



**TREYO LEISURE AND ENTERTAINMENT LTD**

**ABN 93 131 129 489**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2009**

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## CORPORATE INFORMATION

**ABN 93 131 129 489**

### **Directors**

Ling (Allan) Mao (Chairman)  
Roger Smeed (Deputy Chairman)  
Guohua Wei  
Weiyun Chen  
Kwong Fat Tse  
Edward Byrt

### **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 Stock 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](http://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

The Board of Treyo Leisure and Entertainment Ltd (Treyo) have pleasure in submitting its second Annual Report to members, since listing on the ASX in January 2009.

Treyo has continued its success and market sector dominance over the last 12 months. Through this Report, the Board seeks to provide a brief update to its Shareholders and the market, on the results achieved for the 2009 financial year (ended 31 December 2009). It should be noted that, in accordance with Chinese accounting practices, Treyo's financial year runs January to December each year.

Treyo realised an after tax profit of \$AUD7.19 million for the 2009 financial year which represents a 9% increase on the previous year. Treyo's working capital has also improved from \$21,299,702 in 2008 to \$23,856,599 in 2009, a 12% increase. This result has been achieved despite increasing competition and the AUD/RMB exchange rate not being as favourable as the previous year, due to the strengthening of the Australian dollar.

With a forecast increase in GDP of 8% for 2010, the Chinese economy continues to experience solid growth. To date, the Chinese domestic market, Treyo's primary market focus, has not been affected to the same degree as many other countries, by the Global Economic Crisis.

In summary, for FY2009 Treyo, through its wholly owned China based subsidiary, Matsuoka Mechatronics (China) Co., has achieved:

- NPAT of \$AUD7,189,930. An **increase of 9%** over the previous year;
- Revenue for the year – excluding interest received, was **down by 7%** to \$AUD66.5 million. This was due to increased competition in the form of desperate and unsustainable price cutting by our competitors and low quality competitive products;
- Continuing **strong cash reserves** of \$AUD31.9 million, despite the strong Australian dollar; and
- An **12% increase** in working capital to \$AUD23.9 million.

As I have previously stated, although Revenue decreased marginally over the year, due primarily to desperate and unsustainable cost cutting by competitors, Treyo improved profitability due to diligent cost control, strong brand recognition and stability in the premium end of the market – which Treyo dominates.

In a market where the total annual sales for automated mahjong tables exceeds RMB7.5 billion per annum (approx \$AUD1.22 billion<sup>1</sup>), Treyo continues to grow its market share despite competitive pressures. As the world's largest manufacturer of automated mahjong tables, Treyo's domestic market sector continues to experience strong growth and, with the introduction of new products, strong quality control, and its extensive and growing distributor network throughout China, Treyo will continue to promote the mahjong culture and in turn drive sales growth.

No dividends have been recommended nor paid for the 2009 financial year. The Board has given detailed consideration to the payment of a dividend to Shareholders from its current cash reserves. However, taking into consideration the recent economic circumstances and fierce market competition, the Board is of the view that it is more important to the future of the Company to improve efficiencies and asset value in the short term. Shareholders will be aware of the significant reduction of the Company's operating costs and the Board is committed to continuing its cost control efforts into the future. As part of this strategy the Company has taken an option to purchase land immediately adjoining the current Matsuoka manufacturing complex. The Company intends to construct a world-class manufacturing, R&D and administrative facility on this site, which will continue to further improve manufacturing efficiencies, reduce costs and develop new products thus further improving Shareholder asset value.

The Treyo Board is confident of continuing a strong and profitable future for the Company and protecting and growing Shareholder value.

Yours sincerely

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

**Dated this 31 day of March 2010**

<sup>1</sup> Exchange rate: \$0.163:RMB1



## **BUSINESS OVERVIEW**

### **THE COMPANY**

Treyo Leisure and Entertainment Ltd (Treyo) was listed on the Australian Stock Exchange (ASX) on 2 January 2009. Prior to Treyo's listing, the Company operated as Matsuoka Mechatronics (China) Co. ("Matsuoka"). Matsuoka, now a wholly owned subsidiary of Treyo, is a wholly foreign-owned limited liability company incorporated in the People's Republic of China.

From its modern purpose built production facility ideally located in the Xiaoshan Business District near Shanghai, Matsuoka designs, manufactures and markets automated 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 65% of the premium end of the market for automated mahjong tables. 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 720 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.

### **OPERATIONAL HIGHLIGHTS**

As previously stated in the Chairman's Review, Treyo realised an after tax profit of \$7.19million for the 2009 financial year which represents a 9% increase on the previous year. This result has been achieved despite the AUD/RMB exchange rate not being as favourable as predicated in the forecast.

Treyo continues to be:

- a market leader in a rapidly growing leisure and entertainment sector – with outstanding annual growth rates over the last five years;
- committed to high quality products, innovation and customer service which includes a long term commitment to research and development ensuring Treyo maintains leadership in the premium end of the market;
- committed to the protection of its extensive intellectual property rights. This includes 45 authorised patents and 12 patent applications accepted by China's Intellectual Property Office; as well as 25 registered trademarks and 56 applications for trademarks in China; and
- Accredited with the ISO9001:2000 Quality Management System certification reflecting Matsuoka's commitment to the delivery of quality and reliable products that meet international industry standards.



## DIRECTORS' REPORT

Your directors present their Report on Treyo Leisure and Entertainment Limited and its controlled entities for the financial year ended 31 December 2009.

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 was a partner of Shenzhen Jing Ji Shao Hua Design Co., Ltd., and has held various leadership positions at the Hong Kong Commercial Press, Japan Da Yang Chemistry Ltd, and Shanghai Da Yang Chemistry 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 the Chairman of four Australian companies, where he is involved in strategic acquisitions and the planning and 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 Hainan Jia Yuan Real Estate Development Co., Ltd. and Shenzhen Jinfeng Industrial Development Co., Ltd. Mr Wei is a citizen of China.



## DIRECTORS' REPORT

### DIRECTORS (CONTINUED)

**Weiyun Chen** EMBA (Hong Kong Finance and Economics College)  
*Executive Director*

Mr Chen was appointed to the Board on 28 October 2008 and holds the position of General Manager of Matsuoka Mechatronics. Mr Chen has extensive General Management experience having previously held that position at Hualing Electric Appliance Industry Co., Ltd. and Hangzhou Yuanye Real Estate Ltd. Mr Chen is a citizen of China.

**Jieliang Wang** EMBA (China Europe International Business School)  
*Independent, Non-Executive Director*

Mr Wang was appointed to the Board on 28 October 2008 and resigned on 11 September 2009. Mr Wang has extensive experience in leadership roles having held the position as the Chairman and General Manager of Huikai Group (Wuhan) Co., Ltd. and the CEO of HuaFu Holding Co., Ltd. He is currently the CEO of Shenzhen Kinghill Group Ltd. Mr Wang 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.

**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.

### DIRECTORSHIPS OF OTHER LISTED COMPANIES

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

- Edward Byrt, who is a director of Papyrus Australia Ltd a company listed on the ASX; and
- Roger Smeed, who is a director of Xiaoxiao Education Ltd a company listed on the ASX.



## DIRECTORS' REPORT

### COMPANY SECRETARIES

#### 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 an ASX listed Xiaoxiao Education Limited and a number of small 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.

### INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

	Ordinary Shares	Options over Ordinary Shares
Ling (Allan) Mao <sup>(1) (7)</sup>	7,800,000	-
Roger Smeed <sup>(2) (7)</sup>	100,000	-
Guohua Wei <sup>(3) (7)</sup>	179,400,000	-
Weiyun Chen <sup>(4) (7)</sup>	7,800,000	-
Jieliang Wang (resigned 11 September 2009)	-	-
Kwong Fat Tse <sup>(5) (7)</sup>	48,100,000	-
Edward Michael Byrt <sup>(6) (7)</sup>	100,000	-
Bin Hu (alternative for Guohua Wei appointed 9 December 2009)	-	-
Total	243,300,000	-

<sup>(1)</sup> Shares held by Laury Commercial INC in which Ling (Allan) Mao has a beneficial interest.

<sup>(2)</sup> Shares held by Roger Smeed and Associates Pty Ltd (as trustee for RF Investment Trust) in which Roger Smeed has a beneficial interest.

<sup>(3)</sup> Shares held by Matoury Overseas Corp. in which Guohua Wei has a beneficial interest.

<sup>(4)</sup> Shares held by Yerigton Assets INC in which Weiyun Chen has a beneficial interest.

<sup>(5)</sup> Shares held by Balatina Group Ltd in which Kwong Fat Tse a beneficial interest. Kwong Fat Tse's father is a director of Legheny Group Limited, a company that holds 16,900,000 shares in the Company. Kwong Fat Tse has no beneficial interest or relevant interest in these shares.

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

<sup>(7)</sup> These Directors have entered into Voluntary Escrow Deeds with the Company dated 28 October 2008 whereby they have agreed not to sell their shares for the following escrow periods:

- 25% released after 6 months on 25 April 2009
- 25% released after 12 months on 28 Octobers 2008
- 50% to be released after 18 months on 25 April 2010

### 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.



## **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 Stock 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. The Group currently operates in one business segment with all goods being manufactured and distributed from a single facility in China. The Group currently operates in three geographical segments; refer to Note 28 for further details.

Pursuant to a share purchase and sale agreement dated 31 October 2008, Treyo International Holding Ltd became a wholly owned subsidiary of Treyo Leisure and Entertainment Ltd on 31 October 2008. Through this transaction effective control of Treyo Leisure and Entertainment Ltd was passed to the existing shareholders of Treyo International Holding Ltd. The transaction is one referred to in AASB 3 "Business Combination" as a reverse acquisition, where the acquirer is Treyo International Holding Ltd (i.e. the entity whose equity interests have been acquired) and Treyo Leisure and Entertainment Ltd is seen to be acquiree (i.e. the issuing entity).

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

### **REVIEW OF FINANCIAL POSITION**

#### **Financial Results**

The net assets of the consolidated group have decreased by \$1,676,305 from 31 December 2008 to \$34,460,450 at 31 December 2009. This decrease has largely resulted from the following factors:

- i. \$8,866,235 decrease in foreign exchange reserve; offset by
- ii. \$7,189,930 profits after tax attributable to members.

The consolidated group's strong financial position has enabled the group to maintain a healthy working capital ratio despite the decrease in foreign exchange reserve. The group's working capital, being current assets less current liabilities, has improved from \$21,299,702 in 2008 to \$23,856,599 in 2009.

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



## **DIRECTORS' REPORT**

### **DIVIDENDS**

A dividend of \$nil (2008: \$9,191,914) was paid by Matsuoka Mechatronics (China) Co., Ltd to Songgang International Group Co. Ltd, prior to the acquisition date.

The cash flow forecast disclosed in the prospectus for the year ended 31 December 2009 assumed that a dividend payment of not less than 40% of after-tax profits will be paid to Shareholders. However, payment of this dividend was not guaranteed.

The Board has not recommended nor have paid any dividends during the year ended 31 December 2009.

### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

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

- i. Treyo Leisure and Entertainment Ltd was incorporated on 23 May 2008 with a share capital of 2 shares issued at \$0.50 each.
- ii. On 31 October 2008 Treyo International Holdings (HK) Ltd purchased 100% of Matsuoka Mechatronics (China) Co., Ltd.
- iii. On 31 October 2008 the Company issued 259,999,998 ordinary shares to the shareholders of Treyo International Holding Ltd pursuant to a share purchase and sale agreement as purchase consideration resulting in Treyo International Holding Ltd became a wholly owned subsidiary of Treyo Leisure and Entertainment Ltd ("Treyo") on 31 October 2008. Treyo International Holding Ltd shareholders received 26,000 Treyo Leisure and Entertainment Ltd shares for each Treyo International Holding Ltd share held.
- iv. On 19 December 2008, 100,000 shares were issued as equity based remuneration to Stroud Nominees Pty Ltd (as trustee for Byrt Super Fund) in which Director, Edward Byrt has a beneficial interest. The fair value of the equity based remuneration amounted to \$25,000 based on the IPO share price of \$0.25; of which \$1,000 has been paid in cash.
- v. On 19 December 2008, 100,000 shares were issued as equity based remuneration to Roger Smeed and Associate Pty Ltd (as trustee for RF Investment Trust) in which Director, Roger Smeed has a beneficial interest. The fair value of the equity based remuneration amounted to \$25,000 based on the IPO share price of \$0.25; of which \$1,000 has been paid in cash.
- vi. On 19 December 2008 50,808,000 shares were issued at \$0.25 per share, as a result of the IPO.

### **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.



## 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. The Audit and Risk Committee and the Remuneration and Nomination Committee were established on 28 October 2008.

	Directors' Meetings	Audit and Risk Committee Meetings	Remuneration and Nomination Meetings
<b>Number of meetings held</b>	12	4	1
Ling (Allan) Mao	12	4	n/a
Roger Smeed	12	4	1
Guohua Wei	5	n/a	-
Weiyun Chen	4	n/a	n/a
Jieliang Wang (resigned 11 September 2009)	1	n/a	n/a
Kwong Fat Tse	7	n/a	n/a
Edward Michael Byrt	11	4	1
Bin Hu (alternative for Guohua Wei appointed 9 December 2009)	1	n/a	n/a

### 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 includes the five executives of the Group receiving the highest remuneration.

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.

		Date Appointed	Date Resigned	
<b>Directors</b>				
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)
Weiyun Chen	Director (Executive)	01 Nov 2005	-	(2)
Jieliang Wang	Director (Independent, Non-Executive)	28 Oct 2008	11 Sept 2009	(1)
Kwong Fat Tse	Director (Non-Executive)	13 Aug 2008	-	
Edward Michael Byrt	Director (Independent, Non-Executive)	28 Oct 2008	-	
Bin Hu	Alternative Director for Guohua Wei	9 Dec 2009	-	
<b>Executives</b>				
Zhongliang Zheng	Finance Director	12 May 2005	-	
Bin Hu	Deputy General Manager	07 Sep 2007	-	
Lixin Wang	Integrated Management Centre Director	29 Jun 2005	-	
Lin Pan	Operations Centre Director	30 Aug 2004	-	
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.

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



## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Remuneration policy

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.

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), options and performance incentives.
- 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 subsequent to listing on the ASX, the Remuneration and Nomination Committee 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.

## **DIRECTORS' REPORT**

### **REMUNERATION REPORT (AUDITED) (CONTINUED)**

#### **Performance-based remuneration**

Each element of key management personnel's remuneration package includes a performance-based component, measured against key performance indicators (KPI's). The intention of this programme is to facilitate goal congruence between key management personnel and that of the business and shareholders. The KPI's are set annually or as required. The measures are specifically tailored to the areas each key management personnel is involved in and has a level of control over. The KPI's target areas the Board believes hold greater potential for Group expansion and profit, covering financial and non-financial as well as short-term and long-term goals. The level set for each KPI is based on forecast results for the Group and respective industry standards.

Performance in relation to KPI's is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPI's achieved. Following assessment, the KPI's are reviewed by the Remuneration and Nomination Committee in light of the desired and actual outcomes. Efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPI's are set for the following year. In determining whether or not a KPI has been achieved, the Group bases the assessment on audited results.

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

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. To assist in the realisation of this objective options are issued to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

#### **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 date appointed, 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 proportion of fixed and variable compensation for each key management personnel. Refer below.

## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Key Management Personnel Remuneration

	Short term benefit Cash, salary and commissions	Equity based remuneration	Total	Equity Based percentage
	\$	\$	\$	%
<b>31 December 2009</b>				
Ling (Allan) Mao	21,423	-	21,423	-
Roger Smeed	50,000	-	50,000	-
Guohua Wei <sup>(1)</sup>	22,900	-	22,900	-
Weiyun Chen	18,098	-	18,098	-
Edward Michael Byrt	50,000	-	50,000	-
Jo-Anne Dal Santo	38,000	-	38,000	-
Kwong Fat Tse	15,876	-	15,876	-
Zhongliang Zheng <sup>(2)</sup>	14,123	-	14,123	-
Bin Hu <sup>(3)</sup>	13,260	-	13,260	-
Lixin Wang	15,038	-	15,038	-
Lin Pan <sup>(4)</sup>	21,731	-	21,731	-
	<u>280,449</u>	<u>-</u>	<u>280,449</u>	
<b>31 December 2008</b>				
Ling (Allan) Mao <sup>(5)</sup>	20,445	-	20,445	-
Roger Smeed <sup>(6)</sup>	8,333	24,000	32,333	74%
Guohua Wei <sup>(1)</sup>	21,855	-	21,855	-
Weiyun Chen	17,272	-	17,272	-
Edward Michael Byrt <sup>(6)</sup>	8,333	24,000	32,333	74%
Jo-Anne Dal Santo <sup>(6)</sup>	7,128	-	7,128	-
Zhongliang Zheng <sup>(2)</sup>	13,479	-	13,479	-
Bin Hu <sup>(3)</sup>	12,655	-	12,655	-
Lixin Wang	14,352	-	14,352	-
Lin Pan <sup>(4)</sup>	20,739	-	20,739	-
	<u>144,591</u>	<u>48,000</u>	<u>192,591</u>	

(1) Guohua Wei is provide with a company vehicle with a carrying value of \$94,316 (2008: \$122,068)

(2) Zhongliang Zheng is provide with a company vehicle with a carrying value of \$10,992 (2008: \$14,277)

(3) Bin Hu is provide with a company vehicle with a carrying value of \$44,810 (2008: \$57,996)

(4) Lin Pan is provide with a company vehicle with a carrying value of \$13,807 (2008: \$17,870)

(5) Appointed 13 August 2008

(6) Appointed 28 October 2008



## **DIRECTORS' REPORT**

### **REMUNERATION REPORT (AUDITED) (CONTINUED)**

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

During 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.

During the prior financial year an aggregate 200,000 shares were issued to the following directors and the five highest remunerated officers of the Company as part of their remuneration:

- Roger Smeed received 100,000 fully paid ordinary shares in the Company on 31 October 2008. The fair value of the shares was \$25,000 of which Mr Smeed paid \$1,000; and
- Edward Byrt received 100,000 fully paid ordinary shares in the Company on 31 October 2008. The fair value of the shares was \$25,000 of which Mr Byrt paid \$1,000.

Refer to Note 30 for further details.

#### **Directors and Executives Options Plan**

During the year the Board withdrew the Directors and Senior Executives Options Plan ("Plan") with the approval of the effected directors and senior executives.

No options have been issued under the Plan at as the reporting date (2008: nil).

#### **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.

All the directors were appointed during the prior year ended 31 December 2009 and as such a third will retire at the 2010 Annual General Meeting of the Company. Each of the directors, being eligible, will offer themselves for re-election.

#### **INDEMNIFYING OFFICERS OR AUDITOR**

The Company has entered into Deeds of Indemnity with each of the current Directors and paid insurance premiums as follows:

The Company has paid 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 \$18,205 (2008:\$15,596).



## **DIRECTORS' REPORT**

### **OPTIONS**

No options were 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
- 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.

## DIRECTORS' REPORT

### NON-AUDIT SERVICES (CONTINUED)

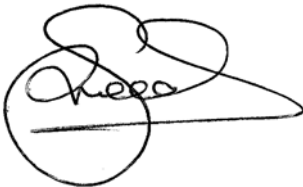
The following fees for non-audit services were paid/payable to the external auditors during the year ended 31 December 2009:

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Taxation Services	14,134	-
Due diligence investigations	-	125,000
	<hr/> 14,134	<hr/> 125,000

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 31 December 2009 has been received and can be found on page 17 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 31<sup>st</sup> day of March 2010**

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W [www.grantthornton.com.au](http://www.grantthornton.com.au)

**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 2009, 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 AUDIT PTY LTD  
Chartered Accountants



S J Gray  
Director – Audit & Assurance Services

Signed at Adelaide on this 31<sup>st</sup> day of March 2010

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## 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 Stock 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. All corporate governance documents noted in this Statement are available on the Company's website [www.treyo.com.au](http://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 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 four executive directors, one of which is the Managing Director and one of whom is the Chair and two independent, non-executive directors, one of which is the Deputy Chair.

The Board composition currently does not comply with ASX Recommendation 2.1. Furthermore, 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 Board to be composed of a majority of independent directors nor for the position of Chair to be held by an independent, non-executive director. However, with the resignation of Mr Jieliang Wang as independent, non-executive director on 11 September 2009 the Company intends to appoint at least one additional independent non-executive director to the Board.

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*.

Whilst the composition of the Board does not comply with ASX Recommendation 2.1, the Board believes that its composition has been appropriate to enable it to discharge its duties in the best interests of shareholders and the Company, particularly given the expertise, skills and experience that the non-executive directors bring to the Board. The skills, experience and expertise of each of the members of the Board are set out in the Directors' Report.

## CORPORATE GOVERNANCE STATEMENT

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

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

Details regarding the directors' qualifications, the number of meetings held and attendance at those meetings are contained in the Directors' Report.

#### Performance Evaluation

As 2009 was the first year of operation of the Board and its Committees a performance evaluation of the Board, its Committees and Directors was not undertaken. It is intended that these performance evaluations will take place during 2010.

#### 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.



## CORPORATE GOVERNANCE STATEMENT

### 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.

#### Trading in Company Securities

Under the Company's share trading policy, directors, officers and employees may trade in the Company's securities one month after the announcement of half-year and annual profit results.

Further, all directors and employees must satisfy themselves that they are not in possession of any price sensitive information, which is not generally available to the public prior to trading in securities during the abovementioned trading windows.



## CORPORATE GOVERNANCE STATEMENT

### 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 in 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 a 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.

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.



## CORPORATE GOVERNANCE STATEMENT

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

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.

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.



## CORPORATE GOVERNANCE STATEMENT

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

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](http://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 Guohua Wei - Chair (Executive Director)
- Mr Roger Smeed (Independent, Non-Executive Director)
- Mr Edward Byrt (Independent, Non-Executive Director)

Details regarding the directors' qualifications, the number of meetings held and attendance at those meetings are contained in 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.



## CORPORATE GOVERNANCE STATEMENT

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

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.

