



**TREYO LEISURE AND ENTERTAINMENT LTD**

**ABN 93 131 129 489**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2010**

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## CORPORATE INFORMATION

**ABN 93 131 129 489**

### **Directors**

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

### **Company Secretary**

Jo-Anne Dal Santo

### **Registered Office**

Level 2, 371 Spencer Street  
Melbourne, Victoria 3000, Australia

### **Share Registry**

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

**Treyo Leisure and Entertainment Limited Shares are listed on the Australian 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) submits its third Annual Report to its Shareholders, since listing on the ASX in January 2009.

Through this Report, the Board seeks to provide an update to its Shareholders and the market on the results achieved for the 2010 financial year (ended 31 December 2010). It should be noted that, in accordance with Chinese accounting practices, Treyo's financial year runs January to December each year.

The 2010 trading year saw considerable consolidation of the automatic mahjong table industry in China, with fierce price competition in the market, and increases in labour costs of 10% as the Chinese Government imposed new labour laws across all industries throughout the country.

Treyo has continued its success and market sector dominance over the last 12 months and, although the Company remains profitable, the intense competition and consolidation of the market in 2010 has had a negative impact on the financial performance of the Company, when compared to 2009.

In summary, for the 2010 year, Treyo, through its wholly owned China based subsidiary, Matsuoka Mechatronics (China) Co., achieved revenue for the year of \$55.29 million, down 17% on the previous year. The reduction in revenue was as a result of increased competition in the form of strong price-cutting, the appreciation of the Australian Dollar and the incidence of low quality competitive products in the market. Consumers are now strongly rejecting these low quality products.

Despite this competitive distraction, unit sales increased by 6% over 2009, indicating Treyo's continuing strong market growth. The Company achieved an NPAT of \$2.93 million. Unfortunately, the strengthening Australian dollar has caused a foreign exchange loss impacting on total comprehensive income for the year, of \$3.27 million. However, I am very pleased to advise that the Company still has strong cash reserves of \$28.05 million.

As an industry leader of automated mahjong tables, Treyo continues to grow its market share despite strong competitive pressures. The introduction of new models and product platforms during 2010 has resulted in record unit sales, in particular for the last quarter of 2010. Treyo holds approximately 70% of the premium end of the market for automatic mahjong tables – a market with total annual sales in China of over \$1.19 billion

The Company has maintained its diligent cost control and strong brand recognition in the premium end of the market – which the Treyo brand dominates. In addition, the Company continues to expand its extensive distributor network throughout China. Treyo will continue its focus on its innovation, technical excellence, environmental standards, and its investment in advanced production lines manufacturing processes. The Company continues its recognised commitment to quality, outstanding customer service and brand development.

With a recent forecast by the World Bank of an increase in GDP of over 8% for 2011, the Chinese economy, Treyo's major market, continues to experience solid growth and is now recognised as the world's second largest and fastest growing economy.

In conclusion, 2010 has been a year of change and consolidation for Treyo Leisure and Entertainment Limited. The Company maintains strong management of its operating and administration costs. The Treyo Board is confident that the Company is in a strong position for growth and profitability, and enhancing Shareholder value in 2011.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ling Mao", written over a light blue horizontal line.

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

**Dated this 31<sup>st</sup> day of March 2011**



## 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 70% 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 730 staff and while its operations and product distribution are mainly based in China. Treyo intends to both leverage its market presence and reputation for high quality products, innovation and customer service to continue its domestic growth and increase international sales.

### OPERATIONAL HIGHLIGHTS

As previously stated in the Chairman's Review, Treyo realised an after tax profit of \$2.93million for the 2010 financial year which represents a decrease of \$4.26 million on the previous year. As a result of the strengthening of the Australian dollar, the Company incurred exchange rate losses over the last year of \$3.27 million. Treyo's working capital remains strong at \$19.99 million. The Company's cash and cash equivalents reserves remain strong at \$28.05 million.

As stated in the Commentary to the Company's recent Appendix 4E and Appendix 4C, the 2010 trading year saw considerable consolidation of the automatic mahjong table industry in China, with fierce price competition in the market, and increases in labour costs of 10% as the Chinese Government imposed new labour laws across all industries throughout the country.

Although the Company remains profitable, the intense competition and consolidation of the market in 2010 has resulted in a negative impact on the financial performance of the Company when compared to 2009.

For the 2010 year, Treyo, through its wholly owned China based subsidiary, Matsuoka Mechatronics (China) Co. achieved:

- Revenue for the year – (excluding interest received) was down by 17% to \$55.29 million. This was as a result of increased competition in the form of strong price cutting and low quality competitive products;
- Unit sales increased by 6% over 2009 indicating strong market growth despite the intense price competition;
- NPAT of \$2.93 million. An decrease of 59% over the previous year;
- Foreign exchange losses impacting on total comprehensive income for the year of \$3.27 million;
- Continuing strong cash reserves of \$28.05 million, despite the strong Australian dollar; and
- Strong working capital of \$19.99 million.



## **BUSINESS OVERVIEW (CONTINUED)**

As an industry leader of automated mahjong tables, Treyo continues to grow its market share despite strong competitive pressures. The introduction of new models and product platforms during 2010 resulted in record unit sales for the last quarter of 2010.

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

With a recent forecast by the World Bank of an increase in GDP of over 8% for 2011, the Chinese economy, Treyo's major market, continues to experience solid growth and is now recognised as the world's second largest and fastest growing economy.

The total annual sales for automatic mahjong tables in the Chinese domestic market, Treyo's primary focus, exceeds RMB7.5 billion per annum (approximately \$1.19 billion<sup>1</sup>).

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<sup>1</sup> Exchange rate \$0.1607:RMB1



## DIRECTORS' REPORT

Your directors present their Report on Treyo Leisure and Entertainment Limited and its controlled entities for the financial year ended 31 December 2010.

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.

**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.



## DIRECTORS' REPORT

### DIRECTORS (CONTINUED)

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

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

**Zhongliang Zheng** EMBA (Hong Kong Finance and Economics College)  
*Executive Director*

Mr Zheng was appointed to the Board on 1 June 2010. Mr Zheng has held the position of Chief Financial Officer of Matsuoka Mechatronics since 12 May 2005. Mr Zheng has extensive Management experience having previously held that position at Hualing Electric Appliance Industry Co., Ltd. and Hangzhou Yuanye Real Estate Ltd. Mr Zheng is a citizen of China.

**Minghua Yu** EMBA (Hong Kong Finance and Economics College)  
*Executive Director*

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

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

Mr Chen was appointed to the Board on 28 October 2008 and resigned 15 September 2010. Mr Chen held the position of General Manager of Matsuoka Mechatronics until his resignation. 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.

**Bin Hu** – (Junior College major in Marketing, Hangzhou Institute of Commerce)  
*Alternative Director for Guohua Wei and Deputy General Manager*

Mr Hu held the position of Market Director of Matsuoka in 2007 and became the Company's Deputy General Manager in August 2008. Mr Hu became an alternative director for Guohua Wei on 9 December 2009. He resigned as an alternative director and as Deputy General Manager on 18 October 2010. Mr Hu is a citizen of China.

## DIRECTORS' REPORT

### 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 Limited and Rongtai International Group Holdings Ltd; both companies are listed on the ASX.

