

Treyo Leisure and Entertainment Limited and Controlled Entities

ABN: 93 131 129 489



APPENDIX 4E
PRELIMINARY FINAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

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Appendix 4E Commentary on Full Year 2011 Results

The Board of Treyo Leisure and Entertainment Ltd submits the Company's fourth Appendix 4E – Preliminary Final Report to the ASX, since listing 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 2011 financial year (ended 31 December 2011). It should be noted that, in accordance with Chinese accounting practices, Treyo's financial year runs January to December each year.

The Treyo Group realised an after tax profit of \$AUD5.08 million for the 2011 financial year which represents an **increase** of \$AUD2.15 million or **73%** on the previous year. As a result of the strengthening of the Chinese Renminbi, the Company incurred foreign exchange profit on translation of foreign operation of \$AUD1.28 million compared to losses the last year of \$AUD3.27 million. Treyo's working capital remains strong at \$AUD25.60 million. The Company's cash and cash equivalents reserves remain strong at \$AUD33.72 million.

Corporate Results Summary

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

- **Group revenue for the year, including Shouken – (excluding interest received) was up by 29% to \$AUD71.29 million.**
- Treyo's unit sales increased by 21.9% over 2010. **This was as a result of** solid sales growth by Treyo branded products in the marketplace, with Treyo, as market leader, being sought after by consumers.
- Group NPAT of **\$AUD5.08 million. An increase of 73% over the previous year;**
- Foreign exchange profit impacting on comprehensive income of \$AUD1.28 million;
- Continuing strong cash reserves of \$AUD33.72 million, despite the strong Australian dollar;
- Strong working capital of \$ AUD25.60 million

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

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

During the 2011 financial year and to the date of this report no dividends were recommended nor paid. The Treyo Board is confident of continuing a profitable future for the Company.

About Treyo Leisure and Entertainment Limited

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"). Founded in March 2003, 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 automatic mahjong tables under the trade mark "Treyo". In July 2011, Treyo acquired Hangzhou Shouken Electric Co. Ltd (Shouken) a highly regarded manufacturer of prestige electronic massage chairs and equipment.



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Commentary on Full Year 2011 Results (continued)

Treyo through its subsidiaries Matsuoka and Shouken is the industry leader. Treyo has grown rapidly to become the largest automatic mahjong table manufacturer in the world. Shouken is fast becoming the dominant brand in the Chinese electronic massage market.

The Treyo Group's success is a result of its innovation, technical excellence, advanced manufacturing processes, and a commitment to quality, outstanding customer service and brand development.

For further information please contact:

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PRELIMINARY FINAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2011

The following information is given to ASX under listing rule 4.3A.

1. Reporting period

Current Period	12 months ended 31 December 2011
Prior Period	12 months ended 31 December 2010

2. Results for announcement to the market

Consolidated Group	Item	% Change				
		\$			\$	
Revenue – excluding interest received	2.1	up	16,003,608	29%	to	71,288,950
Profit after tax attributable to members	2.2	up	2,152,108	73%	to	5,083,825
Net Profit attributable to members	2.3	Up	2,152,108	73%	to	5,083,825
Dividend	2.4	The Board has not recommended nor have paid any dividends during the 2011 financial year (refer item 6).				
The record date for determining entitlements to the dividend	2.5	N/A				
Explanatory information	2.6	For further information refer Commentary on Results which accompanies this announcement.				

Overview

During the year Treyo Leisure and Entertainment Ltd acquired 100% of Hangzhou Shouken Electric Co. Ltd, ("Shouken").

The principal activity of Treyo Leisure and Entertainment Ltd and controlled entities ('Consolidated Group' or 'Group') during the financial year was the manufacture of automatic Mahjong tables and premium-end massage and physical exercise equipment.

The Group currently operates in two business segments:

1. Automatic Mahjong tables with all being manufactured and distributed from a single facility in China
2. Premium-end massage and physical exercise equipment being manufactured and distributed from a single facility in China

Group currently operates in three geographical segments; refer to Note 25 for further details.