#### ***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.

#### ***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](http://www.treyo.com.au).

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## STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2009

	Note	Consolidated Group		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenue	3	66,523,248	71,751,297	-	-
Cost of goods sold		(51,535,722)	(54,608,191)	-	-
Gross Profit		14,987,526	17,143,106	-	-
Other income	3	834,393	598,282	-	-
Distributions and selling expenses		(3,765,670)	(6,085,843)	-	-
Administrative expenses		(4,056,312)	(4,036,291)	(104,861)	(902,148)
Equity based remuneration		-	(48,000)	-	(48,000)
Finance costs		(15,580)	(495,530)	(351)	(30)
Profit/(loss) before income tax	4	7,984,357	7,075,724	(105,212)	(950,178)
Income tax (expense)/benefit	5	(794,427)	(459,270)	-	279,653
Profit/(loss) from continuing operations attributable to ordinary equity holders		7,189,930	6,616,454	(105,212)	(670,525)
Other comprehensive income					
Exchange differences on translation of foreign operations		(8,866,235)	5,451,607	-	-
Total comprehensive income for the year		(1,676,305)	12,068,061	(105,212)	(670,525)
<b>Earnings per share (on profit attributable to ordinary equity holders)</b>		<b>Cents</b>	<b>Cents</b>		
Basic earnings per share (cents per share)	9	2.3	22.3		
Diluted earnings per share (cents per share)	9	2.3	22.3		

The accompanying notes form part of these financial statements.

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## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	Note	Consolidated Group		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	10	31,892,398	40,265,989	646,215	12,707,528
Trade and other receivables	11	3,205,036	3,490,284	11,314	68,682
Prepayments and other current assets	12	709,360	14,998	32,888	14,998
Inventories	13	4,083,982	6,068,970	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>39,890,776</b>	<b>49,840,241</b>	<b>690,417</b>	<b>12,791,208</b>
<b>NON-CURRENT ASSETS</b>					
Other financial assets	14	-	-	32,808,445	22,440,840
Property, plant and equipment	16	10,033,027	13,955,699	-	-
Intangible assets	17	173,040	315,748	-	-
Deferred tax assets	21	397,784	565,606	397,784	565,606
<b>TOTAL NON-CURRENT ASSETS</b>		<b>10,603,851</b>	<b>14,837,053</b>	<b>33,206,229</b>	<b>23,006,446</b>
<b>TOTAL ASSETS</b>		<b>50,494,627</b>	<b>64,677,294</b>	<b>33,896,646</b>	<b>35,797,654</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	18	11,356,519	21,074,196	146,766	1,344,176
Notes payable	19	4,475,077	7,116,137	-	-
Financial liabilities	20	-	-	-	598,386
Current tax liabilities	21	202,581	350,206	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>16,034,177</b>	<b>28,540,539</b>	<b>146,766</b>	<b>1,942,562</b>
<b>TOTAL LIABILITIES</b>		<b>16,034,177</b>	<b>28,540,539</b>	<b>146,766</b>	<b>1,942,562</b>
<b>NET ASSETS</b>		<b>34,460,450</b>	<b>36,136,755</b>	<b>33,749,880</b>	<b>33,855,092</b>
<b>EQUITY</b>					
Issued capital	23	23,302,770	23,302,770	34,525,617	34,525,617
Foreign exchange translation reserve	24	(4,782,247)	4,083,988	-	-
Statutory general reserve	24	1,132,522	1,132,522	-	-
Retained earnings		14,807,405	7,617,475	(775,737)	(670,525)
<b>TOTAL EQUITY</b>		<b>34,460,450</b>	<b>36,136,755</b>	<b>33,749,880</b>	<b>33,855,092</b>

The accompanying notes form part of these financial statements.

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## STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2009

	Note	Share Capital Ordinary	Retained Earnings	Foreign Exchange Reserve	Statutory Reserves	Total
		\$	\$	\$	\$	\$
<b>Consolidated Group</b>						
<b>Balance at 1 January 2008</b>		11,216,446	11,325,457	(1,367,619)	-	21,174,284
Shares issued during the year						
- Shares issued pursuant to IPO	23	12,702,000	-	-	-	12,702,000
- Equity based remuneration	23	48,000	-	-	-	48,000
- Other share issues	23	3,548	-	-	-	3,548
Transaction costs	23	(953,177)	-	-	-	(953,177)
Deferred tax benefit	23	285,953	-	-	-	285,953
Total comprehensive income		-	6,616,454	5,451,607	-	12,068,061
Transfer to statutory reserves	24		(1,132,522)		1,132,522	-
Sub-total		23,302,770	16,809,389	4,083,988	1,132,522	45,328,669
Dividends paid or provided for	8	-	(9,191,914)	-	-	(9,191,914)
<b>Balance at 31 December 2008</b>		23,302,770	7,617,475	4,083,988	1,132,522	36,136,755
Total comprehensive income		-	7,189,930	(8,866,235)	-	(1,676,305)
<b>Balance at 31 December 2009</b>		23,302,770	14,807,405	(4,782,247)	1,132,522	34,460,450

The accompanying notes form part of these financial statements.

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## STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2009

	Note	Share Capital Ordinary	Retained Earnings	Foreign Exchange Reserve	Statutory Reserves	Total
		\$	\$	\$	\$	\$
<b>Parent entity</b>						
<b>Balance at 1 January 2008</b>		-	-	-	-	-
Shares issued during the year						
- Shares issued pursuant to the reconstruction agreement	23	22,440,840	-	-	-	22,440,840
- Shares issued pursuant to IPO	23	12,702,000	-	-	-	12,702,000
- Equity based remuneration	23	48,000	-	-	-	48,000
- Other share issues	23	2,001	-	-	-	2,001
Transaction costs	23	(953,177)	-	-	-	(953,177)
Deferred tax benefit	23	285,953	-	-	-	285,953
Total comprehensive income		-	(670,525)	-	-	(670,525)
<b>Balance at 31 December 2008</b>		34,525,617	(670,525)	-	-	33,855,092
Total comprehensive income		-	(105,212)	-	-	(105,212)
<b>Balance at 31 December 2009</b>		34,525,617	(775,737)	-	-	33,749,880

The accompanying notes form part of these financial statements.

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## STATEMENT OF CASH FLOW FOR YEAR ENDED 31 DECEMBER 2009

	Note	Consolidated Group		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		76,010,349	91,574,854	-	-
Payments to suppliers and employees		(73,072,046)	(64,857,618)	(1,061,299)	(479,831)
Interest received		391,076	598,282	121,370	-
Finance costs		(15,580)	(495,530)	(351)	(30)
Income tax paid		(862,052)	(388,717)	-	-
Net cash provided by (used in) operating activities	29	2,451,747	26,431,271	(940,280)	(479,861)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		(215,903)	(631,291)	-	-
Purchase of intangible assets		-	(94,224)	-	-
Loans to related parties		-	-	(10,367,605)	-
Loans to other entities		(11,960,110)	-	-	-
Loans repaid by other entities		10,648,729	-	-	-
Other		(1,456,416)	-	-	-
Net cash provided used in investing activities		(2,983,700)	(725,515)	(10,367,605)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares	23	-	12,705,548	-	12,704,001
Payments for share issue costs		(155,042)	(114,998)	(155,042)	(114,998)
Proceeds from related party loan		-	-	-	598,386
Repayment of related party loan		-	-	(598,386)	-
Repayment of borrowings		-	(4,659,181)	-	-
Dividends paid		-	(9,191,914)	-	-
Net cash provided by (used in) financing activities		(155,042)	(1,260,545)	(753,428)	13,187,389
Net increase in cash held		(686,995)	24,445,211	(12,061,313)	12,707,528
Cash at beginning of financial year	10	40,265,989	11,625,591	12,707,528	-
Effect of exchange rates on cash holdings in foreign currencies		(7,686,666)	4,195,187	-	-
<b>Cash at end of financial year</b>	<b>10</b>	<b>31,892,328</b>	<b>40,265,989</b>	<b>646,215</b>	<b>12,707,528</b>

The accompanying notes form part of these financial statements.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 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 activity of the Group is manufacturing automated mahjong tables.

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.

There are new accounting standards and IFRIC interpretations that have been published that are not mandatory for current reporting periods. The Group's assessment of the impact of these new standards and interpretations is that there would be no material impact on the historical or reported pro-forma financial information.

#### Accounting Standards not Previously Applied

The Group has adopted the following new and revised Australian accounting Standards issued by the AASB during the current financial year. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

##### *Presentation of Financial Statements*

AASB 101 prescribes the content and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit and loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the separate income statement/single statement approach to the presentation of the Statement of Comprehensive Income; and
- other financial statements are renamed in accordance with this Standard.

Two comparative periods are presented for the statement of financial position when the Group:

- Applies an accounting policy retrospectively,
- Makes a retrospective restatement of items in its financial statements, or
- Reclassifies items in the financial statements.

We have determined that only one comparative period for the statement of financial position was required for the current reporting period as the application of the new accounting standards have had no material impact on the previously presented primary financial statements that were presented in the prior year financial statements.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### Accounting Standards not Previously Applied (continued)

##### *Operating Segments*

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of the internal reports that are regularly provided to, or reviewed by the Group's chief operating decision maker which, for the Group, is the board of directors.

##### 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 15 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.

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 together with costs directly attributable to the business combination.

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.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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

#### 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.

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.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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

#### 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 income statement 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.

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

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
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 sheet 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 income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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

#### 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.

##### 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.

#### **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 income statement.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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

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 income statement.

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.

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 income statement, 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 income statement.

**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 balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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

i. **Employee Benefits**

Provision is made for the Company'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.

**Equity-settled compensation**

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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.

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 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. Dividend revenue is recognised when the right to receive a dividend has been established.

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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

n. **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.

o. **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 balance sheet are shown inclusive of GST and VAT.

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

p. **Earning per share**

(i) **Basic earning per share**

Basic earning 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.

(i) **Diluted earning per share**

Diluted earning per share adjust the figures used to determine basic earning per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

q. **Comparative Figures**

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

r. **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 24 February 2010 and the Annual Report was authorised for issue on 31 March 2010 by the board of directors.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 2: BUSINESS COMBINATIONS

#### Treyo International Holding (HK) Ltd and its controlled entity

Pursuant to a share purchase and sale agreement dated 31 October 2008, Treyo International Holding (HK) Ltd and its controlled entity, Matsuoka Mechatronics (China) Co., Ltd ("TIH") became wholly owned subsidiaries of Treyo Leisure and Entertainment Ltd ("Treyo") on 31 October 2008. Through this transaction effective control of Treyo passed to the existing shareholders of TIH. The transaction is one referred to in AASB 3 "Business Combination" as a reverse acquisition, where the acquirer was TIH (i.e. the entity whose equity interests have been acquired) and Treyo is seen to be the acquiree (i.e. the issuing entity). As Treyo was incorporated specifically for the purpose of this transaction and the subsequent equity raising, the fair value of the equity instruments issued was estimated by reference to the fair value of the acquirer's (TIH's) net assets.