### COMPANY SECRETARY

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

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

### Directors' interest in shares and options

	Ordinary Shares	Options over Ordinary Shares
Ling (Allan) Mao <sup>(1) (2)</sup>	55,900,000	-
Roger Smeed <sup>(3)</sup>	100,000	-
Guohua Wei <sup>(4)</sup>	179,400,000	-
Zhongliang Zheng <sup>(5)</sup> (appointed as a director 1 June 2010)	7,800,000	-
Weiyun Chen (resigned 15 September 2010)	-	-
Kwong Fat Tse	-	-
Minghua Yu (appointed 1 June 2010)	-	-
Edward Michael Byrt <sup>(6)</sup>	100,000	-
Bin Hu (resigned 18 October 2010)	-	-
<b>Total</b>	<b>243,300,000</b>	<b>-</b>

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

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

<sup>(3)</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>(4)</sup> Shares held by Matoury Overseas Corp. in which Guohua Wei has a beneficial interest.

<sup>(5)</sup> Shares held by Yerigton Assets INC in which Zhongliang Zheng has a beneficial interest.

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

### Remuneration of directors and senior management

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



## **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. Refer to Note 27 for details of the Group's operating segments.

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 \$333,785 from \$34,460,450 at 31 December 2009 to \$34,126,665 at 31 December 2010. This decrease has largely resulted from the following factors:

- i. \$3,265,502 decrease in foreign exchange reserve; offset by
- ii. \$2,931,717 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 decreases in the foreign exchange reserve and working capital. The group's working capital, being current assets less current liabilities, has decreased from \$23,856,599 in 2009 to \$19,989,013 in 2010.

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

#### **DIVIDENDS**

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

#### **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.



## DIRECTORS' REPORT

### 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' MEETINGS

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

	Audit and Risk Committee Meetings	Remuneration and Nomination Meetings
<b>Number of meetings held</b>	1	1
Ling (Allan) Mao	1	n/a
Roger Smeed	1	1
Guohua Wei	n/a	1
Weiyun Chen (resigned 15 September 2010)	n/a	n/a
Kwong Fat Tse	n/a	n/a
Edward Michael Byrt	1	1
Zhongliang Zheng (appointed 1 June 2010)	n/a	n/a
Minghua Yu (appointed 1 June 2010)	n/a	n/a
Bin Hu (alternative for Guohua Wei appointed 9 December 2009. Resigned 18 October 2010)	n/a	n/a

#### Board of Directors' Meetings

	Number of meetings eligible to attend	Number of meetings attended
Ling (Allan) Mao	11	8
Roger Smeed	11	10
Guohua Wei	11	-
Weiyun Chen (resigned 15 September 2010)	8	-
Kwong Fat Tse	11	9
Edward Michael Byrt	11	10
Zhongliang Zheng (appointed 1 June 2010)	7	6
Minghua Yu (appointed 1 June 2010)	7	-
Bin Hu (alternative for Guohua Wei appointed 9 December 2009. Resigned 18 October 2010)	9	4

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## DIRECTORS' REPORT

### DIRECTORS' MEETINGS (CONTINUED)

#### 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	Remuneration and Nomination Committee
Roger Smeed (Chairman)	Edward Byrt (Chairman)
Ling (Allan) Mao	Roger Smeed
Edward Byrt	Guohua Wei

### REMUNERATION REPORT (AUDITED)

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

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

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

		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	15 Sep 2010	(2)
Kwong Fat Tse	Director (Non-Executive)	13 Aug 2008	-	
Edward Michael Byrt	Director (Independent, Non-Executive)	28 Oct 2008	-	
Zhongliang Zheng	Director (Executive) and Chief Finance Officer	12 May 2005	-	(3)
Minghua Yu	Director (Independent, Non-Executive)	1 June 2010	-	
Bin Hu	Alternative Director for Guohua Wei	9 Dec 2009	18 Oct 2010	



## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (CONTINUED)

Executives		Date Appointed	Date Resigned
Bin Hu	Deputy General Manager	07 Sep 2007	18 Oct 2010
Lin Pan	Deputy General Manager	30 Aug 2004	-
Lixin Wang	Integrated Management Centre Director	29 Jun 2005	-
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 to the Board on 1 June 2010.

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

#### 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).
- The Remuneration and Nomination Committee intends to review key management personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

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

#### Non-Executive Remuneration

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



## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (CONTINUED)

#### Performance-based remuneration

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

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

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

	2010	2009	2008
	\$	\$	\$
Revenue	55,285,342	66,523,248	71,751,297
Net profit	2,931,717	7,189,930	6,616,454
Share price at end of year	0.34	0.33	0.25 <sup>(1)</sup>
Dividends paid	-	-	-

<sup>(1)</sup> At the date of official ASX quotation 8 January 2009.

#### Key Management Personnel Remuneration Policy

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

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

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

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



## 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 2010</b>				
<u>Directors</u>				
Ling (Allan) Mao	20,891	-	20,891	-
Roger Smeed	50,000	-	50,000	-
Guohua Wei <sup>(1)</sup>	30,891	-	30,891	-
Edward Michael Byrt	50,000	-	50,000	-
Kwong Fat Tse	13,440	-	13,440	-
Zhongliang Zheng <sup>(2)</sup>	15,990	-	15,990	-
Minghua Yu <sup>(5)</sup>	10,445	-	10,445	-
<u>Senior Executives</u>				
Jo-Anne Dal Santo	38,000	-	38,000	-
Lin Pan <sup>(3)</sup>	15,995	-	15,995	-
Lixin Wang	15,214	-	15,214	-
	<b>260,866</b>	<b>-</b>	<b>260,866</b>	
<b>31 December 2009</b>				
<u>Directors</u>				
Ling (Allan) Mao	21,423	-	21,423	-
Roger Smeed	50,000	-	50,000	-
Guohua Wei <sup>(1)</sup>	22,900	-	22,900	-
Weiyun Chen <sup>(4)</sup>	18,098	-	18,098	-
Edward Michael Byrt	50,000	-	50,000	-
Kwong Fat Tse	15,876	-	15,876	-
Bin Hu <sup>(6)</sup>	13,260	-	13,260	-
<u>Senior Executives</u>				
Jo-Anne Dal Santo	38,000	-	38,000	-
Zhongliang Zheng <sup>(2)</sup>	14,123	-	14,123	-
Lin Pan <sup>(3)</sup>	21,731	-	21,731	-
Lixin Wang	15,038	-	15,038	-
	<b>280,449</b>	<b>-</b>	<b>280,449</b>	



## DIRECTORS' REPORT

### REMUNERATION REPORT (AUDITED) (CONTINUED)

- (1) Guohua Wei is provide with a company vehicle with a carrying value of \$36,537 (2009: \$94,316)
- (2) Zhongliang Zheng is provide with a company vehicle with a carrying value of \$32,754 (2009: \$10,992)
- (3) Lin Pan is provide with a company vehicle with a carrying value of \$3,882 (2009: \$13,807)
- (4) Resigned 15 September 2010
- (5) Appointed 1 June 2010
- (6) Resigned 18 October 2010

### Shares and options issued as part of remuneration

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

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

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

A third of the directors will retire at the 2011 Annual General Meeting of the Company. These 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 had paid insurance premiums to insure each of past, present and future directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The aggregate annual amount of the premium was \$18,150 (2009: \$18,205).

### OPTIONS

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



## DIRECTORS' 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.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 31 December 2010:

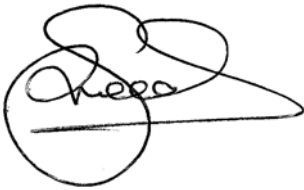
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Taxation Services	-	14,134
Due diligence investigations	-	37,072
	<hr/>	<hr/>
	-	51,206

## **DIRECTORS' REPORT**

### **Auditor's Independence Declaration**

The lead auditor's independence declaration for the year ended 31 December 2010 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:

A handwritten signature in black ink, appearing to read "Smeed", written over a horizontal line. The signature is stylized with loops and a long tail.