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

This financial report includes the consolidated financial statements and notes to the financial statements of the Consolidated Group and the separate financial statements and notes to the financial statements of Treyo Leisure and Entertainment Ltd as an individual parent entity ('Parent Entity'). Treyo Leisure and Entertainment Ltd was incorporated on 23 May 2008 and listed on the Australian Stock Exchange ("ASX") on 2 January 2009. The company is incorporated and domiciled in Australia.

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PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

Overview of results

For the year ended 31 December 2011 sales revenue and net profit after tax have increased by 29%, and 73% respectively on the prior year, as a result of a 22% increase in Mahjong tables sold by Treyo and the acquisition of a new subsidiary, Shouken (sales for period \$8,427,022 and net profit of \$673,533).

Financial Position

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

- i. \$1,275,719 decrease in foreign exchange loss reserve; and
- ii. \$5,083,825 profits after tax attributable to members;

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

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

Significant Changes in the State of Affairs

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

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

3. Income Statement – see accompanying preliminary financial statements

4. Balance Sheet – see accompanying preliminary financial statements

5. Cashflow Statement – see accompanying preliminary financial statements

6. Dividends Paid or Recommended

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

7. Details of any Dividend or distribution reinvestment plans

N/A

8. Statement of movements in Retained Earnings – see accompanying statement of changes in equity

9. Net tangible assets per security

	31 December 2011	31 December 2010
Number of securities	311,008,000	311,008,000
Net tangible assets per security in cents	13.0	10.9

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10. Changes in controlled entities

During the year Treyo Leisure and Entertainment Ltd acquired 100% of Hangzhou Shouken Electric Co. Ltd, ("Shouken").

There have been no other changes in controlled entities during the year ended 31 December 2011 nor in prior year.

11. Details of associates and joint venture entities

N/A

12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position

Refer *Commentary on Results* which accompanies this announcement.

13. Foreign entities disclosures

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*.

14. Additional information

<u>Earnings per Share</u>	31 December 2011	31 December 2010
Basic earnings per share in cents	1.64	0.94
Diluted earnings per share in cents	1.64	0.94

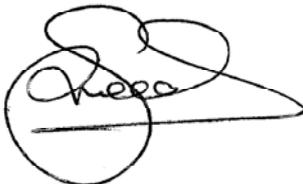
After Balance Date Events

There are no other 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.

15. Compliance Statement

The financial statements are in the process of being audited and are not likely to be subject to dispute or qualification.

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



Roger Smeed – Deputy Chairman

Dated this 29th day of February 2012



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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2011

	Note	2011 \$	2010 \$
Revenue	2	71,288,950	55,285,342
Cost of goods sold		(54,492,261)	(45,013,642)
Gross profit		<u>16,796,689</u>	<u>10,271,700</u>
Other income	2	1,611,608	952,235
Distributions and selling expenses		(4,077,922)	(2,831,913)
Administrative expenses		(7,646,244)	(4,669,175)
Finance costs		(455,476)	(355,511)
Profit/(loss) before income tax	3	6,228,655	3,367,336
Income tax expense	4	(1,144,830)	(435,619)
Profit/(loss) from continuing operations		<u>5,083,825</u>	<u>2,931,717</u>
Other comprehensive income			
Exchange differences on translation of foreign operations		1,275,519	(3,265,502)
Total comprehensive income for the year		<u><u>6,359,344</u></u>	<u><u>(333,785)</u></u>
Profit attributable to members of the parent entity		<u>5,083,825</u>	<u>2,931,717</u>
Total comprehensive income attributable to members of the parent entity		<u><u>6,359,344</u></u>	<u><u>(333,785)</u></u>
Earnings per share (on profit attributable to ordinary equity holders)		Cents	Cents
Basic earnings per share (cents per share)	7	1.64	0.94
Diluted earnings per share (cents per share)	7	1.64	0.94

