increase in interest rate by 2% | 766,559 | 682,533 |
| — Decrease in interest rate by 2% | (766,559) | (682,533) |

The above interest rate risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### NOTE 32: PARENT COMPANY INFORMATION

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| **Assets** | | |
| Current assets | 104,308 | 232,035 |
| Non-current assets | 33,059,832 | 33,256,229 |
| Total assets | 33,164,140 | 33,488,264 |
| **Liabilities** | | |
| Current liabilities | 157,209 | 156,037 |
| Total liabilities | 157,209 | 156,037 |
| **Equity** | | |
| Issued capital | 34,525,617 | 34,525,617 |
| Retained earnings | (1,518,686) | (1,193,390) |
| **Total equity** | 33,006,931 | 33,332,227 |
| **Financial performance** | | |
| Loss for the year | (325,296) | (417,653) |
| Total comprehensive income | (325,296) | (417,653) |

The Consolidated Group has no other contingent liabilities or contingent assets at 31 December 2011 (2010: $nil).

### NOTE 33: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

| New / revised pronouncement | Explanation of amendments | Effective date (annual reporting periods beginning on or after) | Impact of the new standards |
|---|---|---|---|
| IFRS 9 / AASB 9 Financial Instruments | The IASB aims to replace IAS 39 (AASB 139) Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Further chapters dealing with impairment methodology and hedge accounting are still being developed. | 1 January 2013 | Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes. |

## NOTE 34: COMPANY DETAILS

The registered office of the Company is:

Treyo Leisure and Entertainment Ltd
Level 2
371 Spencer Street
Melbourne VIC 3000

The principal places of business are:

—Matsuoka Mechatronics (China) Co., Ltd
No. 122,
Tenth Gaoxin Road,
Qiaonan District,
Xiaoshan Economic Development Zone,
Hangzhou,
Zhejiang,
China

—Hangzhou Shouken Electic Co. Ltd
No.79, Jinyi Road,
Xiaoshan Economic&Technology Development Zone,
Hangzhou,
Zhejiang Province,
China

and

No. 122,
Tenth Gaoxin Road,
Qiaonan District,
Xiaoshan Economic Development Zone,
Hangzhou,
Zhejiang,
China

—Treyo International Holdings (HK) Ltd
Unit 2209,
CCT Telecom Building,
11 Wo Shing Street,
Fo Tan,
N.T., Hong Kong

—Treyo Leisure and Entertainment Ltd
Level 2
371 Spencer Street
Melbourne VIC 3000

TREYO

## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 26 to 60 are in accordance with the *Corporations Act 2001* and:
   a. comply with Accounting Standards; and
   b. complies with International Financial Reporting Standards as disclosed in Note 1; and
   c. give a true and fair view of the financial position as at 31 December 2011 and of the performance for the year ended on that date of the Consolidated Group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
   a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
   b. the financial statements and notes for the financial year comply with the Accounting Standards; and
   c. the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

**Roger Smeed**
**Deputy Chairman**

**Dated this 28th day of March 2012**

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## INDEPENDENT AUDITOR'S REPORT
## TO THE MEMBERS OF TREYO LEISURE AND ENTERTAINMENT LTD

### Report on the financial report

We have audited the accompanying financial report of Treyo Leisure and Entertainment Ltd (the "Company"), which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

**Independence**
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

**Auditor's opinion**
In our opinion:

a the financial report of Treyo Leisure and Entertainment is in accordance with the Corporations Act 2001, including:

 i giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

 ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

**Report on the remuneration report**
We have audited the remuneration report included in pages 10 to 13 of the directors' report for the year ended 31 December 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion on the remuneration report**

In our opinion, the remuneration report of Treyo Leisure and Entertainment Ltd for the year ended 31 December 2011, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

S J Gray
Director – Audit & Assurance Services

Adelaide, 28 March 2012

## ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this Report is as follows. The information is current as at 21 March 2012.

### (a) Distribution of equity securities

311,008,000 fully paid ordinary shares are held by 332 individual shareholders

All issued ordinary shares carry one vote per share and carry the rights to dividends.

The number of shareholders, by size of holding, in each class of share is:

| | Fully paid ordinary shares | Holders |
|---|---|---|
| 1 - 1,000 | 1 | 1 |
| 1,001 - 5,000 | - | - |
| 5,001 - 10,000 | 1,130,000 | 113 |
| 10,001 - 100,000 | 4,457,000 | 177 |
| 100,000 and over | 14,694,000 | 25 |
| 100,000 and over | 290,726,999 | 16 |
| | 311,008,000 | 332 |
| Holding less than a marketable parcel | | 1 |

### (b) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

| | Listed ordinary shares | |
|---|---|---|
| | Number of shares | Percentage of ordinary shares |
| Matoury Overseas Corp. | 179,400,000 | 57.68% |
| Balatina Group Limited | 48,100,000 | 15.47% |
| Legheny Group Limited | 16,900,000 | 5.43% |

## ASX ADDITIONAL INFORMATION

(c) **Twenty largest shareholders**

| | | Listed ordinary shares: Number of shares | Listed ordinary shares: Percentage of ordinary shares |
|---|---|---|---|
| 1 | Matoury Overseas Corp. | 179,400,000 | 57.68% |
| 2 | Balatina Group Limited | 48,100,000 | 15.47% |
| 3 | Legheny Group Limited | 16,900,000 | 5.43% |
| 4 | McNeil Nominees Pty Limited | 7,976,000 | 2.56% |
| 5 | Laury Commercial Inc. | 7,800,000 | 2.51% |
| 6 | Yerigton Assets Inc. | 7,800,000 | 2.51% |
| 7 | Mr Dibiao Shen | 5,000,000 | 1.61% |
| 8 | Mr Jie Huang | 3,000,000 | 0.96% |
| 9 | Mr Guan Cheng Zhu | 3,000,000 | 0.96% |
| 10 | Mr Di Neng Shen | 2,000,000 | 0.64% |
| 11 | Mr Erming Yu | 2,000,000 | 0.64% |
| 12 | Ms Louyan Zhao | 2,000,000 | 0.64% |
| 13 | Ms Ping Li | 1,600,999 | 0.51% |
| 14 | Mr Shuiyang Xu | 1,600,000 | 0.51% |
| 15 | Mr Guanming Hu | 1,500,000 | 0.48% |
| 16 | Mr Haiding Ding | 1,050,000 | 0.34% |
| 17 | Mr Guanda Dong | 1,000,000 | 0.32% |
| 18 | Ms Huaping Jiang | 1,000,000 | 0.32% |
| 19 | Mr Jin Ru Shen | 1,000,000 | 0.32% |
| 20 | Mr Xiufang Wei | 1,000,000 | 0.32% |
| | | 294,726,999 | 94.77% |