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

**Dated this 31st day of March 2011**

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**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF TREYO LEISURE AND ENTERTAINMENT LTD**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Treyo Leisure and Entertainment Ltd for the year ended 31 December 2010, 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

Adelaide, 31 March 2011

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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 and amendments published in June 2010. All corporate governance documents noted in this Statement are available on the Company's website [www.treyo.com.au](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 10 to 12 formal meetings a year. Additional meetings are held as required. A meeting is held each year to review and approve the strategy and financial plan for the next financial year. The Board also meets with Executive Management to consider matters of strategic importance to the Group.



## CORPORATE GOVERNANCE STATEMENT

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

#### Management's Responsibilities

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

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

#### Performance of Key Executives

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

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

#### The Board

The Board's aim is to ensure the Company has an appropriate mix of executive and non-executive directors with relevant expertise and experience to enable the Board to perform its duties with an effective understanding of the business and the operating environment. Currently the Board comprises 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, since the resignation of Mr Jieliang Wang as independent, non-executive director on 11 September 2009 the Company had appointed Mr Minghua Yu as independent, non-executive director on 1 June 2010 and in the future will consider the need to appoint at least one additional independent non-executive director to the Board.

#### Selection and Appointment Process and Re-election of Directors

It is the Board's policy to consider the appointment and retirement of non-executive directors on a case by case basis. In doing so, the Board will take into account the requirements of the ASX Listing Rules and the *Corporations Act 2001* and has compiled a skills matrix to assist in the identification of any gaps in skills and experience on the Board. Professional executive recruiting firms are not used to identify and/or assess candidates.

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 on pages 5 to 10 of the Directors' Report.

#### Induction and Education

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

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

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

#### Performance Evaluation

As a result of the Director appointments and resignations during the year a performance evaluation of the Board, its Committees and Directors was not undertaken during 2010. It is intended that these performance evaluations will take place during 2011.



## CORPORATE GOVERNANCE STATEMENT

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

#### Access to Information

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

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

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

#### Integrity and Accountability

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

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

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

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

#### Ethical Standards

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

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



## **CORPORATE GOVERNANCE STATEMENT**

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

#### **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.

An updated securities dealing policy was adopted by the Company and released to the ASX on 10 January 2011.

#### **Diversity**

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

The company does not have a formal diversity policy in place and will address the formulation of a diversity policy in 2011.

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

#### **Financial Reports**

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

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

#### **Audit and Risk Committee**

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

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

Details regarding the directors' qualifications, the number of meetings held and attendance at those meetings are contained on pages 5 to 10 of the Directors' Report.

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

## CORPORATE GOVERNANCE STATEMENT

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

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.

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.



## CORPORATE GOVERNANCE STATEMENT

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

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.

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.



## CORPORATE GOVERNANCE STATEMENT

### PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS (CONTINUED)

#### 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.

### 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.



## CORPORATE GOVERNANCE STATEMENT

### 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 on pages 5 to 10 of the Directors' Report.

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

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

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

#### ***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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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2010**

	Note	2010 \$	2009 \$
Revenue	2	55,285,342	66,523,248
Cost of goods sold		(45,013,642)	(51,535,722)
Gross Profit		<u>10,271,700</u>	<u>14,987,526</u>
Other income	2	952,235	834,393
Distributions and selling expenses		(2,831,913)	(3,765,670)
Administrative expenses		(4,669,175)	(4,056,312)
Finance costs		(355,511)	(15,580)
Profit before income tax	3	3,367,336	7,984,357
Income tax expense	4	(435,619)	(794,427)
Profit from continuing operations		<u>2,931,717</u>	<u>7,189,930</u>
Other comprehensive income			
Exchange differences on translation of foreign operations		(3,265,502)	(8,866,235)
Total comprehensive income for the year		<u>(333,785)</u>	<u>(1,676,305)</u>
Profit attributable to members of the parent entity		<u>2,931,717</u>	<u>7,189,930</u>
Total comprehensive income attributable to members of the parent entity		<u>(333,785)</u>	<u>(1,676,305)</u>
<b>Earnings per share</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share (cents per share)	8	0.94	2.3
Diluted earnings per share (cents per share)	8	0.94	2.3

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	2010 \$	2009 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	28,054,338	31,892,398
Trade and other receivables	10	1,181,058	1,970,764
Prepayments and other current assets	11	2,203,629	1,943,632
Inventories	12	5,157,979	4,083,982
Held to maturity financial assets	13	8,953,609	-
<b>TOTAL CURRENT ASSETS</b>		<b>45,550,613</b>	<b>39,890,776</b>
<b>NON-CURRENT ASSETS</b>			
Other receivables	10	895,200	-
Property, plant and equipment	15	12,685,709	10,033,027
Intangible assets	16	158,959	173,040
Deferred tax assets	20	397,784	397,784
<b>TOTAL NON-CURRENT ASSETS</b>		<b>14,137,652</b>	<b>10,603,851</b>
<b>TOTAL ASSETS</b>		<b>59,688,265</b>	<b>50,494,627</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	17	13,468,496	11,356,519
Notes payable	18	2,972,468	4,475,077
Financial liabilities	19	8,953,219	-
Current tax liabilities	20	167,417	202,581
<b>TOTAL CURRENT LIABILITIES</b>		<b>25,561,600</b>	<b>16,034,177</b>
<b>TOTAL LIABILITIES</b>		<b>25,561,600</b>	<b>16,034,177</b>
<b>NET ASSETS</b>		<b>34,126,665</b>	<b>34,460,450</b>
<b>EQUITY</b>			
Issued capital	22	23,302,770	23,302,770
Foreign exchange reserve	23	(8,047,749)	(4,782,247)
Statutory reserve	23	1,132,522	1,132,522
Retained earnings		17,739,122	14,807,405
<b>TOTAL EQUITY</b>		<b>34,126,665</b>	<b>34,460,450</b>

The accompanying notes form part of these financial statements.

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2010**

	Note	Issued Share Capital	Retained Earnings	Foreign Exchange Reserve	Statutory Reserves	Total
		\$	\$	\$	\$	\$
<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
Total comprehensive income		-	2,931,717	(3,265,502)	-	(333,785)
<b>Balance at 31 December 2010</b>		23,302,770	17,739,122	(8,047,749)	1,132,522	34,126,665

The accompanying notes form part of these financial statements.

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**CONSOLIDATED STATEMENT OF CASH FLOW FOR YEAR ENDED 31 DECEMBER 2010**

	<b>Note</b>	<b>2010</b>	<b>2009</b>
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		55,623,972	76,010,349
Payments to suppliers and employees		(52,341,554)	(73,072,046)
Interest received		763,161	391,076
Finance costs		(356,361)	(15,580)
Income tax paid		(471,439)	(862,052)
Net cash provided by operating activities	28	<u>3,217,779</u>	<u>2,451,747</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(4,877,733)	(215,903)
Proceeds from sale of property, plant and equipment		23,666	-
Purchase of intangible assets		(70,772)	-
Loans to other entities		(322,681)	(11,960,110)
Loans repaid by other entities		187,681	10,648,729
Placement of funds in financial assets		(8,953,219)	-
Other		-	(1,456,416)
Net cash used in investing activities		<u>(14,013,058)</u>	<u>(2,983,700)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments for share issue costs		-	(155,042)
Proceeds of borrowings		8,953,219	-
Net cash provided by (used in) financing activities		<u>8,953,219</u>	<u>(155,042)</u>
Net decrease in cash held		(1,842,060)	(686,995)
Cash at beginning of financial year	9	31,892,398	40,265,989
Effect of exchange rates on cash holdings in foreign currencies		(1,996,000)	(7,686,596)
<b>Cash at end of financial year</b>	<b>9</b>	<b><u>28,054,338</u></b>	<b><u>31,892,398</u></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 2010

### 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.

#### a. Principles of Consolidation

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

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

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

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

#### *Business Combinations*

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

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

#### 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.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

b. **Income Tax (continued)**

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

c. **Inventories**

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

d. **Property, Plant and Equipment**

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

**Property**

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

**Plant and equipment**

Plant and equipment are measured on the cost basis.