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 \$	2010 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	33,723,184	28,054,338
Trade and other receivables	9	917,630	1,181,058
Prepayments and other current assets	10	6,473,807	2,203,629
Inventories	11	6,500,772	5,157,979
Held to maturity financial assets	12	9,295,372	8,953,609
Current tax receivable	19	35,587	-
TOTAL CURRENT ASSETS		56,946,352	45,550,613
NON-CURRENT ASSETS			
Other receivables	9	-	895,200
Prepayments and other current assets	10	1,174,432	-
Long term investment	10	49,405	-
Property, plant and equipment	14	13,105,979	12,685,709
Intangible assets	15	153,397	158,959
Deferred tax assets	19	397,784	397,784
TOTAL NON-CURRENT ASSETS		14,880,997	14,137,652
TOTAL ASSETS		71,827,349	59,688,265
CURRENT LIABILITIES			
Trade and other payables	16	22,278,649	13,468,496
Notes payable	17	4,430,993	2,972,468
Financial liabilities	18	4,631,700	8,953,219
Current tax liabilities	19	-	167,417
TOTAL CURRENT LIABILITIES		31,341,342	25,561,600
TOTAL LIABILITIES		31,341,342	25,561,600
NET ASSETS		40,486,007	34,126,665
EQUITY			
Issued capital	21	23,302,770	23,302,770
Foreign exchange translation reserve	22	(6,772,230)	(8,047,749)
Statutory general reserve	22	1,132,522	1,132,522
Retained earnings		22,822,945	17,739,122
TOTAL EQUITY		40,486,007	34,126,665

The accompanying notes form part of these financial statements.



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

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

The accompanying notes form part of these financial statements.



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CONSOLIDATED STATEMENT OF CASH FLOW FOR YEAR ENDED 31 DECEMBER 2011

	Note	2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		73,777,840	55,623,972
Payments to suppliers and employees		(63,392,394)	(52,341,554)
Interest received		1,299,720	763,161
Finance costs		(420,104)	(356,361)
Income tax paid		(2,682,555)	(471,439)
Net cash provided by (used in) operating activities	26	8,582,507	3,217,779
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in term deposit not classifies as cash or cash equivalents			-
Purchase of property, plant and equipment		(459,355)	(4,877,733)
Proceeds from sale of property, plant and equipment		101,218	23,666
Purchase of intangible assets		(10,860)	(70,772)
Purchase of subsidiary, net cash acquired		2,723,108	-
Loans to other entities		(594,000)	(322,681)
Loans repaid by other entities		-	187,681
Placement of funds in financial assets		-	(8,953,219)
Net cash provided used in investing activities		1,760,111	(14,013,058)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of borrowings		(5,855,000)	8,953,219
Net cash provided by (used in) financing activities		(5,855,000)	8,953,219
Net increase in cash held		4,487,618	(1,842,060)
Cash at beginning of financial year	8	28,054,338	31,892,328
Effect of exchange rates on cash holdings in foreign currencies		1,181,228	(1,996,000)
Cash at end of financial year	8	33,723,184	28,054,338

The accompanying notes form part of these financial statements.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The principal activity of the Group is the manufacture of automatic Mahjong tables and premium-end massage and physical exercise equipment.

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

Basis of Preparation

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

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

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

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

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 13 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.



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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. acquire 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 as unused tax losses.

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

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

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

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

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

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 income statement during the financial period in which they are incurred.

Depreciation

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

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

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 sheet date.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.



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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Financial Instruments

Recognition and Initial Measurement

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

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

De-recognition

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

Classification and Subsequent Measurement

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

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

ii. *Loans and receivables*

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

iii. *Financial Liabilities*

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

Fair value

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

Impairment

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of Assets

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

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

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

g. Intangibles

Patents and trademarks

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

h. Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

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



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. **Employee Benefits**

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

j. **Provisions**

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

k. **Provision for Warranties**

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

l. **Cash and Cash Equivalents**

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

m. **Revenue and Other Income**

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

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

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

n. **Borrowing Costs**

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

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

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

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

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

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Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. **Earnings per share**

(i) 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.

(ii) Diluted earnings per share

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

q. **Comparative Figures**

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

r. **Critical Accounting Estimates and Judgments**

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

Key Estimates — Impairment

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

The preliminary financial report was authorised for issue on 29th February 2012 by the board of directors.