	<b>31 October 2008</b>
	<b>\$</b>
Fair value of the 259,999,998 ordinary shares issued to the existing shareholders of TIH in exchange for control	22,440,840

The assets and liabilities of TIH as at 31 October 2008 were:

	<b>Fair Value</b>
	<b>\$</b>
Cash and cash equivalents	23,597,633
Trade and other receivables	328,277
Plant and equipment	14,725,827
Inventory	7,068,895
Total assets	45,720,632
Trade and other payables	(16,704,450)
Short term loan	(6,575,342)
Total net assets acquired	22,440,840
Accounted for as:	
Share capital	11,216,446
Retained profits	5,200,969
Reserve	6,023,425
	22,440,840

TIH acquired its controlled entity, Matsuoka Mechatronics (China) Co., Ltd prior to becoming a controlled entity of Treyo.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 3: REVENUE

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Sales revenue				
Sale of goods	66,523,248	71,751,297	-	-
Other income				
— Bank Interest received	391,076	598,282	-	-
— Government Grant	308,387	-	-	-
— Other income	134,930	-	-	-
	834,393	598,282	-	-

### NOTE 4: PROFIT FOR THE YEAR

a. Expenses	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Finance costs:					
—Interest expense		-	486,130	-	-
—Bank charges		15,580	9,400	351	30
Total finance costs		15,580	495,530	351	30
Employee wages and benefits		4,690,493	3,993,313	138,144	32,229
Included in administrative expenses are:					
—Bad and doubtful trade receivables debts	11b	-	60,995	-	-
—Depreciation and amortisation		1,145,876	939,655	-	-
—Audit fees	7	150,000	130,000	30,000	20,000
—Other expenses relating to the Initial Public Offering (IPO) and share issue <sup>(1)</sup>		(360,612)	740,066	(360,612)	703,202

<sup>(1)</sup> The amounts recognised during 2008 included accrued expenses. During the current period an element of this accrual was reversed.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 5: INCOME TAX EXPENSE

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
a. The components of tax expense comprise:		\$	\$	\$	\$
Current tax		794,427	738,923	-	-
Deferred tax	20	-	(279,653)	-	(279,653)
Current tax expense/(benefit)		794,427	459,270	-	(279,653)

The Australian assessable earnings will be taxed at 30% (2008: 30%).

In respect of Chinese assessable earnings a tax exemption notice was issued to Matsuoka on 16 April 2007 providing a 50% tax exemption for the 31 December 2008 to 31 December 2010 financial years. An additional tax ruling was released on 20 March 2008 which increased the existing tax exemption, the resulting Matsuoka tax rates are 9% for 31 December 2008, 10% for 31 December 2009, 11% for 31 December 2010, 24% for 31 December 2011 and 25% for 31 December 2012 onwards.

The tax rate in Hong Kong is 17.5% (2008: 17.5%)

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
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 (5a)				
— consolidated group	1,997,674	1,724,416	-	-
— parent entity	-	-	(31,564)	(285,053)
Add:				
Tax effect of: other non-allowable items	122	18,399	122	5,400
Less:				
Tax effect of: Tax exemptions from the Peoples Republic of China	(1,250,785)	(1,290,531)	-	-
Tax effect of losses not brought into accounts as they do not meet the recognition criteria	47,416	6,986	31,442	-
Income tax attributable to entity	794,427	459,270	-	(279,653)
The applicable weighted average effective tax rates are as follows:	10%	6%	-%	(29%)

The change in the weighted average effective consolidated tax rate for 2009 is a result of consolidated profits offset by overseas tax exemptions.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 6: 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:

		Date Appointed	Date Resigned
<b>Directors</b>			
Ling (Allan) Mao	Chairman (Executive)	13 Aug 2008	-
Roger Smeed	Deputy Chairman (Independent, Non-Executive)	28 Oct 2008	-
Guohua Wei <sup>(1)</sup>	Director (Executive)	18 Mar 2003	-
Weiyun Chen <sup>(2)</sup>	Director (Executive)	01 Nov 2005	-
Jieliang Wang <sup>(1)</sup>	Director (Independent, Non-Executive)	28 Oct 2008	11 Sept 2009
Kwong Fat Tse	Director (None-Executive)	13 Aug 2008	-
Edward Michael Byrt	Director (Independent, Non-Executive)	28 Oct 2008	-
<b>Executives</b>			
Zhongliang Zheng	Finance Director	12 May 2005	-
Bin Hu <sup>(3)</sup>	Deputy General Manager	07 Sep 2007	-
Lixin Wang	Integrated Management Centre Director	29 Jun 2005	-
Lin Pan	Operations Centre Director	30 Aug 2004	-
Jo-Anne Dal Santo	Company Secretary	28 Oct 2008	-

<sup>(1)</sup> Appointed to the Board on 13 August 2008.

<sup>(2)</sup> Appointed to the Board on 28 October 2008.

<sup>(3)</sup> Appointed as alternative director for Guohua Wei on 9 December 2009.

Key management personnel remuneration has 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 issued during the year ended 31 December 2009 or 31 December 2008.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

#### c. Shareholdings

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

31 December 2009	Balance 1.1.2009	Received as Compen- sation	Options Exercised	Net Change Other	Net Change Other	Balance 31.12.2009 <sup>(7)</sup>
Ling (Allan) Mao <sup>(1) (7)</sup>	7,800,000	-	-	-	-	7,800,000
Roger Smeed <sup>(2) (7)</sup>	100,000	-	-	-	-	100,000
Guohua Wei <sup>(3) (7)</sup>	179,400,000	-	-	-	-	179,400,000
Weiyun Chen <sup>(4) (7)</sup>	7,800,000	-	-	-	-	7,800,000
Jieliang Wang	-	-	-	-	-	-
Kwong Fat Tse <sup>(5) (7)</sup>	48,100,000	-	-	-	-	48,100,000
Edward Michael Byrt <sup>(6)</sup>	100,000	-	-	-	-	100,000
Bin Hu <sup>(10)</sup>	-	-	-	-	-	-
Jo-Anne Dal Santo	-	-	-	-	-	-
<b>Total</b>	<b>243,300,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>243,300,000</b>

31 December 2008	Balance 1.1.2007	Received as Compen- sation	Options Exercised	Net Change Other <sup>(8)</sup>	Net Change Other <sup>(9)</sup>	Balance 31.12.2008 <sup>(7)</sup>
Ling (Allan) Mao <sup>(1) (7)</sup>	-	-	-	7,799,998	2	7,800,000
Roger Smeed <sup>(2) (7)</sup>	-	100,000	-	-	-	100,000
Guohua Wei <sup>(3) (7)</sup>	-	-	-	179,400,000	-	179,400,000
Weiyun Chen <sup>(4) (7)</sup>	-	-	-	7,800,000	-	7,800,000
Jieliang Wang	-	-	-	-	-	-
Kwong Fat Tse <sup>(5) (7)</sup>	-	-	-	48,100,000	-	48,100,000
Edward Michael Byrt <sup>(6)</sup>	-	100,000	-	-	-	100,000
Jo-Anne Dal Santo	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>243,099,998</b>	<b>2</b>	<b>243,300,000</b>

<sup>(1)</sup> Shares held by Laury Commercial INC in which Ling (Allan) Mao has a beneficial interest.

<sup>(2)</sup> Shares held by Roger Smeed and Associate Pty Ltd (as trustee for RF Investment Trust) in which Roger Smeed has a beneficial interest.

<sup>(3)</sup> Shares held by Matoury Overseas CORP in which Guohua Wei has a beneficial interest.

<sup>(4)</sup> Shares held by Yerigton Assets INC in which Weiyun Chen has a beneficial interest.

<sup>(5)</sup> Shares held by Balatina Group Ltd in which Kwong Fat Tse has beneficial interest. Kwong Fat Tse's father, Kin Yip Tse is a director of Legheny Group Limited, a company that hold 16,900,000 shares (issued during the year<sup>(1)</sup>); Kwong Fat Tse has no beneficial interest or relevant interest in Legheny Group Limited.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

<sup>(6)</sup> Shares held by Stroud Nominees Pty Ltd (as trustee for Byrt Super Fund) in which Edward Byrt has a beneficial interest

<sup>(7)</sup> Certain key management personnel have entered into Voluntary Escrow Deeds dated 28 October 2008 with the Company whereby they agree not to sell their shares for the following escrow periods:

- 25% released after 6 months
- 25% released after 12 months
- 50% released after 18 months

<sup>(8)</sup> Issued as part of the reconstruction agreement dated 31 October 2008, refer to notes 2 and 23 for further details.

<sup>(9)</sup> 3 November 2008 shares transferred from Songgang Investment Holdings Ltd.

<sup>(10)</sup> Appointed as alternative director for Guohua Wei on 9 December 2009.

### NOTE 7: AUDITORS' REMUNERATION

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	150,000	130,000	30,000	20,000
— taxation services	14,134	-	-	-
— due diligence services	37,072	125,000	-	125,000
	<u>201,206</u>	<u>255,000</u>	<u>30,000</u>	<u>145,000</u>

### NOTE 8: DIVIDENDS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Distributions paid	-	9,191,914	-	-

The Board has not recommended nor have paid any dividends during the year ended 31 December 2009.

In the prior year a dividend of \$9,191,914 was paid by Matsuoka Mechatronics (China) Co., Ltd to Songgang International Group Co. Ltd prior to the acquisition of Matsuoka Mechatronics (China) Co. Ltd by Treyo International Holdings (HK) Ltd.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 9: EARNINGS PER SHARE

	Consolidated Group	
	2009	2008
a. Reconciliation of earnings to profit or loss	\$	\$
Profit used to calculate basic EPS and dilutive EPS	7,189,930	6,616,454
b. Reconciliation of earnings to profit or loss from continuing operations		
Profit from continuing operations used to calculate basic EPS from continuing operations and dilutive EPS.	7,189,930	6,616,454
c. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS and dilutive EPS	311,008,000	29,684,995

### NOTE 10: CASH AND CASH EQUIVALENTS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash at bank and in hand	28,625,919	40,265,989	646,215	12,707,528
Short term bank deposits	3,266,479	-	-	-
	<u>31,892,398</u>	<u>40,265,989</u>	<u>646,215</u>	<u>12,707,528</u>

At 31 December 2009 \$2,237,484 (2008: \$3,558,068) was held in an interest bearing short term deposit as a guarantee for notes payable (Note 19).

### NOTE 11: TRADE AND OTHER RECEIVABLES

CURRENT	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Trade receivables	11a	581,118	1,147,951	-	-
Less provision for impaired trade receivables	11b	(56,519)	(73,143)	-	-
		<u>524,599</u>	<u>1,074,808</u>	<u>-</u>	<u>-</u>
Other receivables	11c	2,669,123	2,346,794	-	-
Goods & service tax receivable	11d	11,314	68,682	11,314	68,682
		<u>3,205,036</u>	<u>3,490,284</u>	<u>11,314</u>	<u>68,682</u>

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 11: 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 2009, trade receivables of \$324,706 (2008: \$94,707) were past due but not impaired. These relate to independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
30-90 days	303,840	94,707	-	-
90-180 days	20,866	-	-	-
Total	324,706	94,707	-	-

The other balances within trade receivables are not past due and do not contain 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 2009, trade receivables of \$56,519 (2008: \$73,143) were impaired. These relate to individual customers which are experiencing economic difficulties. Movements in the provision for impairment of receivables are as follows:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
At 1 January	73,143	-	-	-
Provision for impairment recognised	-	60,995	-	-
Exchange difference on translation	(16,624)	12,148	-	-
At 31 December	56,519	73,143	-	-

c. Other receivables

Other receivables arise from transactions outside the usual operating activities of the Company 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. 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 incurred expenses and IPO costs (2008: \$68,682).