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

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

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

**Depreciation**

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

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

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

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

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

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

e. **Financial Instruments**

*Recognition and Initial Measurement*

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

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

*Derecognition*

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

*Classification and Subsequent Measurement*

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

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

#### e. **Financial Instruments (continued)**

##### ii. *Loans and receivables*

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

##### iii. *Financial Liabilities*

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

##### iii. *Held to maturity investments*

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

#### **Fair value**

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

#### **Impairment**

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

#### f. **Impairment of Assets**

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

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

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

#### g. **Intangibles**

##### **Patents and trademarks**

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

#### h. Foreign Currency Transactions and Balances

##### Functional and presentation currency

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

##### Transaction and balances

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

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

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

##### Group companies

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

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

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

#### i. Employee Benefits

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

#### j. Provisions

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

#### k. Provision for Warranties

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

**l. Cash and Cash Equivalents**

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

**m. Revenue and Other Income**

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

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

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

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

**n. Government Grants**

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

**o. Trade and other payables**

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

**p. Borrowing Costs**

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

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

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

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

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

**p. Earnings per share**

Basic earnings per share

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

r. **Comparative Figures**

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

s. **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 2011 by the board of directors.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 2: REVENUE

	Note	2010 \$	2009 \$
Sales revenue			
Sale of goods		55,285,342	66,523,248
Other income			
— Bank Interest received		764,195	391,076
— Government Grant		-	308,387
— Other income		188,040	134,930
		<u>952,235</u>	<u>834,393</u>

### NOTE 3: PROFIT FOR THE YEAR

	Note	2010 \$	2009 \$
<b>Expenses</b>			
Finance costs:			
— Interest expense		327,596	-
— Bank charges		27,915	15,580
Total finance costs		<u>355,511</u>	<u>15,580</u>
Employee wages and benefits		<u>3,862,048</u>	<u>4,690,493</u>
Included in administrative expenses are:			
— Depreciation and amortisation		1,124,139	1,145,876
— Net foreign exchange difference		432,708	1,966,768
— Loss on the disposal of property, plant and equipment		8,256	-
— Other expenses relating to the Initial Public Offering (IPO) and share issue		-	(360,612)

### NOTE 4: INCOME TAX EXPENSE

	Note	2010 \$	2009 \$
a. The components of tax expense comprise:			
Current tax		435,619	794,427
Deferred tax	20	-	-
Current tax expense		<u>435,619</u>	<u>794,427</u>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

Australian assessable earnings are taxed at 30% (2009: 30%).

In respect of Chinese assessable earnings a tax exemption notice was issued to Matsuoka on 16 April 2007 providing a 50% tax exemption of 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 and 11% for 31 December 2010. The tax rate of Matsuoka will be 24% for 2011 and 25% for 2012 onwards.

The tax rate in Hong Kong is 17.5% (2009: 17.5%)

	2010	2009
	\$	\$
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 (4a)		
— consolidated group	823,457	1,997,674
Add:		
Tax effect of other non-allowable items	15,624	122
Less:		
Tax effect of tax exemptions from the Peoples Republic of China	(534,575)	(1,250,785)
Tax effect of losses not brought into accounts as they do not meet the recognition criteria	131,113	47,416
Income tax attributable to the entity	435,619	794,427
Weighted average effective tax:	15%	11%

The change in the weighted average effective consolidated tax rate for 2010 is a result of consolidated profits offset by overseas tax exemptions.

### NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

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

		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	15 Sep 2010
Jieliang Wang <sup>(1)</sup>	Director (Independent, Non-Executive)	28 Oct 2008	11 Sep 2009



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

		Date Appointed	Date Resigned
Kwong Fat Tse	Director (Non-Executive)	13 Aug 2008	-
Edward Michael Byrt	Director (Independent, Non-Executive)	28 Oct 2008	-
Zhongliang Zheng <sup>(3)</sup>	Director (Executive)	12 May 2005	-
Minghua Yu	Director (Independent, Non-Executive)	1 June 2010	-
<b>Executives</b>			
Bin Hu <sup>(4)</sup>	Deputy General Manager	07 Sep 2007	18 Oct 2010
Lin Pan	Operations Centre Director	30 Aug 2004	-
Lixin Wang	Integrated Management Centre Director	29 Jun 2005	-
Jo-Anne Dal Santo	Company Secretary	28 Oct 2008	-

<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 to the Board on 1 June 2010

<sup>(4)</sup> Appointed as alternative director for Guohua Wei on 9 December 2009 and resigned 18 October 2010.

#### Key management personnel remuneration

	2010	2009
	\$	\$
Short term employee benefits	260,866	280,866

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

#### b. Options and Rights Holdings

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

No options were held by key management personnel during the year ended 31 December 2010 or 31 December 2009.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

#### Shareholdings

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

31 December 2010	Balance 1.1.2010	Received as Compen- sation	Options Exercised	Net Change Other	Resigned as Director	Balance 31.12.2010
Ling (Allan) Mao <sup>(1) (2)</sup>	7,800,000	-	-	48,100,000	-	55,900,000
Roger Smeed <sup>(3)</sup>	100,000	-	-	-	-	100,000
Guohua Wei <sup>(4)</sup>	179,400,000	-	-	-	-	179,400,000
Weiyun Chen <sup>(7) (10)</sup>	7,800,000	-	-	-	(7,800,000)	-
Kwong Fat Tse	48,100,000	-	-	(48,100,000)	-	-
Edward Michael Byrt <sup>(5)</sup>	100,000	-	-	-	-	100,000
Zhongliang Zheng <sup>(6)</sup>	-	-	-	7,800,000	-	7,800,000
Minghua Yu <sup>(9)</sup>	-	-	-	-	-	-
Bin Hu <sup>(11)</sup>	-	-	-	-	-	-
Jo-Anne Dal Santo	-	-	-	-	-	-
<b>Total</b>	<b>243,300,000</b>	<b>-</b>	<b>-</b>	<b>7,800,000</b>	<b>(7,800,000)</b>	<b>243,300,000</b>

31 December 2009	Balance 1.1.2009	Received as Compen- sation	Options Exercised	Net Change Other	Resigned as Director	Balance 31.12.2009
Ling (Allan) Mao <sup>(1)</sup>	7,800,000	-	-	-	-	7,800,000
Roger Smeed <sup>(3)</sup>	100,000	-	-	-	-	100,000
Guohua Wei <sup>(4)</sup>	179,400,000	-	-	-	-	179,400,000
Weiyun Chen <sup>(10)</sup>	7,800,000	-	-	-	-	7,800,000
Jieliang Wang	-	-	-	-	-	-
Kwong Fat Tse <sup>(7)</sup>	48,100,000	-	-	-	-	48,100,000
Edward Michael Byrt <sup>(5)</sup>	100,000	-	-	-	-	100,000
Bin Hu <sup>(11)</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>

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

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

<sup>(3)</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>(4)</sup> Shares held by Matoury Overseas Corp. in which Guohua Wei has a beneficial interest.