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Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 2: REVENUE

	Note	2011 \$	2010 \$
Sales revenue			
Sale of goods		71,288,950	55,285,342
Other income			
—Bank Interest received		1,091,839	764,195
—Other income		519,839	188,040
		<u>1,661,608</u>	<u>952,235</u>

NOTE 3: PROFIT FOR THE YEAR

	Note	2011 \$	2010 \$
a. Expenses			
Finance costs:			
— Interest expense		407,183	327,596
— Bank charges		48,293	27,915
Total finance costs		<u>455,476</u>	<u>355,511</u>
Employee wages and benefits		<u>4,954,680</u>	<u>3,862,048</u>
Included in administrative expenses are:			
— Bad and doubtful trade receivables debts	9b	-	-
— Depreciation and amortisation		1,145,287	1,124,139
— Audit fees	5	158,500	160,463
— (Gain)/loss on the disposal of property, plant and equipment		<u>(43,292)</u>	<u>8,256</u>

NOTE 4: INCOME TAX EXPENSE

	Note	2011 \$	2010 \$
a. The components of tax expense comprise:			
Current tax		1,144,830	429,643
Deferred tax	19	-	-
Current tax expense/(benefit)		<u>1,144,830</u>	<u>429,643</u>



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 4: INCOME TAX EXPENSE (CONTINUED)

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

The tax rate in Republic of China is 24% (2010:11%). 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 in the Republic of China is 24% for 2011 and 25% for 2012 onwards.

The tax rate in Hong Kong is 17.5% (2010: 17.5%)

	2011 \$	2010 \$
b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at local tax rates (5a)		
— consolidated group	1,584,144	823,457
— parent entity	-	-
Add:		
Tax effect of: other non-allowable items	75,175	15,624
Less:		
Tax effect of: Tax exemptions from the Peoples Republic of China	(745,057)	(534,575)
Tax effect of losses not brought into accounts as they do not meet the recognition criteria	230,568	131,113
Income tax attributable to entity	<u>1,144,830</u>	<u>435,619</u>
The applicable weighted average effective tax rates are as follows:	18%	15%

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

NOTE 5: AUDITORS' REMUNERATION

	2011 \$	2010 \$
Remuneration of the auditor of the parent entity for:		
—auditing or reviewing the financial report	158,500	160,463
—taxation services	5,000	-
	<u>163,500</u>	<u>160,463</u>



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 6: DIVIDENDS

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

NOTE 7: EARNINGS PER SHARE

	2011	2010
	\$	\$
a. Reconciliation of earnings to profit or loss		
Profit used to calculate basic EPS and dilutive EPS	5,083,825	2,739,161
b. Reconciliation of earnings to profit or loss from continuing operations		
Profit from continuing operations used to calculate basic EPS from continuing operations and dilutive EPS.	5,083,825	2,739,161
c. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS and dilutive EPS	311,008,000	311,008,000

NOTE 8: CASH AND CASH EQUIVALENTS

	2011	2010
	\$	\$
Cash at bank and in hand	32,730,223	25,090,442
Short term bank deposits	1,001,961	2,963,896
	<u>33,732,184</u>	<u>28,054,338</u>

At 31 December 2011 \$984,119 (2010: \$1,486,032) was held in an interest bearing short term deposit as a guarantee for notes payable (Note 17).

NOTE 9: TRADE AND OTHER RECEIVABLES

	Note	2011	2010
		\$	\$
CURRENT			
Trade receivables	9a	622,750	873,109
Less provision for impaired trade receivables	9b	(43,777)	(51,641)
		<u>578,973</u>	<u>821,468</u>
Other receivables	9c	333,028	347,886
Goods & service tax receivable	9d	5,659	11,704
		<u>917,630</u>	<u>1,181,058</u>
NON CURRENT			
Other receivables	9c	-	895,200



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 9: TRADE AND OTHER RECEIVABLES (CONTINUED)

a. Trade receivables past due but not impaired:

Current trade receivables are non-interest bearing and generally on 30 day terms. As of 31 December 2011, trade receivables of \$169,516 (2010: \$388,561) were past due but not impaired. These relates to independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated Group	
	2011 \$	2010 \$
30-90 days	91,397	301,654
91-180 days	17,681	86,907
181-365 days	49,055	-
365 days above	11,384	-
Total	<u>169,517</u>	<u>388,561</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.

b. Impaired trade receivables

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

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

c. Other receivables

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

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

d. Goods & service tax receivable

Goods & service tax ("GST") receivable relates to the GST recoverable on Australian incurred.