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 12: PREPAYMENTS AND OTHER CURRENT ASSETS

CURRENT	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Prepayments	709,360	14,998	32,888	14,998

### NOTE 13: INVENTORIES

CURRENT	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
At cost and net realisable value	\$	\$	\$	\$
Raw materials and stores	1,927,216	3,666,681	-	-
Work in progress	500,762	524,779	-	-
Finished goods	1,656,004	1,877,510	-	-
	4,083,982	6,068,970	-	-

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

### NOTE 14: FINANCIAL ASSETS

NON-CURRENT	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Unquoted investment - shares in controlled entities	2, 15	-	-	22,440,840	22,440,840
Advances to wholly-owned subsidiary, Treyo International Holdings (HK) Ltd	32	-	-	10,367,605	-
		-	-	32,808,445	22,440,840

Unquoted investment - shares in controlled entities, refers to the acquisition of Treyo International Holding (HK) Ltd and controlled entity on 31 October 2008 (refer to Note 2 and 15 for further details).

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 15: CONTROLLED ENTITIES

a. <b>Controlled Entities Consolidated</b>	<b>Country of Incorporation</b>	<b>Percentage Owned (%)<sup>(1)</sup></b>	
		<b>2009</b>	<b>2008</b>
		<b>%</b>	<b>%</b>
Treyo Leisure and Entertainment Ltd	Australia	-	-
Subsidiaries of Treyo Leisure and Entertainment Ltd:			
Treyo International Holding (HK) Ltd <sup>(2)</sup>	Hong Kong	100%	100%
Matsuoka Mechatronics (China) Co., Ltd	Peoples Republic of China	100%	100%

<sup>(1)</sup> Percentage of voting power is in proportion to ownership

<sup>(2)</sup> Treyo International Holding (HK) Ltd is the intermediate parent entity of Matsuoka Mechatronics (China) Co., Ltd.

#### b. **Acquisition of Controlled Entities**

On 31 October 2008 Treyo Leisure and Entertainment Ltd acquired 100% of Treyo International Holding (HK) Ltd, with Treyo Leisure and Entertainment Ltd entitled to all profits earned as a result of a reverse acquisition; refer to Note 2 for further details.

#### c. **Cross guarantee**

There is no deed of cross guarantee as at 31 December 2009 or 31 December 2008.

### NOTE 16: PROPERTY, PLANT AND EQUIPMENT

	<b>Land use Right</b>	<b>Building</b>	<b>Consolidated Group Motor Vehicle</b>	<b>Office Equipment</b>	<b>Plant &amp; Machinery</b>	<b>TOTAL</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>31 December 2009</b>						
<b>Cost</b>						
At 1 January 2009	1,697,823	11,043,527	771,986	253,423	2,826,598	16,593,357
Additions	-	-	92,456	58,092	65,355	215,903
Exchange differences	(385,801)	(2,509,41)	(186,111)	(64,303)	(649,851)	(3,795,517)
<b>At 31 December 2009</b>	<b>1,312,022</b>	<b>8,534,076</b>	<b>678,331</b>	<b>247,212</b>	<b>2,242,102</b>	<b>13,013,743</b>
<b>Accumulated Depreciation</b>						
At 1 January 2009	192,420	1,394,870	285,222	87,124	678,022	2,637,658
Depreciation for the period	29,671	434,244	132,974	55,013	413,736	1,065,638
Exchange differences	(47,155)	(367,172)	(80,187)	(26,158)	(201,908)	(722,580)
<b>At 31 December 2009</b>	<b>174,936</b>	<b>1,461,942</b>	<b>338,009</b>	<b>115,977</b>	<b>889,850</b>	<b>2,980,716</b>
<b>Net book value</b>						
<b>At 31 December 2009</b>	<b>1,137,086</b>	<b>7,072,134</b>	<b>340,322</b>	<b>131,233</b>	<b>1,352,252</b>	<b>10,033,027</b>
At 31 December 2008	1,505,403	9,648,657	486,764	166,299	2,148,576	13,955,699



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 16: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land use Right \$	Building \$	Consolidated Group Motor Vehicle \$	Office Equipment \$	Plant & Machinery \$	TOTAL \$
<b>31 December 2008</b>						
<b>Cost</b>						
At 1 January 2008	1,247,612	8,115,120	524,662	148,960	1,600,673	11,637,027
Additions	-	-	48,364	42,288	540,639	631,291
Exchange differences	450,211	2,928,407	198,960	62,175	685,286	4,325,039
<b>At 31 December 2008</b>	<b>1,697,823</b>	<b>11,043,527</b>	<b>771,986</b>	<b>253,423</b>	<b>2,826,598</b>	<b>16,593,357</b>
<b>Accumulated Depreciation</b>						
At 1 January 2008	116,444	659,812	115,151	30,356	251,504	1,173,267
Depreciation for the period	28,317	414,425	107,174	38,206	279,998	868,120
Exchange differences	47,659	320,633	62,897	18,562	146,520	596,271
<b>At 31 December 2008</b>	<b>192,420</b>	<b>1,394,870</b>	<b>285,222</b>	<b>87,124</b>	<b>678,022</b>	<b>2,637,658</b>
<b>Net book value</b>						
<b>At 31 December 2008</b>	<b>1,505,403</b>	<b>9,648,657</b>	<b>486,764</b>	<b>166,299</b>	<b>2,148,576</b>	<b>13,955,699</b>
At 31 December 2007	1,131,168	7,455,308	409,511	118,604	1,349,169	10,463,760

#### 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 \$	Building \$	Consolidated Group Motor Vehicle \$	Office Equipment \$	Plant & Machinery \$	TOTAL \$
<b>Carrying amounts</b>						
At 1 January 2008	1,131,168	7,455,308	409,511	118,604	1,349,169	10,463,760
Additions	-	-	48,363	42,288	540,640	631,291
Depreciation expense	(28,317)	(414,425)	(107,174)	(38,206)	(279,998)	(868,120)
Exchange differences	402,552	2,607,774	136,064	43,613	538,765	3,728,768
<b>At 31 December 2008</b>	<b>1,505,403</b>	<b>9,648,657</b>	<b>486,764</b>	<b>166,299</b>	<b>2,148,576</b>	<b>13,955,699</b>
At 1 January 2009	1,505,403	9,648,657	486,764	166,299	2,148,576	13,955,699
Additions	-	-	92,456	58,092	65,356	215,903
Depreciation expense	(29,671)	(434,244)	(132,974)	(55,013)	(413,736)	(1,065,638)
Exchange differences	(338,646)	(2,142,279)	(105,924)	(38,145)	(447,943)	(3,072,937)
<b>At 31 December 2009</b>	<b>1,137,086</b>	<b>7,072,134</b>	<b>340,322</b>	<b>131,233</b>	<b>1,352,252</b>	<b>10,033,027</b>

#### Parent entity

The parent entity does not hold any Property plant and equipment in the financial year ended 31 December 2009 and 31 December 2008.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 17: INTANGIBLE ASSETS

	Consolidated Group					
	Patents and Trademarks	Software	Total	Patents and Trademarks	Software	Total
	31 December 2009			31 December 2008		
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
At 1 January	412,765	105,415	518,180	293,994	-	293,994
Additions	-	-	-	10,575	87,908	98,483
Currency translation difference	(93,793)	(23,954)	(117,747)	108,196	17,507	125,703
At 31 December	<b>318,972</b>	<b>81,461</b>	<b>400,433</b>	412,765	105,415	518,180
<b>Accumulated amortisation and impairment</b>						
At 1 January	197,830	4,602	202,432	85,719	-	85,719
Amortisation in the period	71,027	9,211	80,238	67,697	3,838	71,535
Currency translation difference	(53,166)	(2,111)	(55,277)	44,414	764	45,178
At 31 December	<b>215,691</b>	<b>11,702</b>	<b>227,393</b>	197,830	4,602	202,432
<b>Net carrying value</b>						
31 December	<b>103,281</b>	<b>69,759</b>	<b>173,040</b>	214,935	100,813	315,748
<b>Carrying amount</b>						
At 1 January	214,935	100,813	315,748	208,276	-	208,276
Additions	-	-	-	10,575	87,908	98,483
Amortisation in the period	(71,027)	(9,211)	(80,238)	(67,697)	(3,838)	(71,535)
Currency translation difference	(40,627)	(21,843)	(62,470)	63,781	16,743	80,524
At 31 December	<b>103,281</b>	<b>69,759</b>	<b>173,040</b>	214,935	100,813	315,748

#### Parent entity

The parent entity does not hold any intangible assets in the financial year ended 31 December 2009 and 31 December 2008.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 18: TRADE AND OTHER PAYABLES

CURRENT	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Unsecured liabilities				
Trade payables	6,439,173	11,421,332	21,510	558,389
Sundry payables and accrued expenses	3,662,752	6,186,547	125,256	784,287
Value Added Tax (VAT) and other indirect taxes payable	442,093	675,499	-	-
Prepayments from customers	812,501	1,984,521	-	-
Net amount due to shareholders under IPO cancelled application	-	1,500	-	1,500
Amounts payable to Director, Guohua Wei	-	804,797	-	-
	<u>11,356,519</u>	<u>21,074,196</u>	<u>146,766</u>	<u>1,344,176</u>

### NOTE 19: NOTES PAYABLE

CURRENT	Note	Consolidated Group		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Secured liabilities					
Notes payable	10	<u>4,475,077</u>	<u>7,116,137</u>	-	-

The notes payable mature from January 2010 to June 2010 (2008: from January 2009 to June 2009). The notes payable are guaranteed against interest bearing short term bank deposits of \$2,237,484 (2008: \$3,558,068) (see Note 10), a personal guarantee from a director, Guohua Wei and a corporate guarantee from related party Zhejiang Matsuoka Mechatronics Industry Co. Ltd.

### NOTE 20: FINANCIAL LIABILITIES

CURRENT	Note	Consolidated Group		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Unsecured liabilities					
Advances from wholly-owned subsidiary, Treyo International Holdings (HK) Ltd	32	-	-	-	598,386

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 21: TAX

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>a. Liabilities</b>				
<b>CURRENT</b>				
Income Tax	202,581	350,206	-	-
<b>b. Assets</b>				
<b>NON-CURRENT</b>				
Deferred tax asset	397,784	565,606	397,784	565,606

	Opening Balance \$	Charged to Income \$	Charged directly to Equity \$	Changes in Tax Rate \$	Exchange Differences \$	Closing Balance \$
<b>Consolidated Group</b>						
Deferred tax asset						
Balance at 1 January 2009	565,606	-	-	-	-	565,606
Transaction costs on equity issue	-	-	(167,822)	-	-	(167,822)
<b>Balance at 31 December 2009</b>	<b>565,606</b>	<b>-</b>	<b>(167,822)</b>	<b>-</b>	<b>-</b>	<b>397,784</b>
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 \$47,416 (2008: \$39,916)	6,985	12,226	-	-	-	19,211
<b>Parent Entity</b>						
Deferred tax asset						
Balance at 1 January 2009	565,606	-	-	-	-	565,606
Transaction costs on equity issue	-	-	(167,822)	-	-	(167,822)
<b>Balance at 31 December 2008</b>	<b>565,606</b>	<b>-</b>	<b>(167,822)</b>	<b>-</b>	<b>-</b>	<b>397,784</b>
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 \$31,422 (2008: \$nil)	-	9,433	-	-	-	9,433



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 22: PROVISIONS

The Consolidated Group and Parent Entity have no provisions at the 31 December 2009 (2008: \$nil). No employees are eligible for annual leave or long-term employee benefits at the 31 December 2009 (2008: \$nil).