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

- (<sup>6</sup>) Shares held by Yerigton Assets INC in which Zhongliang Zheng has a beneficial interest.  
 (<sup>7</sup>) Shares held by Yerigton Assets INC in which Weiyun Chen has a beneficial interest.  
 (<sup>8</sup>) Off market transfer.  
 (<sup>9</sup>) Appointed 1 June 2010.  
 (<sup>10</sup>) Resigned 15 September 2010.  
 (<sup>11</sup>) Resigned 18 October 2010

### NOTE 6: AUDITORS' REMUNERATION

	2010 \$	2009 \$
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing financial reports	160,463	150,000
— taxation services	-	14,134
— due diligence services	-	37,072
	160,463	201,206

### NOTE 7: DIVIDENDS

The Board has not recommended nor have paid any dividends during the year ended 31 December 2010 or 31 December 2009.

### NOTE 8: EARNINGS PER SHARE

	2010 \$	2009 \$
a. Reconciliation of earnings to profit or loss		
Profit used to calculate basic EPS	2,931,717	7,189,930
b. Reconciliation of earnings to profit or loss from continuing operations		
Profit from continuing operations used to calculate basic EPS from continuing operations.	2,931,717	7,189,930
c. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS.	311,008,000	311,008,000



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 9: CASH AND CASH EQUIVALENTS

	2010 \$	2009 \$
Cash at bank and in hand	25,090,442	28,625,919
Short term bank deposits	2,963,896	3,266,479
	<u>28,054,338</u>	<u>31,892,398</u>

At 31 December 2010 \$1,486,032 (2009: \$2,237,484) was held in an interest bearing short term deposit as a guarantee for notes payable (Note 18).

### NOTE 10: TRADE AND OTHER RECEIVABLES

	Note	2010 \$	2009 \$
<b>CURRENT</b>			
Trade receivables	10a	873,109	581,118
Less provision for impaired trade receivables	10b	(51,641)	(56,519)
		<u>821,468</u>	<u>524,599</u>
Other receivables	10c	347,886	1,434,851
Goods & service tax receivable	10e	11,704	11,314
		<u>1,181,058</u>	<u>1,970,764</u>
<b>NON-CURRENT</b>			
Other receivables	10d	895,200	-
		<u>895,200</u>	<u>-</u>

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 2010, trade receivables of \$388,561 (2009: \$324,706) were past due but not impaired. These relates to independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2010 \$	2009 \$
30-90 days	301,654	303,840
90-180 days	86,907	20,866
Total	<u>388,561</u>	<u>324,706</u>

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

b. Impaired trade receivables

As at 31 December 2010, trade receivables of \$51,641 (2009: \$56,519) were impaired. These relates to individual customers which are in unexpectedly difficult economic situation. Movements in the provision for impairment of receivables are as follows:

	2010 \$	2009 \$
At 1 January	56,519	73,143
Provision for impairment recognised	-	-
Exchange difference on translation	(4,878)	(16,624)
At 31 December	<u>51,641</u>	<u>56,519</u>

c. Other receivables - current

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

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

d. Other receivables – non-current

During the year, the Group made a loan of \$895,200 to external parties. The loan is receivable in 2012 and interest of 5.31% is charged on the amount outstanding.

e. Goods & service tax receivable

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

### NOTE 11: PREPAYMENTS AND OTHER CURRENT ASSETS

	2010 \$	2009 \$
CURRENT		
Prepayments	1,076,095	709,360
Deposits paid for land acquisition	1,127,534	1,234,272
	<u>2,203,629</u>	<u>1,943,632</u>

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 12: INVENTORIES

	2010 \$	2009 \$
CURRENT		
At cost and net realisable value		
Raw materials and stores	2,643,635	1,927,216
Work in progress	386,840	500,762
Finished goods	2,127,504	1,656,004
	<u>5,157,979</u>	<u>4,083,982</u>

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

### NOTE 13: FINANCIAL ASSETS

	2010 \$	2009 \$
CURRENT		
Held to maturity financial assets	<u>8,953,609</u>	-

During the year, the Group placed a sum of \$8,953,609 to be held to maturity with Agricultural Bank of China for the bank to lend to other parties. The term of the placement is one year ending on 3 June 2011 with the placement earning interest at 6.8% per annum.

### NOTE 14: CONTROLLED ENTITIES

a.	Controlled Entities Consolidated	Country of Incorporation	Percentage Owned (%) <sup>(1)</sup>	
			2010 %	2009 %
	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.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 14: CONTROLLED ENTITIES (CONTINUED)

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

On 31 October 2008 the parent entity 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.

#### c. *Cross guarantee*

There is no deed of cross guarantee as at 31 December 2010 or 31 December 2009.

### NOTE 15: PROPERTY, PLANT AND EQUIPMENT

	Land use Right \$	Buildings \$	Motor Vehicles \$	Office Equipment \$	Plant & Machinery \$	TOTAL \$
<b>31 December 2010</b>						
<b>Cost</b>						
At 1 January 2010	1,312,022	8,534,076	678,331	247,212	2,242,102	13,013,743
Additions	-	4,020,994	425,258	70,485	360,996	4,877,733
Disposals	-	-	(59,529)	-	-	(59,529)
Exchange differences	(113,461)	(1,025,762)	(84,679)	(26,423)	(219,728)	(1,470,053)
<b>At 31 December 2010</b>	<b>1,198,561</b>	<b>11,529,308</b>	<b>959,381</b>	<b>291,274</b>	<b>2,383,370</b>	<b>16,361,894</b>
<b>Accumulated Depreciation</b>						
At 1 January 2010	174,936	1,461,942	338,009	115,979	889,850	2,980,716
Depreciation for the period	25,819	377,864	204,379	65,756	380,501	1,054,319
Depreciation on disposal	-	-	(31,921)	-	-	(31,921)
Exchange differences	(16,976)	(153,467)	(37,568)	(14,736)	(104,182)	(326,929)
<b>At 31 December 2010</b>	<b>183,779</b>	<b>1,686,339</b>	<b>472,899</b>	<b>166,999</b>	<b>1,166,169</b>	<b>3,676,185</b>
<b>Net book value</b>						
<b>At 31 December 2010</b>	<b>1,014,782</b>	<b>9,842,969</b>	<b>486,482</b>	<b>124,275</b>	<b>1,217,201</b>	<b>12,685,709</b>
At 31 December 2009	1,137,086	7,072,134	340,322	131,233	1,352,252	10,033,027

#### 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 \$	Motor Vehicle \$	Office Equipment \$	Plant & Machinery \$	TOTAL \$
<b>Carrying amounts</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	65,355	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>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 15: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land use Right \$	Building \$	Motor Vehicle \$	Office Equipment \$	Plant & Machinery \$	TOTAL \$
<b>Carrying amounts (continued)</b>						
At 1 January 2010	1,137,086	7,072,134	340,322	131,233	1,352,252	10,033,027
Additions	-	4,020,994	425,258	70,485	360,996	4,877,733
Disposals	-	-	(59,529)	-	-	(59,529)
Depreciation expense	(25,819)	(377,864)	(204,379)	(65,756)	(380,501)	(1,054,319)
Depreciation on disposal	-	-	31,921	-	-	31,921
Exchange differences	(96,485)	(872,295)	(47,111)	(11,687)	(115,546)	(1,143,124)
At 31 December 2010	<b>1,014,782</b>	<b>9,842,969</b>	<b>486,482</b>	<b>124,275</b>	<b>1,217,201</b>	<b>12,685,709</b>