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 10: PREPAYMENTS AND OTHER CURRENT ASSETS

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

NOTE 11: INVENTORIES

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

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

NOTE 12: FINANCIAL ASSETS

	2011	2010
	\$	\$
CURRENT		
Held to maturity financial assets	9,295,372	8,953,609
	<u>9,295,372</u>	<u>8,953,609</u>

During the year, the Group places a sum of \$9,295,372 (2010: \$8,953,609) to be held to maturity with Agricultural Bank of China for the bank to lend to other parties. The term of the placement is one year ending on 23 May 2012 and earns interest at 8.5% (2010: 6.8%) per annum.



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 13: CONTROLLED ENTITIES

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

⁽¹⁾ Percentage of voting power is in proportion to ownership

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

b. Acquisition of Controlled Entities

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

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

	\$
Purchase price is to be paid to Tak Chuan Limited	1,680,000
	<hr/>
The assets and liabilities of Shouken as at 21 July 2011 were:	Fair Value
	\$
Cash and cash equivalents	2,723,108
Trade and other receivables	975,459
Inventory	2,485,849
Plant and equipment	658,241
Intangible Assets	16,563
Other assets	6,023
Long term investments	28,744
Total assets	<hr/> 6,893,987
Trade and other payables	(3,776,808)
Short term loan	<hr/> (1,437,179)
Total net assets acquired	<hr/> <hr/> 1,680,000
Accounted for as:	
Share capital	1,438,476
Retained profits	307,080
Reserve	79,989
	<hr/> <hr/> 1,680,000

c. Cross guarantee

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



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

Movements in Carrying Amounts

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

	Land use Right \$	Buildings \$	Motor Vehicles \$	Office Equipment \$	Plant & Machinery \$	TOTAL \$
31 December 2011						
Cost						
At 1 January 2011	1,198,561	11,529,308	959,381	291,274	2,383,370	16,361,894
Additions	-	161,648	106,744	104,527	86,436	459,355
Additions on acquisition of subsidiary	-	-	196,499	99,155	1,098,605	1,394,259
Disposals	-	-	(304,937)	-	-	(304,937)
Exchange differences	41,693	405,837	39,524	20,589	167,048	674,691
At 31 December 2011	1,240,254	12,096,793	997,211	515,545	3,735,459	18,585,262
Accumulated Depreciation						
At 1 January 2011	183,779	1,686,339	472,899	166,999	1,166,169	3,676,185
Depreciation for the period	24,092	526,283	169,251	65,606	320,896	1,106,128
Additions on acquisition of subsidiary	-	-	18,738	49,944	667,336	736,018
Depreciation on disposal	-	-	(247,011)	-	-	(247,011)
Exchange differences	7,107	74,236	15,541	11,460	99,619	207,963
At 31 December 2011	214,978	2,286,858	429,418	294,009	2,254,020	5,479,283
Net book value						
At 31 December 2011	1,025,276	9,809,935	567,793	221,536	1,481,439	13,105,979
At 31 December 2010	1,014,782	9,842,969	486,482	124,275	1,217,201	12,685,709
Carrying amounts						
At 1 January 2010	1,137,086	7,072,134	340,322	131,233	1,352,252	10,033,027
Additions	-	4,020,994	425,258	70,485	360,996	4,877,733
Disposals	-	-	(59,529)	-	-	(59,529)
Depreciation expense	(25,819)	(377,864)	(204,379)	(65,756)	(380,501)	(1,054,319)
Depreciation on disposal	-	-	31,921	-	-	31,921
Exchange differences	(96,485)	(872,295)	(47,111)	(11,687)	(115,546)	(1,143,124)
At 31 December 2010	1,014,782	9,842,969	486,482	124,275	1,217,201	12,685,709
At 1 January 2011	1,014,782	9,842,969	486,482	124,275	1,217,201	12,685,709
Additions	-	161,648	106,744	104,527	86,436	459,355
Additions on acquisition of subsidiary	-	-	196,499	99,155	1,098,605	1,394,259
Disposals	-	-	(304,937)	-	-	(304,937)
Depreciation expense	(24,092)	(526,283)	(169,251)	(65,606)	(320,896)	(1,106,128)
Depreciation on acquisition of subsidiary	-	-	(18,738)	(49,944)	(667,336)	(736,018)
Depreciation on disposal	-	-	247,011	-	-	247,011
Exchange differences	34,586	331,601	23,983	9,129	67,429	466,728
At 31 December 2011	1,025,276	9,809,935	567,793	221,536	1,481,439	13,105,979