### NOTE 23: ISSUED CAPITAL

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
At the beginning of reporting period 311,008,000 (2008: 8,000,000) fully paid ordinary shares	23,302,770	11,216,446	34,525,617	-
Shares issued during the year	-	-	-	-
Shares issued during the prior year				
— 19 December 2008 <sup>(1)</sup>	-	12,702,000	-	12,702,000
— 19 December 2008 <sup>(2)</sup>	-	50,000	-	50,000
— 31 October 2008 <sup>(3)</sup>	-	-	-	22,440,840
— 23 May 2008 <sup>(4)</sup>	-	1	-	1
— 31 October 2008 <sup>(5)</sup>	-	1,547	-	-
Share issue costs during the prior year	-	(953,177)	-	(953,177)
Deferred tax benefit associated with the Share Issue Costs during the prior year	-	285,953	-	285,953
At the end of reporting period 311,008,000 (2008: 311,008,000) fully paid ordinary shares	23,302,770	23,302,770	34,525,617	34,525,617

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

Ordinary shares	Consolidated Group		Parent Entity	
	2009 Number	2008 Number	2009 Number	2008 Number
At the beginning of reporting period	311,008,000	8,000,000	311,008,000	-
Shares issued during the year	-	-	-	-
Shares issued during the prior year				
— 19 December 2008 <sup>(1)</sup>	-	50,808,000	-	50,808,000
— 19 December 2008 <sup>(2)</sup>	-	200,000	-	200,000
— 31 October 2008 <sup>(3)</sup>	-	251,999,998	-	259,999,998
— 23 May 2008 <sup>(4)</sup>	-	2	-	2
At reporting date	311,008,000	311,008,000	311,008,000	311,008,000



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 23: ISSUED CAPITAL (CONTINUED)

<sup>(1)</sup> The company raised \$12,702,000 from the issue of 50,808,000 ordinary shares at \$0.25, as a result of the IPO. On 2 January 2009 Treyo Leisure and Entertainment Ltd and was admitted to the Official List of the ASX Limited and commences official quotation on 8<sup>th</sup> January 2009.

<sup>(2)</sup> Equity compensation shares issued (Edward Byrt 100,000 and Roger Smeed 100,000), of which \$2,000 was paid in cash.

<sup>(3)</sup> Pursuant the reconstructions agreement dated 31 October 2008, refer to Note 2 for further details.

<sup>(4)</sup> On incorporation of Treyo Leisure and Entertainment Ltd.

<sup>(5)</sup> Shares of Treyo International Holding (HK) Ltd on acquisition of Matsuoka Mechatronics (China) Co., Ltd.

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.

#### Performance Options

During the year the Board withdrew the Directors and Senior Executives Options Plan ("Plan") with the approval of the effected directors and senior executives.

Under the Plan the Board could offer directors and senior executives of the Company or its controlled entities corporate options which may be exercised for new ordinary shares. The Board had the discretion to set the issue price, exercise price and other conditions applying to the options. These terms and condition were set with a view to providing a long term incentive to directors and senior executives and align the financial interest of the directors and senior executives with shareholders for the benefit of the Company.

No options have been issued under the Plan at as the reporting date (2008: nil).

#### 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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 23: ISSUED CAPITAL (CONTINUED)

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 2009 and 31 December 2008 are as follows:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Total liabilities	16,034,177	28,540,539	146,766	1,942,562
Less: Cash and cash equivalent	(31,892,398)	(40,265,989)	(646,215)	(12,707,528)
Net liabilities/(net cash)	(15,855,221)	(11,725,450)	(499,449)	(10,764,966)
Total equity	34,460,450	36,136,755	33,749,880	33,855,092
(Net cash) to equity ratio	(46%)	(32%)	(1.5)%	(32%)

The increase in consolidated net cash – equity ratio during 2009 is primarily due to lower liabilities.

The decrease in parent entity's net cash – equity ratio during 2009 is primarily due to cash being transferred to a subsidiary.

### NOTE 24: RESERVES

#### Foreign Currency Translation Reserve

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

#### 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 purpose 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 25: CAPITAL AND LEASING COMMITMENTS

The Consolidated Group and Parent Entity have no capital or leasing commitments at the 31 December 2009 (2008: \$nil).



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 26: COMMITMENTS

#### Management services commitment

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 \$32,660 (RMB 200,000 per month) (2008: \$42,270 (RMB200,000) per month). The term of the engagement was for the 12 months (2008: 12 months) and ended on 31 December 2010 (2008: 31 December 2009).

### NOTE 27: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

At the date of this report, the directors of the Group are not aware of any contingent liabilities or contingent assets that should be disclosed on accordance with AASB 137.

### NOTE 28: OPERATING SEGMENTS

#### Identification of reportable 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 accessing performance and determining the allocation of resources.

Similar to the last reporting period ended 31 December 2008; the Group is managed primarily on the basis of geographical segments as the Group only has one business segment, being the business of manufacturing automated mahjong tables.

The Geographical segments relate to three different countries, being China, Australia and Hong Kong.

#### Geographical Segments

	China \$	Hong Kong \$	Australia \$	Total \$
<b>31 December 2009</b>				
<b>REVENUE</b>				
Total revenue -external sales	66,523,248	-	-	66,523,248
<b>RESULT</b>				
Segment result	8,195,910	(91,112)	(104,861)	7,999,937
Unallocated expenses net of unallocated revenue	-	-	-	-
Finance costs	(15,062)	(167)	(351)	(15,580)
Profit/(loss) before income tax	8,180,848	(91,279)	(105,212)	7,984,357
Income tax expense	(794,427)	-	-	(794,427)
Profit after income tax	7,386,421	(91,279)	(105,212)	7,189,930



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 28: OPERATING SEGMENTS (CONTINUED)

#### Geographical Segments (continued)

	China \$	Hong Kong \$	Australia \$	Total \$
<b>31 December 2009</b>				
<b>ASSETS</b>				
Segment assets	46,035,906	3,370,520	1,088,201	50,494,627
<b>LIABILITIES</b>				
Segment liabilities	15,887,411	-	146,766	16,034,177
Reconciliation of segmental assets to group assets				
Inter-segment eliminations				-
Total group assets from continuing operations				<u>34,460,450</u>
<b>OTHER</b>				
Depreciation and amortisation of segment assets	1,145,876	-	-	1,145,876
<b>31 December 2008</b>				
<b>REVENUE</b>				
Total revenue -external sales	71,751,297	-	-	71,751,297
<b>RESULT</b>				
Segment result	8,561,318	(39,916)	(950,148)	7,571,254
Unallocated expenses net of unallocated revenue	-	-	-	-
Finance costs	(495,500)	-	(30)	(495,530)
Profit/(loss) before income tax	8,065,818	(39,916)	(950,178)	7,075,724
Income tax expense	(738,923)	-	279,653	(459,270)
Profit after income tax	7,326,895	(39,916)	(670,525)	6,616,454
<b>ASSETS</b>				
Segment assets	51,311,675	8,805	13,356,814	64,677,294
<b>LIABILITIES</b>				
Segment liabilities	26,391,384	804,979	1,344,176	28,540,539



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 28: OPERATING SEGMENTS (CONTINUED)

#### Geographical Segments (continued)

	China \$	Hong Kong \$	Australia \$	Total \$
<b>31 December 2008</b>				
Reconciliation of segmental assets to group assets				
Inter-segment eliminations				-
Total group assets from continuing operations				<u>36,136,755</u>
<b>OTHER</b>				
Depreciation and amortisation of segment assets	<u>939,655</u>	-	-	<u>939,655</u>

#### Basis for accounting for purposes of operating segments

##### a. Accounting policies adopted

Unless stated otherwise, all amounts reported to the Executive Directors as chief decision makers with respect to operating segments are determined in accordance with accounting policies that are consistent with those disclosed in Note 1.

##### b. Inter-segmental transaction

Segment revenues and expenses are those directly attributable to the segments. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings.

#### Major customers

The Group's automated mahjong tables are sold to the general public under the brand name "Treyo". The automated mahjong tables are sold through the Groups' network of distributors.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 29: CASH FLOW INFORMATION

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>a. Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>				
Profit/(loss) after income tax	7,189,929	6,616,454	(105,212)	(670,525)
Non-cash flows in profit				-
Amortisation	80,238	71,535	-	-
Depreciation	1,065,638	868,120	-	-
Net loss on disposal of property, plant and equipment	-	-	-	-
Equity Based remuneration	-	48,000	-	48,000
Net foreign exchange difference	1,966,769	(2,557,134)	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	285,248	20,690,448	57,368	(68,682)
(Increase)/decrease in prepayments	(694,362)	(14,998)	(17,890)	(14,998)
(Increase)/decrease in inventories	1,984,988	(2,676,907)	-	-
Increase/(decrease) in trade payables and accruals (excluding share issue costs balances)	(9,446,898)	3,315,200	(1,042,368)	505,997
Increase/(decrease) in income taxes payable	(147,625)	350,206	-	-
(Increase)/decrease in deferred tax asset balances	167,822	(279,653)	167,822	(279,653)
Cashflow from operations	2,451,747	26,431,271	(940,280)	(479,861)

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>b. Acquisition of Entities</b>				
During the prior year 100% of the controlled entity Treyo International Holdings (HK) Ltd and controlled entity (Matsuoka Mechatronics (China) Co., Ltd) was acquired. Details of this transaction are:				
Purchase consideration	-	22,440,840	-	-
Cash consideration	-	-	-	-
Cash outflow	-	-	-	-

Refer to Note 2 for assets and liabilities held at acquisition date.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 29: CASH FLOW INFORMATION (CONTINUED)

The assets and liabilities arising from the reverse acquisition are recognised as if the acquirer is Matsuoka Mechatronics (China) Co., Ltd and Treyo Leisure and Entertainment Ltd is the acquiree in accordance with AASB 3 "Business Combinations". As Treyo Leisure and Entertainment Ltd was incorporated specifically for the purpose of this transaction and the equity raised the fair value of the equity instruments issued has been eliminated by reference to the fair value of the acquirer's (Matsuoka Mechatronics (China) Co., Ltd's) net assets.

The assets and liabilities arising from the acquisition are recognised at fair value which is equal to its end carrying value.

#### Non-cash Financing and Investing Activities

##### Share issue

In the prior year 259,999,998 ordinary fully paid shares were issued at \$11,216,446 as part of the consideration for the purchase of Treyo International Holdings (HK) Ltd and controlled entity. The share issue was based on the fair value of the company; refer to Note 2 for further details.

### NOTE 30: SHARE-BASED PAYMENTS

During the year there were no share based payment arrangements, in the prior year ended 31 December 2008 the following arrangements existed:

#### Equity based remuneration

In the prior year 200,000 ordinary shares were issued to two directors of Treyo Leisure and Entertainment Ltd. The shares have voting and dividend rights and are transferable, subject to a Voluntary Escrow Agreement (see Note 6c).

The weighted average fair value of the shares granted during the prior year was \$50,000.

This price was calculated by using the IPO share price:

	\$
200,000 shares at \$0.25	50,000
Less amounts paid in cash	<u>2,000</u>
Equity based remuneration in Income Statements <sup>(1)</sup>	<u>48,000</u>

<sup>(1)</sup>Included under equity based remuneration in the income statement is \$nil (2008: \$48,000), and relates, in full, to equity-settled share-based payment transactions.