### NOTE 16: INTANGIBLE ASSETS

	31 December 2010			31 December 2009		
	Patents and Trademarks \$	Software \$	Total \$	Patents and Trademarks \$	Software \$	Total \$
<b>Cost</b>						
At 1 January	318,972	81,461	400,433	412,765	105,415	518,180
Additions	-	70,772	70,772	-	-	-
Currency translation difference	(27,584)	(12,109)	(39,693)	(93,793)	(23,954)	(117,747)
At 31 December	<b>291,388</b>	<b>140,124</b>	<b>431,512</b>	<b>318,972</b>	<b>81,461</b>	<b>400,433</b>
<b>Accumulated amortisation and impairment</b>						
At 1 January	215,691	11,702	227,393	197,830	4,602	202,432
Amortisation in the period	61,805	8,015	69,820	71,027	9,211	80,238
Currency translation difference	(23,075)	(1,585)	(24,660)	(53,166)	(2,111)	(55,277)
At 31 December	<b>254,421</b>	<b>18,132</b>	<b>272,553</b>	<b>215,691</b>	<b>11,702</b>	<b>227,393</b>
<b>Net carrying value</b>						
31 December	<b>36,967</b>	<b>121,992</b>	<b>158,959</b>	<b>103,281</b>	<b>69,759</b>	<b>173,040</b>
<b>Carrying amount</b>						
At 1 January	103,281	69,759	173,040	214,935	100,813	315,748
Additions	-	70,772	70,772	-	-	-
Amortisation in the period	(61,805)	(8,015)	(69,820)	(71,027)	(9,211)	(80,238)
Currency translation difference	(4,509)	(10,524)	(15,033)	(40,627)	(21,843)	(62,470)
At 31 December	<b>36,967</b>	<b>121,992</b>	<b>158,959</b>	<b>103,281</b>	<b>69,759</b>	<b>173,040</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 17: TRADE AND OTHER PAYABLES

	2010	2009
	\$	\$
CURRENT		
Unsecured liabilities		
Trade payables	8,352,150	6,439,173
Sundry payables and accrued expenses	3,450,726	3,662,752
Value Added Tax (VAT) and other indirect taxes payable	413,368	442,093
Prepayments from customers	1,252,252	812,501
	<u>13,468,496</u>	<u>11,356,519</u>

### NOTE 18: NOTES PAYABLE

	Note	2010	2009
		\$	\$
CURRENT			
Secured liabilities			
Notes payable	9	<u>2,972,468</u>	<u>4,475,077</u>

The notes payable mature from January 2011 to June 2011 (2009: from January 2010 to June 2010). The notes payable are guaranteed against interest bearing short term bank deposit of \$1,486,032 (2009: \$2,237,484) (see Note 9) and by a personal guarantee from a director, Guohua Wei and a corporate guarantee from related party Zhejiang Matsuoka Mechatronics Industry Co. Ltd.

### NOTE 19: FINANCIAL LIABILITIES

	2010	2009
	\$	\$
CURRENT		
Secured liabilities		
Short term borrowings	<u>8,953,219</u>	-

During the year, the Group obtained a short term borrowing of \$8,953,219 with Bank of China for a term of one year ending on 28 May 2011. The borrowing is secured over the group's land-use right and buildings. Interest is payable at 5.31% per annum.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**NOTE 20: TAX**

	2010 \$	2009 \$
a. <b>Liabilities</b>		
CURRENT		
Income Tax	167,417	202,581
	<u>167,417</u>	<u>202,581</u>
b. <b>Assets</b>		
NON-CURRENT		
Deferred tax asset	397,784	397,784
	<u>397,784</u>	<u>397,784</u>

	Opening Balance \$	Charged to Income \$	Charged directly to Equity \$	Changes in Tax Rate \$	Exchange Differences \$	Closing Balance \$
Deferred tax asset						
Balance at 1 January 2010	397,784	-	-	-	-	397,784
Other	-	-	-	-	-	-
<b>Balance at 31 December 2010</b>	<u>397,784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>397,784</u>

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:

— tax losses: operating losses for year \$131,113 (2009: \$47,416)	19,211	-	-	-	-	19,211
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**NOTE 21: PROVISIONS**

The Consolidated Group and Parent Entity have no provisions at 31 December 2010 (2009: \$nil). No employees are eligible for Long-term employee benefits at the 31 December 2010 (2009: \$nil).

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 22: ISSUED CAPITAL

	2010	2009
	\$	\$
At the beginning of reporting period 311,008,000 (2009: 311,008,000) fully paid ordinary shares	23,302,770	23,302,770
Shares issued during the year	-	-
At the end of reporting period 311,008,000 (2009: 311,008,000) fully paid ordinary shares	<u>23,302,770</u>	<u>23,302,770</u>

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

#### Ordinary shares

	2010	2009
	Number	Number
At the beginning of reporting period	311,008,000	311,008,000
Shares issued during the prior year	-	-
At reporting date	<u>311,008,000</u>	<u>311,008,000</u>

Ordinary shares participate in dividends and the proceeds on winding up of the Parent Entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

#### Capital Management

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

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

There are no externally imposed capital requirements.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 22: 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 2010 and 31 December 2009 are as follows:

	2010	2009
	\$	\$
Total liabilities	25,561,600	16,034,177
Less: Cash and cash equivalent	(28,054,338)	(31,892,398)
Net liabilities	(2,492,738)	(15,858,221)
Total equity	34,126,665	34,460,450
(Net cash) to equity ratio	(7%)	(46%)

The decrease in consolidated (net cash) to equity ratio during 2010 is primarily due to the short term borrowings obtained during the year (refer to Note 19).

### NOTE 23: RESERVES

#### Foreign Currency Reserve

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

#### Statutory 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 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 is the amount determined under People's Republic of China accounting standards. The transfer to this reserve must be made before the distribution of dividends to shareholders.

### NOTE 24: CAPITAL AND LEASING COMMITMENTS

The Consolidated Group has capital expenditure contracted for but not recognised are follows:

	2010	2009
	\$	\$
Intangible assets within 1 year	43,974	-
	43,974	-



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 25: COMMITMENTS

#### Management services commitment

During the year ended 31 December 2010, 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 \$358,080. The term of the engagement was for the 12 months and ended on 31 December 2011.

### NOTE 26: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Consolidated Group has no contingent liabilities or contingent assets at 31 December 2010 (2009: \$nil).

### NOTE 27: OPERATING SEGMENTS

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

The Group is managed primarily on the basis of geographical region as each geographical region has notably different risk profiles and performance assessment criteria. The reportable geographical segments relate to three different regions of:

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

#### Accounting policies adopted

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

Segment information provided to executive directors:

	China \$	Hong Kong \$	Australia \$	Total \$
<b>31 December 2010</b>				
<b>REVENUE</b>				
Total revenue -external sales	55,285,342	-	-	55,285,342
<b>RESULT</b>				
Segment result	4,173,405	(33,138)	(417,420)	3,722,847
Unallocated expenses net of unallocated revenue	-	-	-	-
Finance costs	(355,175)	(101)	(235)	(355,511)
Profit/(loss) before income tax	3,818,230	(33,239)	(417,655)	3,367,336
Income tax expense	(435,619)	-	-	(435,619)
Profit after income tax	3,382,611	(33,239)	(417,655)	2,931,717



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 27: OPERATING SEGMENTS (CONTINUED)

	China \$	Hong Kong \$	Australia \$	Total \$
<b>31 December 2010</b>				
<b>ASSETS</b>				
Segment assets	56,087,562	2,970,884	629,819	59,688,265
<b>LIABILITIES</b>				
Segment liabilities	25,404,975	588	156,037	25,561,600
Reconciliation of segmental net assets to Group net assets				
Inter-segment eliminations				-
Total Group net assets from continuing operations				<u>34,126,665</u>
<b>OTHER</b>				
Depreciation and amortisation of segment assets	1,124,139	-	-	1,124,139
	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	<u>7,386,421</u>	<u>(91,279)</u>	<u>(105,212)</u>	<u>7,189,930</u>
<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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 27: OPERATING SEGMENTS (CONTINUED)