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

NOTE 15: INTANGIBLE ASSETS

	31 December 2011			31 December 2010		
	Patents and Trademarks	Software	Total	Patents and Trademarks	Software	Total
	\$	\$	\$	\$	\$	\$
Cost						
At 1 January	291,388	140,124	431,512	318,972	81,461	400,433
Additions	-	10,860	10,860	-	70,772	70,772
Additions on acquisition of subsidiary	25,230	-	25,230	-	-	-
Currency translation difference	12,393	5,196	17,589	(27,584)	(12,109)	(39,693)
At 31 December	329,011	156,180	485,191	291,388	140,124	431,512
Accumulated amortisation and impairment						
At 1 January	254,421	18,132	272,553	215,691	11,702	227,393
Amortisation in the period	31,680	7,479	39,159	61,805	8,015	69,820
Additions on acquisition of subsidiary	8,667	-	8,667	-	-	-
Currency translation difference	10,563	852	11,415	(23,075)	(1,585)	(24,660)
At 31 December	305,331	26,463	331,794	254,421	18,132	272,553
Net carrying value						
31 December	23,680	129,717	153,397	36,967	121,992	158,959
Carrying amount						
At 1 January	36,967	121,992	158,959	103,281	69,759	173,040
Additions	-	10,860	10,860	-	70,772	70,772
Additions on acquisition of subsidiary	178,041	-	178,041	-	-	-
Amortisation in the period	(31,680)	(7,479)	(39,159)	(61,805)	(8,015)	(69,820)
Additions on acquisition of subsidiary	(8,790)	-	(8,790)	-	-	-
Currency translation difference	(150,858)	4,344	(146,514)	(4,509)	(10,524)	(15,033)
At 31 December	23,680	129,717	153,397	36,967	121,992	158,959



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 16: TRADE AND OTHER PAYABLES

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

Sundry payables and accrued expenses includes \$1,680,000 payable in respect of the acquisition of a wholly owned subsidiary, refer to note 13 for further details.

NOTE 17: NOTES PAYABLE

	Note	2011	2010
		\$	\$
CURRENT			
Secured liabilities			
Notes payable	8	<u>4,430,993</u>	<u>2,972,468</u>

The notes payable mature from January 2012 to June 2012 (2010: from January 2011 to June 2011). The notes payable are guaranteed against interest bearing short term bank deposit of \$984,119 (2010: \$1,486,032) (see Note 8) and by a personal guarantee from a director, Guohua Wei and a corporate guarantee from related party Zhejiang Matsuoka Mechatronics Industry Co. Ltd.

NOTE 18: FINANCIAL LIABILITIES

	2011	2010
	\$	\$
CURRENT		
Unsecured liabilities		
Short term borrowings	<u>4,631,700</u>	<u>8,953,219</u>

During the prior year, the Group obtained a short term borrowing of \$8,953,219 with Agricultural Bank of China for a term of one year ending on 24 May 2012. The borrowing is secured over the group's land-use right and buildings. Interest is payable at 7.216% (2010: 5.31%) per annum.



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

NOTE 19: TAX

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

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

NOTE 20: PROVISIONS

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

NOTE 21: ISSUED CAPITAL

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

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



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 21: ISSUED CAPITAL (CONTINUED)

Ordinary shares	2011 Number	2010 Number
At the beginning of reporting period	311,008,000	311,008,000
Shares issued during the 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 balance sheet less cash and cash equivalent and equity is "equity" as shown on the consolidated balance sheet.