#### Directors and Executives Options Plan

During the year the directors withdrew the Directors and Executives Options Plan ("Plan") with the approval of the effected directors and senior executives. At 31 December 2009 and 31 December 2008 no options have been granted under the plan.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 30: SHARE-BASED PAYMENTS (CONTINUED)

Under the Directors and Executives Options Plan ("Plan") the Board may offer directors and senior executives of the Company or its controlled entities corporate options which may be exercised for new ordinary shares. The Board has the discretion to set the issue price, exercise price and other conditions applying to the options. These terms and condition will be set with a view to providing a long term incentive to directors and senior executives and align the financial interest of the directors and senior executives with shareholders for the benefit of the Company. Refer to Note 6 for further details.

If there is a reconstruction of the capital of the Company or a bonus issue to the holders of shares in the Company, there will be a corresponding adjustment to the number of options. If the Company undertakes a rights issue, the exercise price of the options will be reconstructed in accordance with the ASX listing rules. These provisions are designed to preserve the participants' proportion entitlement to shares on the exercise of options.

The number of shares which are subject of an offer of options when aggregated with the number of shares which would be issued if each outstanding offer of options was accepted, together with the number of shares issued during the five years prior to the offer of options under the Plan or any other employee share plan (excluding shares or options issued in circumstances that would not require a disclosure documents within the meaning of section 708 of the Corporations Act 2001), will not exceed 5% of the total number of shares on issue at the time of the offer of options.

Shares arising on the exercise of options will have the same rights as, and rank equally with, other shares (subject to any further conditions or restrictions imposed by the Board).

### NOTE 31: EVENTS AFTER THE BALANCE SHEET DATE

On 25 December 2009 the company entered into a loan agreement for \$3,266,000 (RMB 20,000,000), which was released on 7 January 2010. Interest will be charged at 5.31% and repayment on 5 December 2010. The loan is secured by a personal guarantee from a director, Guohua Wei and a corporate guarantee from related party Zhejiang Matsuoka Mechatronics Industry Co. Ltd.

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 32: 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:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>a. Other Related Parties</b>				
<b>Transactions</b>				
Sales to related parties				
-Zhejiang Minghe Mechatronics Co. Ltd <sup>(1)</sup>	5,118,106	200,538	-	-
-Hangzhou Songyan Electronics Co., Ltd. <sup>(5)</sup>	15,655	-	-	-
	<u>5,133,762</u>	<u>200,538</u>	-	-



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 32: RELATED PARTY TRANSACTIONS (CONTINUED)

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>a. Other Related Parties (continued)</b>				
Rental received from related parties				
-Zhejiang Minghe Mechatronics Co. Ltd <sup>(1)</sup>	-	26,437	-	-
Purchase plant and equipment from related parties				
-Zhejiang Matsuoka Mechatronics Industry Co. Ltd <sup>(2)</sup>	49,974	116,697	-	-
Purchase from related parties				
-Zhejiang Matsuoka Mechatronics Industry Co. Ltd <sup>(2)</sup>		622,018	-	-
-Hangzhou Dibiao Mechatronics Co., Ltd <sup>(3)</sup>	2,921,694	1,672,798	-	-
-Hangzhou Hauren Plastics Manufacturing Co. Ltd <sup>(4)</sup>	256,809	2,108,504	-	-
-Hangzhou Guoshi Advertising Co. Ltd <sup>(7)</sup>	66,484	63,450	-	-
-Zhongronghuaying Holdings Co. Ltd <sup>(9)</sup>	436,163	-	-	-
Total Purchase from related parties	3,681,149	4,466,770	-	-
Advances to related parties				
- Zhejiang Songjin Compound Materials Co. Ltd <sup>(6)</sup>	1,395,649	-	-	-
Rental paid to related parties				
-Zhejiang Matsuoka Mechatronics Industry Co. Ltd <sup>(2)</sup>	-	81,227	-	-
Dividend paid to related parties				
- Songgang International Group Co. Ltd <sup>(8)</sup>	-	9,191,914	-	-
<b>Balances</b>				
Other related parties balances are included in the following:				
Other receivables				
-Zhejiang Minghe Mechatronics Co. Ltd <sup>(1)</sup>	2,246	4,920	-	-
-Zhejiang Matsuoka Mechatronics Industry Co. Ltd <sup>(2)</sup>	-	1,397,109	-	-
-Hangzhou Hauren Plastics Manufacturing Co. Ltd <sup>(4)</sup>	4,810	82,620	-	-
-Hangzhou Songyan Electronics Co., Ltd. <sup>(5)</sup>	9,342	67,632	-	-
-Zhejiang Songjin Compound Materials Co. Ltd <sup>(6)</sup>	1,234,272	-	-	-
-Hangzhou Guoshi Advertising Co. Ltd <sup>(7)</sup>	74,185	95,999	-	-
Total other receivables	1,324,855	1,648,280	-	-
Trade and other payables				
-Hangzhou Dibiao Mechatronics Co., Ltd <sup>(3)</sup>	204,316	333,495	-	-

<sup>(1)</sup> Zhejiang Minghe Mechatronics Co. Ltd is a company in which executive director, Weiyun Chen is a director. In the prior year non-executive director, Kwong Fat Tse resigned as a director of Zhejiang Minghe Mechatronics Co. Ltd. The related party purchased Mahjong tables and leased a workshop from the Consolidated Group during the year. At 31 December 2009 amounts receivable from the Company amount to \$2,246 (2008: \$4,920) relating to lease costs and Mahjong tables.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 32: RELATED PARTY TRANSACTIONS (CONTINUED)

#### a. Other Related Parties (continued)

- <sup>(2)</sup> Zhejiang Matsuoka Mechatronics Industry Co. Ltd is a company in which executive director, Guohua Wei was a director. Guohua Wei resigned as a director during the year ended 31 December 2008. Guohua Wei's wife, Ms Fu is Chairman of Zhejiang Matsuoka Mechatronics Industry Co. Ltd. During the year the Consolidated Group leased equipment and contracted assembly services from the related party. At 31 December 2009 amounts receivable from the related party amount to \$nil (2008: \$1,397,109). These amounts related to advance payments for leased equipment and assembly services.
- <sup>(3)</sup> Hangzhou Dibiao Mechatronics Co., Ltd is a company in which executive director, Guohua Wei has a beneficial interest. During the year the Consolidated Group purchased Mahjong tiles from the related party. At 31 December 2009 the trade payables to the related party amount to \$204,316 (2007: \$333,495).
- <sup>(4)</sup> Hangzhou Hauren Plastics Manufacturing Co. Ltd is a company in which executive director, Guohua Wei was a director. Guohua Wei resigned as a director during the year ended 31 December 2008. The company is not a related party during the year ended 31 December 2009. During the prior year the Consolidated Group purchased raw materials from the related party. At 31 December 2008 the other receivables from the related party amount \$82,620, the receivable related to advance payments for raw materials.
- <sup>(5)</sup> Hangzhou Songyan Electronics Co., Ltd. is a company in which executive director Weiyun Chen is a director. Guohua Wei resigned as a director of Hangzhou Songyan Electronics Co., Ltd. during the year ended 31 December 2008. At 31 December 2009 the other receivables from the related party amount to \$9,342 (2008: \$67,632), being unsecured advances to Hangzhou Songyan Electronics Co., Ltd.
- <sup>(6)</sup> Zhejiang Songjin Compound Materials Co. Ltd is a company in which executive director, Guohua Wei's wife, Ms Fu is a director. Guohua Wei and Kwong Fat Tse both resigned as directors during the year ended 31 December 2008. At 31 December 2009 the other receivables from the related party amount to \$1,234,272 (2008: \$nil), being unsecured advances to Zhejiang Songjin Compound Materials Co. Ltd.
- <sup>(7)</sup> Hangzhou Guoshi Advertising Co Ltd is a company in which executive director, Guohua Wei has a beneficial interest and his wife, Ms Fu is a director. The Consolidated Group has entered into a contract with Hangzhou Guoshi Advertising Co Ltd for it to provide advertising and promotion services to the Company for a period of two years from 1 January 2008 to 31 December 2009 at a fee of \$63,450 (RMB360,000) per annum, at 31 December 2009 \$74,185 (2008: \$95,999) was prepaid. Refer to Note 26 and 31 for further commitment and subsequent event details.
- <sup>(8)</sup> Songgang International Group Co. Ltd is a company in which non-executive director Kwong Fat Tse has a beneficial interest. A dividend of \$nil (2008: \$9,191,914) was paid by Matsuoka Mechatronics (China) Co., Ltd to Songgang International Group Co. Ltd prior to the acquisition of Matsuoka Mechatronics (China) Co. Ltd by Treyo International Holdings (HK) Ltd.
- <sup>(9)</sup> Zhongronghuaying Holdings Co. Ltd is a company in which executive director, Guohua Wei is a director. During the year the Consolidated Group purchased services from the related party of \$436,163 (2008: \$nil). At 31 December 2009 the trade payables to the related party amount to \$nil (2008: \$nil).



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 32: RELATED PARTY TRANSACTIONS (CONTINUED)

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>b. Key Management Personnel</b>				
Trade and other payables				
-IPO costs to be reimbursed to executive director, Mr Guohua Wei (Note 18)	-	804,797	-	-
A list of key management personnel and their shareholdings is shown in Note 6 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.				
<b>c. Subsidiaries</b>				
Trade and other receivables				
Advances to wholly-owned subsidiary, Treyo International Holdings (HK) Ltd (Note 14)	-	-	10,367,605	-
Trade and other payables				
Advances from wholly-owned subsidiaries, Treyo International Holdings (HK) Ltd (Note 20)	-	-	-	598,386

### NOTE 33: 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, loans to and from subsidiaries and notes payable.

The main purpose of non-derivative financial instruments is to raise finance for Group operations.

#### i. Treasury Risk Management

A finance committee consisting of senior executives of the Group meet 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.

The finance committee operates under policies approved by the board of directors. Risk management policies are approved and reviewed by the Board on a regular basis. These include the credit risk policies and future cash flow requirements.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 33: 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 33(b)(i) & (iii).

##### Foreign currency risk

The Group is exposed to fluctuations in foreign currencies arising from controlled subsidiaries residing overseas. 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

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 balance sheet 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 2009.

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.

##### Price risk

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 33: FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 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.

	Weighted Average Effective Interest Rate		Floating Interest Rate Maturing within 1 year		Non Interest Bearing Maturing within 1 year		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	%	%	\$	\$	\$	\$	\$	\$
<b>Consolidated Group</b>								
<b>Financial Assets:</b>								
Cash and cash equivalents	1.22%	1.09%	31,888,747	27,558,461	3,651	12,707,528	31,892,398	40,265,989
Receivables	-	-	-	-	3,205,036	3,490,284	3,205,036	3,490,284
<b>Total Financial Assets</b>			<b>31,888,747</b>	<b>11,625,591</b>	<b>3,208,687</b>	<b>16,197,591</b>	<b>35,097,434</b>	<b>43,756,273</b>
<b>Financial Liabilities:</b>								
Notes payable	-	-	-	-	4,475,077	7,116,137	4,475,077	7,116,137
Trade and other payables	-	-	-	-	11,356,519	21,074,196	11,356,519	21,074,196
<b>Total Financial Liabilities</b>			<b>-</b>	<b>-</b>	<b>15,831,596</b>	<b>28,190,333</b>	<b>15,831,596</b>	<b>28,190,333</b>
<b>Net Financial Assets</b>							<b>19,265,838</b>	<b>15,565,940</b>
<b>Parent Entity</b>								
<b>Financial Assets:</b>								
Cash and cash equivalents	-	-	643,312	-	2,903	12,707,528	646,215	12,707,528
Receivables	-	-	-	-	11,314	68,682	11,314	68,682
Intercompany advances	-	-	-	-	10,367,605	-	-	-
<b>Total Financial Assets</b>			<b>643,312</b>	<b>-</b>	<b>10,381,822</b>	<b>12,776,210</b>	<b>11,025,134</b>	<b>12,776,210</b>
<b>Financial Liabilities:</b>								
Trade and other payables	-	-	-	-	146,766	1,344,176	146,766	1,344,176
Intercompany advances	-	-	-	-	-	598,386	-	598,386
<b>Total Financial Liabilities</b>			<b>-</b>	<b>-</b>	<b>146,766</b>	<b>1,942,562</b>	<b>146,766</b>	<b>1,942,562</b>
<b>Net Financial Assets</b>							<b>10,787,368</b>	<b>10,833,648</b>

The Group and the company do not have financial assets and financial liabilities maturity more than one year.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 33: FINANCIAL RISK MANAGEMENT (CONTINUED)

#### b. Financial Instruments (continued)

##### ii. Net Fair Values

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.