	China \$	Hong Kong \$	Australia \$	Total \$
<b>31 December 2009</b>				
Reconciliation of segmental net assets to Group net assets				-
Inter-segment eliminations				-
Total Group net assets from continuing operations				<u>34,460,450</u>
<b>OTHER</b>				
Depreciation and amortisation of segment assets	1,145,876	-	-	<u>1,145,876</u>

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

### NOTE 28: CASH FLOW INFORMATION

	2010 \$	2009 \$
<b>Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>		
Profit/(loss) after income tax	2,931,717	7,189,930
Non-cash flows in profit		
Amortisation	69,820	80,238
Depreciation	1,054,319	1,065,638
Net loss on disposal of property, plant and equipment	8,256	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade receivables	(305,110)	285,248
(Increase)/decrease in prepayments	(362,019)	(694,362)
(Increase)/decrease in inventories	(1,073,997)	1,984,988
Increase/(decrease) in trade payables and accruals	929,957	(11,413,666)
Increase/(decrease) in income taxes payable	(35,164)	(147,625)
(Increase)/decrease in deferred tax asset balances	-	167,822
Cashflow from operations	<u>3,217,779</u>	<u>2,451,747</u>

### NOTE 29: EVENTS AFTER THE BALANCE DATE

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 30: RELATED PARTY TRANSACTIONS

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

Transactions and balances with related parties:

	2010 \$	2009 \$
<b>a. Other Related Parties</b>		
<b>Transactions</b>		
Sales to related parties		
-Hangzhou Songyan Electronics Co., Ltd.	-	15,655
Rental received from related parties		
- Hangzhou Songyan Electronics Co., Ltd.	99,104	-
Purchase plant and equipment from related parties		
-Zhejiang Matsuoka Mechatronics Industry Co. Ltd	-	49,974
Purchase from related parties		
-Hangzhou Dibiao Mechatronics Co., Ltd	2,542,511	2,921,694
-Hangzhou Guoshi Advertising Co. Ltd	-	66,484
-Zhongronghuaying Holdings Co. Ltd	385,680	436,163
Total Purchase from related parties	2,928,191	3,424,341
Advances to related parties		
- Zhejiang Songjin Compound Materials Co. Ltd	-	1,395,649
<b>Balances</b>		
Other related parties balances are included in the following:		
Other receivables		
-Hangzhou Songyan Electronics Co., Ltd.	62,011	9,342
-Zhejiang Songjin Compound Materials Co. Ltd	1,127,534	1,234,272
-Hangzhou Guoshi Advertising Co. Ltd	67,779	74,185
Total other receivables	1,257,324	1,317,799
Trade and other payables		
-Hangzhou Dibiao Mechatronics Co., Ltd	137,885	204,316

### b. Key Management Personnel

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 31: FINANCIAL RISK MANAGEMENT

#### a. Financial Risk Management Policies

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

##### i. Treasury Risk Management

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

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

##### ii. Financial Risk Exposures and Management

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

##### Interest rate risk

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

##### Foreign currency risk

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

##### Liquidity risk

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

##### Credit risk

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

The finance committee monitors credit risk on a regular basis.

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

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

There are no other material amounts of collateral held as security at 31 December 2010.

##### 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 2010

### NOTE 31: 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		Floating Interest Rate Maturing within 2 years		Non-Interest Bearing Maturing within 1 year		Total	
	2010 %	2009 %	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$
<b>Financial Assets:</b>										
Cash and cash equivalents	1.54%	1.22%	28,034,772	31,888,747	-	-	19,566	3,651	28,054,338	31,892,398
Receivables	5.31%	-	-	-	895,200	-	1,181,058	3,205,036	2,076,258	3,205,036
Financial assets	6.8%	-	8,953,609	-	-	-	-	-	8,953,609	-
<b>Total Financial Assets</b>			<b>36,988,381</b>	<b>36,888,747</b>	<b>895,200</b>	<b>-</b>	<b>1,200,624</b>	<b>3,208,687</b>	<b>39,084,205</b>	<b>35,097,434</b>
<b>Financial Liabilities:</b>										
Notes payable	-	-	-	-	-	-	2,972,468	4,475,077	2,972,468	4,475,077
Trade and other payables	-	-	-	-	-	-	13,468,496	11,356,519	13,468,496	11,356,519
Financial liabilities	5.31%	-	8,953,219	-	-	-	-	-	8,953,219	-
<b>Total Financial Liabilities</b>			<b>8,953,219</b>	<b>8,953,219</b>	<b>-</b>	<b>-</b>	<b>16,440,964</b>	<b>15,831,596</b>	<b>25,394,183</b>	<b>15,831,596</b>
<b>Net Financial Assets</b>									<b>13,690,022</b>	<b>19,265,838</b>

##### ii. Fair values measurements

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

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Financial assets:</b>				
<b>Held to maturity financial assets</b>				
-Fixed interest funds placement with Agricultural Bank of China	-	-	8,953,219	8,953,219
	-	-	8,953,219	8,953,219
<b>Financial liabilities:</b>				
	-	-	-	-

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

#### iii. Sensitivity analysis

##### Interest Rate Risk and Price Risk

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

##### *Interest Rate Sensitivity Analysis*

At 31 December 2010, 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:

	2010	2009
	\$	\$
Change in profit		
— Increase in interest rate by 2%	682,533	637,775
— Decrease in interest rate by 2%	(682,533)	(637,775)
Change in Equity		
— Increase in interest rate by 2%	682,533	637,775
— Decrease in interest rate by 2%	(682,533)	(637,775)

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 2010

### NOTE 32: PARENT COMPANY INFORMATION

	2010 \$	2009 \$
<b>Assets</b>		
Current assets	232,035	690,417
Non-current assets	33,256,231	33,206,229
<b>Total assets</b>	<b>33,488,266</b>	<b>33,896,646</b>
<b>Liabilities</b>		
Current liabilities	156,039	146,766
<b>Total liabilities</b>	<b>156,039</b>	<b>146,766</b>
<b>Equity</b>		
Issued capital	34,525,617	34,525,617
Retained earnings	(1,193,390)	(775,737)
<b>Total equity</b>	<b>33,332,227</b>	<b>33,749,880</b>
<b>Financial performance</b>		
Loss for the year	(417,653)	(105,212)
<b>Total comprehensive income</b>	<b>(417,653)</b>	<b>(105,212)</b>

The Consolidated Group has no other contingent liabilities or contingent assets at 31 December 2010 (2009: \$nil).