There are no externally imposed capital requirements

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

	2011 \$	2010 \$
Total liabilities	31,342,342	25,561,600
Less: Cash and cash equivalent	<u>(33,723,184)</u>	<u>(28,054,338)</u>
Net liabilities/(net cash)	<u>(2,380,842)</u>	<u>(2,492,738)</u>
Total equity	<u>40,486,007</u>	<u>34,033,375</u>
(Net cash) to equity ratio	<u>(6%)</u>	<u>(7%)</u>

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

NOTE 22: RESERVES

Foreign Currency Translation Reserve

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



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 22: RESERVES (CONTINUED)

Statutory General Reserve

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

NOTE 23: CAPITAL AND LEASING COMMITMENTS

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

The Consolidated Group has capital expenditure contracted

	2011	2010
	\$	\$
Intangible assets within 1 year	9,361	43,974
	<u>9,361</u>	<u>43,974</u>

Management services commitment

During the year ended 31 December 2011, Matsuoka Mechatronics (China) Co., Ltd entered into an agreement for the provision of management services with China Finance and Investment Holding Ltd, a related party, amounting to \$166,752 (2010: \$321,400) for the period from 1 July 2011 to 31 December 2012. The outstanding commitment for Matsuoka Mechatronics as at 31 December 2011 is \$112,332.

Other commitment

Other commitment for Shouken Electric Co. Ltd is in relation to the consulting expenses of \$37,132 within one year.

NOTE 24: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

NOTE 25: OPERATING SEGMENTS

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

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

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

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



Treyo Leisure and Entertainment Ltd and Controlled Entities

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

NOTE 25: OPERATING SEGMENTS (CONTINUED)

Accounting policies adopted

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

Segment information provided to executive directors:

	China Matsuoka \$	China Shouken \$	Hong Kong \$	Australia \$	Total \$
31 December 2011					
REVENUE					
Total revenue -external sales	62,851,928	8,437,022	-	-	71,288,950
RESULT					
Segment result	6,876,434	802,742	(669,928)	(325,117)	6,684,131
Unallocated expenses net of unallocated revenue	-	-	-	-	-
Finance costs	(258,639)	(16,143)	(180,515)	(179)	(455,476)
Profit/(loss) before income tax	6,617,795	786,599	(850,443)	(325,296)	6,228,655
Income tax expense	(1,031,764)	(113,066)	-	-	(1,144,830)
Profit after income tax	5,586,031	673,533	(850,443)	(325,296)	5,083,825
ASSETS					
Segment assets	57,622,181	7,633,437	6,034,051	537,680	71,827,349
LIABILITIES					
Segment liabilities	24,333,326	5,130,775	1,683,443	193,798	31,341,342
Reconciliation of segmental net assets to Group net assets					
Inter-segment eliminations					-
Total Group net assets from continuing operations					40,486,007
OTHER					
Depreciation and amortisation of segment assets	1,078,293	66,994	-	-	1,145,287
31 December 2010					
REVENUE					
Total revenue -external sales	55,285,342	-	-	-	55,285,342
RESULT					
Segment result	4,173,405	-	(33,138)	(417,420)	3,722,847
Unallocated expenses net of unallocated revenue	-	-	-	-	-
Finance costs	(355,175)	-	(101)	(235)	(355,511)
Profit/(loss) before income tax	3,818,230	-	(33,239)	(417,655)	3,367,336
Income tax expense	(435,619)	-	-	-	(435,619)
Profit after income tax	3,382,611	-	(33,239)	(417,655)	2,931,717



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

NOTE 25: OPERATING SEGMENTS (CONTINUED)

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

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

NOTE 26: CASH FLOW INFORMATION

	2011 \$	2010 \$
Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit/(loss) after income tax	5,083,823	2,931,717
Non-cash flows in profit		
Amortisation	39,159	69,820
Depreciation	1,106,128	1,054,319
Net (gain)/loss on disposal of property, plant and equipment	(43,292)	8,256
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade receivables	263,428	(305,110)
(Increase)/decrease in prepayments	(5,444,610)	(362,019)
(Increase)/decrease in inventories	(1,342,793)	(1,073,997)
Increase/(decrease) in trade payables and accruals	8,753,247	929,957
Increase/(decrease) in income taxes payable	167,417	(35,164)
(Increase)/decrease in deferred tax asset balances	-	-
Cashflow from operations	<u>8,582,507</u>	<u>3,217,779</u>