##### 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.

##### iii. Sensitivity Analysis (continued)

###### Interest Rate Sensitivity Analysis

At 31 December 2009, 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:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Change in profit				
— Increase in interest rate by 2%	637,775	551,169	12,866	-
— Decrease in interest rate by 2%	(637,775)	(300,387)	(12,866)	-
Change in Equity				
— Increase in interest rate by 2%	637,775	551,169	12,866	-
— Decrease in interest rate by 2%	(637,775)	(300,387)	(12,866)	-

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 34: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

New / revised pronouncement	Explanation of amendments	Effective date (annual reporting periods ending on or after)	Impact of the new standards
AASB 1 <i>First time adoption of Australian Accounting Standards</i> (May 2009) – “AASB 1R”	Structure of the standard has been amended for ease of use.	30 June 2010	As this is not the first year of adoption of IFRSs, these amendments will not have any impact on the entity's financial report
AASB 3 <i>Business Combinations</i> (March 2008) – “AASB 3R”	AASB 3R amends how entities account for business combinations and changes in ownership interests in subsidiaries. Many changes have been made to this standard affecting acquisition related costs, step acquisitions, measurement of goodwill and contingent considerations. AASB 3 also replaces the term “Minority Interest” with “Non-controlling Interest”. AASB 3 is applied prospectively.	Business combinations occurring on or after an annual reporting period beginning on or after 1 July 2009	As the entity has not been a party to a business combination during the year, this standard is not expected to have any impact on the entity's financial report.
AASB 127 <i>Consolidated and Separate Financial Statements</i> (March 2008) – “AASB 127R”	AASB 127R amends how entities account for business combinations and changes in ownership interests in subsidiaries. Many changes were made to this standard affecting acquisitions and disposals which do not result in a change of control, partial disposals where control is lost, attribution of profit or loss to non-controlling interests and loss of significant influence or control in relation to Associates and Joint Ventures. AASB 127 replaces the term “Minority Interest” with the “Non-controlling Interest”. AASB 127 is applied retrospectively, with certain exceptions relating to the significant changes made in this revision.	30 June 2010	As the transitional provisions of AASB 127 provide that the changes to the recognition and measurement criteria within AASB 127 resulting from this revision do not apply retrospectively to business combinations effected prior to the amendments being adopted, this standard is not expected to have any impact on the entity's financial report.
IFRS 9 <i>Financial Instruments</i> (to be issued in Australia as AASB 9)	IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value.	31 December 2013	IFRS 9 amends the classification and measurement of financial assets; the entity has not yet determined the impact of this standard due to its late release date.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 34: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (CONTINUED)

New / revised pronouncement	Explanation of amendments	Effective date (annual reporting periods ending on or after)	Impact of the new standards
AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]	AASB 2008-3 was issued after the AASB revised AASB 3 and AASB 127, as consequential amendments were necessary to other Australian Accounting Standards.	30 June 2010	See above for AASB 3 and AASB 127 information.
AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & 5]	AASB 2008-6 amends AASB 1 and AASB 5 to include requirements relating to a sale plan involving the loss of control of a subsidiary. The amendments require all the assets and liabilities of such a subsidiary to be classified as held for sale and clarify the disclosures required when the subsidiary is part of a disposal group that meets the definition of a discontinued operation.	30 June 2010	As the entity does not have any plans to lose control of a subsidiary, these amendments will not have any impact on the entity's financial report.
AASB 2008-8 Amendments to Australian Accounting Standards - Eligible Hedged Items [AASB 139]	AASB 2008-8 makes amendments to AASB 139 to clarify the application of some of AASB 139's requirements on designation of a risk or a portion of cash flows for hedge accounting purposes. The main issues addressed are: <ul style="list-style-type: none"> <li>- Designation of one-sided risks</li> <li>- Designation of portions of cash flows of a financial instrument, with reference to inflation components; and</li> </ul> Hedge effectiveness when hedging one-sided risks with a purchased option.	30 Jun 2010	As the entity does not apply cash flow hedge accounting, these amendments will not have any impact on the entity's financial report.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 34: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (CONTINUED)

New / revised pronouncement	Explanation of amendments	Effective date (annual reporting periods ending on or after)	Impact of the new standards
AASB 2008-11 Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities [AASB 3]	AASB 2008-11 mandates that the requirements in AASB 3 (March 2008) are applicable to business combinations among not-for-profit entities (other than restructures of local governments) that are not commonly controlled. It also allows those requirements to be early adopted by not-for-profit entities. Also included are specific recognition, measurement and disclosure requirements relating to local government restructures.	30 June 2010	As the entity has not been a party to a business combination during the year, this standard is not expected to have any impact on the entity's financial report.
AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110]	AASB 2008-13 makes amendments to AASB 5 and AASB 110 resulting from the issue of Interpretation 17. The amendments relate to the classification, presentation and measurement of non-current assets held for distribution to owners and the disclosure requirements for dividends that are declared after the reporting period but before the financial statements are authorised for issue.	30 June 2010	As the entity has not declared any non-cash dividends to owners during the year, this interpretation is not expected to have any impact on the entity's financial report.
AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2, AASB 138 and AASB Interpretations 9 & 16]	Makes various amendments to a number of standards and interpretations in line with the IASB annual improvements project.	30 June 2010	Given the number of standards amended by AASB 2009-4, an example disclosure is not included. Entities assess the impact of each of the amendments on their organisation.
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	Makes various amendments to a number of standards and interpretations in line with the IASB annual improvements project.	31 December 2010	Given the number of standards amended by AASB 2009-5, an example disclosure is not included.  Entities assess the impact of each of the amendments on their organisation.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 34: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (CONTINUED)

New / revised pronouncement	Explanation of amendments	Effective date (annual reporting periods ending on or after)	Impact of the new standards
AASB 2009-7 Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]	AASB 2009-7 makes amendments to correct errors that occurred in AASB 2008-12, AASB 2008-13 and Interpretation 17, as well as amendments which reflect changes made by the IASB to its pronouncements. The editorial amendments have no major impact on the requirements of the amended pronouncements.	30 June 2010	Given the number of standards amended by AASB 2009-4, an example disclosure is not included. Entities assess the impact of each of the amendments on their organisation.
AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions	AASB 2009-8 makes amendments which clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	31 December 2010	As the entity does not make any group cash-settled share-based payment transactions, these amendments will not have any impact on the entity's financial report.
AASB 2009-9 Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters	AASB 2009-9 makes amendments to ensure that entities applying Australian Accounting Standards for the first time will not face undue cost or effort in the transition process in particular situations.	31 December 2010	As this is not the first year of adoption of IFRSs, these amendments will not have any impact on the entity's financial report.
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	AASB 2009-10 makes amendments which clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its non-derivative equity instruments.	31 January 2011	As the entity does not have any rights, options or warrants to acquire their own equity instruments, these amendments will not have any impact on the entity's financial report.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### NOTE 35: 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
- 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

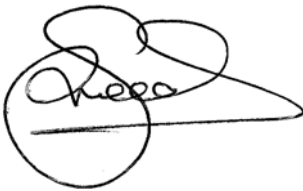
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## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 27 to 74 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 31 December 2009 and of the performance for the year ended on that date of the Company and 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 31<sup>st</sup> day of March 2010**

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67 Greenhill Rd  
Wayville SA 5034  
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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 balance sheet as at 31 December 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial statements 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors also state, in the notes to the financial statements, 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.

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

**Auditor's responsibility Cont**

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 entity'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 entity'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 complied with applicable independence requirements of the Corporations Act 2001.

**Auditor's opinion**

In our opinion,;

- a the financial report of Treyo Leisure and Entertainment Ltd is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 the directors' report for the year ended 31 December 2009. 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.

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

**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 2009, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



S J Gray  
Director – Audit & Assurance Services

Signed at Adelaide on this 31<sup>st</sup> day of March 2010

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## ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this Report is as follows. The information is current as at 25 March 2010.

### (a) Distribution of equity securities

311,008,000 fully paid ordinary shares are held by 432 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:

	<b>Fully paid ordinary shares</b>	<b> Holders</b>
1 - 1,000	1	1
1,001 - 5,000	-	-
5,001 - 10,000	1,200,000	120
10,001 - 100,000	4,201,999	174
100,000 and over	15,644,000	27
100,000 and over	290,162,000	17
	<hr/> 311,008,000	<hr/> 339
Holding less than a marketable parcel		<hr/> 1

### (b) Escrowed securities

	<b>Number of shares</b>
Legheny Group Limited	8,450,000
Laury Commercial INC.	3,900,000
Yerington Assets INC.	3,900,000
Matoury Overseas Corp.	89,700
Balatina Group Limited	24,050,000
Roger Smeed and Associates Pty Ltd	50,000
Stroud Nominees Pty Ltd	50,000

The above shareholders have entered into a Voluntary Escrow Deed dated 28 October 2008 with the Company whereby they have agreed not to sell their shares until released from escrow on 25 April 2010.

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## ASX ADDITIONAL INFORMATION

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
<b>(c)</b>	<b>Substantial shareholders</b>		
<p>The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:</p>			
	Matoury Overseas Corp.	179,400,000	57.68%
	Balatina Group Limited	48,100,000	15.46%
	Legheny Group Limited	16,900,000	5.43%
<b>(d)</b>	<b>Twenty largest shareholders</b>		
1	Matoury Overseas Corp.	179,400,000	57.68%
2	Balatina Group Limited	48,100,000	15.46%
3	Legheny Group Limited	16,900,000	5.43%
4	Laury Commercial Inc.	7,800,000	2.51%
5	Yerigton Assets Inc.	7,800,000	2.51%
6	Mr Dibiao Shen	5,000,000	1.61%
7	Mr Ming Hong Xu	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 Wei Zhong Wang	2,000,000	0.64%
12	Mr Erming Yu	2,000,000	0.64%
13	Ms Louyan Zhao	2,000,000	0.64%
14	Mr Shuiyang Xu	1,600,000	0.51%
15	Mr Ping Li	1,562,000	0.50%
16	Mr Guanming Hu	1,500,000	0.48%
17	Mr Yueming Shen	1,500,000	0.48%
18	Mr Guanda Dong	1,000,000	0.32%
19	Ms Huaping Jiang	1,000,000	0.32%
20	Mr Jin Ru Shen	1,000,000	0.32%
		<u>293,162,000</u>	<u>94.22%</u>