### NOTE 33: 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 beginning on or after)	Impact of the new standards
AASB 124 <i>Related Party Disclosures</i> (2009), AASB 2009-12 <i>Amendments to Australian Accounting Standards</i>	<p>Amends the requirements of the previous version of AASB 124 to:</p> <ul style="list-style-type: none"> <li>• Provide a partial exemption from related party disclosure requirements for government-related entities</li> <li>• Clarify the definition of a related party</li> </ul> <p>Include an explicit requirement to disclose commitments involving related parties.</p>	1 January 2011	These amendments will not have any material impact on the entity's financial report

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

New / revised pronouncement	Explanation of amendments	Effective date (annual reporting periods beginning on or after)	Impact of the new standards
<p>AASB 9 <i>Financial Instruments</i> (December 2009), AASB 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i></p>	<p>AASB 9 introduces new requirements for classifying and measuring financial assets, as follows:</p> <ul style="list-style-type: none"> <li>• Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances)</li> <li>• Investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss</li> <li>• All other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss</li> <li>• The concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines.</li> </ul>	<p>1 January 2013</p>	<p>IFRS 9 amends the classification and measurement of financial assets; the entity has not yet determined the impact of this standard.</p>
<p>AASB 9 <i>Financial Instruments</i> (December 2010), AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i></p>	<p>A revised version of AASB 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from AASB 139 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.</p>	<p>1 January 2013</p>	<p>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.</p>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

New / revised pronouncement	Explanation of amendments	Effective date (annual reporting periods beginning on or after)	Impact of the new standards
AASB 9 Financial Instruments (to be issued in Australia as AASB 9)	AASB 9 introduces new requirements for the classification and measurement of financial assets. AASB 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.	1 January 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
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	AASB 132 Financial Instruments Presentation 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.
AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i> and AASB 2010-2 <i>Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements</i>	<p>These Standards together implement 'stage 1' of the AASB's revised differential reporting regime.</p> <p>AASB 1053 establishes a differential financial reporting framework consisting of two tiers of reporting requirements for general purpose financial statements:</p> <ul style="list-style-type: none"> <li>• Tier 1: Australian Accounting Standards</li> <li>• Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements ('RDR').</li> </ul> <p>AASB 2010-2 makes amendments to each Standard and Interpretation indicating the disclosures not required to be made by 'Tier 2' entities. In some cases, additional 'RDR' paragraphs are inserted requiring simplified disclosures.</p> <p>The following entities apply either Tier 2 (RDR) or Tier 1 ('full' Australian Accounting Standards) in preparing general purpose financial statements:</p> <ul style="list-style-type: none"> <li>• For-profit private sector entities that do not have public accountability</li> <li>• All not-for-profit private sector entities</li> <li>• Public sector entities other than Federal, State, Territory and Local Governments.</li> </ul>	1 July 2013 but may be early adopted for annual reporting period beginning on or after 1 July 2009	The entity has not yet determined the impact of this standard.
	<p>Regulators may have the power to require the application of 'full' Australian Accounting Standards (Tier 1) by the entities they regulate.</p>		

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

New / revised pronouncement	Explanation of amendments	Effective date (annual reporting periods beginning on or after)	Impact of the new standards
AASB 2009-14 <i>Amendments to Australian Accounting Interpretation – Prepayments of a Minimum Funding Requirement</i>	Makes limited-application amendments to Interpretation 14 <i>AASB 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i> . The amendments apply when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements, permitting the benefit of such an early payment to be recognised as an asset.	1 January 2011	As the entity does not have any Defined Benefit liabilities, these amendments will not have any impact on the entity's financial report.
AASB 2010-8 <i>Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets</i>	Amends AASB 112 <i>Income Taxes</i> to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 <i>Investment Property</i> will, normally, be through sale.  As a result of the amendments, Interpretation 112 <i>Income Taxes – Recovery of Revalued Non-Depreciable Assets</i> would no longer apply to investment properties carried at fair value. The amendments also incorporate into AASB 112 the remaining guidance previously contained in Interpretation 112, which is accordingly withdrawn.	1 January 2012	The entity has not yet determined the impact of this standard.
AASB 2009-13	Amends AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> to allow first time adopters to use transitional provision in Interpretation 19 as identified in AASB 1048.	1 July 2011	As the entity has already adopted Australian Accounting Standards, these amendments will not have any impact on the entity's financial report.
AASB 2010-9 <i>Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>	Amends AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> to:  Replace references to a fixed date of '1 January 2004' with 'the date of transition to Australian Accounting Standards', thereby providing relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards  Provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.	1 July 2011	As the entity has already adopted Australian Accounting Standards, these amendments will not have any impact on the entity's financial report.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

New / revised pronouncement	Explanation of amendments	Effective date (annual reporting periods beginning on or after)	Impact of the new standards
AASB 2010-2  Amendment to AASB arising for reduces disclosure requirements	Reduces disclosure requirements, AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting framework and the two tiers of reporting requirements for general purpose financial statements.	1 July 2014	The entity has not yet determined the impact of this standard.
AASB 2010-10 <i>Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters</i>	Amends AASB 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> and AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i> to replace references to a fixed date of '1 January 2004' with 'the date of transition to Australian Accounting Standards', thereby providing relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.  <i>Early application of the amendments in this Standard is permitted in accordance with the early application provisions of AASB 2009-11 or AASB 2010-7, as relevant.</i>	1 January 2013	As the entity has already adopted Australian Accounting Standards, 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.

### NOTE 34: COMPANY DETAILS

The registered office of the Company is:

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### NOTE 34: COMPANY DETAILS (CONTINUED)

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

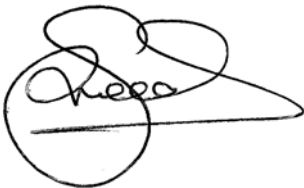
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## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 27 to 66 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards; and
  - b. complies with International Financial Reporting Standards as disclosed in Note 1; and
  - c. give a true and fair view of the financial position as at 31 December 2010 and of the performance for the year ended on that date of the Consolidated Group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
  - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



**Roger Smeed**  
Deputy Chairman

**Dated this 31st day of March 2011**



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

**Report on the financial report**

We have audited the accompanying financial report of Treyo Leisure and Entertainment Ltd (the "Company"), which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report 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 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 are free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

**Auditor's responsibility**

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

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

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

## **Independence**

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

## **Auditor's opinion**

In our opinion:

- a the financial report of Treyo Leisure and Entertainment Ltd is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

## **Report on the remuneration report**

We have audited the remuneration report included in the directors' report for the year ended 31 December 2010. 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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**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 2010, complies with section 300A of the Corporations Act 2001.

*Grant Thornton*

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



S J Gray  
Director – Audit & Assurance Services

Adelaide, 31 March 2011

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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 2011.

### (a) Distribution of equity securities

311,008,000 fully paid ordinary shares are held by 334 individual shareholders  
All issued ordinary shares carry one vote per share and carry the rights to dividends.

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

	Fully paid ordinary shares	Holders
1 - 1,000	1	1
1,001 - 5,000	-	-
5,001 - 10,000	1,170,000	117
10,001 - 100,000	4,417,000	176
100,000 and over	14,244,000	24
100,000 and over	291,176,999	16
	311,008,000	334
Holding less than a marketable parcel		1

### Listed ordinary shares

### (b) Substantial shareholders

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

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

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## ASX ADDITIONAL INFORMATION

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
<b>(c)</b>	<b>Twenty largest shareholders</b>		
1	Matoury Overseas Corp.	179,400,000	57.68%
2	Balatina Group Limited	48,100,000	15.47%
3	Legheny Group Limited	16,900,000	5.43%
4	McNeil Nominees Pty Limited	7,976,000	2.56%
5	Laury Commercial Inc.	7,800,000	2.51%
6	Yerigton Assets Inc.	7,800,000	2.51%
7	Mr Dibiao Shen	5,000,000	1.61%
8	Mr Jie Huang	3,000,000	0.96%
9	Mr Guan Cheng Zhu	3,000,000	0.96%
10	Mr Di Neng Shen	2,000,000	0.64%
11	Mr Erming Yu	2,000,000	0.64%
12	Ms Louyan Zhao	2,000,000	0.64%
13	Ms Ping Li	1,600,999	0.51%
14	Mr Shuiyang Xu	1,600,000	0.51%
15	Mr Guanming Hu	1,500,000	0.48%
16	Mr Yueming Shen	1,500,000	0.48%
17	Mr Guanda Dong	1,000,000	0.32%
18	Ms Huaping Jiang	1,000,000	0.32%
19	Mr Jin Ru Shen	1,000,000	0.32%
20	Mr Xiufang Wei	1,000,000	0.32%
		<u>295,176,999</u>	<u>94.91%</u>

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